

To Rent or to Own: Deciding on Your Piece of the Canadian Dream

1. A Momentous Decision

The decision to rent or own a home is among the most significant choices people will make in their lives. Homeownership comes with an immense financial commitment. Considering the average Canadian's tendency to move every seven years, people can expect to commit a fair portion of their income to real estate transactions (Davies, 2018). Homeownership has come to mean much more than just having a place to live. It brings a long-term shelter for individuals and their items. It brings access to comfort as well to people, culture and places in a community. For many Canadians, homeownership symbolizes independence, security, and personal pride (Steig, 2020). With the gravity of this decision in mind, a prospective homeowner or renter must consider the factors involved in comparing renting and buying a home.

2. A Direct Comparison: Renting or Buying

i) The Case for Homeownership

As mentioned in section one, homeownership has strong cultural significance. Canadians believe homeownership is a solid, stable financial investment. They have a good reason for this: housing prices have consistently grown over the past 20 years (Gilmore, 2022). The historical trend of growth in real estate means that a person entering the market can count on building equity in their home as they live in it, benefiting from the appreciation of their property's value over time. Additionally, homeowners can make modifications and improvements to their homes by updating or renovating their appliances, fixtures or other elements. These improvements can help boost the value of their property, which allows them to increase their return on investment when it comes time to sell. As a final upside, there is no capital gains tax on a Canadian homeowner's primary residence, which cements homeownership as a good quality, low-risk, long-term investment. Another benefit of homeownership is its security. A homeowner is not at the mercy of a landlord in terms of the length of their residence at a given property. Instead, a homeowner has the opportunity to

settle into a neighbourhood and develop roots in their community. A homeowner has free reign over their living space, meaning changes can be made as they see fit. Both these factors establish homeownership as a desirable option for a person who hopes to spend an extended period anchored in a specific area.

ii) Where Renting Trumps Owning

While homeownership has a variety of benefits it certainly is not the choice for everyone. One of the most substantial obstacles to homeownership are the associated costs of owning when compared to renting. Homeowners are responsible for many expenses that renters are immune to or experience to a lesser degree. Property taxes, maintenance costs, and repair bills can all add up for homeowners. While the prevailing narrative is that owning is the smarter financial decision over the long run while renting is the stronger financial decision in the short term, this fails to paint the full picture. A direct comparison by *MoneySense* found that renting was significantly more financially rewarding over a 30-year period for a property in British Columbia with an \$850,000 purchase price (Renting vs. home ownership, 2022). A closer analysis reveals that *MoneySense*'s comparison represents an idealized scenario that inaccurately models true consumer habits. On a completely even playing field, in some instances, renting over a 30-year period can be more advantageous than homeownership. However, in a real-world scenario, homeownership is preferable to renting in the long run as confirmed by a study conducted by Royal LePage (Carrick, 2021). In direct contrast to the permanence of homeownership, renting can offer significantly more flexible options. While renters can be fluid with their financial decisions, homeowners may be constrained by other factors. For example, if most of one's wealth is tied into their home, people may be more vulnerable in the event of housing bubbles or real estate market downturns.

iii) Conclusive statements

An analysis of the benefits and drawbacks of renting and owning reveals that neither option should be adopted by every person who wishes to enter the housing market. Instead, a decision should be made on a case-by-case basis by considering the person's unique

circumstances. Although it's difficult to characterize one of these options as “better”, I believe that homeownership offers more benefits than renting while experiencing fewer drawbacks. The ability to build equity allows homeowners to leverage themselves into higher-value properties over time by carrying equity over from home to home. Unfortunately, this is not possible in the rental market. Finally, I believe that the intangible, but powerful, significance placed on homeownership in Canada is a factor that pushes many Canadians to prefer to own their own homes. The deep-rooted desire for a sense of ownership and having a place to call one's own is entrenched in the psyche of Canadians, and this may lead them to overlook the tangible aspects of the renting versus owning debate. Ultimately, this mindset may add some supplementary value to homeownership, which, when combined with the other benefits of owning a home, firmly cements homeownership as the superior option compared to renting.

3. An Answer for Each Segment

Neither option can be easily characterized as better than the other. For certain segments of the Greater Toronto Area (GTA), renting may make more sense than homeownership. For example, young professionals who are just starting their careers in the GTA must move frequently for work (Heitmann, 2018). Renting can provide these individuals with added flexibility in housing so they are not tied down to a particular location. Additionally, the less drastic financial commitment of renting can be beneficial for these young professionals, as they may not have sufficient savings or the disposable income necessary for homeownership. Conversely, families may find that owning a home provides stability for themselves and their children, as they can grow up in one neighbourhood and their children can attend the same school for several years without disruption. Another key segment of the GTA that may benefit from owning a home is retirees. Retirees often have fixed incomes and are unable to afford the GTA's soaring rental rates which increased by an annual rate of 21.2% as of December 2022 (Kassam, 2023). One caveat to this is that retirees should aim to become homeowners well before retirement to build equity in

preparation for when their incomes inevitably decrease. In the event that a retiree is not a homeowner before retirement, they should avoid homeownership, as they are unlikely to be able to tackle the costs and responsibilities associated with it. This is a crucial segment to consider as the average age of Torontonians has steadily increased from 2001-2022 (Jeudy, 2023). This means that each year, more Torontonians are entering or nearing retirement as Toronto's senior demographic continues to grow (Wong, 2022).

4. Personal Decision

i) Static Factors

Although it is difficult to comment on my personal real estate plans five to seven years from now, some elements of this decision will remain unchanged. The most important factors that will remain consistent between now and 7 years in the future include my financial condition and my lifestyle preferences. As previously discussed, personal financial circumstances dictate whether a person can rent or buy. A sufficient source of income or savings is essential to being able to save for a down payment, mortgage payments, property taxes, maintenance costs, and other expenses associated with homeownership. As a recent graduate, even if I were able to save for a down payment, it is unlikely I would have sufficient credit history to be approved for a mortgage. Another basis for my decision would be my lifestyle preference. Currently, I value financial flexibility and geographic mobility. I wish to experience a variety of cultures and communities in the future. The idea of being tied to a specific location is unappealing to me right now. For this reason, I would prefer the versatile lifestyle offered by renting over the constancy of homeownership following my post-secondary or post-graduate studies.

ii) Dynamic Factors

One of the most important dynamic factors affecting my decision to rent or buy after graduation will be the future state of the housing market. Future economic realities are impossible to predict with high precision or accuracy. However, we can make some informed assumptions about the future of Canada's housing market. Toronto Dominion (TD) Bank

forecasts that housing sales will continue to decrease due to the ongoing unaffordability of housing before bottoming out at around 20% below pre-pandemic levels in mid-2023. TD predicts that sales will rebound and nearly recover to pre-pandemic levels in 2024 (Santarelli, 2023). Beyond 2024, the Bank of Canada's interest rate hikes combined with the federal and provincial government's current policies may bring stability to the previously volatile Canadian housing market. To clarify, current immigration policies may act to address housing supply issues by increasing the supply of skilled workers into Canada and changes to taxation policies such as the implementation of a foreign buyers tax should act to further calm market instability (McNutt, 2022).

iii) An Informed Decision

If these measures return the housing market to a period of steady growth after a market adjustment, it would be sensible to enter the housing market after graduation. With financial assistance and guidance from my parents, I strongly hope to become a homeowner following graduation. Although my lifestyle preferences seem more suited toward renting at the moment, the prospect of a stabilizing housing market offers an impeccable opportunity to become a homeowner and begin building equity early. As I've mentioned, part of the attraction of homeownership is unquantifiable. The feelings associated with homeownership and the accomplishments it symbolizes are some of the unmeasurable psychosocial factors involved. As a person interested in the STEM fields, I strongly believe decisions should be based on measurable data and logical reasoning. However, even after considering the hard facts of both options, I must admit that these abstract factors have helped me conclude that homeownership is right for me following my post-secondary education.

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