

Downsizing Your Home In Retirement

Downsizing from a large family home to smaller place may seem like a natural progression as you near retirement age. But consider these factors before you make the big move.



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The decision to sell your family home and downsize is not an easy one to make. It seems like you've spent your whole life fixing it up and paying property taxes and, before you know it, the reasons for selling outweigh the reasons for keeping your home.

It could be that your home is now your nest egg, an egg you need to crack to fund your retirement. Or it could be that weeding the grass, shoveling snow and everything else that goes with a large home are now too much. Or that paying for electrical and gas bills on a four bedroom home doesn't make sense when it's just one or two people living there. Or, perhaps you want to cash in and travel, or use the funds to help your children or grandchildren.

Whatever the reason, May Fung, High Net Worth Planner at TD Wealth, says that you have to weigh the reasons and the costs of downsizing to a new home carefully and realistically.

Fung has some experience in this area as she and her husband took the initiative to downsize from their Toronto home to a condo even though both were still working. For her, it was a great experience with a simpler lifestyle but it is not for everyone.

Rising Home Prices

Fortunately or unfortunately, economics is influencing people's decisions on whether to sell the family home. Prices of homes in Canada's urban areas, especially in British Columbia and Ontario's Greater Toronto Area (GTA) have been soaring for a number of years. In the GTA, owners of single family detached houses have seen their home's value climb on average by 74 per cent over five years.² Chances are, if you owned a home in the GTA or Greater Vancouver Area (GVA) prior to 2011, you could be

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sitting on a nice slice of equity. So, should you stay in your home, with the understanding that its value could continue to rise or retreat? Or should sell your home now at a profit and see a secure cash flow?

Fung says that while people may be happily looking forward to capitalizing on the steep rise in home prices in parts of Canada, a smaller place in the same city, perhaps in the same area, may still be costly. She also points out that while you may physically downsize to a smaller place, if you live in the higher priced area of urban cities, a nice condo won't actually be that much

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less expensive than a detached home. So, if you are calculating on your home producing a nest egg for your retirement, you have to be mindful of what you buy as well as what you are selling, she says.

"Many of my clients think downsizing, even if moving isn't on the near horizon will be a cash-flow neutral event. If you are living in an expensive neighbourhood and you are staying in an expensive neighbourhood, that's what will happen," Fung says.

She Says, "Stay," He Says, "Go"

"I think it cuts both ways. I have some clients where the husband really wants to leave the home and go to a condo but his wife refuses because she sees the value of a detached home growing faster. She was focusing on the net worth picture. But people have to keep in mind that, sure, real estate looks great, assuming it continues to rise but you have to have cash flow when you retire, especially if you don't have a pension," Fung says.

"With the huge increases in home prices, if all your net worth is sitting in your real estate, you need some cash flow to finance your life," she says.

She also says people may consider a home equity loan to generate some retirement income — based on the value of their house — but she cautions that people shouldn't take on more debt than is manageable when they no longer have a steady income.

Giving the Next Generation a Helping Hand

The high cost of housing in the GTA and GVA presents difficulties for those who are not on the housing ladder, and may be out of reach of children or even grandchildren of older couples. This means the decision to keep a home or sell can reverberate through more than one generation.

Fung says that buying a home has become so difficult, many people are downsizing and presenting some of the funds to their children so they can afford a down payment for a home.

"I think a lot of parents are realizing their adult kids are not going to be able to afford a down payment just because of the way prices are going," she says.

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Among people planning for retirement, Fung is now seeing an increase in giving large lump-sum gifts to children specifically earmarked to help them get into the housing market.

Empty Nest or Full?

Downsizing could well accomplish the goal of helping your children with expenses, for down payment on a home or even as an early inheritance. But keeping your home because of your kids' needs is also an option. With an uncertain job market and the unaffordability of buying a new home, boomerang kids are on the rise and many parents see the practicalities of

having adult children stay in the nest longer. You may even be part of the sandwich generation where you have adult kids living at home, plus elderly parents who need care.

If you do plan to downsize, consider where the family might congregate for holidays and celebrations. Ask yourself some hard questions before you pack up the silverware: Would your new condo fit everyone in? Would a small home far from the city be too inconvenient? Do you give up hosting

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Christmas when you downsize to a smaller kitchen and dining room? If you are babysitting your grandchild, is your old home in the suburbs a more appropriate setting than a downtown condo?

Speaking of grandchildren, they have an endearing way of upsetting your carefully

considered plans. Relocating closer to the little ones may take priority over housing size or other location strategies. So if grandchildren may be on the horizon you may have to start thinking about moving closer to them, whether that means packing up for the next neighbourhood or next province.

“The grandkids, and where they are living, can really influence your plans. They are the apple of their grandparents’ eye so people naturally make their plans around their roles as grandparents,” Fung says.

Selling the Home but Not the Neighbourhood

Other considerations if you downsize include accessing services if you relocate. Many people are partial to their favourite grocery store, banker or financial advisor, library or gym. You should consider what could or would replace these life lines if you are considering a move.

Another large consideration is health care. You may have special relationships with doctors, dentists and other health care professionals who you've seen over the years. Parting from them could be emotionally painful and undesirable; a nurse or pharmacist who is familiar with your health history is an asset, as well as comforting. While you may not lose these relationships if you downsize in the same region, consider how your move will impact your access and commuting time to medical and all other familiar services.

Emotional Attachments or Not

Personal practicalities can never be measured but have a huge influence on your happiness. You can love the home you have been looking after for 25 years and have an emotional attachment to everything about it, including the trees you planted or the children's height marks in the kitchen.

The type of lifestyle you will encounter as you downsize is also a consideration. Moving from the suburbs to the country or a downtown condo is a big adjustment. And if you have a summer cottage or if you winter in the south, how does your new home fit into the mix? Moreover, does moving away from your neighbourhood mean curtailing friendships or aspects of your social network?

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A change in abode could also mean a large change in attitude. If you are thinking that off-loading your over-sized house and all its upkeep for a tidy, convenient condo is easy, think again. In a house, you may not like occasionally hearing your neighbour's leaf blower, but in a condo, you may not like hearing your neighbour's TV or plumbing daily through the walls. Condos may also have rules you may not like, such as having a pet policy

that doesn't work for you, rules on renovations, parking and the use and upkeep of common property. Simply dealing with other people who have a say on how you live your life is too much for some after living in a house for all of their lives.

Dust and Sweat

The hardest part about downsizing may be going into the attic or garage throwing out your possessions you have accumulated over decades. Some

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of it might be junk but parting with favorite furniture or pictures that won't fit into a smaller place may be nearly unbearable.

"You have to be quite ruthless with throwing things out or maybe donating them. It was

painful. I did that myself just sorting and editing your stuff. In the basement you may have 20 years of things you never sort out," she said.

"I've opened up boxes with my husband's textbooks from when he was a student and now he's retiring," she says.

You may have a lifetime's worth of memorabilia, old VCRs, power tools you may no longer need, genuine heirlooms you will no longer have room for or genuine junk that you can't part with. Get a plan and start cleaning up the closets, the basement, garage and the attic — don't wait until your home is sold or you may be pressured to throw out more than you want or have to pay for storage of your extra goods.

Fung says, above all, it is important that people thinking about downsizing consult with a professional financial advisor before they make any large change in their lives. Downsizing may involve a huge change in lifestyle, finances, commuting, not to mention attitude. It could impact your

retirement plans or your estate planning and the changes may be felt to a greater or lesser degree by many of your family members.

“It’s a big life event, you don’t want to make big decisions without professionals, who have been there before, by your side, guiding you over all the bumps,” says Fung.

— **Don Sutton, MoneyTalk Life**

¹ MarketWatch, Toronto Real Estate Board, Dec. 2016, Dec. 2011, accessed Feb. 1, 2017, trebhome.com/market_news/market_watch/historic_stats/pdf/Historic_1612.pdf

² MarketWatch, Toronto Real Estate Board, Ibid.

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