



## Downsizing

### Things to Consider Before You Sell Your Home



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## Introduction

Downsizing is not a new concept. For decades, Americans approaching retirement have elected to downsize to improve health and safety, be closer to family, start a new chapter, or ensure financial stability in retirement.

For many retirees, the lure of downsizing to a smaller, less expensive home creates the opportunity to become financially secure in retirement. Money earned from the sale and saved on monthly mortgage payments could significantly increase your available capital for day-to-day and future health care and lifestyle expenses.

But money isn't the only factor when deciding to downsize. Perhaps your children have moved out and your living quarters feel too large. Perhaps retirement offers the opportunity to move somewhere you've always wanted to live. In some cases, downsizing to a single-level home makes sense for the health and physical limitations of residents and friends.

Whether your motives to downsize are financial, personal, or some combination of the two, you should not take the process lightly. Downsizing requires a large investment of time and planning. This guide is designed to help you determine whether downsizing is a good fit for you and your family. We will cover the reasons why you may consider downsizing, and some potential drawbacks, so that you can make an informed decision as you approach or improve your retirement.



*More than 40% of Americans ages 50 to 64 plan to move within the next five years. And 20% of them will become renters.*

- Senior Lifestyle<sup>1</sup>



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# What are the primary reasons people decide to downsize?

Downsizing is popular among those approaching retirement because it presents the opportunity to increase financial stability, personal happiness, and health. For many, it marks the beginning of an exciting new chapter in life.

Here are the top 6 reasons people decide to downsize:

## 1. Budgetary and Financial Planning Benefits

Your mortgage is likely your biggest expense. Downsizing to a smaller, less expensive house allows you to make a potential profit from the sale and decrease your monthly cost-of-living expenses. The increased monthly budget allows you to build up your immediate and long-term savings. Immediate savings can help cover short-term expenses, like a vacation or gifts for your family. Long-term savings help you plan for future health and medical expenses. Downsizing may also enable you to travel, purchase your dream car, or leave an inheritance for your family.

Many seniors report having too many “things”. Downsizing your assets - such as selling furniture, vehicles, or unused personal belongings - can create an additional sense of well-being as you are better able to manage the things that you keep.

## 2. Relocation

You may decide to downsize to relocate to another area. Maybe you’ve always wanted to live in a warmer climate. Or, perhaps you’d like to be closer to your family in retirement. Some people also move to take advantage of lower state and estate tax benefits. For example, property taxes in Tennessee could be much lower than those in Rhode Island, while popular destinations such as Florida and Arizona do not collect a state estate tax.

Many retirees are also drawn to join 55+ communities where they can enjoy peace and quiet, be social, and have access to various amenities (medical staff, classes, golf courses, pools, etc.) these communities offer.

## 3. Adding a Second Vacation Home

Downsizing doesn’t always mean you are compromising on space. You may make the decision to downsize a large home into two smaller properties. In this case, you are not necessarily downsizing to save money, you are downsizing to add an additional vacation property. For example, you may sell your \$600,000 home to purchase two \$300,000 condos in different parts of the country. This allows you to be close to your family for part of the year, and vacation for the remaining part of the year.





#### **4. Your Current Home is Too Large or Not Configured Correctly**

One of the biggest drivers to downsize is because your current home is too large to maintain, or not configured in the best way for your health. Aging and health changes may make a staircase or large rooms too cumbersome. You may also consider downsizing to accommodate friends and family members that have difficulty navigating within your home.

Installing handicap ramps and home elevator can be burdensome and expensive. The allure of having a bedroom, bathroom, and laundry room on a singular floor is a priority for many when downsizing.

#### **5. You Want to Start a New Chapter**

Perhaps you've lived in the same zip code for your entire life and are ready for a change. Or you've always dreamed of taking an RV cross-country. Untethering yourself from a large home allows you to begin a whole new chapter of your life. You can finally take that trip you've always wanted, or pursue your favorite hobby.

#### **6. You'd Rather Not Worry about Home Maintenance**

Moving to a condo or retirement community allows you to take advantage of condo association benefits. Many condo associations will take care of basic home maintenance, such as shoveling snow from your driveway, maintaining your lawn, and home repairs. This is especially appealing to homeowners who currently invest a lot of time and money in home maintenance expenses.



## What is important to consider when downsizing?

**Failure to plan ahead is the biggest mistake you can make when downsizing.**

Before you decide to downsize, sit down and imagine what your life will look like 10 to 15 years from now. Why? Because the time and financial implications required to downsize mean you should aim to downsize only once. That is, you will want to try to make a housing selection that will not only fit your lifestyle today, but accommodates potential lifestyle changes in the future.

An analysis of your mortgage and current financial situation should be part of your plan before making the decision to downsize. Here are some things to consider prior to taking the first step towards downsizing:

### **Moving Can Be a Big Expense**

If financial benefits are your primary reason for downsizing, you should consider that moving expenses can be enormous. Especially if you're moving across the country and do not have the resources or ability to move your items yourself. [According to Home Advisor](#)<sup>iii</sup>, moving locally can range from \$900 to \$2,500 for a four bedroom house. Cross country moves can average \$1,000 per room, with an average cost of 50 cents per pound. Moving services can cost thousands of dollars. And your new home may require new furniture, appliances, or amenities. It's important to meet with a financial advisor to itemize your assets and expenses so you can take full advantage the financial benefits of downsizing.

### **You May Want to Try Before You Buy**

If you've always wanted to live in a different location, it's a good idea to "try before you buy". Whenever possible, you should consider renting a property for a year to confirm your new location is a good fit for you. You may decide the warmer weather is too oppressive in the summer. Or you may decide it's too difficult to be away from friends and family. Renting will allow you to foresee potential downsides before you invest your savings in a new home or condo.

### **Moving Away from Family**

If you downsize to relocate, take some time to consider the emotional and mental implications of being away from your family and friends. Will you be homesick? Is regular interaction with your children and grandchildren a priority? You don't have to sacrifice your dream of being in a warmer climate; just make sure you choose a location that accommodates easy travel. And work out a plan with your family so that you can visit regularly.



## Dual-Residency Can Create Issues

If you're downsizing to purchase two smaller properties, consider potential residency issues that may arise. If you have one condo in Rhode Island, and another in Florida, you will need to research necessary paperwork to declare proper residency in each state. It's much more complex than purchasing two properties and simply choosing one to be your primary residence or relying on living in one of the locations for more than six months out of the year. You should consult a CPA to review the tax and financial requirements for both residences. Failure to have your paperwork in order can lead to financial and legal implications.

You should also consider the maintenance responsibilities when purchasing two homes. Regular upkeep, inclement weather, insurance investments, utilities, and cleaning costs can create additional expenses and headaches. You may be tempted to rent one of your properties for a portion of the year. This comes with its own set of considerations. Do you have experience as a landlord? Do you have the proper liability insurance? Are you prepared to withstand potential property damage that may come from a troublesome renter?

Be sure you have considered the additional expenses and planning that comes with purchasing two properties.

## Smaller Isn't Always Better

If you are downsizing because your current home is too large, a smaller home isn't always the best long-term decision. If you enjoy spending time at home, you should plan to have an extra room to craft, relax, or read. If you plan to entertain grandchildren in your home, you will want to make sure you save space for toys and sleeping accommodations. While downsizing to a one- or two-bedroom home may seem like the best fit for you in the next 3-5 years, ask yourself if it will be the best fit for you in the next 5-10.

## Retirement Communities and Condos May Not Be for You

The amenities offered in 55+ communities are a huge draw for many downsizers. But take some time to consider whether this is the best fit for your lifestyle. Will you miss having neighborhood children running about? Condos often come with a long list of restrictions. Some even prevent you from hanging holiday décor on your door. Be sure to research your community or condo association guidelines before signing on.

Condos are also known for increasing association fees with minimal notice. While the cost of a condo may be inexpensive, condo association fees can add hundreds of dollars to your monthly expenses.

## Physical Downsizing May Not Save You Money

Lots of people want a smaller home and a better location or more amenities. The trade-off between an eight room house and a two bedroom condo may not yield extra assets for retirement spending if the condo is located on or near a fancy beach or in a resort town. If you do not need the extra cash, the swap of size for location may be a perfect solution to your retirement dreams. It may also create an unwanted burden if you are tempted to buy a new, smaller home that is more expensive than the one you are giving up.

Look carefully at any mortgage balance on your current home to ensure that your equity is sufficient to meet the full cost of a new home (if you want to be mortgage-free) or to cover a small mortgage that is affordable. Also, if you are supplementing your equity with cash, keep enough liquidity to meet renovation and start-up costs on the new home as well as allow for unanticipated expenses.

## Conclusion

Downsizing offers enormous lifestyle and financial benefits to those approaching retirement. But there is a lot to consider! It's a good idea to consult with a wealth management advisor to ensure you have all of your assets and expenses in order. Making the right downsizing investment can unlock thousands of dollars for you. The advisors at StrategicPoint would be happy to listen to your retirement goals and help you make the best decision for the next 10 – 15 years.

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### **Need help evaluating your financial plan in general?**

Email us your questions:  
[\*\*info@strategicpoint.com\*\*](mailto:info@strategicpoint.com)

Call to schedule a meeting with a StrategicPoint advisor:  
**800.597.5974**

Learn more about our team and our services:  
[\*\*www.strategicpoint.com\*\*](http://www.strategicpoint.com)

## Resources

<sup>i</sup> <http://www.seniorlifestyle.com/infographic-upside-downsizing/>

<sup>iii</sup> <https://www.homeadvisor.com/>



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