

First-time home buyers must consider personal needs

This article is provided by local Realtors and the Ontario Real Estate Association (OREA) for the benefit of consumers in the real estate market.

If you're contemplating buying your first home, do you find yourself continually torn between the pros and cons of home ownership, ready to take the plunge one day and getting "cold feet" the next?

Admittedly, owning a home is not for everyone, and you must consider your personal needs very carefully before taking on this large responsibility. But home ownership is, without a doubt, one of the wisest long-term investments you can make - and one of the best ways to provide for your financial well-being.

If you feel like you're experiencing the proverbial "to-buy-or-not-to-buy syndrome," maybe

you question the true benefits of home ownership and you wonder if the sacrifices you'll have to make are really worth it.

If you're like many people, you may even think there are better investments than owning a house, and your best bet is to continue renting and invest your money elsewhere. You may be surprised to learn, however, that over the long term, one of the best ways to achieve financial security is through home ownership.

One of the easiest ways to evaluate your decision to buy is to ask yourself, "If all else were equal, would I rather rent or own my home?" It's safe to say that most of us would opt for home ownership.

Your decision to buy should also include a thorough assessment of your financial situation and how well you manage your

money.

You should realize too, that a house, in essence, forces you to save. Each mortgage payment buys you a larger portion of an appreciating investment. When you've paid off the mortgage, you're left with a sizeable asset. And along the way, you and your family will enjoy many years of shelter, security and the shared joys only a home can provide.

OTHER FACTORS

There are two additional and related factors that make home ownership financially attractive in comparison to other investments: leverage and capital gains exemption.

When a relatively small amount of your money controls a much larger asset, it's called leverage. For 25 per cent, 15 per cent or as little as 10 per cent down, your hard-earned cash can be used to acquire a house worth tens or hundreds of thousands of dollars. The more you are "leveraged," the greater the financial return on your initial investment (down payment) as the value of your house increases.

For example, let's say you buy a house for \$100,000, with a down payment of \$15,000. Your house then rises three per cent in value for a \$3,000 gain, giving you a return of 20 per cent on your initial investment (\$3,000 divided by \$15,000 equals 20 per cent). In real estate, leveraging is a powerful way to make your money work for you.

Few other investments can be purchased with only 10 to 30 per cent of your own money!

The increase in a home's value is called a capital gain. When the

value of most investments such as stocks or term deposits increases, you pay tax on the capital gain. However, the government allows Canadian taxpayers to be exempted from paying capital gains tax when their principal residence increases in value.

For example, if you live in a home that increases in value by \$50,000 over 10 years, you pay no tax on the \$50,000 capital gains when you sell. By contrast, you would owe thousands of dollars in tax for the same \$50,000 capital gain in the stock market or other type of investment.

MONEY MANAGEMENT

As mentioned earlier, the decision to buy versus rent depends on much more than just investment opportunities. It also hinges on your ability to purchase a property and keep up with the monthly financial obligations necessary to own it.

The effort to save for and buy a home may also require you to make significant changes in your

way of life. Do you have the temperament to become a homeowner? If you're not sure, ask yourself the following questions.

*Over the years, have you demonstrated the ability to save money and, if so, are you generally pleased with the amount you've managed to save to date?

*Are you ready to change your spending and lifestyle habits to support the additional costs of paying for and maintaining a house?

*Have you worked hard to earn a good credit rating and, if so, do you continue to use credit wisely?

*Are you prepared to enter into a long-term commitment for your family's security - both physical and financial?

*Is pride of ownership important to you? Would you enjoy the chance to take care of a house, both inside and out?

If you answered "yes" to these questions, you may be ready to buy your very first home. It's a big step - but definitely a rewarding one.

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