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Liz Pulliam Weston

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The Basics

The 3 worst reasons to buy a house

Buying a home . . . that's what everyone says you should do, right? But it's an increasingly expensive and risky proposition. Make sure you buy for the right reasons.

By Liz Pulliam Weston

The decision on whether to rent or buy has rarely been tougher.

On the one hand, spiraling real estate prices make people afraid they'll be priced out of the market if they don't buy soon. On the other hand, renting is a relative bargain in many high-cost areas, and a growing chorus of economists warns us about the possibility of housing bubbles in many markets.

If you're facing this nerve-racking decision, you need facts, not myths.

It's a fact that homeownership is a great way for most people to build wealth over time. But that doesn't mean everyone should be a homeowner. It's a bigger commitment and more expensive than most first-time buyers ever realize. You should have a clear idea of what you're getting into before you commit to 30 years of payments -- and you shouldn't let any of the following popular legends guide your decision.

'Better than the stock market'

Nationally, home prices are up more than 50% in the past five years, and in 30 cities -- including San Diego, Los Angeles, Miami and Washington, D.C. -- prices have doubled. In the same period, the value of an investment in the Standard & Poor's 500 stock index has shrunk about 2%.

Remember, though: past performance is no guarantee of future results.

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Ask homeowners in Boston, Dallas, Houston, Anchorage and Southern California -- all of which suffered major real estate recessions in the past 20 years.

After dropping more than 20% in the 1990s, Los Angeles home prices took almost 10 years to regain their peak, says real estate expert John Karevoll, an analyst with DataQuick Information Systems. Anyone who lived here during that time knows people who were "upside down" -- owing a bigger mortgage than the home could be sold for. Thousands of people simply walked away from houses they couldn't sell, trashing their credit ratings in the process.

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No one can predict when, or even if, prices in a given market will decline. But many economists and researchers are warning that some markets are overdue for a correction.

One study released this summer concluded that 53 cities, representing 31% of the total housing market, were "extremely overvalued" and face a substantial risk of price declines. The study, conducted by the economics department of financial services firm National City Corp., compared price growth to underlying fundamentals, including incomes, housing density and mortgage rates and found that these cities were overvalued by 30% or more.

That doesn't mean prices in those cities will necessarily collapse, but even the most ardent real estate cheerleader acknowledges that the current pace of appreciation can't continue indefinitely.

In the past 40 years, the average appreciation for homes has exceeded the inflation rate by only a percentage point or so. Compare that to stocks, which have bested inflation by 7 percentage points in the same period.

'I'm tired of throwing away money on rent'

Normally, renting is cheaper than owning. But in some cities, soaring real estate prices have made renting so much cheaper that it's getting

really tough to make the case for becoming a homeowner.

As my colleague M.P. Dunleavey found in "[Why buy in an overpriced housing market?](#)," many Manhattanites would have to pay two or even three times their current rents to afford a comparable home. On the other coast, similar economics apply. You could lease a three-bedroom, four-bath home in the pleasant Los Angeles neighborhood of Colfax Meadows for \$4,300 a month. The same house would sell for well over \$1 million and set you back at least \$6,000 on the mortgage payment alone, plus more than \$1,000 a month in property taxes.

You're not really throwing money away when you send a check to your landlord, anyway. You're exchanging it for a place to live. You're also getting flexibility and freedom -- things you sacrifice when you buy a home.

When you're a renter, it's the landlord, not you, who is generally responsible for maintenance, repairs and fixing the toilet that blows up in the middle of the night. If the neighborhood should start to slide, or you get or lose a job, you can up and move, often with just a few weeks' notice.

It's true that you may have to deal with rising rents and recalcitrant landlords. Homeowners, however, are often stuck with rising taxes and maintenance costs, as well as recalcitrant neighbors.

Moving is never fun, but moving when you own a home is an expensive, time-consuming process. Finding a buyer can take months in all but the hottest markets, and you should figure selling costs will eat up about 10% of your home's value, once you add agent commissions and moving expenses.

In other words, homeownership is more like marriage; renting is more like living together. Make sure you're ready to be wedded to a house before you propose to leave behind life as a renter.

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