

# **Buying a Property Now or Waiting**

## **A Spreadsheet Analysis**

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## Overview

The goal of this buy vs. wait calculator is to determine if it is more advantageous to buy now or wait one or two years before purchasing a property. The intent is to make an “apples to apples” comparison between these different options. A number of input parameters must be entered on the left side of the Buy Now or Wait sheet and the results are immediately presented in a table on the right. The calculations and results are based on the following assumptions:

- It is assumed that the same property is being purchased in all three scenarios. Only the time frame and purchase price are different. Current and predicted prices are entered by the user as parameters.
- Each scenario is based on the same initial savings for a down payment which is entered as an input parameter.
- The *Annual Rental Costs* and the *Annual Ownership Costs* are computed based on a number of input parameters. The difference between them results in an annual savings to the renter which is invested at a rate input by the user. The running total plus return on investment (ROI) becomes the down payment for a home purchase one or two years later. This requires savings discipline by the buyer and if the savings are not made the results are invalid.
- Mortgage payments are based on a fixed, five year mortgage with a rate set by the user. Predicted rates for now, 2010 and 2011 are used by the mortgage calculator to determine current and future monthly payments.
- In order to make a fair comparison it is necessary to increase the *Buy Now* payments to the same level as the *Buy 1 Yr. Later* and *Buy 2 Yrs. Later* scenarios. This is done by adding an additional monthly payment which goes toward paying down the mortgage principal. This leveling of payments means that in all three cases the same amount is being spent on mortgage payments.

## Results

There is no prediction being made of the future value of the property in 2014. What is being determined is how much is still owing on the property after five years. The outstanding mortgage balance, after five years, for the *Buy Now*, *Buy 1 Yr. Later* and *Buy 2 Yrs. Later* is computed by the mortgage calculator. **The minimum outstanding balance is the objective.** The difference between the *Buy Now* and the other two scenarios is shown in a coloured box as a positive or negative number. Green indicates that a lower outstanding mortgage balance at the end of five years was calculated. Red indicates that waiting is not advantageous. By varying the input parameters it is possible to determine a number of outcomes which should be helpful to a potential buyer.

## Buy Now vs. Waiting 1 or 2 Years

Input Parameters	
Current monthly rent	\$1,700
Annual tenant insurance	\$250
Monthly utility costs	\$300
Annual increase for above	4%
Current savings for down payment	\$50,000
Expected rate of return 1 <sup>st</sup> year	3%
Expected rate of return 2 <sup>nd</sup> year	5%
Current purchase price of property	\$500,000
- Anticipated price next year	\$490,000
- Anticipated price in two years	\$480,000
Mortgage amortization (years)	35
Current 5 year fixed mortgage rate	4.25%
- Anticipated rate next year	5.00%
- Anticipated rate in 2 years	6.00%
Annual property taxes (after grant)	\$2,400
Annual homeowner insurance	\$1,000
Monthly utility costs	\$300
Annual maintenance or condo fees	\$4,000
Annual increase for above	4%

Buy Now	
Initial mortgage balance (2009)	\$471,623
Mortgage payment	\$2,149
Mortgage balance in 2014	\$438,751

Buy Now (payments adjusted in 2010)	
Mortgage payment (1 <sup>st</sup> year)	\$2,149
Mortgage payment (years 2-5)	\$2,224
Mortgage balance in 2014 [A]	\$434,852

Buy In 2010	
Initial mortgage balance (2010)	\$443,459
Mortgage payment	\$2,224
Mortgage balance in 2014 [B]	\$422,550
<b>** Balance difference [A-B]</b>	<b>\$12,302</b>

Buy Now (payments adjusted in 2011)	
Mortgage payment (1 <sup>st</sup> & 2 <sup>nd</sup> year)	\$2,149
Mortgage payment (years 3-5)	\$2,360
Mortgage balance in 2014 [C]	\$430,658

Buy In 2011	
Initial mortgage balance (2011)	\$417,543
Mortgage payment	\$2,360
Mortgage balance in 2014 [D]	\$405,830
<b>** Balance difference [C-D]</b>	<b>\$24,828</b>

**\*\* Results are shown on right:** A positive balance (green box) means Buying Later is a better option.  
A negative balance (red box) means Buying Now is a better option.

## Owning vs. Renting - Annual Costs

<b>Annual Cost Calculations</b>	<b>1<sup>st</sup> Year</b>	<b>2<sup>nd</sup> year</b>
Rent	\$20,400	\$21,216
Tenant insurance	\$250	\$260
Utility costs	\$3,600	\$3,744
<b>Annual Rental Costs (RC)</b>	<b>\$24,250</b>	<b>\$25,220</b>
Mortgage payments	\$25,786	\$25,786
Property taxes	\$2,400	\$2,496
Maintenance	\$4,000	\$4,160
Homeowner insurance	\$1,000	\$1,040
Utility costs	\$3,600	\$3,744
<b>Annual Ownership Costs (OC)</b>	<b>\$36,786</b>	<b>\$37,226</b>
<b>Annual savings by renting (OC-RC)</b>	<b>\$12,536</b>	<b>\$12,006</b>
Savings + return on investment (ROI)	\$51,500	\$67,238
<b>Total Savings for Down Payment</b>	<b>\$64,036</b>	<b>\$79,245</b>

# Mortgage Payment Calculator

Mortgage Information	Buy Now (5)	Wait 1 Yr.	Wait 2 Yr.	Buy Now (1)	Adj. Payment 1	Buy Now (2)	Adj. Payment 2
Purchase Price	\$500,000	\$490,000	\$480,000	\$500,000		\$500,000	
Plus Legal Fees	\$1,000	\$1,000	\$1,000	\$1,000		\$1,000	
Plus Property Transfer Tax	\$8,000	\$7,800	\$7,600	\$8,000		\$8,000	
Plus CMHC Insurance Fees	\$12,623	\$8,695	\$8,187	\$12,623		\$12,623	
Less Down Payment	\$50,000	\$64,036	\$79,245	\$50,000		\$50,000	
<b>Mortgage Loan Amount</b>	<b>\$471,623</b>	<b>\$443,459</b>	<b>\$417,543</b>	<b>\$471,623</b>	<b>\$465,589</b>	<b>\$471,623</b>	<b>\$459,297</b>
Annual Interest Rate	4.250%	5.000%	6.000%	4.250%	4.250%	4.250%	4.250%
Term of Loan (in Years)	35	35	35	35	34	35	33
<b>PAYMENTS</b>							
Monthly Payment (PI)	\$2,149	\$2,224	\$2,360	\$2,149	\$2,149	\$2,149	\$2,149
Extra Payment					\$75		\$211
<b>Total Monthly Payments</b>	<b>\$2,149</b>	<b>\$2,224</b>	<b>\$2,360</b>	<b>\$2,149</b>	<b>\$2,224</b>	<b>\$2,149</b>	<b>\$2,360</b>
<b>Total Annual Payments</b>	<b>\$25,786</b>	<b>\$26,683</b>	<b>\$28,322</b>	<b>\$25,786</b>	<b>\$26,683</b>	<b>\$25,786</b>	<b>\$28,322</b>
Balance at Year ...	5	4	3	1	4	2	3
Balance at Year ...	2014	2014	2014	2010	2014	2011	2014
<b>Outstanding Balance</b>	<b>\$438,751</b>	<b>\$422,550</b>	<b>\$405,830</b>	<b>\$465,589</b>	<b>\$434,852</b>	<b>\$459,297</b>	<b>\$430,658</b>