



## Real Estate Investing: Should You Buy a Home Now?

### Description

Buying a home is a special kind of investment. Most people get a mortgage to help pay for most of their homes. So, you get to enjoy and live in your home even before you fully pay for it. Homes are long-term investments, and homeowners expect their homes can sell for a higher price five, 10, 20, 25, etc. years later. That's not a guarantee. But the long-term trend should see home prices rise.

### Should you buy a home or rent?

We all need a place to live. You're either an owner or a renter. There are pros and cons for both.

Canadians planning to buy a home will need to save for a down payment for the mortgage. The larger the down payment, the less interest they will pay. Typically, you'll need a minimum down payment that's 5% (if not more) of the home purchase price. However, investors will need to get mortgage loan insurance if they have down payments of less than 20% for homes that are less than \$1,000,000.

Homeowners may have peace of mind knowing that they own their home, even when they're still paying off the mortgage every month. However, they're responsible for maintenance, paying insurance, and property taxes. If they lose their jobs like many people did during the pandemic, they may have trouble coming up with mortgage payments. In the worst-case scenario, your lender could seize your home and sell it to get the mortgage amount back.

Renting is not exactly cheap nowadays. In addition to rent, you may have to pay for necessities like the internet. However, rental payments have more predictability because the maintenance of the property is the responsibility of the homeowner. However, you'll be subject to rent increases, and your landlord might choose to sell the property at some point. And you'll have to find another place to live. In any case, it could be a hassle to be forced to move. That said, if you don't plan to stay in the same city for long, renting is the perfect option.

## Rising interest rates: How it affects your home-buying decision

The 30-year high inflation we've experienced recently triggered the Bank of Canada to raise interest rates quickly, which **RBC** thinks will cool down the real estate market.

"We now expect home resale activity to slow more quickly than previously anticipated and, perhaps more important, we see prices peaking this spring as market sentiment sours from extreme bullishness. In this altered landscape, local markets could experience a mild price correction, partly reversing outsized gains recorded in the past year."

*RBC Economics*

Because our central bank quickly increased rates, the fixed mortgage rates have already bounced back to pre-pandemic levels. Variable mortgage rates remain a cheaper option for now.

"The rate increase is now pushing up the mortgage stress test's qualifying rate, removing stretched-out buyers from the market. But even those who still qualify for a mortgage will see higher rates reduce the size of the mortgage they can get — and the price they can pay. For households earning the median income, for example, the rise in fixed mortgage rates will shrink the maximum purchase budget by roughly 15%."

*RBC Economics*

At the end of the day, home buying is about whether you have that need for home ownership (or will renting suffice) and, of course, its affordability. Affordability includes making mortgage payments and dealing with the other costs that come with home ownership. Home ownership requires commitment. If you're not sure about it, discuss with a qualified financial advisor.

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