

RENTING VERSUS BUYING



I have seen a few articles recently in newspapers or online with the main focus being for young people (Generation Y) being better off renting rather than buying. Now of course it is a personal choice and everyone's situation is a little different, but the quick answer is "it depends".

Price is one of the factors but not in the way you might think, so I will use 2 different properties for comparison. The main factor when making your choice is lifestyle. For this comparison between buying and renting the first property is a downtown condo as many young people like busy metropolitan centres with plenty of amenities close by. Sure you can find cheaper condos if you leave the downtown core but rents are different, so overall the numbers are similar. And sure 1 bedroom units are cheaper than 2 bedrooms but cheaper doesn't always mean better if you are thinking long term (and Real Estate is long term so we will use 5 years for this comparison) so looking at this logically whether you buy or rent, if you don't need the room right now, consider to rent out the spare bedroom or turn it into a home office. And as it is a lifestyle choice, whether buying or renting, you want it to be decent, so we are looking in the \$250K price range for this example and based on a half dozen condos currently available in Edmonton and in this price range the condo fee is about \$600 per month, which includes all utilities. And according to latest figures just released by Edmonton real Estate Board, average condo price is \$252,175 so we know we are using the right figures.



The other property will be a newer 3 Bedroom, 2 & half bath, \$350K Duplex with garage in the suburbs. Average price right now is \$345,784 according to Edmonton Real Estate Board. Like I said, price is one of the factors. There is 100K difference between the 2 homes which may look significant but in reality the monthly expenses are not so far apart and down payment is only \$5000 extra for the more expensive home.

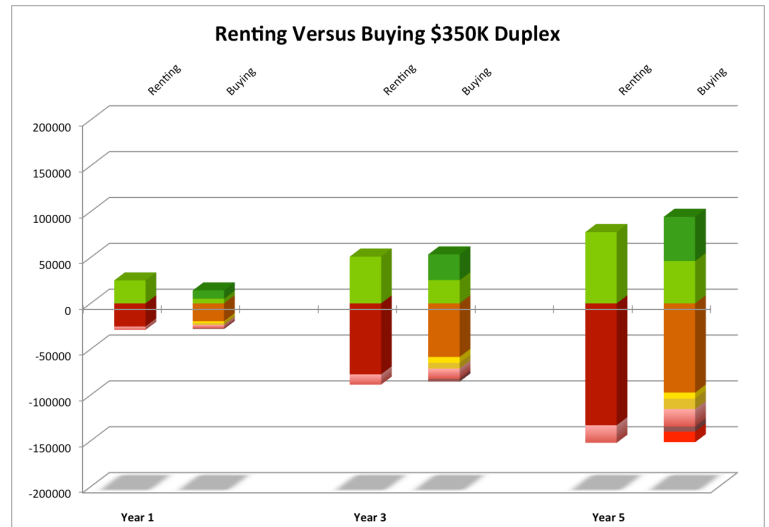
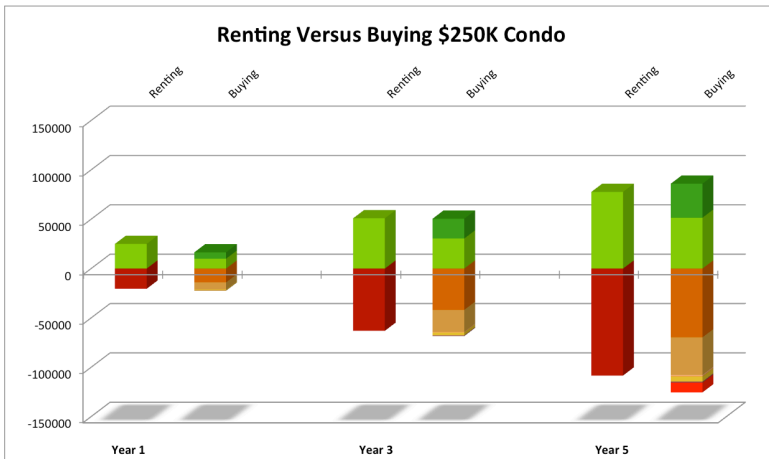
It also depends on where you live. Here in Alberta, we don't have property transfer tax, so it is much easier financially to buy and sell Real Estate than in other provinces.

Now there are lots of numbers involved but the numbers are easy to understand. The harder part is evaluating emotional (lifestyle) decisions. That's not good or bad, it's just reality, and we all do it. Some of your choices are the same whether you buy or rent, such as do you want to live downtown or in the burbs. If you rent, you keep the money for the down payment in the bank and receive the emotional security that comes with it plus you get emotional freedom such as the ability to take off for a vacation or go travelling if that's your thing or easy to move for a job if you had to. If you buy, you have the emotional satisfaction and pride of home ownership.

Number-wise, average rent is about \$1700 for 2bed condo, and about \$2100 for the 3bed half duplex. And for this example we are going to ignore appreciation. Lets just say the housing market stays flat for the next five years so there is no appreciation. Highly unlikely since the historical average appreciation is 3% per year (5.6% last year) which is why it is said house prices double every 25 years. Just ask your parents how much they paid for their home. So ignoring appreciation, it doesn't matter if it is the 250K Condo or the \$350K Duplex, dollar-wise you will have more money in your pocket after the first year if you

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rented, but we said this is for 5 years so lets look at those numbers. Obviously the person who is renting has built up their saving more than if you bought, so adding up the accumulated costs over the 5 years and assuming you sell and include selling expenses, If we just use the \$250K Condo with no appreciation then there is very little difference between buying or renting. As soon as we include any sort of appreciation, even just 1%, then we have to say you are better off having bought the condo. Looking at the \$350K half duplex, and still not including any appreciation, by year 3 you are better off if you buy and by year 5 you are way out in front.



Appreciation

- Principal Pay Down
- Savings
- Selling Expense
- Insurance
- Utilities
- Property Tax
- Maintenance
- Condo Fee
- Mortgage
- Rent

So as you can see, it depends on the type of home you buy in order to answer the question are you better off buying or renting if you are looking purely at the numbers. Other factors which influence your choice include the imperative of home ownership is not as great these days as it was in our parents generation, and not everyone likes to get out and spend the weekend mowing lawns and doing gardening. With these lifestyle changes becoming more common, the trend has been a push to building more condos and smaller single-family homes with almost no back yard to accommodate the desires of the home buying population.

So if you are still not fully convinced if buying or renting is for you (and you have managed to read this far) then consider what happens after 5 years. If your job has kept you in the same area and you haven't had to find a larger place due to a growing family, then your housing expenses will continue to decrease every year on average until 25 years out your home is fully paid off. Suddenly your housing costs become very low especially when compared to renting and that thing called retirement is fast approaching. In your parent's era, retirement was a golden handshake, a way companies said thanks for your loyalty and hard work by giving you a pension and medical benefits. The handshake is not so golden now and what happens if 25 years time it doesn't exist? Here is a way for you to take control and be responsible for your own retirement. Buy another property and rent it out. It's that simple. You want a better retirement plan, buy more properties and rent them out too.

Looks good on paper but does it really work? Yes, its called Real Estate Investing and that's another topic you can read about called the 7 Profit Centres of Real Estate.