EPISODE 740

[ASK FARNOOSH]

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FT: You're listening to So Money everyone. Welcome back. We have a very special themed episode today at Ask Farnoosh. It's all going to be about real estate. Lots of UR in market or interested in buying someday sooner maybe than later or later than sooner. Whatever the case is, we've got you covered today on this show, and I couldn't think of a better, more experienced, there is no other expert than Ilyce Glink when it comes to real estate, and she has been a friend of So Money in the past. She's been on the show I think twice and excited to bring her back on as her book, which I've given away to some of you lucky listeners in past giveaways.

Her book, which she actually launched – Gosh! I'll let her answer this question, but I don't want to date it too far back. But I think it's about 10 years old, maybe older. It's called *100 Questions Every First-Time Homebuyer Should Ask*. It's a classic. It's now in its fourth edition and it's already back for its second printing. She was telling me there's about 400,000 copies in circulation. So if you don't have one yet and you're thinking about buying a home, this needs to be your first purchase.

So without further ado, Ilyse Glink, welcome back to So Money my friend. How are you?

[0:01:47.8]

IG: Oh! I'm good, Farnoosh. Thank you for having me and it's great to be back here. It's great to see your success with this podcast. I love it.

[0:01:54.9]

FT: Thank you. Well, thanks to great guests like you and thank you for coming back and sharing all these real estate wisdom with us. Your book; *100 Questions Every First-Time Homebuyer Should Ask*, it was an icebreaker in the beginning of my relationship before I got married. I was at my then boyfriend's apartment and he had your book on his shelf and I felt so cool to say to him, “I know Ilyce Glink.”

He was just reader and a fan and I was, I like to think, I was a colleague and a sort of friend at the time. It was early on in my career too as a personal-finance writer, but I felt so cool and I also felt like I'm dating the right kind of guy. He's doing the right kind of homework and now we have been homeowners for many years. Between you and I, I think we have about 45 years of homeownership experience.

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IG: Well, so the book is actually – And I will date myself here, but I started writing the first edition of this book in 1993, 25 years ago, and it was at the fairly close to the beginning of my career and I had just bought my first home with my husband and we are moving into our house and that was our second purchase and I really realized how little I knew, because it was pretty easy to find the co-op we bought the first time. Then we decided to buy a single-family house. Literally, and I talked about this in the book, we looked at more than 125 homes before we found this old 1880s farmhouse that was literally on its last legs, that we ended up totally redoing.

So I’ve lived there through the whole time that I’ve had this book published. This is now the fourth edition, as you brightly pointed out. It's so interesting to have had a chance over a generation to watch real estate and how it's changed, how people react to this change and watch the machinations of it and try and guide people through it. So it's been quite a privilege.

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FT: 125 homes. I don't think there are that many homes on the market in Brooklyn in my neighborhood.

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IG: May not be right now. It's a pretty hot market.

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FT: It's a hot market, but it's a different market obviously than even just from 5 or 10 years ago, and your book I understand really focuses on the millennial homeowner. Are millennials really interested in purchasing homes as much as Gen X and baby boomers?

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0:04:25.0 IG: I think they're interested in it, but I think the realities of their lives, they're catching up with them. So a couple of things have changed structurally for this younger group, particularly the younger group of millennials. So millennials are aged about 22 to 38. It's not a traditional generation we think of those as being in twenty-year chunks. But this 15 teen years is a really interesting year and I call that the part of the millennials that I think you're having sort of the bigger struggles are the ones who graduated eight years ago, so halfway through this generation and have spent the last eight years trying to catch up from the great recession that they came of age.

Then the younger millennials, which act more like digital natives, or I-gen as we hear them start to be called, because they are even more technologically advanced. They have different perspectives when it comes to homeownership. So when you look at student loan debt, you look at the older millennials and how they've kind of struggled to find their footing with jobs and the lack of growth of the income that they've experienced. How this generation is really time shifted major milestones.

It used to take, when I was going to school, you had four years to get through college. Now, typically, it's six plus for a student to get through college. They graduate from college and they have 20, 30, even $35,000 worth of debt. If they go into graduate school, that multiplies exponentially. They are delaying the day that they get married by seven years, the day of homeownership. The first time homeownership used to be 26, 25 years ago. Today it's closing in on 34. So when you look at all these different major milestones for this population, you begin to understand why homeownership is the way. There's just a lot of stuff on their plate.

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FT: You hadn't mentioned this yet, but I've read that you talked about Zillow is getting in on the home selling business. Robots are doing house showings. All these new real estate websites that are marketing to, I guess, the next generation buyer. But some things don't change, right? You still need to have a relatively sizable down payment in many cases, unless you qualify for certain – Who actually can get the 10% or lower down payment?

[0:06:44.9]

IG: Pretty much anybody can as long as your credit score is tying up. In fact, FHA was – So FHA's acting commissioner. There's a new one that was just sort of named, but this happened before. She just went before congress with the latest report and talked about how more people are using FHA loans, which have very low down payments. They were also using more down payment homeownership assistance, which is often provided by city development block grants, CDBG funds, which are given by the federal government to states to use as they like, and a lot of them make it into the down payment or tip groups for first-time homebuyers who buy in certain neighborhoods or meet certain income requirements. So what you're saying is people get more savvy about ways to cobble together a much higher amount of a down payment simply because home prices have been skyrocketing.

So let's talk about that for a minute, because 10 years ago we're in the – Before the recession really hit. We saw home prices that had just kind of gone up exponentially and millennials were just leaving college at the time, were saying to themselves, "Oh! We're going to buy a house." What ended up happening was they didn't really buy houses. They found that housing prices were way too expensive. Thanks to the run-up during [inaudible 0:08:11.2], and they also saw that they were graduating with a lot of debt and they were getting jobs that didn't really pay for much, and so they started moving home.

That started this generation of a compression of the number of families that were out there looking for homes, and it really caused in many ways this tremendous slowdown. We saw a lot of people going into foreclosure, at the same time we saw a lot of people not being able to afford homes. So everything kind of piled on to itself. But now you look at the way that – And I want to get to your point about how many websites there are out there, because I would argue that people are not looking at fewer homes. They're looking at many more homes and they're looking at the wrong kinds of homes. They're looking at homes they can't afford to buy. While that's an old problem, I think all of the websites out there give it a new spin and people are overwhelmed with the beautiful houses that are there, the Kardashian way of life you might want to call it, and they're looking at stuff they can't possibly afford. So when you start looking at home you can't afford, you're nothing but disappointed. So I think technology is conspiring to not really help in a lot of ways. They want to help, but there's some hindrances as well.

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FT: Do you think it's okay though to have less than 10% or lower down payment? I feel like in New York we're so accustomed to having 20%, 25%, which is difficult to cobble together, but in some ways that protects us in a housing crisis. What are some ways to safely prepare for your first home purchase? I mean – I don't know, maybe I'm old school. I just feel like you need a bigger down payment.

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IG: I think down payments are great. The problem that people are having is the fact that home values are increasing. So if you look at the latest Case-Shiller report that came out, it's showing that home prices have increased for – I don't know, what many month in a row. Maybe were at the 42nd month in a row or something, and home prices are now running around 16% above – I'm sorry. Excuse me. 7 to 16% above their height before the crash. Now, not in Chicago where I live where we're still like 16% below that.

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FT: Which I can't believe that.

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IG: Well, there's lots of reasons for that. But mostly, in the top 20 markets, home prices are well above that now. They're above their previous highs. So if you're looking – And you could have inflations, so that's contributed. So if you're looking out in America right now, the average home is like $300,000. New construction for like 320 and an existing home will cost you a little bit under that, depending on where you are. But in hot markets, like San Francisco, where the median home price is 1.2 million, right? That's like a crazy number, and coming up with 20% of that is just undoable.

Even in Denver though, you're seeing just not any homes for sale in the market. They're just moving within minutes, and so people are doing pocket listings. You're not really seeing how fast home price appreciation is. Again, having cash makes you king and queen, because you're able to move more quickly on getting these homes. But that is making it very tough for millennials who haven't had a lot of years in the workforce, are paying down student loan debt to a great degree. They've been living in their Ubers and out at restaurants and bars. So they're spending a lot of money and they haven't really refocused on it, thinking, "Well, I'll get around to homeownership someday." But in the meantime what's happening is they're finding beautiful new places to rent and those are costing a lot of money.

So I think what we're doing is our eyes, we're all feasting on all these amazing features and benefits and amenities of both rental homes and homeownership homes. It's making it very tough for people to refocus and do with less while they save up for the big purchase.

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FT: One of the questions that you often get, Ilyce, especially amongst the millennials, is how do I fit homeownership into my lifestyle? Which I get that too. I mean, people will write in and say, "Hey, I have some savings, but I have a lot of things going on," like you talked about student loans, "I have high expenses. My income is not where I'd love it to be, but I am cobbling together some savings. I'd like to fit homeownership into my lifestyle." But what are some really important questions we need to answer before we warm up to that?

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IG: Well, I think that you have to take a hard look at your lifestyle. So I've met so many millennials in working on this book in the last year and a half, and then since I've done it, I've been invited to speak to groups of millennials across the country, and I'm amazed literally at how many them, they're like, "I don't have a car." Great. You're saving money that way. But they're Ubering and spending a hundred dollars a weekend to go around. It's so easy to venom money to people or chat it or whatever version you're using sending electronic payments. Very hard to keep coming sort of under budget, or whatever your budget is, and most people that you know aren't even doing budgets. So what is that all about?

I think people just – It's hard to keep track of your money with everything else, and I think when a massage comes calling or a trip to go see somebody get married or you just really have to have a vacation or you're buying gifts for people or you get sick or you've got higher healthcare costs at work just by your co-pays or maybe it's your insurance piece. This all easts into a budget, and without some planning and deciding, "I'm not spending anything except paying down my student loan debt and saving for retirement and my future home purchase," you're never going to get there.

So these require the deferred gratification that I talk about all through my book, because everybody starts out in the same place and you have to – Even if you're making a hundred thousand dollars a year or more, you might be living in Denver where the cost-of-living is higher, and a one bedroom apartment might be $3,500 a month. So you really have to do what I call, which is the zero balance, right? Your go to zero debt, and I talk about it in the book where take every expense off the table. Start with the number one expense that you can't live without, that's usually your rent and you put it down, "Okay. This is what I'm spending on rent." All right. What's your next thing? Usually, it's insurance or food. You may have some other transportation expenses. All of those have to go down in the must haves, and then once you're done with must haves, then, and only then, should you see how much you have left, and that's where you start putting in the few want to haves, and at the top of that list should be saving for your down payment, if buying a house is important to you, and it should be.

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FT: I use that tip so often. You are on the show, one of my first guests on So Money and you talked about how you and your husband go to, I guess, you called it Ground Zero with your budget. You'd strip everything away and then you rebuild, and you do this every year, which I think is brilliant, because it's very easy to tack on all of these expenses and these automated services. We forget that we are even paying for them, because they just become second nature. Can you remember how many Uberss you took last month? Probably not. But you're right. It could end up being more than a car payment and you think all the while, “Well, I don't have a car. So at least I don’t have to pay for that,” but it’s true. So thanks for reminding us of that.

Some people think that – Like let's say someone's renting right now and they're thinking, “Okay. I pay $900 a month in rent.” So that means that my mortgage, I should be looking at a mortgage that is roughly the same on a monthly basis. What do you make of that logic?

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IG: Well, the first thing I would say is you’ve got to think like a lender, right? So mortgage lenders in the conventional space, and I'm not saying FHA, but in the conventional market, lenders will allow you to spend conventionally up to 36% of your gross monthly income on your total debt, right? So mortgage, taxes, insurance, student loan payments, credit card debt, whatever else it is. If you're buying a condo versus a single-family house, you’re going to have your monthly assessment or payment on top of that to the condo association, that also gets subtracted. And that’s in the conventional world.

In the unconventional markets, or nonconventional markets, Fannie Mae and even FHA are allowing you to spent up to 50%, 50% of your gross monthly income on the same source of things. So what does that feel like in the real world? Oh my gosh! I don't know how anybody could breathe or sleep at night, right? Because 50% of your gross monthly income after taxes will feel like 65, maybe even 70% depending on where you live and what taxes look like for your income bracket.

On the flipside, 36% can feel closer to 45% to 50%. So imagine you’re making $60,000 a year, right? Your gross monthly income is $5,000. At 36%, it's going to feel like half of that, half of your take-home pay is going to be going off or three quarters of your take-home pay is going to be going off just to pay mortgage, property, taxes and insurance. So when you start thinking like a lender and you start looking at what you’re spending, you realize that there's a complete imbalance. So this is where it's really helpful to take everything off the table and start rebuilding.

One of the things that I do in my book as I walk you through, all of these different expenses that you can expect once you're a homeowner, which if you've been renting your whole life or living with mom and dad, you don't have any idea what that cost. So I walk you through that and so that you can start to imagine what those costs look like and build a budget that actually makes some sense to yourself and to a lender.

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FT: You talked earlier about how this is a hot market, but then you look at things like interest rates are rising, people aren't really sure how the new tax laws are going to infiltrate the real estate market. We know that in some cases people's mortgage interest won't be as high of a deduction and people who may have been last year are interested in buying, this year are going, "I don't know." Especially also with the political events that are happening and how that's going to impact the economy. We just don't know. So with all of that, where do you see the hotness and how should we kind of look at all of these other factors and weigh them into our decision-making?

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IG: There's some question in my mind about whether the reason the market is high is because sellers aren't selling and there's very low in inventor, which there is empirically. Everybody knows. The data is showing for a long time now, years, that sellers really aren't selling, and there're a number of reasons for that, or there's lots of people who really want to buy. So what we've seen from millennials in the buy side is that they're now about half or a little bit over half of all first-time homebuyers, which is great, and they account for about a third of all buyers. Millennials are buying. They're a huge block, kind of like the baby boomers were. So this is a huge group of people that are moving into their prime home buying years, which, as we discussed, the average age now is nearly 34 for first-time homebuyers.

So you're seeing millennials who are 34, 35, 36, 37, 38, that they're now like a few years in but were only now in the last since 2017 seeing them really be in full force. So my mind, that argument is – we're seeing actually millennials, that first-time homebuyer ages probably going to get pushed even higher, even later, so maybe 35 or 36.

So we're seeing that there's just a mismatch between the number of people who want to buy and the number of people who are selling and developers who should be right in the middle of that have been under-building for 10 years. So basically, for sure, since 2009, but even 2008, we have not seen nearly enough new construction units. So what's been going up has been rental units, but for homes, we should be seeing housing starts at about 1-1/2 million a year and we're seeing new homes built over a million, and we're actually seeing new single-family homes in about the 600,000 range.

So for now, 10 years you've been missing maybe 500,000, 600,000 new units a year that should have been built. So you're missing like 6 million more houses [inaudible 0:21:12.8].

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FT: Yeah. Basically, it's a supply-demand issue. I mean, I know I live in a bubble here in New York. Here in Brooklyn, if I want to buy a four-bedroom at any given moment within like a 5 mile radius, there's like 25 houses on the market. That's not a lot to choose from. As a result, the prices have pretty much stayed at the same levels as they were two years ago, three years ago, if not higher. That's good if you're selling. You don't have a lot of competition.

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IG: It is, but then where do you go to live?

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FT: Where do you go to live.

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IG: And sellers aren't selling for a number of reasons, right? Because they're locked in super low interest rates. I refinanced. I have a 15-year at 3% and we're paying more on it. It's going to be gone pretty soon, our mortgage altogether both at our rental properties and on our primary property. But anywhere else I would move, I would pay more and I would have a higher interest rate if I needed a loan. So I think I'm very much like people who are now empty-nesters. So we're supposed to be getting ready to move to a smaller place, but we're not. I've got a business I'm running, a new company, Best Money Moves, and I've got employees and it's two blocks from my house. There's nowhere else for me to go.

So when you think about people moving and where they need to go, how they need to move, what they are thinking about doing, we're all really retiring later. Baby boomers need to work every year they possibly can to make up for the shortfall and what happened during the recession to them. So we're still seeing kind of the resulting weights and it's deeply affecting the housing market, I think.

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FT: We have a couple of questions from my audience, and they have to do with rental properties. Do you like talking about rentals as much as you do about primary residence?

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IG: I do. In fact, I've written some books about it. My book; *Buy, Close, Move In!* which it got published in 2010 in the depths of the recession argued that this was going to be the best time may be in our lifetimes to buy rental property, and I was. Then this book I talked about it as well, because there is a trend out there, couple of trends that are worth noting for your audience. One is that there are a lot of millennials who are thinking about buying rental property before they buy a place to live themselves. So they would rent then they'd buy something to rent out, or multifamily unit, they'd live in one and rent the others. Td then the other trend that we're seeing is multigenerational housing, where millennials, their parents and oftentimes grandparents are buying property together.

So what are the rental questions you have?

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FT: Oh! I wonder if Airbnb is adding to this this fervor, because I think with Airbnb you can find short-term rentals, short-term renters for the weekend, or for the week, for your property. I know that in some beach locations, vacation areas, that's a big draw to buying and then renting it out.

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IG: It is. Not only just Airbnb, it's VRBO, which has become huge and there's a Home Away, which I think they own VRBo, but they also own 50 websites around the world that do the very same things. So if you wanted to rent a house in France, you could go there.

I think the short-term rental websites have made it a lot more feasible for people to own property. You have to be careful. Cities are not taking to it lightly. You've got the hotel and lodging industry that's lobbying hard against it and putting a lot of pressure in Washington and on state and local governments because they see it is unfair competition. But there was recently – And I want to say it was in the last couple of months and I can certainly send you a link to this to push out to all of your listeners, but I think it was the Urban Institute that did a study and basically the high concept was Airbnb is actually pushing up the price of property. It is making it more valuable for investors to own property, whether they're renting it out by the month, by the year, by the week, by the day. I don't think they got into renting it by the hour. I think that's a different website.

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FT: No. That I think is illegal.

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IG: Not Las Vegas perhaps.

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FT: Maybe not. Yeah.

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IG: Anyway, they did show that there is a correlation between being able to do short-term rentals and the higher priced property.

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FT: I believe it. I see it in some markets here in the New York area. So the questions are, Ilyce, for example, Trevor is looking at getting a rental property. What's a good base rate of return? Is eking out $100 net profit a month good enough or should you aim higher?

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IG: So this is a question that I think people really have to understand the mechanics of how property rental works, because it's never – If you're after-tax making money, that's a pretty good position to be in for your first year, and the reason is because rents will continue to increase, and hopefully you've locked in a 30-year fixed-rate loan for this property. So that won't increase. But your property taxes will increase. You're going to have some increase of cost and you're going to have to go in and repaint every once in a while and replace appliances and things that, again, you don't think about when you're buying for the first time. But everything I walk you through is a home owner for owner-occupy would be very similar for rental.

What's different though is the tax treatment, and with the new Tax Reform Act, one of the things that may happen is that it may end up being more tax advantageous to own rental property, because you're able to write off a lot more of those costs and expenses than you would be able to if you are in an owner-occupied property. Now, I still think you should have an owner-occupied property because I think that's a good thing, but real estate is real estate. So this may be a way for you to amortize those costs and to get a bigger tax break on the other side, but that will depend of course on whether this is your primary thing that you do, real estate investing or not, and if you have a good attorney and tax accountant and team, which you should have, or not, and how that all works. Again, just not knowing anything else, cash flow positive in your first year is generally a good sign.

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FT: One of our guests on So Money, Paula Pant is a serial rental property owner. I think she has something like eight properties. She's in her 30s and she has a course on this. If you guys want to check out another resource, she is Paula Pant, and she blogs to affordanything.com. So that's a good reminder. We forgot about some of the upkeep that's associated with being a landlord, and also you are in charge of things like plumbing and things going awry. Sometimes you hire a maintenance company, a sort of an intermediary to be there for those late-night calls and that can eat some of your profit.

Jonathan asks about whether or not – Maybe we've already answered this in some ways, but I want to give Jonathan a nod here. He says, "Manhattan is oversaturated, and so do you think it's better to buy rental properties over our property to live in?"

Now here I think is, again, a millennial who is looking at the marketing going, "Maybe I should rent, because I can get some really sweet rental deals." The building across the street from mine is offering four months free, luxury brand new in Brooklyn. So if anyone's looking to be my neighbor, that's probably a good place to start. He's thinking, "Maybe I should rent and I should look at investing in a rental property for income, but also that property could appreciate and could be a way to build wealth."

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IG: So I love this. I absolutely agree that we should look at rental property investments, but Manhattan is a complicated market. So there are a lot of laws governing tenants and landlords and you've got to really step up your game, because tenants know they have a voice and they know they have a place to go to.

I think it's also interesting though, and this goes back to what we said at the beginning. There's a place across the street that's like a new brand-new luxury place to live. Yes, you can get four months free, but if you're paying 7,000 a month for the other months and then the second year you're not going to get the four months free. Are you overspending on your own side when you want to be saving money to buy the property?

One of the things people don't realize when they're buying investment property is you can't just do it with 3% down. You typically have to have between 25% and 35% down. So commercial property, investment property, it's not an inexpensive upfront cost, especially in a place like Manhattan. So think about that. You're buying a million-dollar property that's $350,000 that you basically need to come up with in order to buy an investment property and qualified.

So I just want you to think about how those dynamics actually work, because if you're out there spending in a luxury apartment on one side, but you want to buy this investment property in the other, those two goals may not work.

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FT: Just as little anecdote. We were interested in looking at some rental investments, property investments in the Brooklyn area, kind of deeper into Brooklyn. They're neighborhoods like Bedford Stuyvesant, Crown Heights, but the problem is is that, like you said, you have to invest so much of your own money up front. Not to forget, you have to pay maintenance. You have to pay taxes and the rental income you get is going to be high, but it's not going to be high enough to really cover that mortgage and the property taxes and the insurance and this and that. It's one of those things where I think you'd lose for quite a while money, but all the while the idea is that this property will appreciate that you're getting into this market in 2018, and by 2038 it might have even doubled in value. I do believe that. I do believe that there are still parts of Brooklyn and even Manhattan where you could buy today and would double in price in 10, 15 years. But in the meantime, if this is just a rental invest property for you, you're going to lose. So that's going to take a cut out of whatever equity that you're building in that home.

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IG: You have to do the numbers, Farnoosh, right? You, of all people, know this.

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FT: Yeah, I did the numbers are we're not doing this.

[0:32:04.5]

IG: You're not doing it, right. So for Sam and I, it's interesting. My husband's a real estate attorney, so we get the legal fees for free, which is no small matter, and we should be the perfect people to be landlords. There's this other side of that which is do you want to actually deal with the hassles of owning property, of which there are many and some people like this friend of yours or whoever that was with the eight properties, I've met people who own 40 properties, 50 properties, 60 properties and they just love it. I have clients for my content and consulting business, so family-owned business, they own 90 buildings and some of those buildings have 50 units in them. So they really have made that of a wildly successful business and they have infrastructure now with people who can help them manage it. That's a very different lifestyle than you own three buildings and you're constantly shuttling between your 12 units trying to fill vacancies and make sure that the buildings are managed properly and, "Oh! Somebody's water pipe burst, this toilet leaked," and whatever are the things that go on.

We currently have two rental properties in addition to our main house. We used to have others. we got rid of them, and these two are sort of performing okay at the moment. We get rid of one, but we bought it 12 years ago off the plans that were from 15 years ago and now it's finally getting to a place where it's actually cash flow neutral and we're thrilled and the property prices come back to – We'll probably break even on that one aside from the sweat, tears of agony to just going through at the last 12 years.

Then the one we've done the best on is the one that we bought in downtown Chicago, a one bedroom condo in a building across the street from the train station that wasn't very nice. We bought it 20 years ago, like you said, and it's doubled in value and we're now getting – I think it costs us maybe 800 or a thousand bucks a month that we get over 20 something hundred a month rent for it. So we're making about a thousand bucks a month, but it's been 20 years.

So it's the easiest one, because whoever rents it, rents it for 2 to 3 years at a time, and there are tricks of the trade, like you don't charge the most amount of rent. You charge little less so you get a better quality tenant, and blah-blah-blah. But these are the things that you learn as you go through it over time.

So where have we done the best? We've done the best buy buying what we could afford, holding on to it, not doing crazy expensive renovations to it, preparing our mortgage, which is where you're going to always save the most amount of refinancing down when interest rates permit it, and then we put a lot of our other money in the stock market, in the index funds, and that was just – So we have some real estate. We've got a lot of other stuff too, and it was a way to build a very big diversified portfolio, and now if we want to move to San Francisco, well, I guess we could. So there you go.

[0:35:05.7]

FT: Well, last question. Sometimes people ask me should I pay down my mortgage, or should I put more money in the stock market? So they're paying their mortgage as they should, but then they want to may be pay an extra payment or two or three, knock down that principle. The other option is to put money in the stock market. At that point, it's a numbers game. How much do you anticipate earning in the stock market versus what is the interest rate on that loan. I also feel like it's a psychological question, right? Because sometimes people just want to have no debt. Having a zero dollar mortgage makes them sleep better at night. What does your intuition say?

[0:35:44.9]

IG: So I get asked this question all the time. The answer is, currently, how old you are? Currently, what keeps you up at night? Current, what your goals are financially for your life? So I would say at everybody that no matter what, you should try to have your mortgage paid off by the time you retire. Your cash flow is going to be different and you're going to want to minimize your expenses. That's an easy way to do it, but for somebody who is young, prepaying your mortgage versus investing in the stock market is the difference between a guaranteed rate of return and a possible rate of return.

Historically, we've seen an 8 to 10% return in the stock market, but there are years where it was like way negative and years where it's been way up. Usually, way up is followed by a few years of way negative as you know. When you pay down your mortgage, you get the guaranteed rate of return, that's the net return if you get well pretty much housing deductions are being wiped off. So if you got a 5% mortgage, your rate of return is going to be 5% every dollar you prepay. In the stock market, you might get 5%, you might get 8% you might get 10% or you might get 25%. You might also get -10%.

So mixing it up has been what I've always chosen to do myself. We prepaid our mortgage to a reasonable amount. We've also invested and saved heavily in the stock market, and I would say to people that when you think about how much you should be saving, because I'm sure that's the question you get all the time, we never made that much money the first 10 to 15 years of our marriage. We still, no matter what, always saved 20% to 25% of our gross income, and we did that because we wanted to send our kids to whatever college they want debt free, because we wanted to never feel beholden, because we knew that bad times would come. We're two self-employed people, and so we knew we couldn't really count on a job and we knew that there would be times where we would have downtimes in our businesses and we would need money to get by.

So even when you don't make that much money, if you prioritize saving and buying a house like we did, you can have it all. It's just about not having the stuff like the material things are doing without that extra trip or not going out to dinner in exchange for having some really big assets in your life, and that's the bargain that we've made. It's the bargain I encourage in my book, and it's a choice that I think everybody has to make to themselves.

[0:38:27.6]

FT: Ilyce Glink, thank you so much for coming on again. Please come back. These questions will never stop, and I think that's a good thing. We're constantly curious and interested in the potential of becoming a homeowner. I agree, while we may not be into as many things as our parents were, we do want experiences and being a homeowner can be a really great experience. It has been for me. I now it has been for you and countless others.

Your book is called *100 Questions Every First-Time Homebuyer Should Ask*. It’s a thick one, but it's worth it, and it's in its fourth edition, back already for its second printing. It's in 400,000 hands already. So if you don't have it, please check it out, and thinkglink.com is your site, and your other company which we’ve talked about on the show in the past, bestmoneymoves.com. You’re like a nonstop energizer bunny.

[0:39:26.4]

IG: Well, you know now that I am an empty nest, so you’ve got a few years to go till you experience this. You find that you have lots of extra time in your day. So I'm just filling it with things that I hope will help people.

[0:39:36.9]

FT: Thank you so much, Ilyce. Thank you all for sending in your question, and I hope your weekend is So Money

[END]