

Down Payment or Security Deposit?

For most of us, the idea of home ownership as both a right and a goal has been ingrained since our youth. We are taught that owning our residence is an expression of maturity, stability, and success. As a passionate multi-family developer specializing in inner city condominium projects in Calgary, Bucci heartily endorses this notion. However, in light of recent economic fluctuations and myriad press reports concerning the choices that exist in the housing market, we thought we would examine the age-old debate of owning versus renting.

Affordability:

Affordability is a key factor in the consideration of both renting and owning. On the rental front, the national vacancy rate in Canada's 35 major centers fell from 2.5% to 2.3% in April, 2012 (CMHC – Rental Market Report, Canada Highlights, Spring 2012). In Calgary, CMHC forecasts the vacancy rate to hit 1.7% in 2012, down from 1.9% in 2011 and 3.6% in 2010. The 2013 forecast for Calgary calls for a vacancy rate of 1.5% (CMHC – Housing Market Outlook, Prairie Region Highlights, Second Quarter 2012 and Calgary CMA, Spring 2012).

This downward pressure on vacancy rates creates a landlords' market with renters facing fewer living options, fewer rental incentives, and higher rental rates. The average rent for a two bedroom unit in Calgary was \$1,084 in 2011 and is expected to rise to \$1,150 in 2012 and \$1,200 in 2013 (CMHC - Housing Market Outlook, Calgary CMA, Spring 2012). It is worthwhile to note that this average rent includes a range of rental inventory. Rent on new or newer buildings can be markedly higher. With Alberta leading the nation in economic growth and job creation, strong immigration will likely continue to force rental rates upward.

However, home ownership in Calgary remains attractively affordable. According to the RBC Economics Housing Trends and Affordability report released in May of 2012, Alberta was at the lower end of the affordability spectrum, meaning that Alberta was one of the most affordable housing markets in the nation. With home ownership costs (mortgage payments, property taxes, and utilities) just slightly above 20% of household income for a standard 900 square foot condominium, Calgary compared very favorably with locations such as Vancouver (over 40%) and Toronto (over 30%).

The RBC report suggested that a standard 900 square foot condominium in Calgary in the first quarter of 2012 was priced on average at \$248,100 and required a household qualifying income of \$53,100 to purchase (25% down payment, 25 year mortgage amortization with a 5 year fixed rate term). This compares with average prices in Vancouver of \$410,800 and Toronto of \$332,400 with qualifying household incomes reaching \$78,700 and \$71,200 respectively.

As an illustrated example of affordability that features an actual Bucci condominium unit, consider the following:

A 638 square foot one bedroom, one bath “A” model in our beautiful NEXT project in Bridgeland can be purchased for \$265,380 (including NET GST and CMHC fee based on 10% down payment). With 10% down (\$26,538) and a mortgage based on the remainder (\$238,842), monthly mortgage payments amount to \$1,210.18 (based on current TD rates of 3.64% and a 25 year amortization). With Condo Fees of \$204.16 (includes heat, hot water, building maintenance, etc.) and estimated Property Taxes of \$140.00, the monthly cost of home ownership is \$1,554.34.

A recent search on the internet for inner-city Calgary rentals with a similar floorplan in a new or newer building revealed rents ranging from \$1,450.00 to over \$2,000.00 per month.

Investment:

Clearly, money spent on monthly rent is not generating a return. Conversely, a purchased home is an asset that generally continues to appreciate. According to the Calgary Real Estate Board (as of June 19th, 2012), the average list price for an apartment condominium in 2011 was \$271,537. The average list price for year to date 2012 is \$275,930. For the first two weeks of June 2012, the average list price was \$298,251! As reported in CMHC’s Housing Market Outlook – Prairie Region Highlights (Second Quarter, 2012), the average MLS (single and multi-family combined) list price in Alberta has risen from \$353,748 in 2008 to a forecasted average of \$360,900 in 2012 and a forecasted average of \$371,500 in 2013.

Additionally, each monthly payment towards a mortgage brings the purchaser that much closer to clear title ownership. In other words, you are contributing to your future value and security. A monthly payment applied towards rent is simply an obligation with no further reward.

Barriers to Entry:

Securing a rented home is relatively simple. A credit check, reference check, and a security deposit are normally all the items required. Purchasing a home is a bit more complex. You need to have amassed your down payment, you need to be approved for your mortgage, and you need to ensure that you can cover your monthly payments including property taxes and utilities.

However, with near-historically low interest rates, down payment requirements as little as 5% of purchase price, and 25 year amortization periods offered by the major lenders, these perceived barriers to entry are far less onerous than in the past. Further, as demonstrated previously, once you have bought a home the overall affordability and potential return can far outweigh the initial requirements of purchasing.

The Intangibles

So far, we have been focusing on the numbers; the hard bottom-line reasons for purchasing or renting. While these are valid and necessary considerations, there exist many additional reasons for making this decision that are equally important.

Renting offers ease of mobility. Rental accommodations are available on a month-to-month or yearly basis. If you intend to move with a job or for other reasons, a short term lease may be quite compelling. Similarly, rental units can be obtained with or without furnishings. Again, if you are someone that is fairly mobile, this can greatly simplify your life. Once you are at the end of your lease, you simply ensure the place is cleaned and return the keys.

Renting may also be appealing if you are exploring different lifestyle options. Perhaps you are considering downsizing or moving from the suburbs to the inner-city... securing a rental accommodation can provide you an opportunity to sample the lifestyle without immediately committing to it.

However, renting elicits other questions that might be easily answered by home ownership; questions such as:

- ✓ Do you have pets or might you desire pets in the future?
- ✓ Do you enjoy being the master of your home or are you amenable to reporting to a landlord?
- ✓ Is it important that you have choice in your selection of home – choices that extend to the floor plan and interior finishings?
- ✓ Do you enjoy decorating and improving your home (new appliances, different floor coverings, lighting fixtures, wall treatments, etc.) knowing that you are also adding to the value of your home or are you content living with the standard décor of your rental home as any time and money spent on improvements would yield no future return?
- ✓ Is one or two stalls of heated underground parking appealing to you or are you satisfied with hunting for parking at street level on a daily basis?
- ✓ Do you take pride in ownership and value the thought of a new home that has always been lived in by you rather than a unit that has been inhabited by countless others prior to you?
- ✓ Do you enjoy the security of knowing your monthly payments for years in advance without fear of rent increases and lease terminations?

Undoubtedly, we have barely scratched the surface in the debate of home ownership versus renting. With any luck, our thoughts will inspire further contemplation and provoke spirited soul searching in regards to your preference. And while you are immersed in the pros and cons of the topic, we would like to invite you to come and visit us in person at the NEXT Presentation Centre in Bridgeland. As a deeply committed developer of an award winning condominium project, we're certain we can offer you some unique insight!