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Are Renters Being Left Behind? It Depends on Location, Location, Location

City-dwelling Canadians who own their homes become wealthier over time, on average, than those who choose to rent, according to research by the Sauder School of Business at the University of British Columbia.

How much wealthier depends on which metropolitan region in Canada the homeowner chooses to live. And in best-case scenarios in a few Canadian cities, renters can actually outdo their owning counterparts in terms of wealth accumulation, so long as they remain highly focused.

In fact, the research concludes that “for renters to accumulate the same amount of wealth as owners, they must be extremely diligent savers, invest in a high yield instrument, do so with minimal fees, and have the good fortune to live in one of the cities where the right combination of low rents and/or low house price growth allows them to invest more in a relatively higher return asset.”

“It’s not that renters cannot build wealth similar to that of owners,” says Tsur Somerville, the study’s lead author and Sauder’s Real Estate Foundation of B.C. Professor in Real Estate Finance. “But it requires a level of discipline and sophistication in investing that most North American households have shown themselves unable to achieve.”

Somerville’s study, *Are Renters Being Left Behind? Homeownership and Wealth Accumulation in Canadian Cities*, compares the wealth homeowners can achieve by paying down a mortgage with what a renter could amass by investing an amount equal to a home down payment and the difference between ongoing owner and renter costs.

For the comparison, the researchers looked at the aggregate across nine Canadian cities and several scenarios. The scenarios allow for variation in how much of the difference between owner and rental costs that renters invest, renters’ choice of investment and the type of mortgage selected by owners. The data

analysis covers the time period from 1979 through 2006.

Results show that on average across all scenarios and cities, renters cannot accumulate the same wealth as owners, and the gap grows dramatically when the researchers included such factors as investment fees and the tax preferred status of homeownership. For example, the one-time exemption of capital gains taxes in a principal residence plays an important role in allowing owners to accumulate more wealth than renters.

Even in the most optimal scenario, renters could not match the wealth of homeowners in the dynamic real estate markets of Calgary and Toronto. Owner wealth accumulation in Toronto was fuelled by fast-rising house prices, while in Calgary, renters had a hard time catching up with owners because of relatively higher rents which led to a smaller amount of money that renters could save annually.

But the wealth accumulation gap diminishes in other markets. Under best-case conditions in Vancouver, Canada’s most expensive housing market, renters could accumulate at least as much wealth as owners. The “best-case” scenario requires renters to invest 100 per cent of the difference between owner and renter payments in the Toronto Stock Exchange and pay very low investment management fees.

Under the same scenario, investment-savvy renters in Edmonton, Halifax Montreal and Regina could accumulate 20 per cent more wealth than homebuyers.

Ultimately, says Somerville, homeownership offers a unique opportunity for households to accumulate wealth. “The significant benefit of homeownership for individuals is that a mortgage effectively forces them to save and build equity through mortgage payments.”

The paper in its entirety is available at the UBC Centre for Urban Economics and Real Estate website, at: <http://cuer.sauder.ubc.ca/>.



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