

## Home Ownership – Is It Really Worth It?

Written by Ashley Nichols – Client Service Associate for the Biddle Johnston Wealth Management Team

I'd like to start off by making a confession: **I am a homeowner.** I'm also an accidental landlord, with a condo unit I cannot sell at the moment, so we currently rent it out.

I'm a very fortunate millennial who got into real estate early enough with a little help from my parents with the down payment – but I understand my story is not common; and just because I am not in the same predicament as most people my age and younger face, does not mean that I need to be tone deaf to their plight.



**Home ownership has been grilled into our generation as one of the biggest wins in life.** If you own a home, you'll build equity, and the more equity you have by retirement, the more security you'll have once your working years are over.

However, many factors have come into place – economic, political, social and financial – that make this goal so hard for our generation to reach, and the finish line for this milestone continues to get further away from us.

Again, we can argue until we are blue in the face about the reasons or point fingers at each other and play the blame game – but we're doing ourselves a disservice. Instead, let's look at the real numbers, factoring in for inflation, **home ownership in 1942 vs 1982 vs 2022:**

1942	1982	2022
Avg. Household Income: \$1,890	Avg. Household Income: \$34,000.00	Avg. Household Income: \$92,764
Avg. Home Price: \$7,800	Avg. Home Price: \$75,000.00	Avg. Home Price: \$717,000**
Interest Rate: 4.7%	Interest Rate: 19.25%*	Interest Rate: 5.44%
Down payment <6 months annual: \$900 (11.5%)	Down payment <6 months annual: \$15,000 (20%)	Down payment <6 months annual: \$46,700 (6.5%)
Monthly Income: \$155	Monthly Income: \$2,833.33	Monthly Income: \$7,730.33
***Monthly Mortgage: \$53.39	Monthly Mortgage: \$935.48	Monthly Mortgage: \$4,230.80
Debt Service Ratio: 34%	Debt Service Ratio: 33%	Debt Service Ratio: 55%

Source of information: This was harder to come by than you'd like to think. Google and I scoured the internet and numerous financial articles and statistics. I took the average of 10 articles to get my totals, which I do believe to be relatively accurate.

\*I chose the highest interest rate I could find in the 1980s

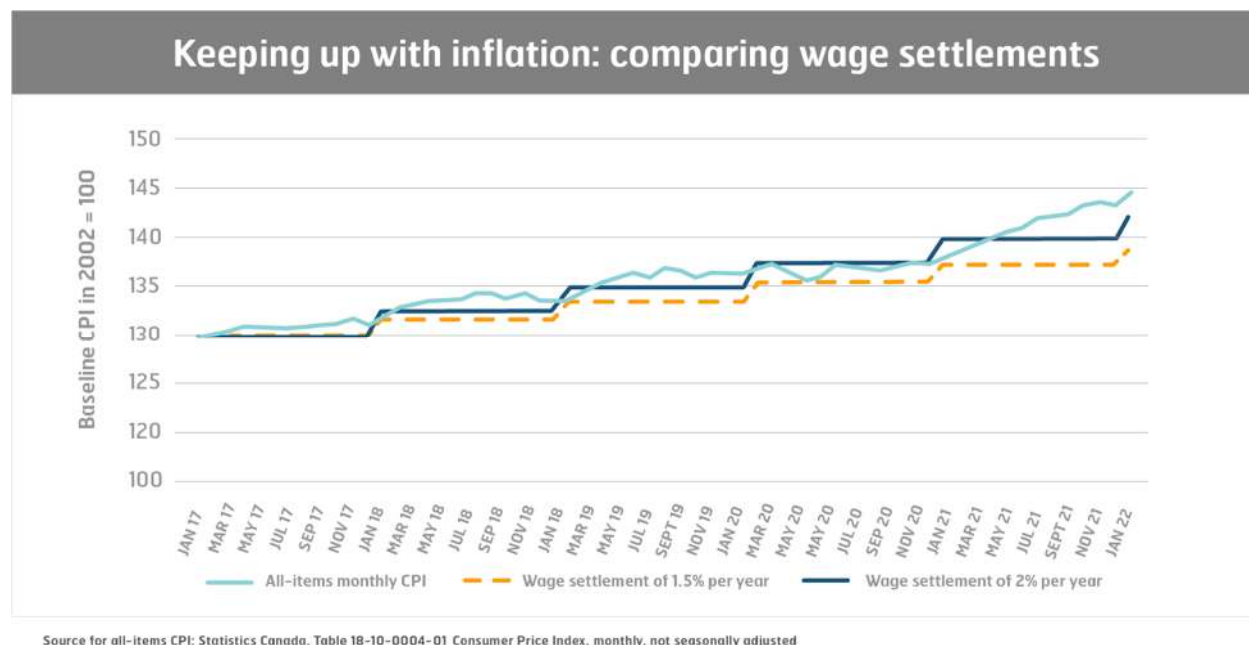
\*\*I needed to factor in Vancouver and Toronto prices, which affected the average – but for a detached home with attached garage this was fairly standard in 2022's market at the highest peak

\*\*\*Mortgage terms between the 1930s and 1950s were average 15 – 20 years – I averaged an 18-year mortgage on a 5-year fixed term

Please note the homes had to be comparable in square footage and lot size - \$717K does NOT include new builds with ½ the land size of a 1940s or 1980s lot

So, if we read this chart correctly, it was not only easier to qualify for a mortgage in the 40s and 80s, even with the ridiculous interest rate of the 80s, but your debt ratio was nearly HALF of what most homebuyers of today face. So, while we can argue that homes have risen in price approximately 1,000% from these two previous 40 year stretches, we can see the radical difference in the Debt Service Ratio.

**It's no secret, especially after what we witnessed in 2022, that inflation is completely out of control.** Prior to the 2022 inflation jump, wages were barely keeping up as it was:



Now I'm not here today to argue the inflation vs. wages battle – I'm simply serving the stats – unless you are in the top 10% of wealthiest people or you own your own successful business, your wage/salary has probably not kept up with inflation for decades.

As our world faces the issue of too many people, not enough resources, we are faced with having to live with less and less – whether it be groceries, clothing, education, healthcare or living space. **You'll see older homes in your neighborhoods being sold to developers for insane profits to the seller, only for the developer to put 2, 3 or even 4 homes on a lot where one 1950s bungalow used to sit.** I see it in many older neighborhoods – you have your cute little original homes next to 3 storey mini mansions, duplexes, or even row townhouses scrunched together to maximize profits. That \$700,000 lot a developer bought now holds 2 or 3 or 4 homes worth \$500,000+ EACH, in turn, over-inflating the cost of the land around that neighborhood. So, grandma's home she bought in the late 40's worth 5 raspberries (adjusted for inflation, of course), is now going to give her or her beneficiaries hundreds of thousands of dollars in profit when it comes time to sell.

**This is great for those in retirement age, or very near retirement age** (and even better for those who grandma is leaving her fortune to). As I mentioned at the beginning of this article, if you can win at home ownership, you've essentially won at the game of life.

However, Gen X, Millennials, Gen Z and younger won't have this kind of inflation to use to their benefit when it comes time for them to retire. We've already lost this race as most homes are now too expensive for us to even fathom putting a down payment on let alone selling them 40 years down the road at 1,000% more than what we bought. **This leaves us with the option of either A) living with mom and dad or B) renting.**

Although renting has gotten substantially more expensive as well – average rental prices in Canada are currently \$1,840 for condos and apartments, and \$2,224 for home rentals (<https://rentals.ca/national-rent-report>) – it remains a main source of housing for many under the age of 45. For those who are still renting and worry about home ownership I say this: **Why sweat it? Rent for life.**



The CMHC website asks 4 questions on their website to prepare you for the home buying journey:

1. Am I financially stable? – **Is ANYONE?!**
2. Do I have the financial management skills and discipline to handle this large a purchase? – **Does ANYONE?!**
3. Am I ready and able to take responsibility for all the costs that come with being a homeowner? – **Probably not**
4. Can I devote the time to regular home maintenance? – **In between three jobs?**

I joke, but these are real answers you can give these questions! **Nowadays, many work two jobs to survive, live paycheck to paycheck and are dealing with their other debts and daily expenses** – having a mortgage payment every month can be the straw that break the camel's back.

So, let's really think about this: Is home ownership really all it's cracked up to be? On top of your mortgage, you have the interest to pay – and unless you can throw thousands down as a lump sum every year, you'll BARELY touch your principal for the first half of your mortgage's life. Not only interest, but taxes on your land to be paid monthly or annually, maintenance costs that all must come from your pocket, monthly bills, renovations and updating – the list can go on.

When you rent, however, those costs fall to your landlord. Don't get me wrong, there are some terrible landlords out there that might try to skirt on their responsibilities, but **in most cases, rentals are well taken care of by the owners out of their own pocket**, meaning you don't have to save for the day the oven decides to stop working, or the washing machine leaks.

We also live in a time where remote work is in higher demand. We aren't tied down to office life 5 days a week, which greatly impacts where we choose to live. **If your job allows for it, you can find cheaper living situations in small towns and counties out of the city** – further reducing your living costs. To do this with a mortgage you'd have to either A) wait for your term to be done and try to sell or B) pay your mortgage out early and pay substantial fines for this. Renting when job loyalty is of the lowest priority for today's work force is preferred so you don't have to be tied down to the place you live.

Of course, there are cons. You don't get to personalize your home as much as you might want to with a rental. You may have neighbors above, below, or beside you that you don't get along with, you have rules set by the landlord that you need to follow. However, these can seem like small problems to someone who keeps their career options open, or someone who might pay below the average rental price.

CMHC outlines some of the biggest pros and cons in this nice little chart:

#### Buying examples

Pros	Cons
Freedom to renovate	Ongoing costs including property taxes and insurance
Ability to build equity in a safe and secure investment	Increased monthly payments if interest rates go up
Potential for rental income	Possibility of unexpected and costly repairs

#### Renting examples

Pros	Cons
Less maintenance and repair costs	Monthly payments may increase year after year
Lower monthly upfront costs	The risk your lease won't be renewed
Shorter-term commitment	Paying someone else's mortgage

The last thing to take into consideration is your retirement plan. **If you have to or want to rent for the rest of your life, how will you be able to afford retirement?** This is where the help of a professional financial advisor or planner can help you. They can curate multiple spending scenarios that can fit your retirement dreams and realities, helping you decide what will be more affordable.

To sum it all up, home ownership is a nice dream, but to many, a dream is all it may be. We need to let go of this pre-disposition that owning our home is how we win the game of life and understand that times are changing, and the way we view wealth and success needs to change with it. Renting is a completely normal and affordable option for many who can't or won't break into the housing market.

**There's really no shame in the renting game.**