



## **TO RENT OR BUY?**

**APRIL/09**

by Peter Dolezal [The Naked Homeowner](#)

Until very recently, many Greater Victoria tenants have had little choice but to pay ever-increasing rents on hard-to-find rental properties.

Recently however, the combined effect of significant property price declines from their peak of last summer, and incredibly low mortgage interest costs, has begun to reawaken the local real estate market.

Today we are seeing mortgage rates at their lowest levels in 50 years. The best 5-year fixed-rate at local Mortgage Brokers, as I write this, is 3.85%. Variable-rates are as low as 0.75% over prime, or 3.25%.

With a 3.85%, 5-year fixed-rate, a qualified borrower today can borrow \$300,000, at monthly payments of \$1296 with a 35-year amortization.

Many tenants pay rents at, or near, these monthly costs of ownership.

To qualify for this \$300,000 loan, potential buyers with minimal debt and a good credit rating would require a monthly **household** income of only \$4,050.

For any buyer there are huge advantages to early ownership, namely:

- 1) With every monthly payment, equity begins to build, slowly at first, but accelerating with every payment made.
- 2) The sooner one starts to pay off a mortgage, the earlier it will be eliminated.
- 3) The earlier one acquires a home, the sooner he becomes a participant in what has proven to be one of the best tax-free return-generating investments over the long term.
- 4) Owning, well before retirement, a paid-off real estate asset with a value in the hundreds of thousands of dollars, provides the single largest component of the net worth of a typical household approaching retirement years.

### **The Mortgage Dilemma – Fixed-Rate vs. Variable-Rate**

In previous articles I have several times extolled the historically-proven economic advantage of the variable-rate mortgage. Indeed, over the past 50 years an individual selecting a variable-rate mortgage was ahead financially, some 89% of the time.

**However**, we have never experienced a period of 3.85%, 5-year, fixed-rate mortgage availability such as we see today. The current advantage of the best available variable-rate (3.25%), is only 0.6% lower than the fixed-rate option. In the previous 50 years this advantage was often 2% or more.

Furthermore, with the huge fiscal stimulus initiatives of governments in both the US and in Canada, there is a definite risk that significant inflation will result in the next several years, and with it, higher interest rates. Such an event would make the variable-rate mortgage holder vulnerable to major interest rate increases.

The previous clear advantage of variable-rate mortgages may well return one day. Until that occurs however, I would urge borrowers to be more cautious than in the past, in selecting them.