

Renting vs. Buying in Vancouver Analysis

Case Study - Rent v. Buy (Gastown Condo - The Edge: 289 Alexander St.)

Rental Unit - 700 Sq. Ft Suite for Sale - 740 sq. ft.

Monthly Rent = \$1,200
 (Average rent \$1,500)
 Parking Included
 Hydro & Gas = \$53

Listing = \$479,000
 Parking Included
 Property Taxes = \$1,535/ year
 Strata = \$206/ month

Assumptions for Analysis

25 year mortgage @ 5.5% Fixed
 20% Down payment = \$95,800
 No mortgage default insurance
 Individual earns \$61,040/ year (Gross Income)

If an individual invests the difference between their expected housing payments and their rent over 25 years (Including investing the down payment from Year 1):

Year	Condo Payment ¹	Rent Payment ²	Monthly Savings ³	Annual Savings ⁴	After Tax ROI ⁵	Closing Balance on Investment ⁶
1	2,687.10	1,253.00	1,434.10	113,009.16	5,650.46	118,659.62
2	2,703.79	1,290.59	1,413.20	16,958.43	8,137.08	143,755.13
3	2,723.84	1,329.31	1,394.53	16,734.34	9,629.37	170,118.84
4	2,744.03	1,369.19	1,374.84	16,498.09	11,197.02	197,813.94
5	2,764.37	1,410.26	1,354.11	16,249.28	12,843.79	226,907.01
6	2,784.86	1,452.57	1,332.29	15,987.49	14,573.67	257,468.17
7	2,805.51	1,496.15	1,309.36	15,712.29	16,390.83	289,571.29
8	2,826.30	1,541.03	1,285.27	15,423.25	18,299.67	323,294.21
9	2,847.25	1,587.26	1,259.99	15,119.89	20,304.85	358,718.95
10	2,868.36	1,634.88	1,233.48	14,801.76	22,411.24	395,931.95
11	2,889.62	1,683.93	1,205.70	14,468.36	24,624.02	435,024.33
12	2,911.04	1,734.45	1,176.60	14,119.20	26,948.61	476,092.14
13	2,932.62	1,786.48	1,146.15	13,753.75	29,390.75	519,236.64
14	2,954.36	1,840.07	1,114.29	13,371.49	31,956.49	564,564.62
15	2,976.26	1,895.27	1,080.99	12,971.87	34,652.19	612,188.68
16	2,998.33	1,952.13	1,046.19	12,554.33	37,484.58	662,227.60
17	3,020.55	2,010.70	1,009.86	12,118.28	40,460.75	714,806.63
18	3,042.95	2,071.02	971.93	11,663.13	43,588.19	770,057.95
19	3,065.50	2,133.15	932.35	11,188.25	46,874.77	828,120.97
20	3,088.23	2,197.14	891.08	10,693.01	50,328.84	889,142.82
21	3,111.12	2,263.06	848.06	10,176.76	53,959.17	953,278.75
22	3,134.18	2,330.95	803.23	9,638.81	57,775.05	1,020,692.62
23	3,157.42	2,400.88	756.54	9,078.47	61,786.27	1,091,557.35
24	3,180.82	2,472.90	707.92	8,495.03	66,003.14	1,166,055.52
25	3,204.40	2,547.09	657.31	7,887.73	70,436.60	1,244,379.85

NOTES

- ¹ Condo Payment = Mortgage Payment + Property Tax & Strata (Increasing by 3%)
- ² Rent will increase by 3% per year starting at \$1,200
- ³ Monthly Savings = House Payment - Rent
- ⁴ Annual Savings = Monthly Savings multiplied by 12 + Down payment invested in year 1
- ⁵ After tax ROI = 5% per year on average (After MER and taxes)
- ⁶ Closing Balance on Investment = Total portfolio + Gain on Investments (5% per year)

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Results After 25 Years

Buying

\$ 976,874	Total Housing Payments
74%	% of Monthly Net Income
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\$ 976,874	

1,622,064 Value of Property

Advantages:

- 1) Has a higher net worth than the renting scenario after 25 years.
- 2) Once the mortgage is paid off, the condo owner can begin saving. Assuming the individual invests half their housing costs (\$1,602.20); the homeowner can increase their savings by \$248,793.
- 3) Has significant collateral to secure additional financing.
- 4) No more monthly financing payments after 25 years

Disadvantages:

- 1) Financing is too risky for the individual's current salary. Since 74% of the individual's income is allocated to housing costs there isn't much flexibility to save money cover unforeseen expenditures as they occur (i.e. taxes owing, car repairs, etc.).
- 2) Interest rates may rise again!
25 yr. average fixed rates - 8.25%
25 yr. average variable rates 6.98%
Refinancing at a higher rate could be costly.
- 3) The cost analysis does not include the owner maintaining their property. Average maintenance costs could equal to 0.5% - 2%, depending on the home owner and size.

Recommendations:

- 1) The individual shouldn't buy if they do not have a sufficient down payment to avoid the mortgage default insurance plan.
- 2) They should have confidence that they will have a stable pay cheque for years.
- 3) The housing payment appears better suited for an individual who earns around \$74,000.
- 4) If the individual rents and invests they should be aware of their investing options.

Renting

\$ 548,201	Rent Payments Over 25 Years
35%	% of Monthly Net Income
428,672	Total Invested Over 25 Years
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\$ 976,874	

1,244,380 Total Investments

Advantages:

- 1) Has a net worth over \$1 million in investable assets.
- 2) Investments could potentially exceed \$2 million in value over a 10 year period (after 25 years of saving).
- 3) Not responsible for maintenance costs.
- 4) No escrow fees when leaving the rental unit and potentially receive the damage deposit.
- 5) Not subject to significant increases in rent (renters are protected).

Disadvantages:

- 1) There is no end date, with rent you are always paying.
- 2) Renters may have an issue of paying someone else's mortgage.
- 3) Building maintenance may not occur immediately; however, it isn't liability to the renter.
- 4) Investment returns can not be guaranteed; however, there are ways to hedge your investment risk.