

Is Buying A Home Always the Right Move?

It's widely thought that home ownership is a key to building wealth — but is it? And should you consistently make sacrifices to buy your own home?

Let's start with the first question: Is owning a home essential to building wealth? It would probably be more accurate to say that home ownership can be helpful in building wealth. Building home equity — essentially, the difference between the size of your home's value and what you still owe — is certainly valuable. Plus, the bigger your equity, the less you might have to take out in a new mortgage if you ever want to buy a different home.

Now for the next question: How much should you sacrifice to buy your own home? This isn't an easy question to answer because buying a home isn't just a financial issue — it's also an emotional one. Many people simply like the feeling of owning a home. If you fall into this category, you might be willing to make many sacrifices to join the ranks of homeowners.

However, if you're relatively young and you are part of a single or even a dual-income household, you may well find that your other priorities are more important than home ownership, at least for the moment. These priorities can include paying off student loans, reducing other debts, paying for child care, meeting health care costs and even saving for retirement. With all these expenses, you might not be able to take on a big mortgage, along with real estate taxes, homeowners' insurance and the inevitable but costly repairs that come with owning a home.

In addition to the danger of becoming “house poor” by paying too high a percentage of your income on your mortgage, you could face another issue by sinking too much money into your home — and that's liquidity. A home is much more illiquid than savings or investment accounts, so if you needed money in a hurry, and most of yours was tied up in your home, you might be in a jam. You could tap into your home equity through a loan or a line of credit, but that's basically taking on even more debt, though these loans and credit lines typically offer lower interest rates than other forms of borrowing.

So, here's the bottom line: You don't need to feel that you are missing out on a chance to build wealth by not buying a home immediately — especially if you would feel extremely stretched by the mortgage payments, given how expensive homes are today. You won't hurt yourself — and, in fact, you'll likely help yourself — by taking care of your most pressing priorities first.

Of course, this doesn't mean that you can never become a homeowner. If you would still like to own a home someday, you could start saving for a down payment, keeping the money in a liquid, low-risk account. Just as importantly, though, you should plan on how owning a home can fit into your budget and how it will affect your cash flow. If you can manage it, you may indeed find that there's no place like home.

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