8 signs you're ready to buy your first home

With home prices cooling off and apartment rents heating up, is now the time to buy your own place? Here are the ways to know when it makes sense financially to purchase your first home.

By Erin Burt, Kiplinger's

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The squeeze is on for renters. Apartment rents are expected to rise 5.3% this year, according to the National Association of Realtors. That's about double last year's increas and it's the highest jump since 2000. Until now, rents have seen slow growth over the past few years as the booming real estate market has lured away renters into homeownership.

But that's starting to change. Interest rates are rising and home price appreciation is slowing, so fewer buyers are looking for new homes. That gives landlords the upper han to raise rents. Meanwhile, the real estate market is starting to turn from the seller's favo toward the buyer's. So if you're a renter who has been dreaming of homeownership, is now a good time to take the leap?

Sure, a cooling real estate market is good news for buyers because it's easier for them t negotiate a deal. But it shouldn't be the main reason that pushes you into your first home. In fact, buying your first home is a personal decision that you should make independent of what the market may or may not be doing.

"Time means nothing," says Michael Eisenberg, a CPA and financial planning specialist in West Los Angeles. You can't predict what will happen to home prices in your neighborhood in the next few months, let alone the next few years. But if you're looking to make the long-term commitment of homeownership, it helps to approach the decision like you would any business decision. You don't want to buy on emotion, or because everyone else is doing it. "This is the biggest financial move a young person may ever make," Eisenberg says. "You should make the investment because it make sense for your finances. You buy when you're ready."

So how, exactly, do you know when your finances are ready? We provide a checklist of eight things first-time home buyers should have squared away before they consider a purchase -- no matter where analysts say home prices are heading.

You are ready to buy when …

No. 1: You have a budget -- and you know how to use it
Owning your own place comes with a slew of new expenses, so good money management skills are a must-have. If you don have a household budget right now, start one. (See "Build your budget" and "A simpler way to save: The 60% solution" to learn how.) You need to know where you are financially -- where your money is coming from and where it goes every montl -- to know exactly how much you can afford to spend on a new home.

Once you have your current finances sorted out, draw up a mock budget for homeownership. Find out how much homes cos in your area and how much your mortgage payment will run. Then, factor in higher utility bills, homeowner's insurance, property taxes, homeowners association fees, and maintenance and upkeep costs, as well as higher commuting costs if you're considering a neighborhood further from work. If you simply cannot afford the increased expenses that come with a house, it's never a good time to buy -- no matter what's happening in the real estate market.

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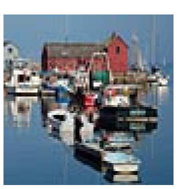

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No. 2: You have a sizeable down payment
Traditionally, to get your foot in the door, you'll need a down payment worth 20% of the home price. That means for a $250,000 home, you'll need $50,000 upfront. Sure, there are ways to get around that steep requirement with zero- or low-down loans, but those options will cost you. You may have to pay extra for private mortgage insurance or take out a

piggyback loan with a much higher interest rate. With the slowing housing market, having that 20% down payment become even more important because you'll start off with some equity in case you have to move earlier than expected. "In the early years, you aren't building any equity with the mortgage payment," says Eisenberg. "If the market changes or your personal circumstances change and you're forced to sell, you could lose money" if you made little or no down payment. The equity in your home can also give you an extra source of cash in an emergency. (See "Why you need a home down payment" to learn more.)

And the money down is only the beginning. Don't forget to factor in closing costs (3% to 6% of the purchase price) property taxes, initial repairs, moving expenses and decorating costs.

No. 3: You have a reliable source of income
Buying a home is a long-term financial commitment, so you'll need consistent cash flow to cover those monthly payments -- not to mention the little extra expenses that come with homeownership. If you're in school, plan to go back to school, have less-than-reliable job or plan to start a family, you need to take a good look at your future cash-flow abilities. Will you be ab to make your mortgage payment six months from now? How about six years from now? "Some couples can afford the house when they're both working, but if a kid comes along and one wants to stop working, then they have a problem," says Eisenberg.

No. 4: You have an emergency savings fund
If you have enough cash on hand to cover three to six months of your living expenses, you're one step closer to being prepared for homeownership. Just in case something happens to disrupt your steady income -- say a serious illness, unexpected layoff or even a natural disaster that prevents you from working -- you want to make sure you can still afford to make your mortgage payments until you can get out of your rough patch, says Bob Baldwin, a CPA in Charleston, S.C. Learn more about how and where to build your emergency stash.

No. 5: You have your debts under control
Call 'em crazy, but lenders like to make sure you'll have enough money each month to pay your obligations. So before they' give you a mortgage, they take a look at your so-called debt-to-income ratio. Generally speaking, they want to make sure your monthly housing costs -- including principal, interest, taxes and insurance -- will consume no more than 33% of your monthly gross income; and that your total debt payments, including your mortgage, credit cards, student loans and auto loans, will remain below 38% of your total pay. So if you have large outstanding debts, it's a good idea to try to pay them down before applying for a mortgage to make sure you can qualify for as much money as you'll need. This also means you should avoid taking on any substantial new debt six months to one year prior to your purchase, or you may throw your ratio off. So, it may be best to drive that clunker for a little while longer, or put off charging that European vacation. Find out here how much you can qualify to borrow.

No. 6: Your credit report is in good shape
Nowadays you don't have to have perfect credit to become a homeowner, but a decent history can help you get a lower interest rate on your mortgage and a lower monthly payment. The government allows you to check your credit history free once a year from each of the three main credit bureaus at AnnualCreditReport.com. So take a peek to find out what lenders see about you. If you see any errors, correct them now. If you see room for improvement, find out how you can boost your score.

"Don't be sloppy the year or two before you buy the house," says Baldwin. You don't want any missed payments or other black marks that could lower your estimation in the eyes of lenders.

Having bad credit, however, may not be your biggest concern. If you're just starting out, you need to make sure you have a credit history. If you hold a credit card or took out student loans, you're probably covered. If not, find out how you can build a stellar credit history from scratch, preferably one year or more before you plan to buy.

No. 7: You can make a long-term commitment
Are you ready to stay put for at least three to five years? Typically, that's how long you'll have to keep the house in order to recoup your buying and selling costs. If you sell before then, you may lose money on the deal. And if you do turn a profit, you'll have to pay capital gains taxes if you lived in the house less than two years. The length of your stay becomes even more important now that home appreciation is beginning to slow from its previous pace. If you don't think you'd stay put for that long, you may be better off renting.

Don't fret: Renting can actually make better financial sense for some people at different times in their lives, says Eisenberg. If you think you may get a job transfer, go back to school or otherwise need to move within the next five years, renting give you the flexibility you need and could possibly save you money.

Want to find out if renting or buying makes the most sense for you? Our calculator will crunch the numbers to help you decide. In the slot for "appreciation rate," assume your home will appreciate at the rate of inflation or a little more, just to b safe. Right now, that's around 3% to 4% annually.

No. 8: You are prepared to become your own landlord
Even if you can afford homeownership, don't buy simply because you can. You need to make sure you're ready to live the lifestyle. Owning a place comes with a fair share of new responsibilities, headaches and costs -- not the least of which is becoming your own landlord. When you rent an apartment, you simply call the landlord if something breaks. With your own home, if it's broke, you fix it -- or you'll have to pay someone else to fix it. You're also responsible for upkeep, including yar

work and shoveling snow (unless, of course, you buy a condo without a yard). Will you have the time, energy or desire to maintain the property? How about the money for all those little extras, such as buying your own lawn mower and hiring the occasional plumber? Make sure you know what you're getting into.