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Why renting can be the right choice for aging boomers

By ROB CARRICK
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Selling your home could strengthen your golden years if the proceeds are invested rather than used to buy new accommodations

Sell your house and rent: If you're a baby boomer entering retirement, that could be the financial move of a lifetime.

The case for selling the family home starts with the fact that years of strong price increases have hugely increased the value of homes across the country over the amount paid for them. What to do with the proceeds after you sell? Invest them conservatively and rent your next home.

Rushing into the market today only makes sense if you're willing to buck convention and rent. If you buy again, you could reap big profits from your current home and overpay for your next.

Understand, this is not a doomsday call on the Canadian housing market. It's just an argument that we've seen a ton of upside in house prices and that the next few years may bring incremental further gains or some downside.

Selling now can be a way of removing risk from your financial future, says Ted Rechtshaffen, president of the financial advice firm TriDelta Financial. If you own a house, a big piece of your personal wealth is tied up in one sector and in one region.

"The only way to capitalize on what your house is worth today is by selling today," Mr. Rechtshaffen said.

There are definitely benefits to downsizing and buying a smaller home or condo rather than renting. There's a far better selection of condos and houses for sale than for rent. Psychologically speaking, many people have a bias against renting because it's seen as giving up control and living without roots.

There's also the argument that renting isn't financially smart, but it doesn't hold up well for aging baby boomers.

Mr. Rechtshaffen says his firm's long-term financial planning models use a 4-per-cent average annual gain for house prices and a 6.5-per-cent average annual gain for a diversified non-registered investment portfolio. Those are pretax numbers, of course. Sell a principal residence and you pay no taxes on your profit.

You can rig an investment portfolio to be fairly tax-efficient by focusing on dividends and capital gains, but you'll still get dinged to some extent by taxes. So estimate a 5-per-cent after-tax return from investments, Mr. Rechtshaffen suggests.

Now for living costs. You'll have no mortgage payments if you buy, but you'll pay property taxes and face upkeep costs that can be steep if you have an older home. Renters pay rent and the same utilities as owners. How does it net out?

Mr. Rechtshaffen estimates renters paying $1,500 a month may find they're spending only $700 or so more than owners on a net basis.

Financial planner Rona Birenbaum said she's talked to clients about selling a house and renting, but mostly in situations where money is being spent faster than anticipated and there's a need to unlock equity in the home.

Selling a house for many hundreds of thousands of dollars and then investing that money safely can make you feel financially secure, Ms. Birenbaum said.

"That's the plus side of doing this," she added. "The minus is there's a great temptation to encroach on that capital. It requires a fair amount of discipline in how you manage your cash flow."

Still stuck on downsizing into a smaller home or condo? So are a lot of your peers, which is why downtown condos are no bargain. The average price for a resale condo in Toronto was $326,750 in the first two weeks of this month, according to the Toronto Real Estate Board. Laurin Jeffrey, a Toronto agent, said $600,000 is a good ballpark amount for a nicely situated downtown condo.

If you buy a condominium, prepare yourself for stiff condo fees (include day-to-day maintenance, property management fees, amenities such as a swimming pool and workout room, cable TV and contributions toward a reserve fund to be used for major repairs). I've heard two stories in the past couple of weeks about people planning to move out of condos as a result of fee increases or special levies for maintenance. "There's no rent control on maintenance fees," Ms. Birenbaum said.

Your age may also play a role in determining whether it's better to buy or rent after selling the family home. Mr. Rechtshaffen estimates you'd need to be in a home seven or eight years to offset the costs of moving in and then moving out again later on. Of course, this assumes your house is appreciating while you live there.

Renting is not on for most people, but it's worth a thought if you're a baby boomer with a house you've been thinking of selling. The peace of mind you get from locking in a good price could make it the financial move of a lifetime.

Boomernomics: Whether to buy or rent after you sell the family home

1. The state of the housing market	
You Buy	You Rent
A housing market decline could erode the value of your home, which may be your biggest financial asset.	You're bullet-proof.
2. Choice of places to live	
You Buy	You Rent
Lots of choice of homes and condos.	Much less choice, and much less assistance available to find the right property.
3. Living costs	
You Buy	You Rent
Property taxes, condo maintenance fees and general upkeep.	Rent, but minimal upkeep and maintenance and no property taxes.
4. Financial flexibility	
You Buy	You Rent
You can only access your home equity by borrowing against it with a line of credit or a reverse mortgage.	The proceeds of the home you sold are completely accessible.
5. Cash flow	
You Buy	You Rent
Your home is a do-nothing financial asset from this point of view.	Invest the money you get for selling the family home and you can generate income without touching the principal.
6. Taxation	
You Buy	You Rent
You can sell your home tax-free as long as it's your principal residence.	You will pay taxes on investment gains, but you can manage that by focusing on dividends and capital gains.

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