

Debunking House Buying Myths:

Key questions to consider before signing a mortgage at your next duty station

By Janine Boldrin Photos by Julie Swenson



To buy or rent is often a key question with each PCS.

Renting is throwing your money away. Communities surrounding military installations have been protected from the downturn in the housing market. If you buy a house you can always rent it when you leave and make a lot of money.

These are just a few of the more commonly held beliefs that surround home buying within the military community. But are they true?

We talked to two financial planning experts who work with service members and their families to get their perspective on buying versus renting; what they said is a must read for those service members who are making a housing decision this year.

Renting is throwing your money away

Many service members may be wondering if the combination of a “buyers” housing market and their VA loan eligibility create a chance to make big bucks if they buy a new home now and then sell it when they have to move in a few years.

According to J.J. Montanaro, a USAA certified financial planner, people need to frame the decision to buy a home in an investment framework.

“The number one unique consideration (for service members) has to do with the mobile nature of their lives,” said Montanaro. “The reality of buying a house is that it

Common military home buyer mistakes

Our experts shared common mistakes they have seen service members and their families make when it comes to buying a home:

- Not doing enough research
- Overbuying
- Lack of cash reserve
- Buying early into subdivisions that are still under construction
- Failure to plan for the worst-case scenario

is an equity investment, so to buy an equity investment that may have a horizon that may be one, two, three years away ... that is a gamble where the odds may be stacked against you.”

Patrick Beagle, owner and President of WealthCrest Financial Services, LLC, echoed Montanaro’s concern.

“If you think you are going to be there less than three years, you shouldn’t be buying,” said Beagle. “I look at the risk and when I look at the risk, there is not enough potential gain to make it worth it.”

In today’s market, instead of asking “is renting is throwing away my money,” service members may be better served by starting from the point of evaluating whether buying will cause them to “throw away” more money.

Montanaro recommends talking to other military friends and acquaintances to understand the gravity of the financial chaos recent home purchases have had for many of them.

"When you look at the money that goes into a house, that contradicts the thought that you are throwing away money by renting," said Montanaro. "In most cases, there are going to be more of a cost to owning a home versus renting a home. Throwing away your money would be a half-glass-empty perspective."

While many homeowners may be able to recover the costs associated with homeownership by spreading them across time, most military homeowners may not have that luxury, because they often only own for a few years. An option is to evaluate the additional costs incurred during their anticipated homeownership period versus renting a home, and choose to invest the difference if they decide to rent.

Montanaro added that for military families, it's hard to put a price tag on the freedom and flexibility that renting offers. When unexpected orders come, renters are protected under the Servicemembers Civil Relief Act; however, a homeowner is left scrambling to sell or find a renter

Communities surrounding military installations are protected from the downturn in the housing market

While having a military installation nearby may have kept some areas from feeling the full impact of the housing crisis, other communities have been hit just as hard.

"You'll find that it really varies, so you have to do your homework," said Beagle. "So often, people go on a house hunt and they make a decision to buy in 10 days without having done any homework at all. What really gets me is that people make a large financial decision in less time than they take to plan a vacation."

Who should buy?

Some service members and their families are better positioned to purchase a home than others to include: those who are stabilized at their installation for more than three years, individuals who are close to retiring and plan on remaining in the location where they are purchasing their home, and service members who have done their homework, plan to rent and have the financial resources to withstand the unexpected costs associated with being a landlord.

Beagle emphasized that real estate markets are local and vary in how they have reacted to the current economy.

"You look at Eglin Air Force Base in Florida or Las Vegas where the military installation has a smaller impact, it provided little to no insulation," said Montanaro. "It's not a silver bullet."

Larger installations may have softened the blow to the housing market in some communities, meaning prices didn't drop as dramatically, but they have still been hit with issues such as longer selling times which is particularly troublesome for military homeowners.

Sellers have also faced a glut of new housing that has sprung up around installations. Over time, builders have keyed into service members as a growing population of home buyers leading to a large number of new homes springing up around military communities where post housing didn't cover needs.

When service members come to the point of selling, their two-year-old home is not as attractive as the new home in the community that was just built down the street.

"You cannot compete with a homebuilder when it comes to selling your home," said Beagle. "You'll never win against the new home price."

And, if like many, you're banking on "buying at the bottom," the truth is: no one can predict with 100 percent accuracy when we've hit the rock bottom of the housing market and when that market will recover.

If you buy a house, you can always rent it when you leave and make a lot of money

For some service members and their families, purchasing their own home coupled with the possibility of earning income from the property after they leave makes homeownership very appealing. But many of them fail to evaluate their unique situation as a military family and possible landlord.

"There are challenges to being a long-distance landlord and especially a long distance landlord who is deployed," said Montanaro. "They need to crunch the numbers and see what it might look like."

Hiring a local property manager may be necessary if you will be unable to respond quickly to your tenant's needs, which must be factored into your costs. Take into account the cost associated with repairs the home might need in the years you rent. Look at how owning a home in one place may affect your available cash and ability to get housing at your next duty station.

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And remember: just because you have a house for rent doesn't mean a renter will just show up right away.

Purchasing a home as a long term investment requires a lot of homework to include:

- understanding the local rental market and researching possible future conditions that might impact the need for off-post rental housing
- talking to other military homeowners in the area who rent to find out how long it took for them to find a renter
- researching the average rent for comparable homes in the area
- and considering the cost of the house sitting empty if a current renter gets orders mid-year or if you are unable to rent after you leave for a new duty station

"And if we're talking about people making smart decisions," said Montanaro, "then there shouldn't be any reluctant landlords."

With many military homeowners finding themselves in this situation, of not being able to sell their homes and diving into becoming accidental landlords, Beagle says: if you didn't buy right, you'll never rent right because you'll have a negative gap in income.

"Homeowners need to focus on what their objective is and do their homework," he added.

And when making the decision between buying and renting, for military and their family, Montanaro recommends, "When in doubt, rent." ●

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Taking a low offer versus becoming an accidental landlord

Montanaro said homeowners may have to make difficult decisions when they can't sell their home. But before falling into becoming a landlord because you can't sell your home: consider whether you have ample cash reserve to make full mortgage payments without a renter for at least three months, find out if there is a glut in the rental market that has driven down rental prices, think about the challenges that will come if you are deployed, and the cost of hiring a property manager and managing repairs over the rental period.

Montanaro has seen service members opt out of taking an offer on their homes because they felt it was too low. They decide to rent and then couldn't find a renter or have to rent for less than their mortgage and expenses. In the end, some of them ended up taking the same low offer they were given before after losing even more money by renting. "Nobody likes to sell and take a loss," said Montanaro. "But when you look at carrying costs, including what it may cost if you don't have any rental income over the time you wait for a better price...people don't incorporate that into their thought process."

Consider the pros and cons of each choice before making your decision

