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Why You Should Buy Not Rent Tax-Free Dollars You Could Be Earning By Owning



If you are renting in today's high growth real estate market, you are likely throwing away tax-free dollars available through home ownership.

Most people will readily agree that owning is better than renting in many ways including financially. This report looks into the details of this supposition. We take into account the key financial aspects of buying compared to renting and show what savings you can expect given a reasonable set of assumptions.

Assumptions are critical. A famous quote about assumptions essentially says they can make a donkey or something out of you if you are not careful. Table 3 explains the assumptions we used to build the illustrations in Tables 1 and 2.

Tables 1 & 2 below show you how much money you can save by owning a home versus renting. We looked at the savings over three periods – two years, five years and ten years. We used \$1000 rent and compared this to a \$200,000 and a \$300,000 home purchase.

The coloured areas illustrate when “buying is better” and takes into account the extra costs of buying and selling the home (closing costs). The lighter colour is for freehold ownership (no condo fees). The darker colour is for condos and accounts for condo fees and the reduced maintenance cost.

Taking Care of You ... One Step at a Time



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A. Savings of \$146,000 in Ten Years

Table 1 shows that you could save \$146,000 in ten years owning a \$200,000 freehold home instead of renting for \$1000 per month IF there was an average 6% yearly appreciation on your home. You are losing over \$1,200 per month for every month you delay doing this.

For condo purchases, deduct the condo fees per year for the period of ownership. For example, condo fees of \$300/mth would cost: \$7K in 2 yrs, \$18K in 5 yrs, and \$36K in 10 yrs.

Note: There are conditions marked in the tables when you are “better to rent”.

B. You do not have to spend big to make good returns.

Comparing Table 1 and Table 2, you can see that a \$200,000 purchase returns more savings over the three time periods for yearly appreciations of up to 5% and after that, i.e.; 6% and higher, the \$300,000 purchase returns more savings. Therefore, you do not need to buy a big expensive home to make a very good return on your investment in the housing market.

C. Your home can “earn” you \$30-\$40,000 per year!

In a good real estate market, you can save (essentially earn) \$300-\$400,000 tax-free money by owning a home versus renting over ten years if the market you buy in appreciates on average 10% per year. Many markets have been doing that and better for the past few years in Canada. Remember, past growth is no guarantee of future growth.

D. Do-it-Yourself – Use the Buy vs Rent Calculator

If you would like to experiment with different values for the rent, purchase price, mortgage rate, and other assumptions, go to my website and try the rent vs buy calculator for yourself:

www.TorontoRealEstateResourceCentre.ca

[Rent vs Buy](#)

Then give me a call at 416-399-5832 so you can STOP RENTING and START EARNING!

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Table 1: \$1,000 Rental vs \$200,000 Purchase Price

5.5% Mortgage Rate



Appreciation on Home	No. of Years You Keep Your Home		
	2 Years Savings if You Buy \$,\$,000	5 Years Savings if You Buy \$,\$,000	10 Years Savings if You Buy \$,\$,000
%			
1% per Year	Better to Rent	Better to Rent	8
2% per Year	2	8	31
3% per Year	6	19	56
4% per Year	10	31	83
5% per Year	14	43	113
6% per Year	18	55	146
7% per Year	23	68	181
8% per Year	27	81	219
9% per Year	31	95	261
10% per Year	36	109	306

“Buying is Better” Coloured Area

- ✓ Allowing for **\$20,000 worth of closing costs (buy and sell)**, these highlighted areas are where Purchase is more attractive than Rental. Freehold - No condo fees.
- ✓ As above, plus **Condo Fees of \$300 per month**: 2Yrs=\$7K, 5Yrs=\$18K, 10Yrs=\$36K less a 75% reduction in the maintenance rate.

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Table 2: \$1,000 Rental vs \$300,000 Purchase Price
5.5% Mortgage Rate



Appreciation on Home	No. of Years You Keep Your Home		
	2 Years Savings if You Buy	5 Years Savings if You Buy	10 Years Savings if You Buy
%	\$,000	\$,000	\$,000
1% per Year	Better to Rent	Better to Rent	Better to Rent
2% per Year	Better to Rent	Better to Rent	Better to Rent
3% per Year	Better to Rent	Better to Rent	15
4% per Year	2	13	56
5% per Year	8	31	101
6% per Year	15	49	149
7% per Year	21	69	202
8% per Year	27	89	260
9% per Year	34	110	322
10% per Year	40	131	390

“Buying is Better” Coloured Area

- ✓ Allowing for **\$30,000 worth of closing costs (buy and sell)**, these highlighted areas are where Purchase is more attractive than Rental. Freehold - No condo fees.
- ✓ As above, plus **Condo Fees of \$500 per month**: 2Yrs=\$12K, 5Yrs=\$30K, 10Yrs=\$60K less a 75% reduction in the maintenance rate.

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Table 3: Assumptions and Effects

Assumptions	Effects	Comments
Yearly appreciation of Home – Range: 1-10%	Higher rates favour Purchase	Assumes this rate applies for the entire period selected on average. Toronto price growth averaged over 8% from 2004-2006 but is no guarantee of future growth.
Mortgage rate – 5.5%	Higher rates favour Rental	The rate as of July/06 for a 5yr closed mortgage was 5.5%. Assumes this rate applies for the entire owned period.
Years you Own Your Home: 2 , 5 & 10Years	The longer you own the bigger the savings effects.	
Rent - \$1,000	Higher rent favour Purchase	
Rent increase – 2.5%	Higher rates favour Purchase	With rent control 2.5% is a good estimate.
Savings rate – 5%	Higher rates favour Rental	Renters assumed to invest the downpayment not used for a Purchase and earn interest. Most renters spend this. Home ownership is “forced savings”.
Downpayment – 5%	Higher amounts favour Purchase	Higher downpayments reduce the loan insurance premium and the interest costs of a home Purchase.
Property Tax – 1.2%	Higher rates favour Rental	This rate is held constant over the period selected – some increase is likely to occur.
House insurance – 0.43%	Higher rates favour Rental	As above.
Monthly Renters Insurance - \$30	Higher rates favour Purchase	Condo owners only need cover their contents and personal liability.
Annual Home Maintenance – 0.8%	Higher rates favour Rental	Condos are assumed to have ¼ of the maintenance and a rate of 0.2% was used.
Condo fees - \$300 & \$500	Higher rates favour Purchase	Assume the \$200K condo has fees of \$300/mth and the \$300K condo has fees of \$300/mth. Your rates may be more or less. And fees may increase over time.
Closing Costs – 10%	Higher rates favour Rental	Estimate of transaction costs to buy and selling the home or condo – real estate fees, legal fees, land transfer, etc. Buying costs are usually about 2% and Selling about 6-8%.
Note: All above are % of Purchase Price.		

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