

# Two houses, hot market, big dilemma for this soon-to-be-married couple

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Daisy is 45, Don 57. They plan to marry soon and are wondering how best to achieve their disparate financial goals.

The main bone of contention is Don's house, which he would like to hang on to despite its substantial mortgage.

Daisy thinks Don should sell his house and use the proceeds to renovate her house – which they will share – to make it more suitable for a couple.

Daisy's house is in a prime Toronto location and has only a small mortgage against it. Otherwise, they would have to borrow the \$80,000 to \$150,000 needed for the renovation, an amount of money they'd be hard pressed to repay before they retire and work part-time in a few years. Daisy brings in \$105,000 working in management consulting, while Don is a partner in a small business that pays him \$60,000 a year. Daisy has a defined contribution pension plan at work.

"Should Don sell his west-end property, pay his mortgage off, net some profits and put this money toward our east-end home?" Daisy asks in an e-mail. "He has renters now that just barely cover his mortgage payments." In order to raise the rent, they would have to fix up the house, Daisy says. "We don't want to incur additional costs here, and I think we should sell it now when the Toronto market is hot."

Don, in contrast, views the house as security. "The problem is, due to the size of the mortgage, he can't access any additional capital for us to proceed with a renovation of our east-end home," Daisy writes.

We asked Noel D'Souza, a fee for advice financial planner with Money Coaches Canada in Toronto, to look at Daisy and Don's situation.

## What the expert says

Daisy and Don face a decision similar to many people who live in one of Canada's soaring housing markets: Do I hang on to my property with the hope of even greater gains, or do I cash out now while the market is hot? Mr. D'Souza says. They would like to

renovate their east-end home but cash flow is tight, and there is little wiggle room to afford a large renovation.

Daisy is justified in her concern that if they were to take out a loan for the whole renovation amount (\$80,000 to \$150,000), they would be cash poor and wouldn't be able to enjoy the comfortable lifestyle they hope to have, the planner says.

Don's home has appreciated greatly since he bought it in 2009. He would like to hold on to the property until he doubles his money. As single taxpayers, Daisy and Don are each entitled to a principal residence exempt from capital gains tax, Mr. D'Souza says. Once they become spouses (or common-law partners) though, they will only be allowed a single principal residence.

Between the time that they become spouses and the time they sell one of their properties, one property will no longer qualify for the principal residence exemption and any capital gain during this period would be subject to tax, the planner says.

"So there is a further incentive for Don to sell his west-end home now, since any further increase in price once he and Daisy marry will be subject to capital gains tax when he sells." If Don sells, he expects to net about \$185,000 after paying off his mortgage and line of credit. He plans to sell privately without a real estate agent. Those funds can be used to renovate Daisy's home. The interest rate on Daisy's mortgage and line of credit is low, so there is no need to rush to pay them off, Mr. D'Souza says. Daisy would benefit more by making additional RRSP contributions now. "However, they should make sure they eliminate all debt well before they retire in seven or eight years," the planner says.

At the age of 52, Daisy will be a "very young retiree," the planner notes. "While that is appealing, it also has its challenges, specifically ensuring her funds last for potentially 40-plus years."

With that in mind, it's good that they both plan to work as consultants and earn a modest income during their younger retirement years, he adds. "If they are able to earn about \$10,000 each in retirement (Don to age 70, Daisy to age 65, indexed to inflation of 2.5 per cent a year), and earn a 5-per-cent return on their retirement savings and the proceeds from the sale of Don's business in eight years, they should be able to achieve their retirement income goal of \$80,000 a year after tax (in today's dollars, indexed to inflation) to carry them to their mid-nineties."

Daisy and Don are on track to meet their early retirement goals and live a comfortable life, the planner adds. They should resist taking on more debt with little room to manoeuvre in their cash flow. "Don's west-end home has been a tax-free investing home run," the planner says. "He doesn't need to hold out for a potential grand slam."

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## CLIENT SITUATION

**The people:** Daisy, 45, and Don, 57.

**The problem:** Should Don sell his house to cover renovations on the house they will share together?

**The plan:** Sell the house and put the proceeds toward the renovations.

**The payoff:** A sound footing for their life together.

**Monthly net income:** \$10,085.

**Assets:** His RRSP \$100,000; her RRSP \$115,000; her group RRSP \$25,000; her employer pension plan \$30,000; his house \$565,000; her house \$700,000; estimated value of his business \$800,000. Total: \$2.3-million.

**Monthly disbursements (Daisy only):** Mortgage and line of credit \$2,200; property tax \$290; insurance \$65; utilities \$200; security \$25; maintenance \$150; garden \$85; transportation \$445; groceries \$1,000; clothing, dry cleaning \$75; gifts, charitable \$60; vacation, travel \$100; personal discretionary (grooming, dining, entertainment) \$350; drugstore \$50; telecom, TV, Internet \$265; RRSP \$240; group benefits \$430. Total: \$6,030. (Don, who lives separately, spends about \$4,345 a month, including housing and telecom costs of \$1,945.)

**Liabilities:** Mortgage on her house \$41,000; mortgage on his house \$360,000; his line of credit \$15,000; her line of credit \$21,000. Credit cards \$3,000. Total: \$440,000.