

TRREB Scholarship Essay

Essay Prompt 2:

Do you think it is better to rent or own? You will always have both renters and owners in the GTA housing market. Which option do you think makes sense for various segments of the GTA population, and why? What might your personal decision be after your post-secondary graduation, and why?

Title: An Investigation of the Rent-or-Buy Decision



The Greater Toronto Area's housing market is filled with many different types of individuals, with varying homeownership goals. Personally, I have a bias in my decision to rent or own - one that I am sure many children of immigrants have as well. Growing up, I watched my parents find their way in the home owning struggle, learning about and adapting to the implications of owning and renting homes in the GTA. We would switch between homes (owned and rented) every two years for one main reason: monetary issues. This meant increasing rent, mortgage issues, transportation costs, etc. Thus, if I were to answer this question prior to conducting research on the topic for myself, I would be inclined to prefer buying a home because of the mere idea of owning an asset - a symbol of my family's aim to declare a presence and stake in this country. However, as an educated citizen, I know that both decisions have their respective benefits/limitations and there will always be external factors affecting the rent-or-buy decision, including one's financial situation, lifestyle, and long-term goals.

To begin, Toronto and the GTA are comparatively one of the most expensive cities to rent in, especially as the market continuously faces both growth and inflation. A Business Insider report outlines that in 2020, Toronto was the sixteenth most expensive city in the world for the rental of a two-bedroom apartment¹. Generally speaking, a main advantage of renting in the GTA is the flexibility when compared to owning, as the former is not as affected by fluctuations in the housing market, and tenants can easily move to a different location (whether city or even country), only really worrying about legal implications of their tenancy agreement. Secondly, tenants are typically responsible for their first and last month's rent and security deposits, meaning renting entitles less upfront costs. On the other hand, owning a home requires a down

¹ Hoffower, Hillary. "The 25 Most Expensive Cities around the World to Rent a 2-Bedroom Apartment." *Business Insider*, Business Insider, 2020, <https://www.businessinsider.com/most-expensive-cities-worldwide-to-rent-an-apartment-2019-5#16-toronto-canada-10>.

payment as well as closing costs, and commission if applicable. Another advantage of renting is that tenants have less responsibility for maintaining the property, making repairs, making utility payments, etc., as the homeowners, who have a stake in the property, typically are responsible for some of these aspects as they are often included in the rent payment/contract. As for disadvantages, tenants do not acquire any equity in their property/all payments are towards rent. Also, tenants may not necessarily have much control over their property, as landlords often have various restrictions on pets, subletting, renovations, habitual restrictions, and a common example of the latter is the no-smoking clause in tenancy agreements. Furthermore, tenants may face annual rent increases which poses difficulty with long-term budgeting, and this is a disadvantage that even my family has faced in the GTA rental market.

Moreover, the advantages of owning a home in the GTA include the building of equity which increases net worth, setting up financial security for the future, as well as long-term investment potential, as the value of a home appreciates over time. Given that the market is full of renters and owners facing the rent-or-buy decision and stereotypes, the pride and stability in ownership has become commonplace. To add on, homeowners can rent/lease a property for additional income, which is becoming increasingly favored in the GTA. As for disadvantages, a primary one is the higher upfront costs through down payment, for example, which certain market segments including middle-class and lower-middle class in the GTA may struggle to afford. There is also an increased responsibility as the asset will require maintenance, utilities, inspections, etc. Further, there is always a level of risk involved as the market, especially in the past few years, has been quite unpredictable. Fluctuations in the market itself affects demand, inflated pricing, depreciation on homes (losing investment value), etc.

Next, it is important to examine the housing market. Generally, housing prices tend to rise over the long-term, but there have been periods of decline, such as the 2008 financial crisis which saw a drop in housing prices not just in the GTA, but many parts of the world. This, however, was a crisis that was developed gradually² - the drop was not instantaneous, nor are future drops/increases likely to be. In the past few years, the housing market experienced much change, with strong demand and increasing prices. This was driven by situational pent-up demand, a shortage of homes available for sale, and fluctuating interest rates, however it is important to note that it may lead to affordability challenges in future years, forcing potential homeowners to switch to the cheaper alternative of renting, or even abandoning both possibilities. Data from the Toronto Regional Real Estate Board (TRREB) expressed that the average price of a home in the GTA reached over a million in August 2021, which is up 12.6% compared to the previous year, 2020³. In addition to this, demand and the number of homes sold increased, totalling nearly 10,000 in August, which is an increase of 11.8% from 2020⁴. This goes to show that even though the economy was suffering during the pandemic, with inflation as an offset, demand still spiked, because the market is just so large. The housing market in the GTA is a tight and competitive space, where there is an increasing trend of purchase with high demand as home supply is limited (with construction groups often presenting delays as well).

² Singh, Manoj. "The 2007–2008 Financial Crisis in Review." *Investopedia*, Investopedia, 16 Feb. 2023, <https://www.investopedia.com/articles/economics/09/financial-crisis-review.asp>.

³ Andrew. "August, 2021 Toronto & GTA MLS® Home Sales: Inventory Levels on Life Support." *TheBBGroup*, 3 Sept. 2021, <https://www.justbungalows.com/b/blog/august-2021-toronto--gta-mls-home-sales-inventory-levels-on-life-support.html#:~:text=Overall%2C%20meaning%20all%20home%20types,the%20month%2C%20up%2012.6%25>.

⁴ Andrew. "August, 2021 Toronto & GTA MLS® Home Sales: Inventory Levels on Life Support." *TheBBGroup*, 3 Sept. 2021, <https://www.justbungalows.com/b/blog/august-2021-toronto--gta-mls-home-sales-inventory-levels-on-life-support.html#:~:text=Overall%2C%20meaning%20all%20home%20types,the%20month%2C%20up%2012.6%25>.

Toronto and its sub-urban regions are really active when it comes to the housing market, and many properties sell for above the asking price, indicating the sheer value of owning a property in the GTA. Those with financial issues or other circumstances that discourage them from buying a home gravitate towards choosing to rent, which is also encouraged for short-term benefits. Further, like any market, that of housing is subject to fluctuation caused by economic *and* non-economic factors. Examples include general economic conditions, government policies, and global events. Though it is not possible to predict the future prospects of the market with certainty, past trends and current indicators can be examined to provide insights on the reliability of the market to aid the rent-or-buy decision, and the potential risks and rewards should always be considered depending on one's situation rather than mere prospects (i.e prediction of an increased salary in the following year).

Ultimately, the rent-or-buy decision is one that depends on the state of the economy, which in the GTA is ever-fluctuating. Many in the GTA find finance a major obstacle to face before homeownership, and this continues to get worse. According to TRREB, "A strong start to the year saw the average selling price up 8.6 per cent annually, from \$1.09 million in 2021 to \$1.19 million in 2022"⁵, which is a more than likely cause for why Toronto's housing market faced a decrease/slowdown of sales. Moving on, Toronto is a large city, with both a domestic market and one of foreigners who visit or settle for work, with or without much money with them. Given the vast diversity of the market, preferences greatly differ within smaller segments of the population. For example, professionals who require to move frequently, or are unsure of their future settlement/work plans would and should choose to rent to benefit from flexibility and

⁵ Springgay, Jordana. "Tumultuous Year for GTA Housing Market Reflects Economic Uncertainty." *REM*, 6 Jan. 2023, <https://realestatemagazine.ca/fluctuations-in-gta-housing-market-reflect-economic-uncertainty-trreb/#:~:text=A%20strong%20start%20to%20the,cent%20below%20the%202022%20average.>

lower upfront costs. This accounts for quite a bit of the population given that many young professionals in the GTA are either in university (foreign/domestic students) or recent graduates, especially with two popular universities, the University of Toronto and Toronto Metropolitan University are in the heart of this large capital city. Similarly, immigrants who have yet to establish a strong credit history or even an employment history, or those without the financial means of purchasing a home should rent until they are financially stable. If they plan on staying for the long-term and have stable finance/employment, they may consider owning a home to establish roots in the area and/or build equity. Another portion of the population of those looking to purchase or rent homes in the GTA are families with kids, who want to settle to acquire a stable long-term position, often near their workplace(s) and school(s). It makes sense for these groups to own a home in order to build equity, find security, and guarantee a certain amount of stability. In addition, another segment of the market includes seniors, who tend to downsize by selling their existing homes (if applicable), and they should rent to reduce their financial burden and increase stability. There are exceptions, as retirees who have the financial means to and desire to build equity (i.e. for their kids), should certainly consider owning a home.

To conclude, the rent-or-buy decision heavily depends on individual circumstances and personal goals. As such, my decision depends on my career goals. After the graduation of post-secondary education, I believe that it is in my best interest to purchase a home, because my career goals involve a stable long-term job and real-estate as a side-job. However, financial circumstances and the unpredictability of the market pose serious challenges and risk, which is why I have come to the decision to rent-to-own, which entitles renting while saving up to afford a down payment, then mortgaging my property and converting from paying rent payments to

mortgage payments⁶. This addresses my financial adversities (it is cheaper than buying a home), family advice, career goals, long-term benefits and security, as well as initial flexibility.

Regardless, it is important to acknowledge that while rent-to-own is a system available and active in the GTA, it may be difficult to find such a listing. In addition, there are other factors that will, in due time, affect this decision, such as the prospects of getting approved for mortgage, the commitment of agreeing to purchase a property years in advance, and many more. As a prospective buyer, it is my responsibility to carefully consider the benefits and limitations of this decision, which should be a continuous process that accounts for all internal changes in the market. I view homeownership as an investment and take great interest in learning more, and thus I have also determined that it is in my interest to consult a financial advisor or real estate professional to make an informed decision with guidance.

⁶ Grant, Corben. "Should You Consider a Rent-to-Own Home in Toronto?" *Canadianrealestatemagazine*, Canadian Real Estate Wealth, 24 Mar. 2022, <https://www.canadianrealestatemagazine.ca/expert-advice/should-you-consider-a-renttoown-home-in-toronto-335069.aspx>.

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