

Invis in the News

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Taking advantage of our new-found wealth: Rising property values means we have extra money we could invest or squander

Jumping property values! British Columbia has done it again with homeowners being 23 per cent richer on average than they were a year ago. So what can we do, and what shouldn't we do, with that new-found wealth?

Dan Whitney and his wife Kate have already arranged for a loan based on their increased equity to renovate their house in Summerland, two years ahead of schedule. With their property value up more than 60 per cent, "it just seemed to be a no-brainer," Whitney said.

Feisal Panjwani, a senior mortgage consultant with Invis recommends everyone reassess their mortgage situation when they get their assessment notice each January to see if there is some way they should be using that increased equity.

For example, people with high-cost debt, like credit cards, should definitely considering taking out a loan secured by the property to pay off the debt, Panjwani said.

Also, anyone with RSP room might want to consider taking money out of their homes to put toward their retirement savings, he said.

And there's always the possibility of taking out some equity to buy a second property. But Panjwani says before doing that, make sure the new place will pay for itself, with enough rental income to cover costs. The return on the real estate should also be greater than the cost of the new mortgage, and that depends on what the real estate market does, which is impossible to predict.

But if property values do continue to rise, the rewards can multiply, Panjwani said. For example, with a 25 per cent down payment, a six per cent increase in the value of the property would translate into a 24-per-cent return on the amount put down, he said.

The interest on borrowing money to invest in another property may even be tax deductible if properly structured, says certified financial planner Michael Thorne. But Thorne warns that with the added up side of investing in more property there is added risk.

"Theoretically, if housing prices fall you could be in trouble," Thorne said.

For greater diversification, the increased equity could be borrowed to invest in mutual funds or other stocks, which again would allow for the interest to be tax deductible if properly structured, Thorne said. Then if the housing market goes down but the stocks go up, the homeowner may be better off than if he hadn't taken the money out in the first place, he said.

But leveraging -- borrowing to invest -- not only magnifies the gains, but it also magnifies the losses, warns Keith Hazell, director of financial planning at Vancity. And while the gain in assessments is only a paper gain, using the equity to invest elsewhere could generate real losses, he added.

"In the past, home equity was always a last resort. Now it's becoming a given that you go in and use that and it can go against you," Hazell said.

And taking money out of your house to buy a car, or other consumer goods that aren't adding any long-term wealth or benefits, is not a good idea, Hazell said.

Using the money for luxuries is exactly what many of us do. For every dollar increase in property value, homeowners on average spend an extra five cents, said Benjamin Tal, senior economist with CIBC World Markets. That doesn't make sense because "it's not like they got a cheque in the mail," Tal said.

It's why the savings rate in B.C. is negative and has been for five years running, the longest streak in the country, Tal said. It's also what made the US economy so vulnerable to real estate prices, as Americans used their homes as piggy banks to spend on consumer goods like cars, he said.

But Thorne says not using the equity in your home may be wasting money.

"Our parents' generation thought you've got to buy a property, pay it off and then you just sit on it for the rest of your life," Thorne said. "But that's not necessarily the most prudent financial decision you can make."

"If you've got an \$800,000 house and you're sitting on that and you're not using any of the equity, you're wasting money," he said.