



Warren Buffett to Homebuyers: If This Describes You, You're Ready to Buy a Home

Description

When it comes to investing advice, Warren Buffett is the go-to guy. The so-called Oracle of Omaha has about as many pithy investing statements as a basket of fortune cookies. And the fact that he's one of the wealthiest people in the world tells you his advice is at least worth considering.

But Buffett's prowess isn't limited to investing. He has good thoughts on just about everything related to money, from budgeting ("spend less than you make") to credit cards ("don't go into debt") to, yes, even buying a home.

What's Buffett's home-buying advice?

It's extremely simple. According to Buffett, homebuyers should save at least 10% of a down payment before buying.

This came as a response to a young person's question to Buffett on the best time to buy a home. In response, Buffett said he and his wife postponed homebuying, even though they were making good money. When they had saved 10% of the down payment, they bought their house.

That was 1965. Nearly 64 years later, Buffett and his wife live in the same residence. Yeah. Let that one sink in for a moment.

Is 10% really enough?

While I love Buffett and follow his investing advice, I have to be honest here: 10% on a house is likely not enough in our housing market.

For one, we have to remember that Buffett was speaking to an American audience. And for whatever reason, Americans love to make the most expensive purchase of their lives (a house) with the least amount of money possible (usually less than 5%). Canadians are different — not only because

Canadians are required by law to have a certain down payment upfront, but also because our housing market has grown 13 times faster than theirs.

In Canada, the minimum down payment on a home that's \$500,000 or less is 5%. For homes priced over \$500,000, you need 10% of the amount that's over \$500,000. And for homes that are \$1 million or more, you need at least 20%. That's a mouthful, so let's break it down with the average cost of a home in Canada: \$748,450.

For a home that costs \$748,450, you need 5% of the first \$500,000, which is \$25,000. In addition, you'll need 10% of the remaining \$248,450, which comes out to \$24,845. Your total down payment for this house would be \$49,845, or roughly 6.66% of the total house cost. In this case, Buffett's advice is sound: a 10% down payment would put you in a great place to buy this home.

In some parts of Canada, however, a 10% down payment wouldn't even qualify you as a homebuyer. For example, just look at Vancouver. The average home there is \$1,230,000. For homes above \$1 million, you need at least 20% of the down payment, which means having 10% means you're *not* ready.

Perhaps Buffett's advice shows us how bonkers our market really is. Yes, he's right: a 10% down payment *should* indicate that you're ready to be a homeowner. The fact that first-time homebuyers in Vancouver have to save 20% of a million or more indicates that something is deeply wrong. House prices are inflated, and it hopefully won't be long before a correction puts things right again.

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