

Money Makeover: Can this Toronto home fund a B.C. dream?

Donna hopes her house can pay for a B.C. property and a trailer in Arizona? Should she sell, or become a long-distance landlord?

By: Deanne Gage Special to the Star, Published on Thu Apr 30 2015

The People

Donna is a 54-year-old single woman. Daughter Joanie and grandson Chase temporarily live with her while they wait for their condo to be built. Donna is not working, as she was recently downsized from her previous employer. She was a legal administrative assistant.

The Problem

While Donna owns her Toronto home outright, she has little else to draw on. She received a one-time \$17,000 pension payout from her employer, and has another \$12,000 in cash. Joanie covers all the family's monthly expenses, including food. Once Joanie and Chase move to their new home next year, Donna will need to come up with an income of her own. She has plans to rent out her home, and use that money for her monthly expenses. Then she wants to purchase a small property in rural British Columbia and a trailer to spend the winter months in Arizona. Finally, she hopes to find part-time administrative work that pays \$12 an hour. Are Donna's ideas achievable on a part-time income?

The Particulars

Assets:

House: \$650,000

RRSP: \$2,000

Cash: \$12,000

Pension: One-time \$17,000 payment

Liabilities:

None

The Plan

Donna's lifestyle is modest. "She doesn't have many living expenses, nor does she spend much money on herself," says Charmaine Huber, a money coach with Money Coaches Canada in Barrie, Ont.

Still, Donna has to consider the many downsides of keeping her house and renting it out, Huber says. That would mean, in order to pay for her B.C. home and southern trailer, she would have to take on a new mortgage on her paid-off house for the next 20 years, lasting until she's 74. "She will no longer be debt-free and this could be a cause for financial stress," Huber says. "Her home may

not always have renters, which will reduce her monthly income. She will be living at the other end of the country trying to manage a rental property.” Then there’s costs she may incur, such as home repairs.

A more sound strategy would be to sell the house and buy a cheaper property. Let’s say Donna succeeds in selling her home at its \$650,000 market value. Assuming \$50,000 in legal, real estate, land transfer and moving costs, she would net \$600,000, Huber calculates. Donna could then spend \$155,000 for her rural B.C. property and her trailer in Arizona. That would leave her with a healthy nest egg of \$445,000. Donna prefers conservative investments. Investing her money along with her \$12,000 in cash in a conservative portfolio would pay her \$1,142 a month, assuming a three per cent rate of return.

Donna would still need to work part-time to supplement her investment income until age 60. At that point, she would start receiving her Canada Pension Plan and could stop working.

If Donna is adamant about renting out her house, she would need to borrow against it. She would be \$155,000 in the hole. Assuming a 2.75 per cent five-year fixed mortgage amortized over 20 years, her monthly mortgage payment would be \$839 a month.

Donna thinks she can rent the house for \$2,200 a month plus utilities. After covering monthly taxes and home insurance in Toronto, that would give her about \$1,870 a month to cover her expenses, Huber calculates.

But after paying the mortgage, she would have just \$1,031 a month to cover all her living expenses, such as utilities, taxes, cable, telephone, food, home repairs, medical/dental, clothing, gifts, vacation and transportation expenses.

“Those expenses cost Donna approximately \$1,300 a month in Toronto, so she would be in a deficit situation,” Huber says. “And these expenses do not include any expenses related to her trailer in Arizona.”

Huber estimates that she’ll need an extra \$300 to \$800 a month, depending on the trailer’s additional costs.

Renting out or selling the house are both doable options for Donna, but it’s a question of priorities, Huber says. “It comes down to whether she wants to remain debt-free and sell her Toronto home or incur a mortgage, keep her Toronto home and become a long-distance landlord.”