OPINION

# A new take on buying a home versus renting, based on controlling risk to your finances

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The buy-versus-rent debate is mainly about how you can end up with the most money, which is fine if you're an "eye on the prize" kind of person.

But your life along the way deserves some attention, too. Stress-wise, how does life as an owner compare to renting? An analysis by an actuary, not someone who sells houses or mortgages, offers a fresh perspective on this question.

Joe Nunes frames his analysis as being about "personal risk management," which will sound strange to housing cultists who bludgeon renters for missing out on the investment opportunity of their lives.

Let's not dispute that aspect of housing here. If you own a house for at least five to 10 years in a desirable market, you should see an average annual price appreciation at least equal to inflation and quite possibly higher. But the financial side of home ownership has more to it than tracking price increases in your neighbourhood and city.

Mr. Nunes' analysis appears in a Canadian Institute of Actuaries publication called Enterprise Risk Management: Managing Risks in Uncertain Times. Stay with me, now. Actuaries are worth listening to because they are professional number-crunchers.

What the numbers told Mr. Nunes is that both renting and owning have their risks. “Ultimately, renters are avoiding the risk of uncontrolled mortgage costs while homeowners are avoiding the risk of uncontrolled rents,” he says in the article.

The past 18 months provide a Technicolor demonstration of both risks. Rents are up 20 per cent in the past two years, or an average $341 per month. Mortgage rates have jumped as well – by about 3.5 percentage points for five-year fixed rate mortgages and about five points for five-year variable-rate mortgages.

Containing the risk of higher rental costs is possible if you can find a rent-controlled apartment. Ontario has limited increases in rent-controlled units to 2.5 per cent for 2024, which is below the most recent inflation rate of 2.8 per cent and the same rate as for 2023.

Buildings in Ontario are covered by rent control if they were built and occupied before Nov. 15, 2018. In Toronto, many rentals are in recently built condos and thus not covered. This explains why the average year-over-year increases for one- and two-bedroom apartments in the city were 14.1 and 8.8 per cent, respectively.

Interest rates have risen sharply several times at least in the past 50 years, but the increase of the past 18 months is unusually intense. While rates are expected to decline from current levels starting next year, there’s a sense that they will remain at elevated levels compared with before the pandemic.

Buyers who can afford to get into the market may find today’s mortgage rates are the worst they’ll see for a while. But the pandemic has shown how random events can blow up expectations like this. In the pandemic, mortgage rates fell and then reversed course with a vengeance, and rents took off as well.

Another risk in comparing owning with renting relates to maintenance expenses, which Mr. Nunes has estimated at an annual average 1 per cent of the value of a home. Renters don’t pay to maintain their units, but landlords can factor upkeep into rent increases.

Condo owners face a unique maintenance-cost risk. Mr. Nunes said current condo maintenance fees may not reflect the fact the costs for materials and construction have increased by double-digit percentages in the past couple of years.

“I think we’re going to see a real reckoning in the condo market around much higher reserve fund contributions being needed to budget out the things that will be coming over the next 10 or 20 years,” he said.

Even so, both condos and houses seem to offer less financial risk than renting right now. Mortgage rates have peaked or are close to that point, but upward pressure on rents won’t ease unless the economy tanks or a lot more affordable rental units are built.

Something else to consider about owning is that the risk of financial stress caused by rising interest rates ends the day you pay off your mortgage. The renter’s risk of higher monthly costs is perpetual.