



Investments: Buying Real Estate Versus Renting

Do I Buy or Do I Rent? By: Joe the Investor

This is a decision that people have asked constantly. The question comes up more frequently when real estate prices go up excessively, or when they go down excessively – when it is thought that there are buying or selling opportunities. The answer to the question comes down to two things: your lifestyle and numbers. To buy or to rent is a lifestyle decision, and you literally have to live with whatever decision you make. If this is an investment property, there are some different factors, but you still have to manage the property and this is also a lifestyle choice. The numbers are calculating whether the decision makes sense financially.

What Aspects of my Lifestyle Should I Consider?

Lifestyle is a very individual thing. A series of questions are presented below as to how to understand your lifestyle choices. Do you like to fix things or would you rather call a landlord or superintendent to take care of repairs? In a rental, you can give a lot responsibility to someone else rather than hiring someone or fixing it yourself. If you are handy, you may like fixing things yourself, and may find that you save time and money doing it. Do you feel you can manage your household better than someone else? Underlying characteristics being addressed here can be: Are you organized? Do you prioritize well? Do you manage time well? If these issues are easy for you, fixing things yourself is easier. Would you rather have control over your living conditions or will anything suffice? If you want to have control, owning your own place may appeal to you more than renting. If you have a very definite view of how you want your space to look and feel, then owning may be more appealing to you. You would need permission to change things in a rental, and if you want something done, the owner may not want to do it. A secondary consideration is: How long will you stay in your place? If you do not know, or the time period is short, renting may be better than owning as the hassles of moving and transacting in real estate may not be worth the effort. Do you like dealing with people? In a rental, you are dealing with a boss of sorts. If you own your own place, you would be dealing with the bank, tradespeople or vendors to get your place renovated or repaired. Do you enjoy being outdoors or having a lot of your own outdoor space? Most rentals do not have backyards. If you do have such space, it is typically small and limited. In the case of a house, this space may be shared. If you want to do what you like in your outdoor space, then owning is something that would appeal to you more. The bottom line is to ask yourself what you would do in your home, and whether renting or owning allows these activities for the best price.

What Are the Numbers?

If you own your own place, you will have to pay bills, a mortgage and property taxes. In the case of renting, you are paying fewer bills and no mortgage, but you are paying rent. There is constant debate about whether renting or owning is better. Aside from your preferences, the answer to this lies in the numbers. Assuming that your lifestyle situation is neutral, you have to compare the numbers for both possibilities. For rent, you would include rent and possible bills. For owning, you would include bills, property taxes and the mortgage. If you own a place, you would also have to consider costs to acquire the place – real estate fees, legal fees, transfer taxes, and other costs needed to get your place in a state of being livable. If you have these costs for renting – like doing some painting or buying some furniture, these costs should be included for renting as well.

What Are Some Extra Numbers To Deal With if Owning a Place?

With owning, there are some additional numbers to deal with. In a rental situation, you do not make any money on the gain or loss on the value of the property. In the case of owning, you would. Take note that there can be a gain or a loss depending on how long you stay there and what the markets are doing when you buy and sell your house. You should also take an estimate of your selling costs if you want to make a true comparison over the whole time that you own the house versus the whole time that you are renting to get a fair comparison. Another set of costs that often gets overlooked are household repairs and renovation costs. These costs may occur with renting and should be included in the comparison, but they definitely will occur if you own your home. These costs can be significant, but they tend to occur infrequently. If you willingly want to make upgrades to your place, this may be a lifestyle choice, but this should be thought through when looking at the numbers. Repairs are not the same as upgrades – repairs are things you will have to do to keep your space as it is. There is the argument that upgrades will add value to the sale price of the house, but this is not a given and should be researched against houses in your area to make sure that a buyer is willing to pay for the cost of your upgrades in their entirety. They may be willing to pay more in general due to upgrades, but not the entire amount that you spent. If you are financing an upgrade, interest costs are also part of the equation and will make your costs higher.

What if I Have an Investment Property?

An investment property makes the decision somewhat easier in that the lifestyle choices are more clearly separated from the numbers. Do you like managing tenants? Do you like repairing things in your house at odd hours? Do you like interviewing potential tenants and supervising them? Do you have any issues with hiring people to do repairs in a pinch? Do you like negotiating for rent amounts or repairs? If you answer no to one or more of these questions – this may be a problem if you are buying investment property. You can outsource most of these functions – but doing this may cost you more, and you will have to manage the outsourcer. The other big consideration is taxes: If you borrow money for an investment property, this is generally written off as interest expense, as are other expenses occurred for the property. This would not be the case if you live in your own house. The other numbers – bills, property taxes

and mortgage should still be considered, as well as the offsetting effect of income. The reliability of the tenants occupying the space that you own is also a consideration that does not come up if you are the tenant, but it is important when you are the landlord.

How the Numbers Can Change

Each scenario should be examined in its own merit. If one neighbourhood is very expensive to buy in, yet the rent is comparable with other areas, this will yield a different result than if the purchase price is cheaper and rent is more expensive. If you can get a mortgage more cheaply at this time than in the future or past, this would change the numbers as well.

What Are Some General Trends?

Generally speaking, interest rates are low and are likely to go higher. Utility costs will rise faster than most other bills for the next 5 to 10 years due to infrastructure improvements. The fastest increases will come in electricity and water. Technology related bills like cable and telephone will likely get cheaper or rise less than the other utilities. Property taxes will also rise more quickly than other bills due to governments being short of money. Renovation costs vary a lot depending on the quality of the work you are doing – higher quality will cost more than otherwise due to shortages of skilled labour and high quality materials. Real estate prices can go anywhere at this stage. These types of trends are not etched in stone, but are based on past trends over the last 10 years. Utilities are basically monopolies, so they will charge as much as people can afford to pay. Technology does get cheaper over time, and some of it can also be discarded, which changes the picture somewhat compared to something you absolutely need for which there are no substitutes.

Rent will likely keep going up steadily as well. If real estate prices crash, rent tends to rise due to more buyers becoming renters. If real estate markets soar, the lack of affordability will keep some people renting. The current immigration patterns also favour renting for large cities, and unless this changes, there will be a larger demand for rental property. Lastly, there are not many rental properties being built, so condominiums are acting as investment and rental properties. When the construction in this market slows down, the lack of supply may also drive up rents.

Should you buy or should you rent? Make sure you do your homework and tailor the decision to your life's needs. Remember as well that a decision made 5 years ago may have to be changed today, and the factors may have to be revisited to see how they have changed.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what these options are. **Note: This site is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**