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BUY VERSUS RENT

Purchasing real estate is (almost) always a good investment for the future

BY CHRIS KELLY

In 1997—back in what I call my previous life—I ran boats for several years. I was between jobs in the asset-management business and living in South Florida. My boss at the time was kind enough to provide me with a condominium at Ocean Reef and a second one in Ocean City, Maryland. I was part of a good program, but I knew that ultimately, I would have to settle down, plant some roots, and move back into asset management.

RENT VS. PURCHASE

Eventually, I ended up buying my first house in Palm Beach Gardens, Florida. At the time, the going rent for the place I eventually purchased was $1,200 a month. Instead of renting, I took out a Federal Housing Administration loan and purchased the property. For many first-time home buyers, an FHA loan is the best and easiest route to take to secure a mortgage, partly because the requirements are not as stringent as a conventional loan since they are backed by a federal agency. To qualify for an FHA loan, there are several requirements. For starters, the borrower needs a credit score of at least 500. If your score falls in the 500-to-579 range, you will be required to make a down payment of 10 percent of the purchase price. For those who have credit scores of 580 or higher, the down payment is only 3.5 percent, which is what I qualified for. Another requirement is Mortgage Insurance Protection, which protects the lender in the event of a mortgage default and is an additional insurance payment required by the FHA. As far as the borrower is concerned, it's another expense to consider. The cost of MIP ranges from 0.55 to 1.75 percent of the loan, depending on other factors. This insurance can be eliminated if you refinance to a conventional loan or you maintain a consistent payment schedule for 11 years, so I would highly recommend you discuss this with your lender.

Another expense to consider is the homeowner's association, which typically covers the management of residential communities. Your HOA might cover basic cable television, internet service, garbage removal, and the maintenance and landscaping of the common grounds. Each HOA has its own requirements, so read the fine print. For example, if you drive a pickup truck, many of these HOAs do not allow it. Why? Originally, they didn't want someone's work truck with their company's decals all over the sides in the community. It's amazing to me that some still have these restrictions; I drive a GMC 2500 Denali, and it's a much nicer vehicle than most I see in these communities, but it's still a truck.

Another major expense to consider will be traditional homeowners insurance. Depending on what state you live in, the proximity to the ocean, or if you're in an area known for hurricanes, this expense is something to be accounted for.

THE LARGEST EXPENSE

And lastly, your mortgage will be the largest expense you have, depending on how much you borrow, what the interest rate is at the time, and the length of the loan. The less you borrow with the lowest rate is ideal, and if you can afford a 15- or 20-year loan versus a 30-year, you would have higher monthly payments but pay less over time and pay it off sooner.

Fast forward to today, and I would do the same thing in terms of buying versus paying rent, especially if you are a crewmember on a boat. I would seek out a desirable area that I would like to call my home base, locate a nice condo or house, and apply for either a conventional or an FHA loan. Make sure you are comfortable with the monthly payments, as well as utilities, taxes, maintenance, and home insurance. Then find someone who also works on a boat and have them as a roommate to help pay a portion of your expenses. Many times, boat owners will pay for the living expenses of their crews while the crew is traveling, and because you can be away for months at a time, it's nice to have someone looking after your place while you're gone. It's a win-win situation for everyone.

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The benefits of buying a property and renting it to another crewmember can be huge. The obvious one is lowering your monthly living expenses. If you can split the cost with another fisherman and have them pay the other half of the expenses, that's great. As the homeowner, you can write off a percentage of your interest on your taxes (just be sure to consult with your tax adviser first).

For many, buying a home will be their single-biggest investment in their lifetime, so let's hope that the home appreciates over the years to come. In 1997, when I purchased my first house, I paid $86,000 for it. Today, it's selling for around $375,000. That's a pretty solid return of about 336 percent over 26 years.

Keep in mind, there are risks associated with this arrangement as well. The real estate market could drop, and you might not see the appreciation you were expecting. Also, having someone else living in your house can be challenging. But in my opinion, it's well worth the risk.

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Chris Kelly is the founder and CEO of Barclay Breland Family Office. Advisory services offered through Sowell Management, a Registered Investment Advisor.