

Beyond sticker price:

WHAT'S THE REAL BOTTOM LINE?

By Kara Kurylłowicz



As much as location affects everything from the size of home to lifestyle and commute times, most Canadian homebuyers' decision-making is still driven primarily by sticker price and mortgage payments.

A recent study by Pembina Institute and RBC, *Location Matters: Factoring location costs into homebuying decisions*, looks at how location-related factors affect the overall costs of a home through the eyes of four homebuyers, beyond just sticker price. While the homebuyers were in the Greater Toronto Area, the study raises a number of questions and highlights issues that are relevant to Canadian homebuyers from coast to coast.

"The main takeaway is that any homebuyer should figure out the total home-ownership costs and impact on lifestyle when making a home purchase," says Erica Nielsen, vice-president of home equity financing at RBC. "It comes down to personal preferences and what you are willing to trade off – perhaps it's living a bit closer to the city and giving up one car, or living in a neighbourhood with easy transit. Widening your criteria in your home search could yield savings, and sometimes those savings aren't immediately obvious."

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Sticker price versus the bottom line

Since home-buying math is a complex equation, buyers must also consider costs beyond sticker price, like their monthly home maintenance and transportation expenses, many of which are tied to location and type of home: transportation (car versus public transit), property taxes, utilities, insurance, home repairs or improvements, furniture and decor.

"We tend to focus on the sticker price first, because we see it as a lump sum, then the weekly, biweekly or monthly mortgage payments which are sizeable, but location can also have a major impact on transportation costs – what will it cost to drive everywhere?" says Markus Moos, assistant professor at the School of Planning, University of Waterloo in Ontario. "In smaller towns and rural areas, the housing costs less, but homebuyers need to consider the additional costs – if that location will require bigger vehicles and/or a vehicle for every adult who drives."

At first glance, the larger home with the extra bedrooms and big backyard may appear worth the four-hour round-trip commute. However, Moos also suggests you carefully assess both the financial and less tangible costs, such as impact on mental and physical health, work-life balance and relationships – monthly, annually and long term.

"The total cost can vary by adjusting the location and transportation costs," says Nielsen. "It's important to evaluate all of the variables to make sure the total cost fits into your budget. Often, adjusting needs and wants could save you money in the long run."

You may be pre-approved and able to carry the mortgage on a \$600,000 home, but also consider the lifestyle you want. Can you carry the home and still afford the annual vacations, the kids' hockey program, and date night with your spouse? You also have to ask the tough questions: what if you lose your job or your partner – how are you protected?

"You have to be honest and budget for that," says Nielsen. "Buying a home is personal and you have to look at what you need, what you want and what you are willing to give up if you can't have both."