

DOLLAR SENSE

House is still good buy despite mortgage rates

By Randal J. Adamkowski

Buying a home in Ontario has never been more expensive than it is today, the result both of rising house costs and high mortgage rates, yet a good case can still be made for home ownership.

Many people who are first-time house-owners, for example, are young and in the work force. Chances are their incomes rise in pace with inflation, and if interest rates go up, so do their incomes.

A good example of what happens to your home

Dollar Sense offers general financial advice by members of The Institute of Chartered Accountants of Ontario.

investment as house prices rise is the case of a home buyer who puts down \$25,000 on a \$100,000 home. In his first year, he also pays about \$9,000 in mortgage payments, so that his investment at the end of a year is \$34,000.

But with rising house prices, the home's value may rise up by \$15,000. If he chooses to sell at this point, he comes out of the deal with a clear profit of \$6,000, which amounts to a 17.5 per cent return on his investment along with a year's free rent.

People who live in apartments and compare the cost of renting an apartment with that of owning a home can usually make a good economic argument in favor of apartment living. It can be a misleading argument, however, since they are often comparing a two-bedroom apartment with a four-bedroom home, with basement and backyard.

If they want to make a true comparison, they should be comparing the cost of renting versus buying a four-bedroom home, or the cost of buying a condominium similar to the rented apartment.

It is also popular to recommend paying off your house mortgage as quickly as possible. This can be a sound investment for people with excess cash, but in some cases, family income is growing or is expected to grow at an accelerated rate and in such a situation, monthly mortgage payments will take up less and less of total income, even when mortgage rates are climbing.

Since mortgage interest rates are generally lower than interest on most other

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loans, a family in this position may find it cheaper to use the cash for other necessary purchases such as a car or furniture, instead of borrowing.

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Razing the roof 'ain't necessarily so'

If—like many Americans—you own an older home, you may soon be razing your roof.

Razing, in the sense of tearing down or scraping off, isn't always necessary when it comes time to re-roof. This is especially true if, like 80 percent of American homeowners, you plan to install asphalt shingles.

To see if you can eliminate the step of tearing off your roof, the Asphalt Roofing Manufacturers Association offers the following guidelines:

- Check to see if your roof has a single layer of asphalt or wood shingles. If so, you can usually apply new asphalt shingles right over the old ones.

- If your home has two layers of asphalt shingles, a third layer can usually be applied, but owners should check local codes to be sure.

- If your present roof is slate or tile, a tearoff is probably necessary because roofing nails

can't penetrate such hard and brittle surfaces. Similarly, the uneven surface of wood shakes usually means they, too, have to be removed.

Additional information on roofing is in a booklet entitled, "A Homeowner's Guide to Quality Roofing," which is available for 35 cents from the Asphalt Roofing Manufacturers Association, P.O. Box 3248, Grand Central Station, New York, NY 10163.

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