

How owning beats renting for the downsizing boomer



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The rise of the housing market over the past 10 years has turned home ownership into a story told in financial more than lifestyle terms.

So let's attack the question of how best for retiring baby boomers to downsize from the point of view of what makes the most financial sense.

Financial planner Rona Birenbaum has helped family members and clients work through the math of owning versus renting. Her conclusion is that if you don't need the equity in your home for retirement income, you'll generate more wealth by owning a home.

"If the objective is to have the highest net worth at the end of one's life, then generally speaking, keeping the real estate is a better move," she said.

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What to do about real estate when you retire will be a major financial debate of the next 20 years. We have a big wedge of baby boomers heading into retirement, many of them sitting on massive amounts of equity in fully paid-off homes.

The sharp downturn in Vancouver real estate, documented in a recent [Globe and Mail story](#), is a reminder not to be complacent about housing. It doesn't always go up in price and declines can be nasty.

Renting has clear appeal from a lifestyle point of view for downsizing boomers who don't want to look after a property any longer. But rents in some cities can become a hefty fixed cost that ends up comparable to owning a home.

In helping clients work through the question of whether to own or rent, Ms. Birenbaum generally pegs annual maintenance costs for owners at 0.5 per cent of the value of the home. She also factors in periodic additional expenses for major repairs, say for the roof or foundation. The bottom line here is that over the long term, total maintenance costs plus property taxes may end up similar to the cost of renting.

Where owning and renting start to deviate is in how much wealth you're left with in the future. This is where owning has an advantage.

In her projections for clients, Ms. Birenbaum assumes an average annual 3-per-cent increase in value on the house and 4-per-cent returns on a balanced portfolio of investments before tax. Tax is a big factor in this comparison. You can sell a principal residence tax-free, whereas investment gains on the proceeds from selling a house are

subject to tax for the most part. You could avoid tax by using a tax-free savings account, but cumulative lifetime contribution room for TFSAs stands only at \$63,500 this year.

Do you find Ms. Birenbaum's estimate of 4-per-cent investment returns too low? She argues that people tend to get more conservative as investors when they age, and that means fewer stocks in their portfolios and more bonds generating interest. There's a tax angle on taking this conservative stance: Bond interest is taxed as regular income, whereas dividends and capital gains from stocks benefit from preferential tax rates.

If you were to invest the proceeds of a home sale, Ms. Birenbaum suggests you consider how bothered you'll be by the stress of watching your portfolio being subjected to financial-market ups and downs. "People don't think as much about the volatility of the housing market," she said.

The biggest variable in this analysis is the condition of your home and its need for spending on renovations. Kitchen and bathroom renos are entirely discretionary, but not upgrading or freshening these key rooms could make your home harder to sell. You could argue that the better a house's condition, the stronger the argument for continuing to own rather than rent.

Single seniors often feel discriminated against because they can't benefit from pension-income splitting, a tax-saving measure. But in deciding whether to downsize and whether to rent or own, singles are at an advantage in that they don't need to come to an agreement with a spouse.

"This whole decision can be a very tense one for couples," Ms. Birenbaum said. "One spouse wants to realize on the home equity and simplify, and the other one feels very attached to the home for a variety of reasons. What that often leads to is inertia."