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Downsizing to condoland? Why it's best to rent, not own

By Rob Carrick

After cashing out home equity, buying a condo might seem a logical move but there are better uses for that jackpot

Let's understand a couple of things about the great migration of Canada's seniors from their family homes into condoland.

Point one: A condominium offers many pluses to a couple that want to downsize, including a wide range of locations to choose from, pleasant surroundings and amenities such as underground parking and fitness facilities.

Point two: Condos are best rented, not owned.

A persuasive case for renting a condo is made by David Trahair, a chartered accountant and author of a new book called *Cash Cows, Pigs and Jackpots: The Simplest Personal Finance Strategy Ever*.

Mr. Trahair wants people to think less about amassing wealth in the form of things such as houses, and more about simple cash flow, or the flow of money in and out of a household.

From that point of view, renting a condo beats owning for people moving out of the family home.

"Rent is not a four-letter word," Mr. Trahair said in an interview. "There's absolutely nothing wrong with renting. In fact, there are many positives to it, one being avoiding the potential for a catastrophic expense that a condo may lay on you."

Mr. Trahair is onto something that I've heard about anecdotally and that was reinforced by a recent Toronto Life magazine article [<http://www.torontolife.com/daily/informer/from-print-edition-informer/2012/07/24/faulty-towers/2>] about shoddy condo construction. Condos are like houses in that major expenses are sometimes required. When that happens, owners may be asked to pay special assessments in addition to the usual condo fees.

"It sounds like so many potential problems," Mr. Trahair said of condo ownership for seniors. "Why would you want that?"

This is a numbers guy talking.

Someone analyzing the emotional aspect of condo ownership might say there's a level of security and comfort that comes from owning a property. You can live there as long as you want, you can decorate and renovate as needed and, ideally, the property would increase in value.

Another argument for owning is the low vacancy rate for condo rentals, notably in bigger cities. But experience suggests that if the market weakens, as is happening in Toronto, then condo rental opportunities will increase.

"That's what happened in the late 1980s and early 1990s in Toronto," said housing economist Will Dunning. "Also, rents fell sharply because there was so much stock out there."

In his book, Mr. Trahair describes both houses and condos as potential "cash pigs" – they can cause people to spend more than they should. If you can't properly afford a home or condo – there's a spreadsheet to help with this analysis at trahair.com (click on the book title) – then he suggests renting and investing the money you save because you're not an owner.

This advice is primarily aimed at young buyers, but it applies just as well to seniors. Lots of them are living in houses that have appreciated massively in the decades they've lived there and, when sold, will produce what Mr. Trahair in his book calls a "jackpot."

A jackpot can be used to buy a condo, but think about the cash flow implications. Your biggest fixed expense will likely be condo fees, which are meant to cover some or all utilities as well as general maintenance, security and ongoing contributions to a reserve fund for major projects. Compare condo fees and the cost of owning a home that's already paid off. You might find that the condo costs hundreds of dollars more on a monthly basis.

And then there are those dreaded special assessments. Situations described on websites for condo owners include one-time levies as small as \$1,000 a unit to cover a new boiler to \$12,000 a unit to replace leaky windows.

"That's where the nightmare begins," Mr. Trahair said. Seniors may have to deplete their savings to pay the bill, or borrow using a line of credit. Either way, their cash flow is negatively affected. Taking money out of savings means less investment income is generated, while a line of credit requires at least a minimum monthly repayment.

Mr. Trahair's alternative for those who have just sold the family home: "You sit on a ton of cash and you just rent."

The average house price in Canada was almost \$356,000 in September. If you netted 90 per cent of that amount after various fees and costs, you'd have \$320,400 to invest. Generate a modest 3-per-cent return on that and you have about \$800 a month in income before tax to help cover your rent. Or, you can dip into your capital for travel and other fun stuff.

Owning a condo gives you more certainty, but it can crush your cash flow. Seniors should think about that as they prepare for the great migration.

The joys of ownership? "I'd say that's a small positive," said Mr. Trahair, the accountant.

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