

Globe Investor

Think living space, not money machine

Between maintenance costs, mortgage interest and property tax, a home is not the long-term investment some seem to think it is



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Take some advice from rookie homeowner Desirae Odjick about houses as an investment.

As a personal-finance blogger, she ran the numbers on the cost of owning a home and concluded that breaking even would be a good outcome when it comes time, many years down the road, to sell.

"A house is not a long-term investment," she said in an interview. "It's not a miracle financial product. It's where you live."

The idea that owning a house is an investment is so ingrained that a recent survey found one-third of homeowners expect rising prices to provide for them in retirement.

But rising prices do not necessarily mean houses are a great investment.

Ms. Odjick lives in a suburb of Ottawa, where the real estate market's recent strength still leaves it way behind price gains seen in the Toronto and Vancouver areas.

But her point is relevant to all markets where prices aren't soaring, and probably to hot markets as well if you're just now buying a first home and understand that continuous

A HOUSE AS AN INVESTMENT? NOT SO FAST

Personal finance blogger Desirae Odjick bought a \$425,000 house in Ottawa in the spring on the understanding that it's for lifestyle reasons and not as an investment. Here's a look at the cost of buying and owning her house compared to what it might be worth in 25 years.

\$787,926 Value of the house after 25 years of appreciation at an average annual rate of 2.5 per cent

COSTS OF BUYING AND OWNING:

\$42,500	Down payment
\$106,250	25 years of property taxes at a constant 1 per cent of purchase price
\$106,250	25 years of home maintenance at an annualized 1 per cent of purchase price
\$542,122	Mortgage principal and interest based on level mortgage rates and a 25-year amortization

\$797,122 Total costs of buying and owning the same house

(\$9,196) Difference

CARRIE COCKBURN/THE GLOBE AND MAIL, SOURCE: ROB CARRICK

massive price gains are unlikely.

In terms of home upkeep costs, Ms. Odjick and her partner have had an easy time of it since they bought in the spring.

But they've still had expenses that surprised them.

"You can use all the calculators you want and you can plan as much as you want, but until you're in it, you really don't

know what the costs are going to be."

One example is the \$3,000 spent at IKEA to equip the house with furnishings as mundane as bathmats.

Another was the cost of term life insurance, which, incidentally, is a smart purchase. Term life answers the question of how the mortgage gets paid if one

partner in a home-owning couple dies.

Estimates of the cost of upkeep and maintenance on a home range between 1 per cent and 3 per cent of the market value.

Her house cost \$425,000, which means that upkeep costs conservatively estimated at 1 per cent would come out to an average of \$4,250 a year and a total \$106,250 over 25 years. Ms. Odjick is too recent an owner to have much sense of these costs, but the housing inspector she used before buying warned her to expect to need a new roof in two or three years.

She and her partner don't have grandiose plans to fix their place up right now, but she did mention that they are looking at having children.

There will almost certainly be expenses associated with getting the baby's room ready.

In her own analysis of housing costs, Ms. Odjick estimated the cost of property taxes at 1 per cent of a home's value. That's another \$4,250 a year.

This cost would add up to \$106,250 over 25 years, and that's without annual increases factored in.

The biggest cost homeowners face is mortgage payments. Ms. Odjick and her partner made a down payment of 10 per cent on their home and chose a two-year fixed-rate mortgage at 2.71 per cent. Assuming rates stay level and no prepayments are made, this would theoretically work out to a total of \$542,122 in principal and interest over the 25-year amortization period.

But rates have crept higher since midsummer and could increase further in the months ahead. In a post on home ownership on her Half Banked blog, Ms. Odjick said the idea of rates staying level "is bananas and will not happen."

Let's add up the costs of home ownership as likely to be experienced by Ms. Odjick over 25 years. There's the \$42,500 she and her partner put down to buy the house, the \$106,250 cost for each of property taxes and upkeep/maintenance and \$542,122 in mortgage principal and interest. Total: \$797,122.

Now, let's imagine the \$425,000 house appreciates at 2.5 per cent annually for 25 years. That's in line with reasonable expectations for inflation. The future price in this case would be \$787,926, which means Ms. Odjick and her partner would have paid a bit more in costs than they get for selling their house in the end.

Houses can be sold tax-free if they're a principal residence, so there is something to the house-as-an-investment argument. But the numbers comparing what you put in and what you take out over the long term don't exactly scream "financial home run."

Ms. Odjick's fine with that, because buying her home was a lifestyle decision. "If we've lived here for 25 years, even if it does end up costing money, then it will have been a great place to live."

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