

How to buy a house – without regretting it

This week we're revisiting conversations we've had with four past expert guests about the most common things people overlook when purchasing a home, as well as all the hidden costs of homeownership – to help you prepare for one of the biggest financial decisions you'll ever make – buying a home.

Stefanie O'Connell Rodriguez: This is Money Confidential, a podcast from Real Simple about our money stories, struggles, and secrets. I'm your host, Stefanie O'Connell Rodriguez, and today we're looking back on some of our expert interviews to talk about one of the biggest decisions many of us will ever make with our money – the decision to buy (or not buy) a home – and all of the financial, emotional, and lifestyle considerations that come with it.

Jannese Torres Rodriguez: Home ownership was absolutely the wake-up call that I needed to realize that I was actually just going through the motions of life and checking off the "things that you do as an adult."

Stefanie O'Connell Rodriguez: That's Jannese Torres Rodriguez, host of the personal finance podcast, Yo Quiero Dinero.

Jannese Torres Rodriguez: I found myself, as a newbie homeowner, two weeks after I purchased the home, absolutely regretting the decision. And that got me spiraling. For the first time I was like, why am I feeling so miserable making this decision that so many people claim as the pinnacle of success in adulthood? And for me, I just really found it was completely unaligned with what I wanted at the time.

Stefanie O'Connell Rodriguez: Where do you think this idea of home ownership as the pinnacle of what to do with your money and even just in the 'checklist of life' comes from?

Jannese Torres Rodriguez: It definitely came from my family. So I'm Latina, I'm Puerto Rican. My parents came to the United States in the 1980s, and they struggled for a very long time to get their footing financially. And so, when I was about 12 years old, they were able to purchase their first home and that changed our lives. It was just a different standard of living that we became accustomed to after they were able to do that. And so, I saw that as what you do in order to give yourself a level of stability and how to be financially responsible. So as soon as I got married, those questions started to come up. Okay, when are you guys going to buy a house? And so, I figured that's just what everybody does.

We get a lot of messaging that it's "never the right time." And so, I said, okay, I'm still in debt with student loans. I still have credit card debt, but I'm over the age of 30 at this point. I need to buy a house. We're just going to figure this out.

And I found out about the federal program, the FHA mortgage that only required 3.5% down. I was living in New Jersey at the time, which is a super high cost of living area. As a result, it's very difficult to buy a home with 20% down, especially when you're still in debt. And so I did

the three and a half percent down payment. And I basically emptied out my emergency fund to buy a home, because that's the only cash I could come up with. And I felt that FOMO, that pressure, like if I keep waiting, I'm never going to be able to do this. And so that's how it started.

Stefanie O'Connell Rodriguez: I hear a lot of people being like, "I'm trying to balance paying off my credit card and my student loans, but I'm still renting and I feel like I'm throwing away money, and I have to buy this house." And the house has been positioned as this purely good financial decision, but in a lot of these cases, I don't know that it is.

Jannese Torres Rodriguez: For me, it definitely was not. I actually lost money selling my home. I spent so much money fixing it. I was never more broke than when I owned a home. And it was just a result of not having that financial foundation in place, emptying out what was meant to be an emergency fund to buy a home, and then the emergencies started happening and I had no other recourse other than to start taking out loans. I had to take out a 401k loan to deal with a \$15,000 repair of a sewer line.

And the things just kept adding up, right? It almost felt like I had unleashed the kraken.

The paint hadn't even dried on the walls. It was about two weeks in when I moved in, and I came home after work and I opened the door to walk inside the house and I smelled raw sewage. And I was just like, what's happening? So I go downstairs to the basement and there are literally three inches of raw sewage water in the basement from the sewage pipe, which had been blocked by concrete, because the previous owner had done some DIY repairs and poured concrete down the sewer line.

Stefanie O'Connell Rodriguez: Wow.

Jannese Torres Rodriguez: You can't make this stuff up. Yeah, I definitely had to come to grips with the idea that I was not in the position to really take on this level of responsibility. I just did not have the financial framework in place of having the separate savings for the down payment, of having paid down my student loans to a place where I was comfortable taking on this mortgage payment, right?

And so, I think there's so much pressure to achieve these things by a certain age and you can get a lot of that external pressure. But if you're not honest with yourself about where you are and what your financial picture actually looks like, you're going to find yourself in the same situation that I was, where I had just overextended myself to the point where now these goals that I thought I was going to be able to achieve, like paying down debt and saving money and saving for retirement, felt so much more burdensome because of this additional pressure that I had put on myself to now have to deal with this mortgage.

Stefanie O'Connell Rodriguez: I think the other piece of this conversation around home ownership and the pressure to buy is that home ownership has been framed as this cornerstone for building equity and building wealth.

Jannese Torres Rodriguez: I have been able to save and invest more money as a renter than I ever was as a homeowner, just because I am dealing with a lot less financial responsibility as a renter. So this idea that home ownership is the only way to achieve and build generational wealth is just simply not true.

There are so many different ways for us to build wealth and it's not just one size fits all approach.

Stefanie O'Connell Rodriguez: Like Jannese said, building wealth is not a one size fits all approach and neither is the way we live – so to help us understand whether renting or owning makes more sense for us—I spoke to Shang of savemycents.com in episode 31, about how to compare the two.

Shang: The very common tradeoff—or a calculation that I see marketed primarily by real estate agents and mortgage brokers who want your money—when it comes to buying a home, as they say, how much are you paying in rent? All right, well, if you take all of that in rent, this is how much you can afford in a mortgage.

And this is the home that you could afford using a couple of very basic assumptions. Wow. That is such an oversimplification of home ownership because first of all, your mortgage is front-loaded. What does that mean? Most people don't stay in a home that they own for the full 30 years of a 30-year fixed rate mortgage.

That means that in the first couple of years that you're staying in a home, you're actually not building that much equity in the home itself. Most of your mortgage payment is going towards interest and a tiny, tiny, tiny amount goes to the home equity. So let's say you're paying a thousand dollars a month in rent and you pay a thousand dollars in a mortgage. You're not getting a thousand dollars in home equity right away. That's a huge part.

Number two, your mortgage payment is not your only housing expense. As a renter you actually got it really good. There are so many days as a homeowner when I'm like, I kind of wish I were renting. Any problem that you got, you call up your landlord and they basically have to come fix it at some point.

Now some landlords are worse than others. We won't get into that. As a homeowner, you're responsible for property taxes, home maintenance costs. If you're in a condo and HOA or in New York a co-op, you got all the costs that are associated with that. You got homeowners insurance, and then you never know what else is on top of that.

And many of these costs by the way, are not fixed. Your mortgage payment could be fixed. And that's what people peg their numbers too. But all the other costs go up usually in line or even above inflation.

Your real estate agent is incentivized to make you find and close on a house as quickly as possible. Now, the mortgage broker wants you to close on a house as soon as possible. The sellers want you to buy as soon as possible. Where in this environment, do you see anyone who's positioned to give you that rational cool-headed objective advice? No one and no one's being paid to really make that decision for you.

So you have to pull yourself back and when the emotion, and this is a very American concept. We love our freedom. We don't like to be owned by anybody. And sometimes renting can feel like you are answering to your landlord each month, right?

Each month you write that check. I'm paying somebody else. But instead, if you can twist that around and say, yes, I might be paying somebody else's mortgage, but the money that I'm not spending on this home, that I'm investing, it's coming to pay me back going forward. If we

could try to like, just turn that around a little bit and run that math, I would say a lot more people might say, okay, I can take the emotions a little bit more out of home ownership.

The calculations that I've done at the very, very rudimentary level is, okay, how much does average rent cost in this area? If I were to rent and then for the kind of home that I want to buy, which could be different depending on what you want, but you look at the home, you add in the mortgage costs, then you figure out what the average property tax rate is—it's public for wherever you want to live.

You add on an average insurance quote, you could get that from any insurance websites. And then you tack on 1% of the home value each year as a maintenance cost. Just add those things together and also add on HOAs. If you're going to buy into an HOA. And compare the two. And ask yourself is this a trade-off that makes sense to me.

Which one of these makes more sense if your rent is lower than the total cost of ownership, take the difference and then plug it into a exponential calculator and say, okay, if I invest this in the market at a, call it, 5% return each year, what is that going to get me over the time that I would have bought the home? They could quickly see that there could be advantages to renting that you wouldn't have thought about before.

Stefanie O'Connell Rodriguez: Are there certain benchmarks or parameters that people can use as a way to say, oh, this does make sense—Or doesn't make sense—in terms of homeownership?

Shang: A lot of times I would say, take a look at your ability to save and invest for your retirement before and after owning a home.

And if you feel that you're still on track, that's great. What I don't want to see is people go underwater. I've coached people where they have the mortgage payment and they still had a ton of student loan debt and car debt and consumer debt. And they could barely have enough money to feed themselves month over month, they keep racking up more debt. That might be a situation where you should pump the brakes and really, really think about whether home ownership makes sense or not.

And that's really hard because there's so much emphasis on, you're not an adult until you're independent and in your own home.

But I would also say adulting means being responsible with the money that you have and the assets that you have been given and being able to take care of your future self through your retirement plans, your retirement funds, and if owning a home actually prevents you from taking care of your future self, then that's not adulting.

That's digging yourself a hole. That's going to be very difficult to climb out of.

And I would love for all of us to celebrate more models of adulting that might not look like a traditional, I got my paycheck and I live in a home and I have two cars kind of deal.

Stefanie O'Connell Rodriguez: After the break, we'll speak to two real estate experts who have bought and sold hundreds of homes about the biggest things they see homeowners underestimate and the most important thing they consider when purchasing a property.

In episode 25, I spoke to licensed real estate agent Mindy Jensen about one of the aspects of homeownership that we have a tendency to overlook or underestimate—the cost of moving.

Mindy Jensen: Are you setting your roots down and you're never going to leave? A lot of people plan that. But then that's not really how reality works. People tend to move every five to seven years. So if you are moving to Iowa City for a job and you have a two-year contract, it may not make sense, especially in this hot, hot market. It may not make any sense at all to buy a house because what happens if the housing prices go up and up and then they soften. Or they flatten out or they start to decline, then she's kind of stuck.

Whereas if they've lived there their whole lives, or, you know, they're moving there because their parents live there and they really love the town and they want to live there forever, have plans to live there for at least five to seven years.

That's a good time to start looking. It costs a lot of money to sell a house and people don't think about that when they're buying a house, but on the front end, buying a house, it costs approximately two to 4% of the purchase price in random closing costs.

And that's not including your down payment on the house. It's just the random extra costs like your attorney or your title insurance, and you know, all the little things that you can't imagine actually exist when you buy a house, when you go to sell it on the backend, it's more like eight to 10% of the price of the house.

Sellers traditionally pay the commission for both the buyer's agent and the seller's agent. Additionally, you have your own closing costs, like title insurance for the mortgage company, for the buyers and title insurance for the buyers themselves and on and on and on.

One of the things that I see a lot of people doing right now is, you know, oh, everybody else is buying a house. I have to buy a house too. No, you don't. If it wasn't in your plans before now, it can be a time for you to think about it, but you need to do a lot of research and you need to educate yourself exactly what is it going to cost me to own this house and what happens if, and when fill in the blank. There's a lot of ifs out there. What happens if there's a global pandemic and I lose my job and I don't have any other job?

I really don't want people listening to jump into home ownership without a big safety net, a big emergency fund, because I like to say something always breaks when you buy a house.

Stefanie O'Connell Rodriguez: Are there signs that “Yeah, I am ready to buy a house financially speaking and emotionally speaking?”

Mindy Jensen: You have a stable job, you have money in the bank. Like I said, it costs money to purchase a house two to 4% of the cost of the house, but then you also need a buffer for unexpected repairs. Or you move and you're like, ooh, I need to paint that wall right away. Or, oh, this is broken or it's not working properly, so I need to repair it or replace it altogether. I need to mow my lawn, but I'm going to be gone for six weeks now. So I have to hire somebody to do this. And there's just a lot of little things that you don't think about. Know what you're doing and have a good real estate agent. Have a lender that you can talk to that speaks to you with respect and answers the phone when you call and answers your questions. Have somebody who is on your side, helping you through this most expensive purchase you're ever going to make.

Stefanie O'Connell Rodriguez: How do I get to a point where I'm not just making a decision under pressure under a deadline, under emotion, and I'm being informed.

Mindy Jensen: I would say that reading everything you can about your local market is going to be super helpful.

You're also going to go on Zillow and realtor.com and Redfin and Trulia and all of the places where you can see all these pictures.

You want a three bedroom, two bath house in Longmont, Colorado for \$450,000. How many of those have sold in the last six months or the last three months? Oh, one. Okay. That's not a very realistic option for me then.

I should either expand my search area, my numbers, or otherwise alter it. Let's go up to \$500,000 oh 26 have sold in the last three months. That's a more realistic price range for this. That's a search that I can be comfortable with. Talk to a lender. See how much they think that you can be approved for and ask them to run numbers.

And what does that look like in a monthly payment or tell the lender? How much am I going to have to put down? Is what I want reasonable? And can I afford this thing that is actually there? Start looking.

And then you start narrowing things down. Go to open houses. Don't think that you're going to have to make a purchase tomorrow.

That is a frantic emotional decision. Give yourself the opportunity to do some research and understand just exactly what you're getting yourself into. You are signing up for 30 years of mortgage payments. And of course, if you sell, then you don't have to make them any more, but 30 years, that's a lot. Do you really, really, really want that house? That much?

Stefanie O'Connell Rodriguez: Renting, buying, maintaining, renovating, moving, wealth building—there are so many different factors we're taking into account when it comes to deciding when and whether to buy a home – so in episode 35, I spoke to real estate investor J Scott about how we can sort through all of those factors to find the right living situation for ourselves.

J Scott: So I'm a big fan of knowing the end goal. And so we all have to ask ourselves, what is the purpose?

What are we planning to do with this particular house or this particular home or property? And while we certainly can be thinking about it as a place to raise our kids and live with our spouse, and we can think about it in emotional terms, we should also be thinking about it in financial terms.

And so starting with the end goal in mind. Is this going to be a property that I plan to hold for the next 30 years as a rental property? Is this someplace I'm buying as a temporary place? Is it some place I planning to have kids in the next year? Think about why you're purchasing. Think about where you're going to be in the next year or two or five, and think about what you plan to do with the property once you're done living there.

And the big reason for this is that we don't know where the market's going. We don't know if in a year from now home values might drop or two years from now or five years from now home

values might drop. This isn't a big deal if we're planning to live in the house for the next two or three or five years, eventually house prices are going to return.

But if you need to be able to sell in a year or two years, you should approach the purchase a lot differently than if this is someplace that you can and are willing to live in for the next five or 10 years. So always go in with the lens of what's the worst thing that could happen. What are my plans for the property, and then act accordingly.

Stefanie O'Connell Rodriguez: What are those considerations that somebody needs to make when they're going through that kind of decision-making?

J Scott: As far as I'm concerned, the biggest one is, is your spouse on board? From what I've seen the biggest source of stress is when the two partners are not on the same page. When one is thinking, well this is where I want to live, and this is where I'm gonna have my family and raise my kids.

And the other one's thinking, well, let's rent out a room and, and start making income from it and start saving up for another house. And if both sides aren't on the same page, you're gonna introduce a lot of stress.

Owning your own home is going to require some additional level of time investment than being a renter.

You may have to cut your lawn. You may have to repair your own stuff or calling a handyman to repair your own stuff. You're gonna have to deal with eventually replacing the roof and replacing the air conditioning system, all the stuff that typically a landlord would handle. And so then you go to the next level, if you want to become an investor.

Well, there are different levels of time investment for investing. So maybe you're going to rent out a home that you used to live in. Maybe you're going to hire a property manager to manage it for you so you don't have to take phone calls in the middle of the night.

Maybe you're going to do a big renovation. You're going to buy a house that was built in the late 1800s and do a \$200,000 renovation and then rent it out and manage it yourself then.

A project like that you're going to spend a lot of time. You're going to spend a lot of money. There's going to be a lot of risk. And at the end of the day, you're going to be managing it yourself. And you're going to spend a lot of time there. So really it's up to you to kind of determine what is the time commitment?

What is the money commitment? What is the risk tolerance you're willing to take and then choose the solution from that as opposed to going the other way and say this is going to be my living situation or my investing situation and just hoping that the time commitment and the money commitment and the risk tolerance suits whatever you happen to pick.

We could argue all day, whether buying or renting is better. And I could probably provide 20 studies and I could do really detailed spreadsheets to argue one or the other, but it's close enough that I would never tell somebody rent for financial reasons or buy for financial reasons. So at the end of the day, the single best reason to buy is because that supports something in your life where buying is important. So good schools, living close to your job, living close to your family. Those are good reasons to buy. Don't buy because it's a good financial decision.

Now if you need to buy the question often becomes, well, should I buy now? Or if the market's so hot, should I wait a year? And I'm a big fan of saying it's impossible to time the market. I know a lot of people who wanted to get into real estate investing back in 2015 and said, I'm just going to wait for prices to drop. And 2016, they were saying in 2017, they were saying it, and they're still sitting there saying I'm waiting for prices to drop. And they wish they would've just bought back in 2015. So I'm not saying prices are going to keep going up. I don't think any of us knows.

But at the end of the day, don't try and time the market. If buying is the right thing for you, buy. If buying's not the right thing for you, don't buy.

And I think a lot of it boils down to our own personalities. My wife and I are very different in the sense that I think about any property I buy, whether it's going to be my personal residence or an investment, I think about it from a financial standpoint. I want my personal residence to have equity and know I can sell it tomorrow and make money.

My wife is very different. From her perspective, when it comes to the house you're living in it's not about the money at all. It's about having a place for your kids to grow up and being in a good location. And if we're throwing away money and overpaying for the house we're going to live in, that's okay because it's more than just an investment.

So I think each person needs to stop and ask themselves what is the long-term goal? And if you're buying a house because you want a place for your kids to grow up and love and be able to go to good schools and be close to their grandparents—you don't need to apologize for that. You don't need to justify that by saying, well, it's also a good investment. It might not be a good investment, but if you can afford the house don't apologize.

But if you're the type that wants your house to be an investment you can also do that and you can make good decisions when it comes to buying and renovating and living in your house, such that when you go to sell it, or when you go to move out, maybe you're going to rent it—you can make money off of it.

And so you need to ask yourself again, what is my ultimate goal by buying this house and be true to whatever that is.

Stefanie O'Connell Rodriguez: It's clear from speaking to each of our financial experts that decisions around when and whether to buy a home are so much more complex, both emotionally and financially, than comparing the monthly rent to the monthly mortgage.

When running the numbers—remember to consider the full cost of homeownership—including property taxes, HOA fees, insurance and maintenance, in addition to the monthly mortgage. Plus the costs of buying and selling a home—especially if you're not planning to stay put for the long-term.

And don't discount the lifestyle considerations either—getting clear on the end goal of any housing decision, can help you optimize for both your financial and your lifestyle priorities in the process.

From your balance sheet to your day-to-day lifestyle, buying a home is a major life decision—so it's worth dedicating the time, energy and resources to making sure it's the right one for you.

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