



September 3, 2014

Is it time to downsize your home?

By Rob Carrick

Selling now and moving into something smaller and less expensive could lock in a price that reflects decades of strong appreciation

Now is the time to smarten up about downsizing your home.

The waiting game is risky if you're hoping to cash in on decades of price appreciation. Consider selling now, while the real estate market is defying the many predictions of a slowdown.

The Globe and Mail's new Downsize Your Home Worksheet¹ will help with your decision-making. It's designed to organize your thoughts on what your home is worth today, and look at what might happen if prices both rise and fall in the future. You'll also be guided through the costs of buying a smaller home so that you can figure out how much money you'll net out after you sell and then buy or rent your next home.

With housing prices still on the boil in many cities, now's an ideal time to consider the question of downsizing. Many baby boomers are in love with their homes and want to remain in them as long as possible for lifestyle reasons. But houses are a financial proposition, too. Some people will need the equity locked in their homes to pay expenses in retirement.

Home equity lines of credit and reverse mortgages are one way to access this equity. But so is selling and moving to something smaller and less expensive. The advantage of selling now is that you may have an opportunity to lock in a price that reflects decades of strong appreciation. If you wait, who knows?

There's an old saying that the cure for high prices is high prices. In the housing market, it means that rising home values are making ownership increasingly unaffordable. If demand for homes falls as a result, home prices will drop as well. The decline could be exacerbated if baby boomers jump into the market to sell houses they're hoping to use as part of their retirement plans.

The Downsize Your Home Worksheet was created using feedback from three certified financial planners (CFPs) – Rona Birenbaum of Caring for Clients, Barbara Garbens of B.L. Garbens Associates and **Renée Verret of Money Coaches Canada**. The worksheet can project what your house might be worth any number of years in the future, and you can use any rate of average annual price appreciation you like. If you're not sure how much your house might rise in value on average per year, try using the 30-year average inflation rate of 2.5 per cent.

The worksheet will also show you what could happen if you wait to sell and prices fall. This is simple math, but it's important to run the numbers on downsizing in a situation where your house won't generate the price you've been expecting.

Whatever price you decide to use for your home, the worksheet will take you through the various costs of downsizing. Included are real estate commissions, legal fees, land-transfer tax (where applicable) and hiring a mover. There's also a slot for adding the cost of making upgrades in your next home or acquiring new furnishings like window coverings or smaller couches and chairs for a condo.

Finally, you'll have to add the cost of the condo or smaller house you plan to buy (unless, of course, you rent). This part may be painful. It's not uncommon for two-bedroom condos in desirable locations to cost almost as much as the family homes baby boomers are selling. The price gap could shrink even further if condo demand is stoked over the long term by waves of boomers moving out of their family homes.

However much you're left with as a net gain after downsizing, there are two ways to use the money. One is to create a savings account that you can dip into periodically for big purchases, and another is to invest the money and generate income to help cover month-to-month living costs.

If you're thinking of investing for income, the worksheet will show you how much to expect on an annual pretax basis. Be conservative in projecting how much income you can get without touching your principal. After fees, 2 to 3 per cent is realistic for a diversified, moderate-risk portfolio (read more² about investing the proceeds of a home sale).

It's totally understandable if you decide to pass on the opportunity to sell the family home in a hot market that cannot keep rising indefinitely. Lifestyle matters as much as money. But if you use my Downsize Your Home Worksheet, you'll be able to say you made your decision to stay after looking at all the angles.

Try it: Crunch the numbers now using our worksheet³.

References

1. tgam.ca/downsize-worksheet
2. tgam.ca/ee82
3. www.theglobeandmail.com/globe-investor/personal-finance/mortgages/downsize-your-home-worksheet/article20320032

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