

Real Estate Reality Check

Insights from Trulia's Real Estate Realist to Make Your Real-Life Decisions Smarter



How Much House Can You Handle? 3 Steps to a Smart Decision

Once upon a time, a widely-used rule of thumb among real estate experts and home buyers alike was to buy as 'much' home as you could qualify for, as soon as you could qualify for it: even if you didn't need the space or extra expense. Back then, big homes were en vogue, mortgage money was free-flowing, and all homes increased in value so rapidly that it was seen as foolhardy to buy something smaller and lose out on the potential appreciation you'd get for every extra bedroom or square foot you coulda, woulda or shoulda bought.

Fast forward a few years, and it's pretty obvious that this rule of thumb has definitely changed with the real estate market. The housing market crash turned McMansion-villes across the nation into slumburbias full of huge, vacant, foreclosed homes. Smaller homes closer in to urban job centers have become more desirable than ever, due to their relatively recession-resistant values, and lower associated costs of operating, maintenance and commuting. At the same time, the zeitgeist has definitely moved toward buying a less expensive home than your maximum approved mortgage amount. And everyday homeowners are more and more concerned with the carbon footprint their daily lives are leaving on the planet.



For those of you facing the prospect of deciding exactly how much house you can handle, here are three buckets of considerations I strongly recommend you incorporate into your process:

1. What do your future family and career look like? Answering the question of how much home is the right 'amount' for you requires putting your visionary hat on. One of the reasons previous generations of buyers have erred on the side of buying too much home was that it seemed easier to deal with the problem of having too much space compared with the challenge of having too little.

But that's a costly decision-making shortcut, as bigger homes cost more to upgrade and repair (with bigger plumbing and other mechanical systems, and larger surface areas of flooring, wall spaces to paint and things like counters and cabinets) and more to operate (heating, cooling, landscaping and even property taxes are generally more expensive for larger homes). Also, the costs of making the mistake of

buying too much home on today's market can be hard to reverse, as homes generally take longer to offload - especially at a profit - than they did at the top of the market.

Not only is buying too much home an expensive mistake, it's also an unnecessary one. The way smart buyers avoid it is by taking the time before they even begin house hunting to get serious about forecasting the space and activity needs of their families (or other housemates) and how they are likely to evolve over the time you expect to own the home, as well as how their career path(s) are likely to intersect with that timeline.

Given the tough-to-predict ebbs and flows of home values, today's smart buyers target homes that should work for the space needs of their growing and shrinking families for at least 7 to 10 years. This helps avoid the trauma and drama of being stuck in an upside down home that is too small or too large for your needs. Actually, with today's uber-low home prices and interest rates presenting what many buyers feel is a once-in-a-lifetime opportunity, I'm hearing lots of talk from young people about buying homes they hope to stay in for even 20 or 30 years!

Given this rebirth of America's traditional long-term perspective on homeownership, and modern changes in how nuclear families are composed, the space needs analysis of a smart homebuyer are quite a bit more complex now than they used to be.

In assessing how much house they want and need vs. how much might be too much, buyers must consider any of the following life changes that might happen in the time they expect to own the home:

- marriage or mating up,
- having or adopting kids and animals (and how many),
- shipping kids off to college or their own separate households,
- adult kids staying at home or returning home,
- aging parents or other extended family members moving in,
- whether and when they might need to move for work,
- what work and other activity needs will need to be able to take place in the property over time, and
- how much - or little - ability to reconfigure, expand or even rent out unused spaces the property will allow.

2. What's your bandwidth for fixing, maintaining and engaging? The handling that has to happen with a home ranges from minimal to massive, in both cost and lifestyle impact. As such, deciding on the optimal level or ranges of the following is an essential step of your 'how much home can I handle' calculus:

- fixing (DIY or otherwise),
- ongoing home maintenance, and
- needed involvement with Homeowner's Associations and the like.

As I see it, the issue of bandwidth is a hybrid phenomenon that is about overall resources: time, energy, interest level and cold hard cash, to name a few. The combinations of these resources are endless though, fortunately, the tradeoffs they pose vis-a-vis each other are relatively predictable. For example, do you have the time, inclination and money to deal with the ongoing maintenance of a sprawling '50's rancher on a big suburban lot? Or would you rather pay a monthly maintenance fee and dues and limit your largest 'home work' obligations, so to speak, to attending the meetings of your building's HOA?

Or do you, like me, fall somewhere in between these extremes, with little interest in personally swinging a hammer or engaging with neighbors around shared walls and finances, pointing you to prioritize single

family homes that are in tip-top shape (or at least a home you can afford to pay the pros to make that way).

Working through this step is really about knowing yourself, your budget and the sort of lifestyle you want to live for the years you own the property. It's also essential here to work with your local agent to get educated about things like using a home warranty plan to minimize your exposure to big home repair costs, and what any individual HOA does or does not handle for its members.

3. What can your finances sustain, in the short- and long-run? When it comes to homes, 'muchness' is not just a matter of space, it's also a matter of money. In fact, some would actually say that to buy smart is to allow the boundaries of your financial resources to trump all the rest. I like to take a more holistic approach, first scoping the space needs and bandwidth issues that weigh heavily on whether a fixer or a condo or a single family home or a home in move-in condition makes the most sense, as these factors should also be balanced in the decision-making about what is affordable immediately and over time.

Answering this question of financial sustainability is not as simple as buying a less expensive home than you're approved for, building in room for an unexpected interruption in income someday (though that's not necessarily a bad move). It might be complicated, as all the line-item questions, answers and outcomes of questions 1 and 2, above, must be included in the number-crunching that goes on in number 3.

For instance, if you are buying a low-cost foreclosure fixer, you may need to count on some bulky up-front repair costs and even factor in the increase in property taxes that may occur as a result of your home's assessed value going up when you secure permits for upgrading or expanding the place. If you are considering purchasing a place with space for an adult child or aging parents to move in, can you factor in their income or some of the proceeds of the sale of their home to the resources available for the purchase or payments of the home you're planning to buy?