



We did the math - and the numbers look good

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I took *Star* columnist Tony Wong's advice to heart to cut through the hype and do the math and I have some very good news for all of you who bought back in 1989, as well as before or after that.

If you missed [Wong's column last weekend](#), he says there's too much hype in the real estate business where there should be more analysis. He concludes that people who bought at the height of the market back in 1989 did not break even until 2002, while some still have not got their money back after inflation.

That conclusion just didn't seem right so I had the math done by housing economist Will Dunning. We looked at the exact \$280,767 MLS home as Wong, the one he says would have to be worth \$367,000 today to beat inflation over the 19 year period, and guess what? That home is worth \$368,549 as of September 2008, up more than 30 per cent.

Our example assumed a 10 per cent down payment, a 25-year amortization, mortgage insurance premiums of 2.5 per cent and interest rates as high as 11.75 per cent at the start and as low as 5.10 per cent at the end. The one thing we varied was whether the buyer let his/her payments float down with interest rates, held the payments the same or increased the payments 5 per cent at each renewal.

In the case where the buyer held or increased the payments, that homeowner would have been mortgage free as early as 2005 in the case of accelerated payments and last year if he/she had held the payments the same. The rare buyer that let the payments float down with rates would still owe \$110,000 on the home, but Canadians as a rule don't approach their mortgages that way, and this example tells you why you shouldn't.

We looked at a couple of other house types – median single-family detached and median condo apartment, and the numbers look even better. The \$284,500 single-detached home would be worth \$390,000, mortgage free today (except where payments floated down with rates); while the \$166,300 condo suite would be worth \$245,000, again mortgage-free under typical or accelerated payment strategies.

But the math misses the most important point. It's not about investment, it's about shelter, it's about lifestyle – it's about the pure joy of home ownership. We buy homes to live in, to start and raise our families, to be part of the community – that's what it's all about.

That said, if you want to look at housing as an investment, then the average MLS purchaser is sitting on a \$368,549 nest egg while the median detached homeowner has \$390,000 in equity and the median condo buyer a healthy \$245,000.

By the way, I agree with Wong that there's too much hype in the real estate market, and I urge you not to get caught up in it, especially the exaggerated doom and gloom.

If you are in a position to buy that new home, don't let it slip away to someone else because

you're thinking it might be less expensive down the road. In the short-term, you will be the beneficiary of all the joys of home ownership, while in the long run you will enjoy the financial security that comes with your tax-free home equity.

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