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INVESTMENT MANAGEMENT

A tale of two vacation homes:

Is it better to rent or buy when
retiring in the sun?



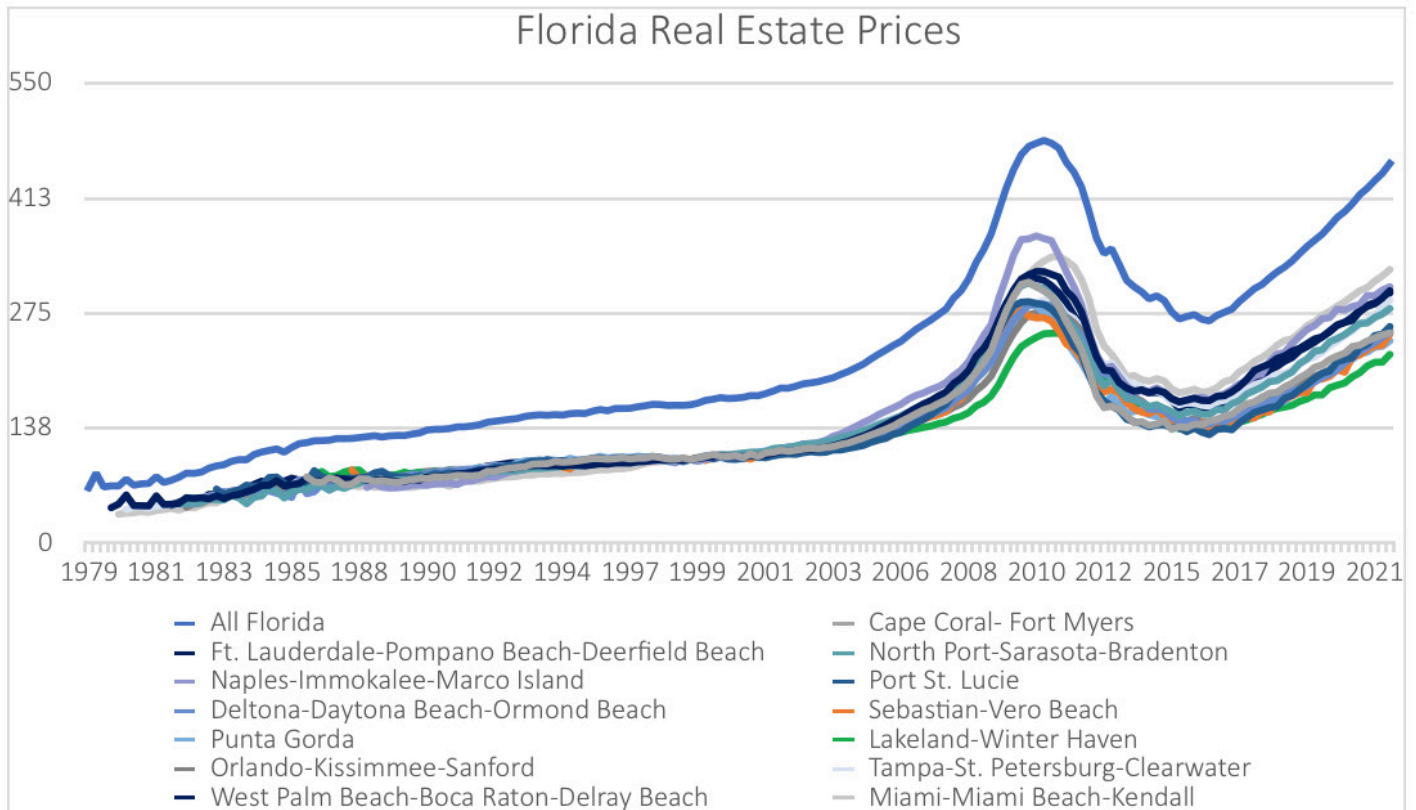


A pair of identical twins recently inherited an equal amount of money and want to acquire vacation homes in Florida. Jim and Jeanette, both in their late 50s, have been thinking about the possibility of a sunny vacation home for a while. But they each made their respective decisions recently: They're going to go for it!

The big question on both their minds is whether they should either rent or buy their vacation home. It's a crucial decision that will likely affect them for years to come, especially since they're looking in a foreign country. Although our twins both focused on properties in the Sunshine State, however, this story is applicable anywhere Canadians spend their vacations. It could be anywhere – while sun seekers from Central and Eastern Canada often prefer Florida, the most popular destinations for Western Canadians tend to be **Arizona** and the Palm Desert area of California. Others might prefer a property in the mountains close to their favourite ski resort. Still others might prefer **Europe or even farther-flung locations**.

No matter where you choose, the question to rent or buy is not a small one and must be carefully weighed against your and your partner's lifestyle and preferences. This story is about how the differences in Jim and Jeanette's lifestyles and retirement goals – which, as you'll see, are in some cases significant – ultimately impact their choice to either rent or buy a vacation home.

Renting a vacation home in a foreign country



PROS

- Very little upfront costs, if anything
- Live wherever you want for as long as you want – ultimate freedom above all
- If you're unsure of exactly what you want, rent
- Those who are older are more suitable to renting, because few people continue to travel south after turning 75
- You can decide not to re-up the rental contract in case of illness, advanced age, or if you can't access the property due to pandemic-related border closures

CONS

- You must be comfortable with the residence's existing conditions of the residence
- You must call the landlord or property manager to fix any problems (storm damage is very common in Florida and many other sunny destinations, but it may take the property manager a while to make any required fixes)



Buying a vacation home in a foreign country

PROS

- The U.S. housing market is far more favorable to buyers than it is to renters when it comes to affordability
- Can locate in an area of your choosing and build equity in the property
- Can renovate or make major changes to the interior (not the exterior, however, which must be kept in accordance with Homeowners' Association (HOA) standards)

CONS

- Florida housing market is very hot and very much a seller's market
- There are expensive upfront costs associated with buying a property (down payment, closing costs, real estate commission, pay for your own repairs and upgrades, HOA fees)
- You must continue paying HOA fees even if you can't visit your property
- Insurance policies are expensive given the potential for flooding, tropical storms, and hurricanes



The buyers: Jim & Karen

Jim is a recently retired engineer from Ottawa, Ontario who spent 30 years operating his own consulting firm and is now excited to spend more time with his wife and their two adult children. Jim's wife, Karen, is also retired after having spent the past three decades as a dentist.

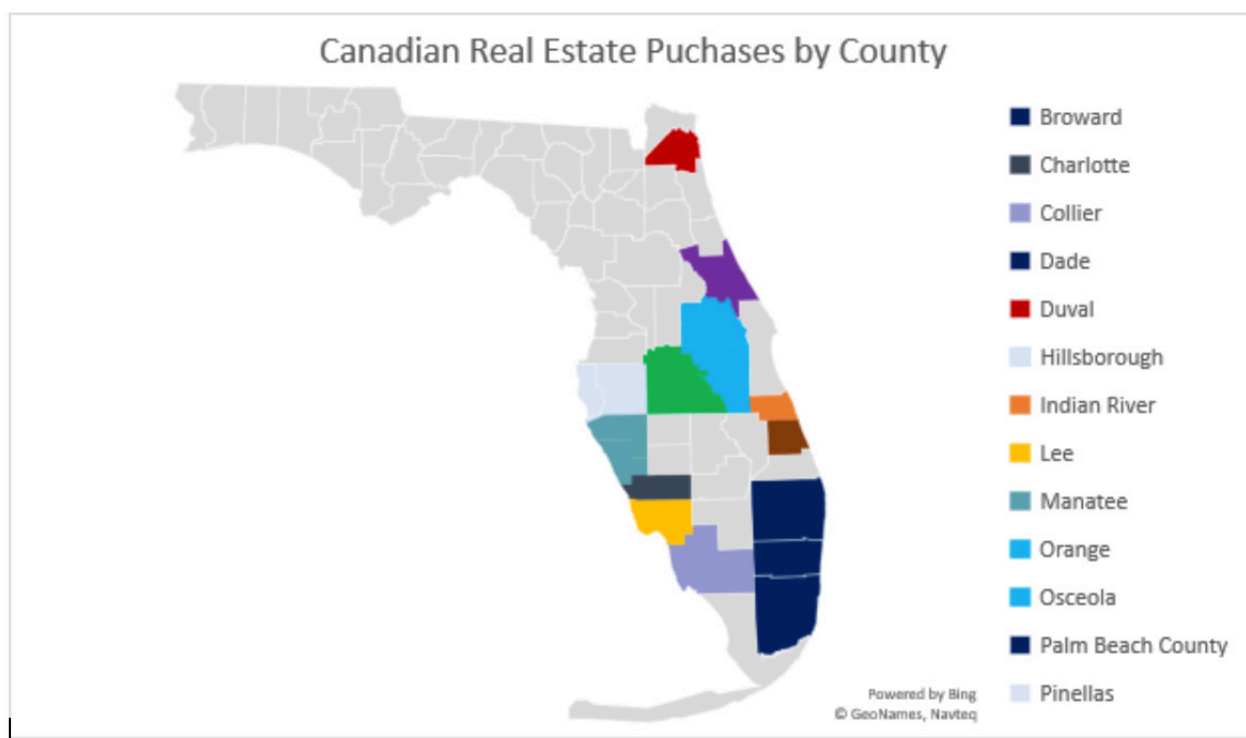
Jim and Karen want to spend their winters in Florida, playing golf with fellow retirees in a low-maintenance lifestyle community with plenty of activities and entertainment options. Having taken previous vacations in many different parts of Florida, renting different houses and condominiums during each visit, they're quite familiar with the **Snowbird** lifestyle along with their preferred locations in the state. Thanks to all this experience, each already has a mental checklist of what they'll look for when deciding the location and features of their retirement house.

The couple eventually decides on the **Fort Lauderdale** area with the intention of buying. A high number of Canadians winter in this area each year – 45 per cent of all Canadian real estate sales in Florida happen here – and Jim and Karen already have many friends in the area who have bought property after recently retiring.

Fort Lauderdale is also far enough south that it features near-constant heat, another attractive feature to Jim and Karen as they're both avid golfers who prioritize warm weather year-round (something that, despite Florida's reputation as a vacation spot, many other counties in the state simply don't enjoy). Although this isn't as much of a concern during the fall or spring, in midwinter some areas of Florida can experience quite cool stretches of weather.

Fort Lauderdale is also right on the coast with plentiful beaches, and Jim hopes to take full advantage with a morning workout routine of running on the beach and regular beach volleyball. Buying near the coast was also important to their grown children, who have great memories from days at the beach when the family took vacations there when they were younger. While they'll end up paying a premium for properties close to the water, Jim and Karen don't mind given its importance to them and their kids.

Fort Lauderdale's proximity to a centrally located major airport and an easy, well-maintained highway system with minimal traffic is also a big bonus for them, given that they always fly to Florida from Canada. Fort Lauderdale's many outlet malls and shopping centres makes this area even more attractive, as they both appreciate the many different stores and brands that aren't available back home in Canada – not to mention the prices.



Residential Real Estate in Florida declined over a period of 6 years. With properties peaking in late 2006, and declining until 2012, the peak was well before the financial crisis of 2008. As a whole, the market has largely recovered since then.



Golf communities: Things to consider when buying (including HOA fees)

As mentioned, Jim and Karen very much enjoy playing golf together. Back in Canada they try to squeeze every round possible out of the summer months, but work and other social activities too often got in the way. Now with plenty of time on their hands, the plethora of courses in South Florida provides them an embarrassment of riches when it comes to golfing options: Many gated communities in Florida include a golf course plunked in the middle of the housing subdivision, with most homes' backyards directly facing the course. This is a dream scenario for Jim and Karen, who relish the idea of floating in their pool, drinks in hand, watching their friends play golf – Jim even hopes to heckle a few of his buddies when they hit bad shots!

Although the idea of living on a golf course in Florida is exciting for Jim and Karen, there are several important things they must keep in mind when considering a golf-specific community:

While this low-maintenance lifestyle allows residents to freely unwind without sweating over indoor or outdoor maintenance, this worry-free lifestyle is financed via the homeowner's association (HOA) fees often seen in lifestyle communities in Florida. Similar to (but usually more expensive than) condominium fees back in Canada, these HOA fees are mandatory and non-negotiable. Each resident household must pay them.

Golf memberships are sometimes included in HOA fees, but keep in mind any golf-specific community with HOA fees typically has more playing members (because all homeowners have golfing privileges) – and, therefore, more crowded courses. Golfing amenities in these communities are often priced north of US\$30,000 per year.

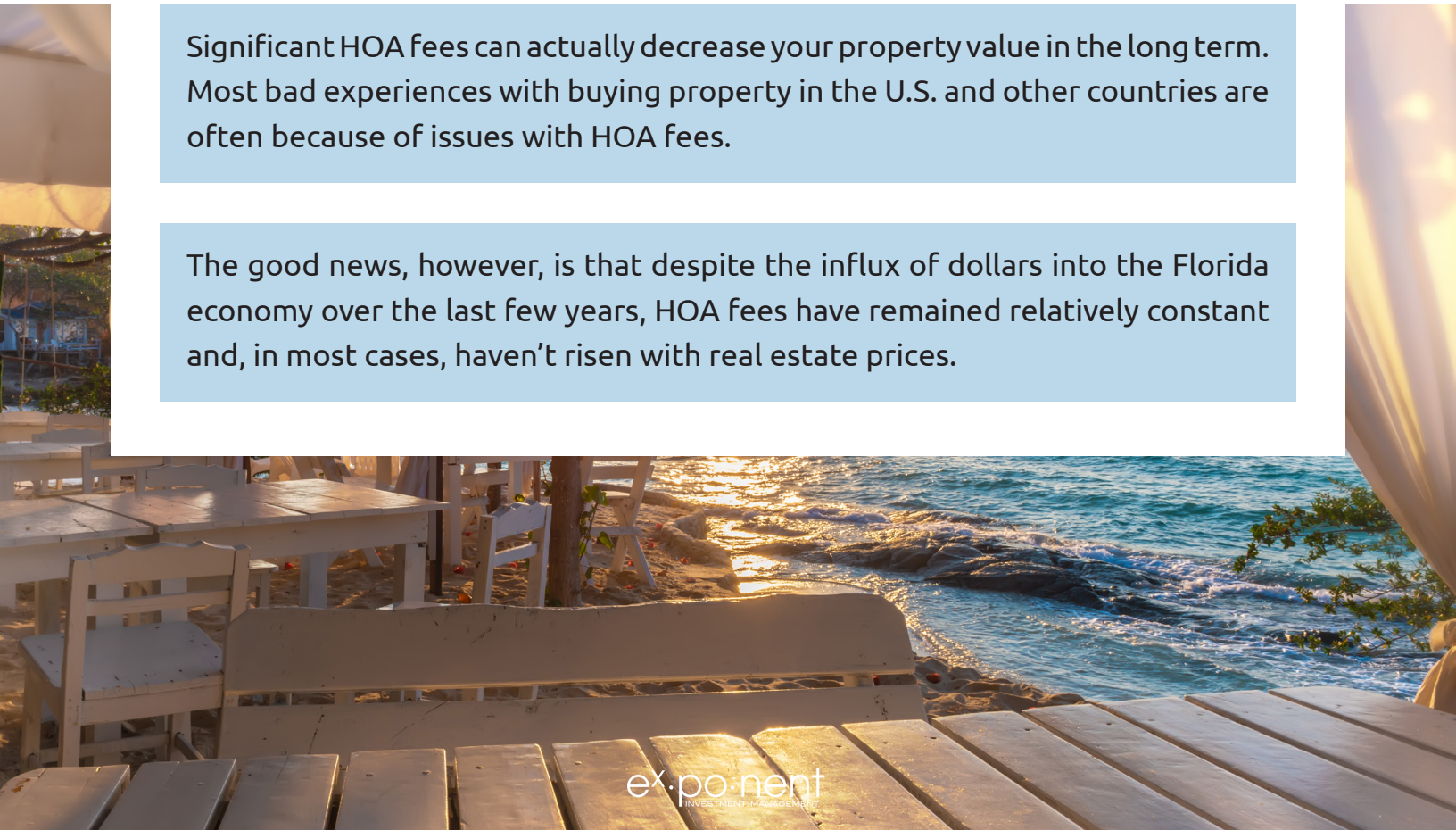
If a golf membership isn't included in HOA fees, homeowners who want to use the on-premises course must pay an additional amount (including an initiation and annual fee structure).

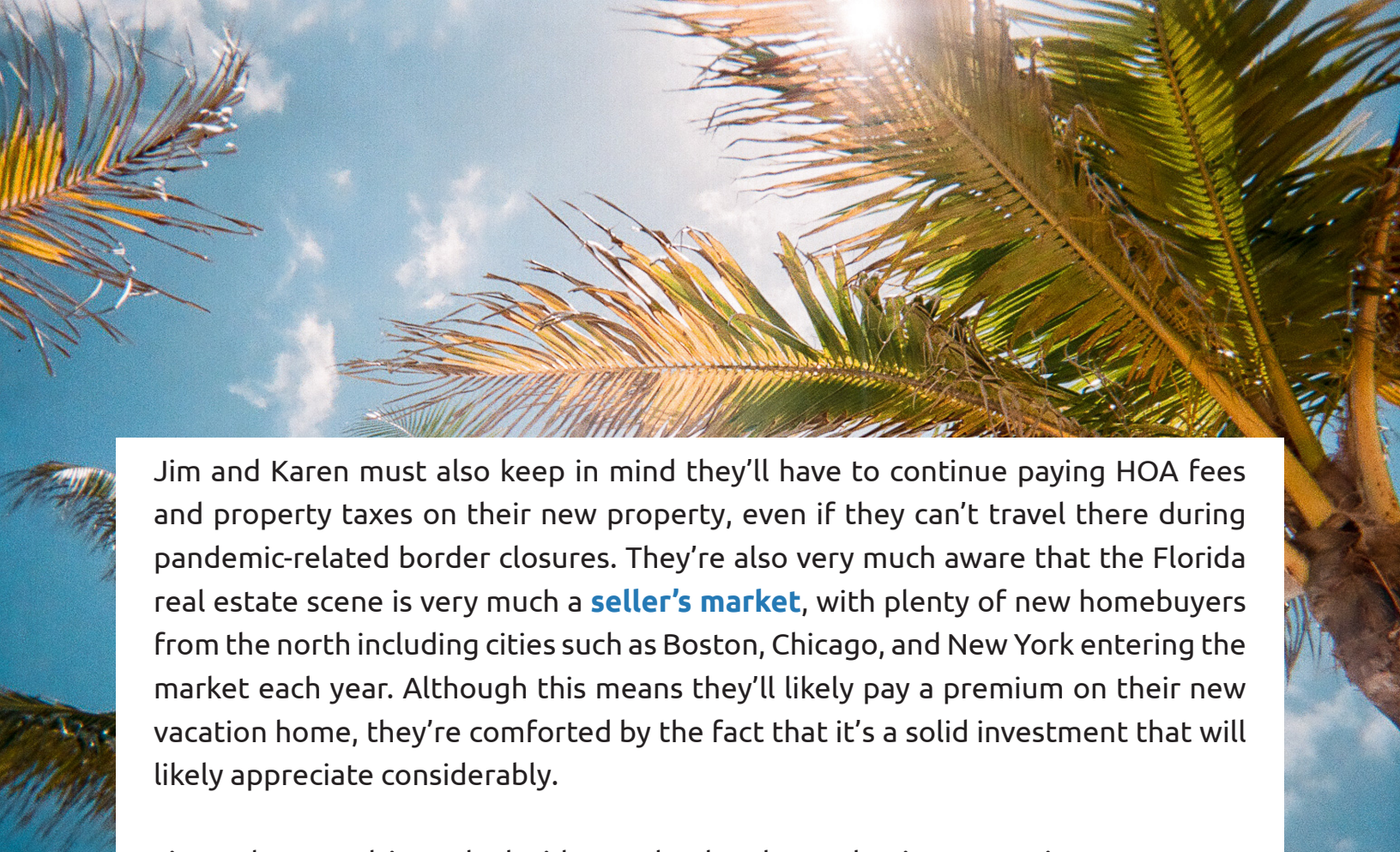
They must also keep in mind that as retirees in their community get on in years (including themselves), they will almost certainly play less and less golf while still having to pay full fees for the duration of their home ownership (this applies to other amenities as well, such as marinas or swimming pools).

For the above reasons it's often best to buy in a new community, with new amenities, and where most homeowners are a similar age.

Significant HOA fees can actually decrease your property value in the long term. Most bad experiences with buying property in the U.S. and other countries are often because of issues with HOA fees.

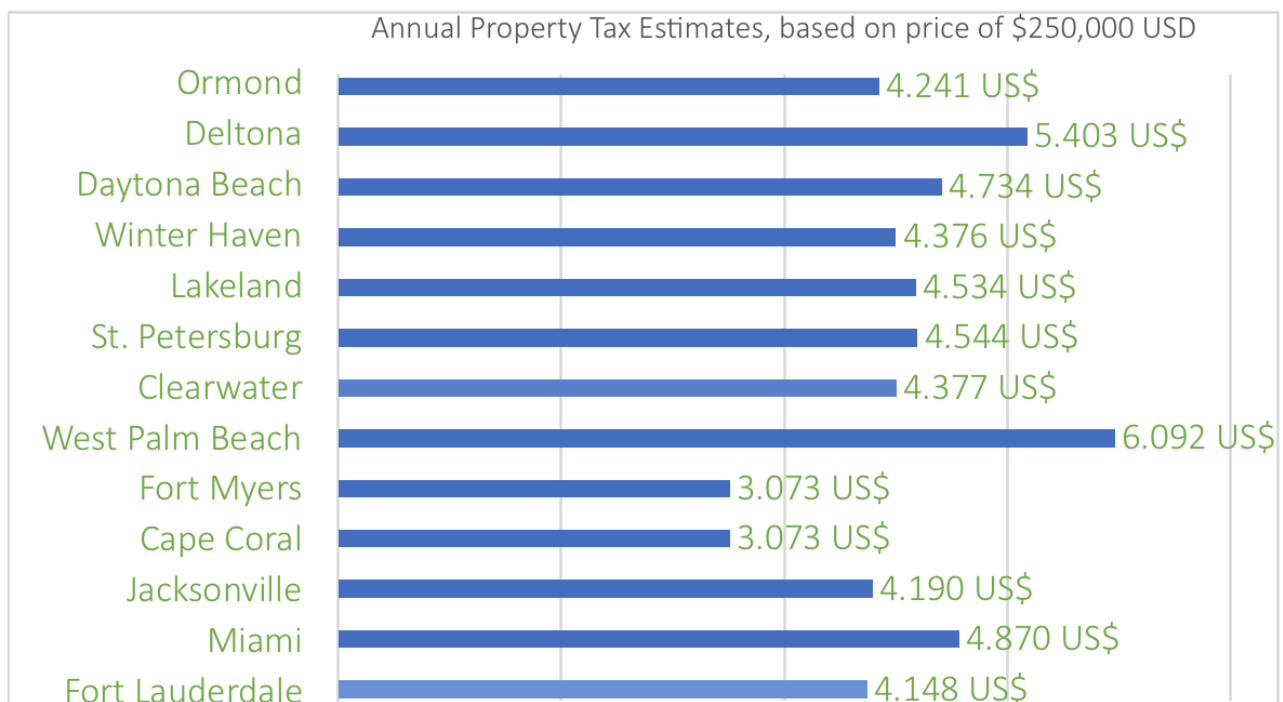
The good news, however, is that despite the influx of dollars into the Florida economy over the last few years, HOA fees have remained relatively constant and, in most cases, haven't risen with real estate prices.





Jim and Karen must also keep in mind they'll have to continue paying HOA fees and property taxes on their new property, even if they can't travel there during pandemic-related border closures. They're also very much aware that the Florida real estate scene is very much a **seller's market**, with plenty of new homebuyers from the north including cities such as Boston, Chicago, and New York entering the market each year. Although this means they'll likely pay a premium on their new vacation home, they're comforted by the fact that it's a solid investment that will likely appreciate considerably.

Jim and Karen ultimately decide to take the plunge, buying a vacation property at a golf community in Fort Lauderdale, just a short drive from both the beach and the airport.





The renters: Jeanette & Tim

Jim's twin sister, Jeanette, is also looking for a property in the sun. Jeanette isn't all that familiar with Florida, however, having visited friends once years ago and then meeting up with Jim and Karen at one of their rental properties last year. Unlike Jim, she does not know the specific areas, their distinct characteristics, and which ones might be best for her and her boyfriend, Tim.

As a result, Jeanette isn't sure if she should rent or buy – but just like Jim and Karen, her lifestyle and experience will ultimately impact her decision.

Also newly retired like her brother, Jeanette has long looked forward to retirement after 40-plus years of time-consuming, grueling work as an accountant at a big four firm in downtown Toronto.

She never had kids and rarely had time for a long-term relationship until recently. Because neither Jeanette or Tim have children or major commitments, they see themselves as potentially unhappy being tethered to one property. They eventually decide they don't want to be tied to the same place for a sustained period. They also appreciate being able to travel to other places whenever they like, furthering their preference towards flexibility and mobility when it comes to a domicile.

The uncertainty of the COVID-19 pandemic also taught them to be cautious and calculating when investing in real estate – plus, Jeanette would prefer to diversify by investing her inheritance in **S&P 500 ETFs** and other investment vehicles.

But Jeanette and Tim are also aware that renting also has downsides. They won't build equity in a desirable piece of real estate, for one thing. They also won't be able to make any major changes or renovations to whichever property they end up renting, and will be at the mercy of their landlord or property manager to fix any potential problems such as storm damage (**a common occurrence** in many parts of Florida).

Given their lifestyle and preferences, however, Jeanette and Tim ultimately decide to rent – at least for now. Aside from taking the pressure off what is clearly a momentous decision, renting also gives them more freedom to move around the state and travel at their own pace, with the option of eventually buying a vacation home always available.

Jeanette and Tim are happy with their decision and can't wait to start their journey this winter. First stop: Palm Beach!

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