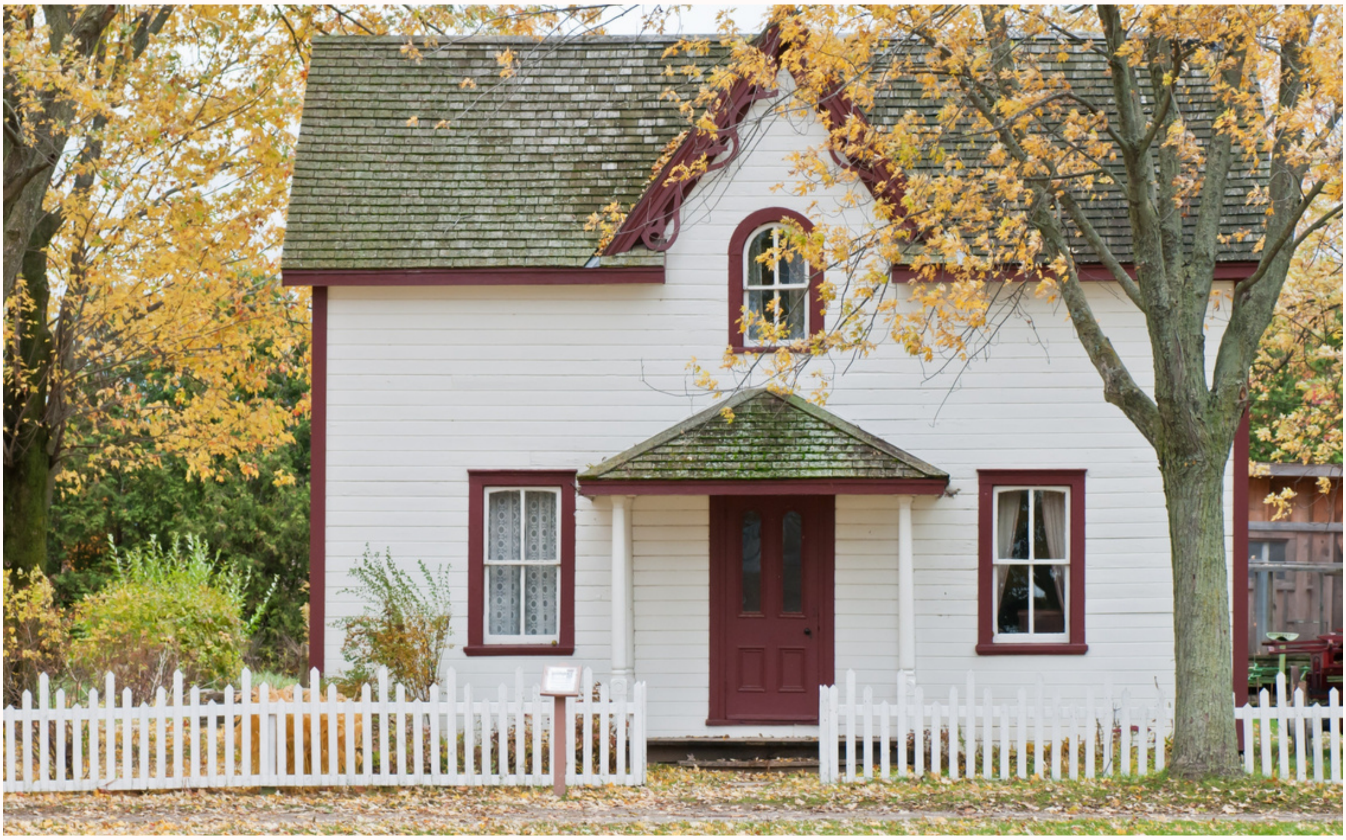
Buying a Home

4 CONSIDERATIONS TO MAKE WHEN SEARCHING



A home is often the biggest purchase most people make in their lives. Here is what you need to know in order to make a good investment.

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What's Inside

Buying a home is one of the most exciting, nerve-wracking purchases one can experience.

If you are patient and are willing to invest the time necessary to be an educated buyer, you will have an asset that will bring you enjoyment and potential for growth for years to come.

What can you afford?

This is often the most challenging question and it is important not to rely on the bank to determine what your budget should be. You will often be approved for a loan that is much larger than what your budget should be.

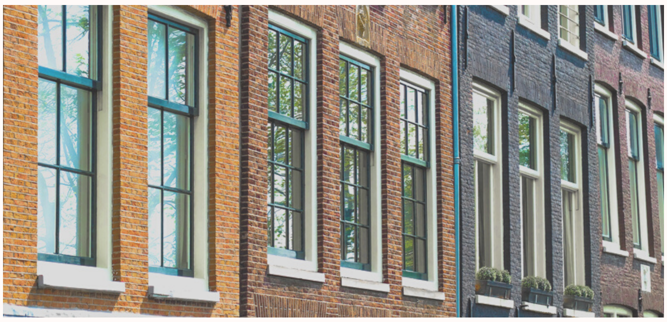
One simple rule is not to spend more than 28% of gross income on the mortgage payment. For instance, if a couple makes $120,000 a year their gross income is $10,000 per month. In this scenario, the total mortgage payment (payment, taxes, insurance) should not exceed $2,800 a month. It should be noted that in particularly high tax or high cost of living areas, this figure may run closer to 35%. That said, the higher the ratio, the less financial capacity to save for other goals or pay down debt.

Do not forget the cost of ownership. Heating and cooling a larger space, furnishings, and maintenance costs (typically 1% of the home's value each year) should all be taken into consideration when developing a budget.

Part of the budget calculation involves a down payment, which is typically 5% to 20% of the purchase price. If the down payment is less than 20%, an additional payment will be required which is called PMI (Private Mortgage Insurance). PMI can run several hundred dollars a month on top of other mortgage expenses.

Cash flow is not static. Do you expect to make more money next year? In five years? If you have a stable career, consider the fact that your income will grow over time while the mortgage payment should stay largely constant.

Do not be overly rigid with the budget. Often there is a material shift in quality, location, or square footage when moving up in price from $50,000 to $100,000. Those two figures represent an additional payment of $200 to $400 a month on a 30-year loan at 3%. Ultimately, long-term appreciation potential and enjoyment of the home may be greater by stretching the budget.



Buying Smart

Real estate is all about location, location, location.
Consider both your needs and those of future buyers.

Schools

One of the largest determinants of property values is the school district. It is an oversight to ignore the school district, as future buyers will most certainly take it into consideration.

Zoning

Check the zoning around the property. If a vacant lot next door is zoned commercial your home could suddenly sit next to a large industrial building.

Amenities

Access to parks, lakes, trails, the arts, sporting events, dining, etc. can all add value to a piece of property.

Neighbors

Pay attention to the neighborhood and the neighbors. Owning the nicest home in a lousy neighborhood is often a money losing proposition.

Crime

Review crime statistics for the neighborhood and general area.

Noise

Spend time in the neighborhood at different times each day to determine noise levels (traffic, planes, trains, etc.).

Accessibility

Review access to roads, highways, bike trails, and public transit. Certain areas can become very difficult to access during rush hour or on weekends, which is not something that may be immediately obvious during the buying process.

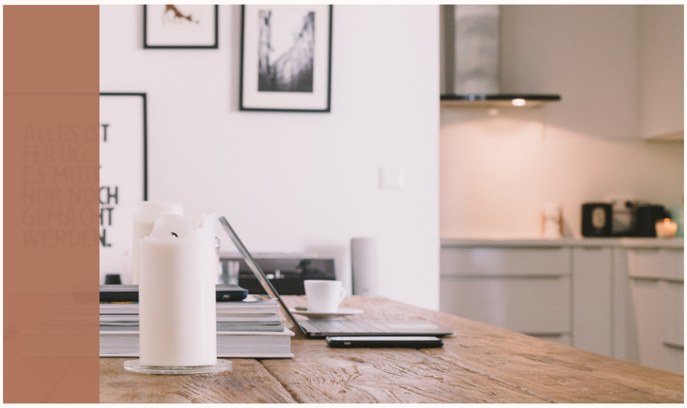
Family Needs

Make a list of home features that are must haves and non-starters. Keep a clear focus on wants versus needs, and remember that some projects can happen over time. To the latter point, an existing bathroom may not be ideal, but it could be perfectly functional for the time being. The more rigid the list of must haves, the more limited the options and the more likely you are to miss a good value.

Lastly, maintain a long-term focus on family needs. Often, families will purchase based on what they need in the moment, while losing sight of the long term. This often occurs with square footage, bathrooms, and bedrooms. Kids grow into young adults with friends and their own needs for space. The home that worked when the kids were small can become impossible when there are five adults trying to share a bathroom. Ultimately, moving is exceptionally expensive. Purchasing a home that only meets family needs in the near term, and being forced to move down the road is often more costly than purchasing a home that can meet needs long term.

Think Critically

Buying a home is both exciting and often emotional. Keep a level head and make sure to look for flaws even if you have found "the perfect home".



Inspection - Get a high-quality inspection from a company unaffiliated with your real estate agent. The inspection is the greatest investment you can make as a homeowner. It should cost anywhere from $500 to $1,000 and you should receive a detailed (30 to 100 pages) report outlining key issues or repairs that need to be made to the home.

Pricing - Understand that real estate agents are paid to sell homes (they typically take home around 2.5% to 3% of the sale price). As such, their financial incentives are built around completing a transaction. Consequently, their advice on price can be conflicted. Instead, ask the average price per square foot for homes sold in the area and the price per square foot on the home being evaluated. Price per square foot is the most common way to compare properties. This information is readily accessible online, as well.

Cost of ownership – Consider materials and construction. Certain materials like tile roofs, shingle siding, or detailed masonry can have higher average maintenance costs.

Mechanicals – These are the costliest items to replace in a home and typically have a replacement time frame of 10 to 20 years. This includes the HVAC system, water softener, roof, water pump, and other expensive items. Older mechanicals represent required future capital investments that are a drain on reserves and limit the budget for other projects.

Know when to say no! – Foundation issues, mold, or persistent water incursion can be difficult, impossible, or incredibly costly to address. It can be tempting to overlook such things, particularly if a house ticks all the other boxes. Often the costs to address these issues can quickly balloon and can resurface (i.e., the $100,000 invested in reinforcing the foundation may not be a permanent fix). Moreover, a future buyer will not give credit for these large investments. Keeping a home free of mold is not a feature like an updated kitchen or bathroom.

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