

To Rent or Buy that is the Question?

Those of us who have left our parents' home and ventured out on our own have all asked ourselves, "Should we rent an apartment or house, or should we buy a house or condominium?"

It's a good question which needs to be looked at from several viewpoints. The first viewpoint to consider is your present position in your journey of life. If you are single and plan on being fairly mobile year after year, renting may be the way to go. It allows you the flexibility to move geographically and spontaneously, usually with fewer costs associated with short-term rental agreement changes. I do caution you to check the fine print in your lease to save you some unexpected costs in the future.

Owning a condo or house and moving frequently can cost you large sums of money in expenses such as real estate fees, legal fees, land transfer taxes, just to mention a few. You also have the challenge of coping with the ups and downs of the housing market prices, hoping the trend is in your favor when it comes time to sell.

For those of us who have adopted to live with another adult and perhaps a child or two, the debate becomes more complex. The more individuals involved, the more considerations we need to take into account. The flexibility to just pick up and move to a new location varies depending on each person's working position, age, schooling and responsibilities.

The major challenge purchasers have is the initial down-payment required for buying a home. The lower the down-payment as a percentage of the home's purchase price the higher the mortgage payments. Depending where you live, the higher the percentage of your debt in relationship to the value of the home the higher the mortgage insurance required to cover the debt, thus increasing the amount of your monthly mortgage payments.

Other expenses included in owning a home verses renting an apartment are monthly utility bills, renovation and maintenance costs, outside yard maintenance, property taxes, cable, internet connections, appliance purchases and repairs. When purchasing a condominium, you will also have monthly condominium fees on top of your monthly mortgage payments. Do your homework when comparison shopping. Some rental complexes include utilities and others do not. Be as clear and as detailed as possible.

The advantage of owning a home if you plan on settling in one area is the concept of forced savings. Generally, housing prices increase overtime. Renters face the challenge of putting away the extra money between their monthly rental payment and the equivalent mortgage payment for their present living quarters. For example, a three bedroom apartment costs \$1200 per month to rent. The same condominium has a mortgage payment of \$2000 per month. Would the renter put the difference of \$800 per month into a savings plan? Unfortunately statistics show that most of us are not disciplined enough to do that.

Although the housing market bottomed out in the past two years, owning a home can pay off big time in the long run. By owning a home, you increase your equity and thus your net worth (the difference between your assets and debts) also increases. The increase in your home's value is tax-free whereas the increase in your portfolio is not. For example, you purchased your home for \$100,000 and then sold it for \$120,000. In Canada, the \$20,000 gain is yours to keep. For you to have a stock portfolio increase for a return of \$20,000 after-taxes at a 33% tax bracket, you would need to have your portfolio go up \$30,000 before you could sell it and have the same amount of money in your pocket.

With everything you do, have a written plan, write down all the pros and cons of the plan and its alternatives and crunch the numbers. Your living space is your largest monthly expense so a well thought out plan of action will help you make the most of your investment.

Whether you rent or buy is not the question. The real question is "Can I stick to my plan no matter what and make my money work for me?" That question has a lot more to do with your gray matter and determination to succeed than the actual bricks, mortar and drywall involved in the place you call home.