HUFFPOST

Why Waiting To Buy A 'Forever Home' Could Mean Never Owning A Home At All

This isn't your parents' economy.

By Casey Bond - 08/05/2020

Long ago, it wasn't uncommon for homeowners to hang on to their properties for 20 years or longer. They'd scrimp and save, eventually putting 20% down on their dream home, then they'd work to pay off the mortgage so they could live their golden years debt-free.

Baby boomers seem to be the last generation subscribing to the idea of a long-term "forever home." Homeowners ages 67 to 85 are staying homeowners even longer than previous generations did when they were in that age group, according to a 2019 report by Freddie Mac. Collectively, homeowners over the age of 55 own about two-thirds of all U.S. home equity, and about 63% of these homeowners plan to stay put for the rest of their lives.

Redfin attributes a recent five-year increase in the average duration of homeownership to older people holding on to property in high-cost-of-living cities. Plus, following the 2008 financial crisis, homebuyers were able to lock in ultra-low mortgage rates that made moving (and having to borrow at a higher rate) much less enticing.

But overall, other generations don't have the same need to stay in their homes for the long haul.

"While the idea of saving and buying your forever house is attractive to some, we are seeing a major trend in the other direction," said John Boyd of The Boyd Company, a corporate real estate consultancy firm in Princeton, New Jersey. "Today, more people view the decision to commit to a specific area to live for the next 30 years as outdated and not in sync with economic reality."

Why would a homeowner want to move? On one hand, poor economic conditions and a lack of job opportunities in certain areas will push people to consider seeking better options elsewhere, said Kathleen Owens, managing member and financial adviser at Aurora Financial Planning & Investment Management in Southern California. "It's not that they want to move, they have to," she said.

But shorter homeownership periods aren't always due to financial struggle. Boyd said we can also thank the rise of remote work, as well as a general decline in loyalty to a specific employer.

"Just as the big house was a status symbol 30 years ago, today, the flexibility to live where you want is becoming more and more popular," he said.

Recent data also finds that younger adults prioritize life experiences such as travel and entertainment over being tied to a home with a big mortgage and high annual property taxes. "The economic impact of the COVID-19 pandemic (the weakened economy, the acceleration of the remote workforce trend, and the overall reminder that life can change in the blink of an eye) also work against the idea of the forever house," Boyd added.

Here's why you should aim for a "for now" home instead.

If you're considering buying a house, the pressure to pick the perfect property can be discouraging. What if you have kids? What if you don't? What if in 30 years, you won't be able to walk up that impressive spiral staircase? It's hard to know what your family and financial situation will require years down the road.

And like homeownership trends among past generations, the old-school financial advice for buying a home no longer rings true in many situations.

“It goes along with that whole outdated American Dream concept that you work in one place, you retire, you have a house and a two-car garage,” said Michael Reisor, a real estate adviser in Austin, Texas. “The idea of moving frequently was a foreign concept to people, unless they were a military family or moving for work.”

The housing market — and economy in general — looks a lot different today than it did when our parents and grandparents were young adults buying their first homes. Sure, mortgage interest rates were in the double digits, but so were savings rates. And at the time, wages were more in line with home values.

Things have changed. For one, median home prices have risen at four times the rate of household incomes since 1960, according to an analysis by Clever Real Estate.

The way that property values appreciate today, it often doesn’t make financial sense to wait until you can buy the perfect home that you plan to live in forever, Reisor said. “It’s way better to buy earlier on and into something more accessible, and have that appreciate over maybe five years, and then resell and snowball that.”

That’s also why first-time homebuyers, especially, should ditch the notion that they need a 20% down payment. “I talk to so many people every day with this outdated concept that’s been pushed by their parents’ generation, that that’s what you have to do,” Reisor said.

In fact, it’s possible to buy a home with as little as 3% down if you meet other qualifications. Though putting less money down upfront means potentially taking on a larger loan and the temporary cost of private mortgage insurance, it also means you can get your foot in the door of homeownership before it’s too late. If home values continue to rise as wages remain stagnant, waiting too long could mean pricing yourself out of homeownership completely.

These are the dangers of home-hopping too often.

Though you don’t need to commit to a property for several decades, there are downsides to jumping from home to home every couple of years.

Conventional wisdom says that if you are not going to stay in a home for at least five years, it’s better to rent, Owens noted. Owning for just a few years usually doesn’t allow you to fully recoup the transaction costs associated with the purchase, such as closing costs, which can range between 1% to 7% of the home purchase price.

It also prevents you from building up equity. Though home values generally appreciate over time, they do fluctuate (an understatement if you remember the Great Recession). You may experience a down market soon after buying, which could take years to recover, let alone grow beyond the original purchase price.

And then there’s mortgage amortization. During the first few years of the home loan, your payments go almost exclusively toward interest. It takes several years for a good chunk of mortgage payments to pay off the actual principal. If you move too often and too soon, you will end up spending a ton of interest without ever paying the loan down.

The opportunity cost of moving often is also worth considering, Owens said. “You may most likely be better off investing the money that you would be paying for closing costs, points on a mortgage and other ‘lost costs’ on another type of investment such as stocks and bonds.” Investing in the stock market has few up-front costs compared to buying real estate, she said, with none of the work and hassle that are involved with owning a home. Plus, if you do experience buyer’s remorse over a stock, you can do a 180 and sell it fairly easily. Unloading a house is much more difficult, time-consuming and costly.

Owens said that other opportunity costs of buying a home include the time spent researching neighborhoods, finding a trustworthy real estate agent for that area, and the general disruption of your life involved in moving, including making necessary repairs to your existing home before the move, hiring a moving company, sorting and packing your items, redecorating and making improvements, etc.

Overall, the timing of subsequent moves can be tricky if you want to sell at a profit or at least break even. “Real estate is an illiquid asset, meaning you cannot sell anytime you want for the price you want,” Owens said. “You may have to accept much less money than you anticipated if you are on an inflexible timeline.”

Buying a home is a major commitment and not one to jump into without the solid financial footing to handle a mortgage and all the other associated expenses. And it’s not for everyone — many people prefer to leave the financial burden of owning a home to their landlords. But you shouldn’t write off the goal of homeownership just because you don’t meet the same standards that previous generations did.

“The forever home ideal pushes people away from homeownership as they strive to perfection,” Reisor said. “People assume that they’re not in a position to buy. And some people aren’t — they have lost their jobs or don’t have any kind of stable income.” But if you do have a solid income and savings, don’t count yourself out; your buying power may be higher than you think it is.