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## 5 Considerations Before You Buy a Home

### Home prices have fallen, but is it time for you to buy?

By *Luke Mullins*

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The national real estate bust has [ejected](#) families from their homes, jammed credit markets, and shackled the broader economy. But for potential buyers, the [housing pain](#) has come with a key upside: increased affordability. [The S&P/Case-Shiller Home Price Indices](#) showed that home prices in 20 major metro areas were nearly 16 percent lower in May than a year ago.

But while [real estate bargains](#) are certainly out there, anyone looking to buy a home in today's market should proceed with great caution. After all, despite the sharp annual declines in prices, the market is far from bottoming out. "I don't think there is a housing analyst around who doesn't think that there is at least 15 percent of downside still [to come]," says Christopher Low, chief economist at FTN Financial. Add the sluggish economy and weakening labor market on top of that, and it remains a risky time to make one of the most significant financial investments of your life.

With that in mind, *U.S. News* spoke recently with a handful of economists and real estate professionals to create a list of five "Don't Buy a Home Today Ifs." The checklist is designed to help buyers decide whether now is the right time for them to purchase real estate.

#### **Don't Buy a Home Today If...**

**You don't have a compelling reason.** With real estate values declining at the national level, those buying a home today—in many markets—are likely to see their properties decline in value at least in the near term. As such, you need a compelling reason to buy a home in today's market. "People make decisions to buy homes for a variety of reasons," says Christopher Thornberg of Beacon Economics. "Some of those reasons may transcend the fact that you are going to lose some value."

So what's a compelling reason? A consumer who finds a property being sold [by a distressed seller](#) at a deep discount has a compelling reason to buy, Thornberg says. A family that wants to get into a better school district in a different neighborhood might also have a compelling reason. In addition, "there may be a house that is the perfect house for you, in which case, maybe it's worthwhile [buying] it?" he says.

**You can't afford a significant down payment.** In a real estate environment where home prices are falling, it's important to have a financial cushion. A sizable down payment—between 10 and 20 percent—builds that into your home investment. But if you buy a home today without such a down payment, you're taking a big risk. For example, if you unexpectedly need to sell your home shortly after buying it—say, because of a job relocation—the price of the property may very well have fallen below the value of your mortgage. That means you'll have to come up with cash to pay off the lender at the time of the sale. "There is not going to be any cushion there," says Mike Larson, a real estate analyst at Weiss Research. "It sticks you in a tough spot." Homeowners in this situation may end up having to rent out their homes after relocating. In the worst-case scenario, they could face a short sale or even a foreclosure, he says.

Larson says buyers should not purchase a home unless they can afford to put at least 10 percent down. Thornberg says the down payment should be even higher—20 percent—but for different reasons. He argues that buyers who can't afford a 20 percent down payment are probably stretching their finances too far to make the purchase.

**It's much cheaper to rent.** Since no one is exactly sure when home prices will hit bottom, renting has become an increasingly attractive option. "If you can find a place to rent for significantly cheaper [than monthly payments on a house], maybe you should think about it," says Tom Vanderwell, a mortgage lender from Michigan. By saving money on monthly payments, renters can set aside cash for a future down payment while avoiding the home price declines punishing owners, he says. "If you can rent for a few years and save [for] a down payment...you can save quite a bit of money in the long run," says FTN Financial's Low.

**You're not going to live there for long.** If you're considering buying property but would have to resell it in relatively short order, you're probably better off on the sidelines. Larson says that home prices at the national level will continue their decline into 2009 before stabilizing. "If you buy now and then you have to sell in two years—even if prices haven't fallen any further—you really haven't built much equity," he says. "So you are going to have to pay that [6 percent commission](#) [to a real estate agent] ... and you aren't going to have much to show for it in terms of price gains." Prospective buyers should not purchase a home unless they are going to be able to live in it for at least three years, Larson says. Vanderwell, meanwhile, suggests seven years.

**You don't have good job security.** It's unwise to buy a home if you're not confident that your income stream is secure. And in an uncertain economy with unemployment on the march, the chances of job loss have increased for many. A renter who loses his or her job has a number of short-term options to fall back on, such as temporarily moving in with friends or family. An owner, meanwhile, is "up a creek," Larson says. "If you are in a mortgage, you've got to send that

payment in every 30 days."

**Tags:** [real estate](#) | [housing market](#) | [housing](#)

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**Nikka of CA**

Aug 19, 2008 10:27:06 AM

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of NC

Aug 18, 2008 22:59:45 PM

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#### consideration #6

Not all people are meant to be homeowners. With a home comes responsibility much more than the financial commitment so know your limits when you consider buying the "American Dream".

**linda in cincinnati of OH**

Aug 18, 2008 03:17:13 AM

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