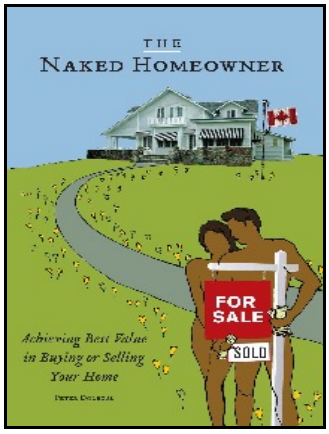

TO RENT or BUY – READERS' DEBATE

MAY/09

by Peter Dolezal The Naked Homeowner

Last month's article on this subject resulted in a lively debate on the Peninsula News Review's website. I had promoted the present real estate environment as a great time to buy, rather than rent, especially for first-timers. A few readers took me to task on a number of points. I promised that this month, I would present the essence of their comments, along with my reply:

1) *I must be either a realtor, a developer, or involved with the Victoria Real Estate Board, or in some other way have a vested interest in promoting the local market.*

Having once owned a real estate company in Vancouver, I have since written a book on real estate. I have no current affiliation whatsoever with the Real Estate Board, or the real estate or property-development community, here or elsewhere. I do own my own home. I have however, remained interested and current on the local and national market.

All of my opinions are expressed in a totally independent manner, based on *my* analysis of existing facts.

2. The local market has further to fall and the first-timer is better to wait for lower prices, rather than jump in too fast.

It is *possible* that the market may slide further. Recent market activity does not support that likelihood. Both March and April sales showed a distinct move toward a more balanced market.

My key point is that a renter knows absolutely, that by continuing to rent, he will be paying an average of $15,000 in rent payments annually, toward his landlord's mortgage, rather than his own. These rent payments are lost forever. It is highly unlikely that the value of the first-timer's condominium would drop by $15,000 annually, after it is purchased.

3. First-timers should not be encouraged to get in over their head on payments. Even if they can afford them today, will they be able to in five years when their mortgage comes up for renewal?

Point well-made! A first-time buyer should be very mindful that today's record-low interest rates - most recently, 3.59% for a 5-year fixed-rate mortgage - are highly unlikely to be as low when the mortgage comes up for renewal after 5 years.

If a couple with dual incomes is buying, the risk is less than for an individual. However, before proceeding, all buyers should consider whether, five years in the future, a rate of 5 or 6% is a manageable prospect. If not, the option is to reconsider, and keep renting instead, while continuing to build up their financial reserves.

4. Encouraging a buyer to choose a 35-year amortization in order to afford a home purchase is unwise, given the total interest cost involved over such a long period.

I have written several articles, and chapters in my book, on the huge cost-impact of various mortgage choices, including the significant benefits of shorter amortizations.

The reality however, is that many first-timers simply would not qualify for an initial mortgage, without the lower monthly payments offered by a 35-year amortization.

For those individuals, this may be an acceptable, initial price to pay in order to own a first home, *as long as* the buyer strives to increase payments, and hence shorten the amortization period, as quickly as possible.

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I do not encourage irresponsible financial decisions on the part of any buyer. However, I remain convinced that, if a viable option exists, throwing away on rental payments some $15,000 of after-tax income, should definitely be avoided.