Buying your First Home in a Tough Economy

When buying a home, even in a tough economy, a few valuable rules remain the same.

Buying a home is an investment

Being possibly the most important purchase in a person's life, buying a home can be overwhelming. But it should not be viewed as a typical purchase. It does not have to be a depreciating valuable. Like any investment there is risk, but with the right investment plan you should expect it to be an appreciating valuable, and any risk can be managed. The trouble the mortgage industry faces has been an overestimation of what people can afford. While those offering loans have a responsibility toward the purchase, you are the one who is intended to pay off the loan and in the long run buy the home. So how do you know if you can afford it?

Affording the investment of a home

Knowing how much you can afford may be as simple as tracking your monthly budget and holding a steady job. The basic principle is to *spend less than you take in*. It seems like common sense, but the difficulty of paying a mortgage should not be foreseen as more difficult than maintaining a job for the length of the loan. On a piece of paper draw a line down the middle for two columns. On one side write your monthly net income and on the other side write your expenses including your projected mortgage payment. Subtract the two and if you reach a positive total that you are comfortable living within, then you should be able to afford a great investment with your current employment. Keep in mind that inflation (gas/food/ prices) may increase quicker than your wage each year. Speaking of which, how do you make a great investment that will appreciate enough?

What should you include in your investment plan?

Ask yourself three questions: 1. How long will you live there? 2. What characteristics are you looking for in a home? 3. Where is a good place for not only you, but also others to live? In other words:

- What will be the condition of the area looking ahead to if you were to sell in 5 to 10 years? (Note: Most first time homeowners sell their starter home in the first five years.)

- Are upgrades included more costly than the value they will appreciate the property? (A cost/benefit analysis with a real estate agent can help answer this)

- Are you buying a place based on your specific values or are you interested in a place that would attract more than just your values. (Example: Buying to live close to your parents may not invite a large amount of people who want to buy next to your parents should you have to sell, but each to their own needs/goals)

Location, location, location

The most important rule of real estate investment remains location. Evaluate the area and determine what conveniences are nearby: how good the schools are, whether traffic of car, trains, or planes will ever be an issue, and how nice the other house and yards of the neighborhood are. Do effective research and compare until a few options are available. Remember that good deals get taken first, so be prepared to act on the best option available once you have an idea of what is available.

The best investment that you get to use

Buying low and selling high is a primary principle of investing. With the housing market struggling it is a great time to buy for those who can afford it. The same rules that apply in a good market apply in a bad market, except it favors the buyer. With an unstable economy—as ironic as it is that the housing market brought it on—stable employment could offer you the best opportunity to support buying your first home. When the market is back up, so will your investment, but be prepared to recover possible loss as the economy may continue down before it eventually goes up.