

Real Estate: Buying Vs Renting

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The age-old debate continues. Is it better to buy or to rent? When I was younger I always thought that the obvious answer was to buy. You get a house, pay towards it and can sell it for a profit. However, that idea became more difficult to believe once I became more educated on the subject. Now, it seems like the correct answer depends on the person's lifestyle. Although, regardless of the lifestyle they each have their own pros and cons. The real question is, which avenue suits you?

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1. When You Should Buy A House

Forced Savings

Many people see buying a house as a forced savings strategy and a good investment. This is because when you buy a house, the money you pay towards the mortgage is building equity. As a long-term investment this tends to be a good idea because when you sell, you're able to get that money back plus the appreciation of your property. I'll use my own experience as an example.



When we bought our previous house in 2009, it was for a total of \$297,000. When we got around to selling it in 2017, we managed to let it go for a whopping \$620,000! That is more than double in appreciation. However, the profits were slightly less because of commissions and legal fees. As you can see, this ended up being very lucrative. Furthermore, this forced savings and living frugally can help you develop some very good money habits such as eating healthy without blowing your budget.

Secondary Source Of Income

If you're in the right area, becoming a landlord can be a great way to earn an extra source of income while keeping your cost of living lower. Often times this is what many people do when they want to invest in real estate when they're younger. They will get an investment property so that they can build equity off the tenant's rent payments while either living at home or somewhere more cost-effective. However, this is bittersweet because landlords are responsible for the large fixes. Remember when I mentioned that our furnace broke and we had to fix it for \$5,000? If that happens when you have tenants, expect to be fixing that as soon as possible, especially in the cold winter months.

Ownership

When you take on the challenge of buying a property, you gain ownership. This means you have the freedom, to do as you please. You won't have to worry about parking or ask for permission to paint or to remodel the bathroom, the sky is the limit! Even though getting enough money to put a downpayment on a house can be a giant hassle. However, if you've been contributing to an RRSP over the years. You will be able to withdraw up to \$25,000 tax-free to help with the downpayment! Furthermore, if this is your principal house, you would not have to pay sales taxes on it for up to \$250,000!

If You're Trying To Build

If you're trying to build a family, business or whatever it may be, you may want to own a home. Although it may become a bit more costly, many people are able to find an area that is good for business or even better for raising a family. For a lot of people, their next step in life is finding a house and set down their roots for multiple years.

I remember growing up and my mom always telling me that the house she worked so hard to purchase would one day be our because we grew up in it. Of course, tragedy struck and that was never able to happen but the intent was always there. Furthermore, I don't believe she was wrong for ever having that type of mentality. Therefore, if you want to build a family, pass down your investment or build your roots somewhere, buying may be for you.

2. When You Should Rent A House

You Want Fewer Responsibilities

When comparing and contrasting renting vs buying. Renting has the distinct advantage of carrying a lot fewer responsibilities than just owning a mortgage. In most cases, if anything goes wrong with the property that was not otherwise caused by my negligence or is flat out your fault, it'll be covered by the landlord. I remember when my family lived in our old house, our furnace broke.



We called a company to come to take a look and they were charging us a whopping \$15,000 to fix it. They were trying to upsell us things we didn't need. However, we ended up paying nearly \$5,000 for the furnace alone. That's a lot of money we could have saved by renting.

Often Times Renting Saves You Money

A lot of times, renting is cheaper than paying for a mortgage, Furthermore, there are other expenses to consider such as property tax and utilities. It is very common to be paying well over \$2000 per month in just mortgage alone, not including your other expenses. Usually, paying rent comes with one lump sum amount that is owed. However, this may or may not include things such as internet or parking, especially in Toronto.

Lastly, you may have the added benefit of something called rent control. Rent control is a concept that allows renters to be protected from excessive rate increases. The only time a landlord would be able to increase the rent would be due to inflation. However, having a safety net like this means that if you're on a budget, you would not have to worry as much.

Make The Excess Money Work For You

If you're on a tight budget and find a place to rent that's relatively cheap, you can make the extra money work for you. Say after all your expenses, including rent, you have a few hundred dollars left over, you could take that money and put it into some sort of investment. However, this would only work if you don't immediately need the money. Although, saving/investing a small amount can make a monumental difference in the future.

Don't Have A Down Payment Or Are Mobile

Gaining the amount of money it takes for a downpayment can be a hassle. This can cost tens of thousands of dollars and usually requires years of saving or a loan. If you're in a low paying job, have a lot of responsibilities or have a low credit score, getting a loan is extremely difficult, if you want a fair interest rate.

It is a lot easier to move if you do not own the house. You do not have to pay for commissions, legal fees or find a buyer. The only thing a renter has to worry about is the first and last months rent, finding a new place and moving everything out. Renting is all around the easiest and most convenient choice between the two. However, only you can decide what's best for your particular lifestyle.