Real Estate News

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Should you skip the RRSP contribution and pay off your mortgage first?

The big push is on to convince Canadians to load their extra cash into registered retirement savings plan (RRSP) investments before the Mar. 3 deadline. But though it may seem as though contributing is the only option when it comes time to decide what to do with the money, it's not.

Many financial planners, accountants and other experts suggest there's an even better way to work toward a well-heeled retirement down the road: Pay off the mortgage first. And do it as fast as you comfortably can.

That's exactly what Rock Lefebvre, vice-president of research and standards for the Certified General Accountants Association of Canada, in Ottawa, did when he was younger. Rather than invest in stocks, bonds or mutual funds, he developed a financial strategy that meant paying off his mortgage early. To this day he still advises that most people eliminate consumer debt and then go on to tackle mortgage debt before investing.

"Some people might argue that's not the most strategic approach, but my defence is that any unused RRSP contribution room can always be used in the future. It's never lost," he says.

For homeowners, it pays to ask a few questions before deciding how to use that money.

Q. What gets a better return?

Anyone looking at their mortgage today might be wondering, "Why make pre-payments? My mortgage rate is so low, it's costing me next to nothing to borrow this money." That's the wrong way to look at it, says Cynthia Kett, a chartered professional accountant with Stewart & Kett Financial Advisors Inc., in Toronto.

"If you have a mortgage balance that will need to be renewed upon maturity, think about the interest savings based on the renewal rate, not the current rate," she explains.

If mortgage rates climb to 5 per cent in the coming years – a definite possibility – and you're in the 35-per-cent marginal tax bracket, paying off the mortgage faster means you'll be getting a guaranteed pre-tax rate of return equivalent to 7.69 per cent, says Ms. Kett. (Extra mortgage payments reduce the principal amount so you're actually saving not just future interest, but the tax on that interest because you pay the mortgage with after-tax dollars.) Not too shabby, especially since the rate is guaranteed.

Even if your RRSP investments make 9 per cent, a typical mutual fund charges fees, which could actually knock down the return by a couple of percentage points. Suddenly that return isn't looking so good, nor is it a sure thing.

Q. What gives me the tax advantage?

RRSPs are a good option for people who are in a high tax bracket now and expect to be in a much lower one when they retire. But paying off a mortgage early has tax benefits, too.

"An RRSP is a tax deferral. It's not actually free money," Ms. Kett says. "You're just paying it later instead of now, whereas the capital gains on your principal residence are going to be tax sheltered permanently."

Q. How much financial flexibility do I need?

Once funds are deposited in an RRSP investment, forget withdrawing them before retirement without incurring some expensive fees and fines. Indeed, RRSPs were created to be that way so investors would be less likely to dip into their long-term savings.

Paying off a mortgage, however, offers huge advantages in terms of financial flexibility, both today and tomorrow. Not only does it reduce your fixed monthly costs (leaving more money in the bank to pay for kids' educations or vacations), but you can then dip into your home's equity to borrow at preferred rates with a homeowner's line of credit. Once that debt is paid off, you can borrow again.

Q. Does the idea of having a mortgage burning party make me deliriously happy?

If you answered yes, start making those pre-payments now. Becoming mortgage-free is an emotional relief for many Canadians – and offers more bang for the happiness buck than any bullish market.

"I can forgo a 9-per-cent return if I'm getting up this morning and I don't owe anybody money," Mr. Lefebvre says. "That's much more liberating than knowing you made 5 per cent that you might be able to withdraw in 25 years."

The bottom line? No matter which way you lean – mortgage or RRSP – you will almost certainly come out ahead in the long run compared with doing nothing to prepare for retirement.

"There's not really a wrong answer," Ms. Kett says. "Either option will improve your financial security and is better than leaving the cash in a bank account."

Ottawa's resale market lands softly in January's deep freeze

Members of the Ottawa Real Estate Board (OREB) sold 589 residential properties in January 2014 compared with 594 in January 2013, a decrease of less than one percent. There were 610 home sales in December 2013.

"Residential sales this January were virtually identical to January 2013. Our members sold five more freehold residential properties and 10 fewer residential condos. Statistically, the difference is less than one per cent" said OREB's President. "The market activity is encouraging for homeowners considering the deep freeze Ottawa experienced this past month – a time when people are more apt to stay in and stay warm instead of venturing out to search for a home", he added.

"The number of properties listed in January more than doubled the amount from the previous month – a normal occurrence at the beginning of the year as the holidays draw to a close and people begin to plan for the year ahead. Interest rates continue to be low, with some whisperings of the rates decreasing and not increasing, as had been predicted in the last half of 2013. The Ottawa resale market has remained steady. There have been no major increases or decreases in sales or prices notwithstanding the government's intervention in mortgage rules over a year ago."

The average sale price of residential properties, including condominiums, sold in January in the Ottawa area was $346,744, an increase of one per cent over January 2013. The average sale price for a condominium-class property was $265,775, a decrease of 1.1 per cent over January 2013. The average sale price of a residential-class property was $368,779, an increase of 0.9 per cent over January 2013.

Call today for real estate advice and information!

Ottawa Residential Average Sales Chart from 1956 to 2013

MLS Residential Sales Percentage Increase or Decrease Over Previous Year

Year	Average Sale Price	Percent Change
1956	$13,351	0.24%
1957	$14,230	6.58%
1958	$15,564	9.37%
1959	$16,038	3.05%
1960	$16,791	4.70%
1961	$16,070	-4.29%
1962	$15,952	-0.73%
1963	$16,549	3.74%
1964	$16,563	0.08%
1965	$17,056	2.98%
1966	$18,004	5.56%
1967	$19,476	8.18%
1968	$23,329	19.78%
1969	$25,652	9.96%
1970	$26,532	3.43%
1971	$27,808	4.81%
1972	$30,576	9.95%
1973	$38,305	25.28%
1974	$46,661	21.81%
1975	$49,633	6.37%
1976	$54,623	10.05%
1977	$57,032	4.41%
1978	$59,134	3.69%
1979	$61,896	4.67%
1980	$62,748	1.38%
1981	$64,896	3.42%
1982	$71,080	9.53%
1983	$86,245	21.34%
1984	$102,084	18.37%
1985	$107,306	5.12%
1986	$111,643	4.04%
1987	$119,612	7.14%
1988	$128,434	7.38%
1989	$137,455	7.02%
1990	$141,438	2.90%
1991	$143,361	1.36%
1992	$143,868	0.35%
1993	$148,129	2.96%
1994	$147,543	-0.40%
1995	$143,193	-2.90%
1996	$140,513	-1.90%
1997	$143,873	2.40%
1998	$143,953	0.10%
1999	$149,650	4.03%
2000	$159,511	6.58%
2001	$175,971	10.32%
2002	$200,711	14.06%
2003	$218,692	9.00%
2004	$235,678	7.70%
2005	$244,531	3.80%
2006	$255,889	4.70%
2007	$272,477	6.40%
2008	$289,477	6.30%
2009	$303,888	4.90%
2010	$327,225	7.70%
2011	$344,240	5.20%
2012	$351,792	2.20%
2013	$357,348	1.60%

Includes Residential Homes and Condominiums