Toronto Residents: Sell Now and Invest the Difference

Description

How crazy are real estate prices in Toronto?

They’re so crazy that people in areas as far away as Sudbury are paying more to own a home due to the sizzling markets in Canada’s biggest city.

The CMHC announced January 24 that increasing home prices in the GTA are having a spillover effect on the house prices of towns neighboring the GTA. It’s as if buyers are concluding that if they don’t buy now, they’ll never be able to own a home.

That’s great news for real estate agents, but terrible news for anyone wanting to make sensible financial plans. Like stocks, real estate prices go up and down, and even though real estate professionals make the argument that Toronto’s lack of inventory is the cause of higher prices (low supply + high demand = higher prices), the true culprits are low interest rates, CMHC-insured mortgages, and immigration.

Although Vancouver takes the honour for highest home prices in the country — the 2017 Demographia International Housing Affordability Survey ranks Vancouver the third most expensive housing market on the planet, behind only Hong Kong and Sydney — Toronto is catching up fast.

Toronto ranks 28th out of 406 markets according to Demographia with median home prices that are 7.7 times higher than median household income. Essentially, Toronto’s home prices over the past year have increased by the average household income in the city. That’s simply unsustainable.

Now, I know what you’re thinking.

“Sure, I’d love to sell my house and rent, but then I’ve got to find a place with as much space and creature comforts as I’ve grown accustomed to, and that doesn’t come cheap.”

Okay, fair enough. I suppose you could take out a home equity line of credit (HELOC) against thevalue of your home and invest the proceeds, but if recent statistics about debt are any indication, you probably already have.

Rob Carrick of the *Globe and Mail* wrote about this very subject in December. According to Bank of Canada, the number of people whose household debt is three-and-a-half times their gross income has doubled since 2008. Further, TransUnion, one of the credit-monitoring firms in Canada, suggests that a million Canadians would have trouble coping with a one percentage point increase in interest rates.

I don’t always agree with Carrick on personal finance issues, but on this one, he’s bang on. When interest rates rise, it won’t end well.

I believe in regression to the mean for pretty much any appreciating asset, and while residential housing is a bit trickier because we’re talking about your home and you have to live somewhere, history has shown that residential housing in this country can drop in value — the average housing unit (all home types) in the GTA in 1988 sold for $212,373; eight years later, that declined to $196,476 — and while it seems unfathomable at the moment, an eight-year lull like the one between 1988 and 1996 will probably happen in my lifetime.

I live in the centre of Toronto; the average detached house there sold for $1.7 million in November 2016 — up 8.8% year over year. The highest price in 2016 through November 2016 was $2.9 million; the lowest a measly $800,000 for a townhouse.

More homes are selling — 193 in the first 11 months of 2016 compared to 157 the year before — as residents cash out their chips.

If you’re 60 years or older and have no dependents, now is a good time to sell, rent, and invest the difference in dividend-paying stocks, where the taxation is preferential to interest income.

Real estate stocks such as **Brookfield Asset Management Inc.** (TSX:BAM.A)(NYSE:BAM) are a good place to start because you’ll no longer have your home as a proxy for real assets which provide decent protection against inflation.

Your home has been a great investment to this point. There’s no sense trying to time the Toronto real estate market and maximize your return.

Get out while the getting is good.

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