

Real Estate Tips for Young Doctors

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Many new doctors feel conflicted about how to handle housing once they are out of medical school. If you are a resident – or even at your first “real” job out of residency - should you rent a home, or should you buy? And if you buy, what kind of guidelines should you follow? It can be overwhelming to even think about, but the decisions you make now can have a significant impact on your financial future.

Most residents should rent rather than buy, for several reasons. First and foremost, you will likely be moving once your residency is over – so you have a limited amount of time for a home purchase to appreciate. Closing costs associated with buying and selling a home typically add up to around 10% of a home’s value. So you would have to see a 10% increase in value just to break even on your closing costs. Historically, home prices have risen by about 1% more than inflation annually. Sometimes appreciation is higher than this, and sometimes it can even be negative. You won’t know in advance how much your home will appreciate during the short time you’ll be living in it, so it’s safer to rent in order to ensure that you won’t lose money when you sell. Renting also makes it much easier to make a clean break whenever you’re ready to move. You won’t have to worry about how long it might take to sell a house, and you won’t have to face the possibility of having to make two housing payments at the same time if your house doesn’t sell quickly. Renting also makes home repairs the landlord’s problem, not yours – which can be a good thing for a busy resident.

Doctors just out of residency face a trickier decision. They are more likely to remain in their new town for longer than a resident would. But they also face some uncertainties that could still make renting a good idea for a few years. First, when you move to a new city you normally don’t know your way around very well. It takes time to get to know the area, and to learn which neighborhoods you like, which shopping and restaurant areas you like to frequent, which areas tend to have bad rush hour traffic, etc. Renting for at least a year gives you a chance to figure all of these things out, so that you can make a smart decision about where to purchase. It also gives you a chance to save up some additional money toward your down payment. The more you can put down when you buy the house, the less your mortgage and monthly payment will be. Lastly, waiting for a year or two helps ensure that you’re happy at your new job and that you intend to stay there for the long term.

When and if you do decide to buy, there are a few tips to keep in mind. First, try to buy a home that you can easily afford. Remember, this doesn’t have to be your dream home – you can always move up to a nicer home later. The general rule of thumb is that your mortgage balance should be no more than two to three times your annual salary. So for example, if your salary is \$100,000, then your mortgage should be no more than \$200,000 to \$300,000 – and erring on the low side of this range is the smartest. If you have significant student loan debt (equal to half of your annual salary or greater), you should definitely limit your mortgage to no more than two times your salary. You want to be able to make both your mortgage and student loan payments and still have some breathing room.

After many grueling years of medical school, it can be tempting to buy a house as soon as a lender will approve you for a mortgage. But the smartest thing to do is stand back, think about your long-term goals and make the best decisions you can now in order to reach your goals later. Often that means renting as a resident, and even renting for a few years after residency – and then choosing a modest home for your first purchase. Your future self will thank you later!