

Byckowski

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Q: Should I rent my home or buy it?

A: Buying a home is one of the biggest financial decisions in your lifetime. Many consider their home as a significant part of their retirement nest egg. While it is a commonly held view that home ownership is a must, it is not right for everyone.

Renting offers the advantages of affordability when considering the short term of less than eight to ten years. In expensive real estate markets like Toronto, where the average cost of a home is close to \$500,000, renting may cost less than owning, and allow you to build investments and savings.

Home prices do not always go up, and the risk of lower values should always factor into your decision.

Barbara Byckowski

For a free no-obligation consultation on this or any other wealth management topic, contact Barb today: Barbara.byckowski@rbc.com Tel: 905-875-2807

About the Byckowski Wealth Management Group

We advise clients on the 'big picture' of retirement and estate plans, along with day-to-day guidance on their investments, income and tax strategies.

The client is our focus: your individual circumstances, goals and stage in life. We provide you the basis for good decisions, regardless of global market conditions. Our goal is to help clients be well informed, be confident, remarkable and have the wealth to be extraordinary.

Barbara Byckowski is an Investment Advisor with RBC Dominion Securities Inc. Member CIPF.

Providing exceptional family wealth counsel.



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You might find this CBC News article of further interest. To view the video, click or copy and paste this link into your browser: [Rent or buy?](#)

Rent vs Buy?

With Real estate, it depends

Source: CBC News, Nov 6, 2012

Should you rent your home, or buy it? It's a question that all Canadians wrestle with at some point in their lives.

For the most part, Canadians are in favour of home-buying, as official data shows that two-thirds of Canadians own their own homes. And the strategy is often viewed as a safe one and wise retirement savings vehicle.

But is it always? Not necessarily.

It's anyone's guess as to whether prices are headed higher or lower in the short term, but one good gauge of housing affordability is the ratio between rents and homes prices.

Rental income a factor

In large real estate markets like Toronto and Vancouver, the ratio of how much a home costs versus how much income could be charged for renting it out has almost doubled since 1995 – an indication that some sort of correction could be in order, either through rents going higher or prices going lower.

Beyond the overall price, the biggest factor is often the mortgage rate a homebuyer gets in order to finance it. "The government has really clamped down on regulating mortgages," Barrie, Ont. mortgage expert Bruce Joseph told the CBC's Amanda Lang recently.

This summer, Ottawa capped the maximum amortization period for a CMHC-insured mortgage at 25 years. That forces borrowers to pay back their loans quicker,

which reduces the amount they're able to borrow overall. And that's already dragging on home prices.

There could be a "payment shock when people try to refinance," Joseph said. "If interest rates just went up a few percentage points at these rock bottom lows, most Canadians couldn't afford their homes," he said.

Timeframe matters

There's no fool-proof way to account for faulty assumptions about what home prices will do, but online mortgage calculators are a helpful tool to make long term projections when deciding whether or not to rent or buy.

Despite the loud and numerous cheerleaders in the "buy" camp, a look at the numbers show that renting is often a better option, especially over the short term.

Imagine a \$500,000 home, purchased with a 25-year mortgage at 4.5 per cent. In this market, in a large Canadian city, we'll assume that home could be rented for \$2,000 a month.

Would the occupant be better off buying that home or renting it? If the tenant is planning on staying for less than eight years, renting is likely the better option. As the video above shows, with some conservative projections, that tenant will actually save \$3,432 a year by renting, or up to \$27,458 overall after the first 8 years.

But beyond that timeframe, the math changes in favour of the buyer so if the tenant plans on staying for a long time, the savings really start to add up on the ownership side. After 20 years, the home owner is ahead \$15,988 and that figure gets exponentially bigger as time goes on.



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