Selling your house in retirement: What not to do

Financial experts point out pitfalls to avoid when selling (or renting) your home in retirement

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Making your home part of your retirement plan might seem like a no-brainer, especially in some of Canada's hottest real estate markets. Surveys suggest about a quarter of Canadians expect their home to be their primary source of income when they retire.

But financial experts say there are a number of pitfalls to look out for, whether you hope to downsize your home in retirement or to run your old home as an investment property.

"If you look at the last ten years, most people have had good timing with real estate," said Jim Yih, a financial educator at retirehappy.ca in Edmonton. "It's been a real bonus for some people. I talked to a couple of people in Ontario and Vancouver and it's a big part of their retirement plans."

Yet, Yih says, bad timing can hit at any time, as can be seen in Alberta, where the plummeting price of oil has hit the real estate market, knocking back the price of homes.

"It's a risk for those people who need or want some equity in their home or even just [are] planning to relocate," he said.

With that in mind, here are a few real estate don'ts from the experts.

Don't overestimate the value of your house

Though housing-market collapses might not be common, homeowners can't expect real estate to rise 10 to 20 per cent indefinitely either, said Matthew Ardrey, a vice-president with T.E. Wealth in Toronto.

"Your house is only worth as much as somebody else is willing to pay for it," he said. "That's something to keep in mind."

Ardrey says he is conservative when working with clients who are talking about downsizing.

"In my financial projections, I do nothing more than just grow their real estate by the rate of inflation," he said.

Ardrey also warns people to shave 10 per cent off the expected selling price, because you will lose it to real-estate fees, land-transfer taxes, legal fees, moving costs as well as unexpected costs. "The couch doesn't fit in the new place," he said.

Don't underestimate the cost of your new home

A person selling their home in Toronto to move to rural Ontario might find themselves with a million extra dollars in retirement, but the reality is that many people often change addresses within the same real-estate market, which is much less lucrative.

Yih said people downsizing in the same city often aren't actually downsizing when it comes to money, especially if you're moving from bigger, older home to a smaller, newer one.

New retirement communities often have home owners' association fees, which can actually make retirement more expensive than living in the old house, he said.

"They're downsizing inside of Calgary and these new retirement places, they're brand-new, they've got all the frills and they're like, 'Holy cow, we've got to spend an extra 50 grand to get into a smaller place."'

Don't move away rashly

Yih said that if people want to live somewhere else in retirement they should start planning it years in advance.

"You go and you vacation there and you visit there every year to see if you actually like it," he said. "And when you're there, go look at real estate."

People who take that kind of approach have the easiest transition into retirement, Yih said.

Don't become an 'accidental landlord'

Tom Feigs, a money coach with Money Coaches Canada in Calgary, said he knows of people who have decided to keep their house as a rental property, sometimes without thinking it through.

He said looking after a property is a decision not to be taken lightly, and warned against becoming an "accidental landlord."

"You have to be able to stick with it for a period of time, and you have to be comfortable with that," he said. "It's a job and the job needs attention. So if you're in a retirement lifestyle and you don't want to have a job, perhaps real estate is something that you want to move away from."

He also said any retirees running rental properties should have an exit strategy. "Know when to quit."

Don't put all your eggs in one basket

Feigs said focusing too much on the sale of your house is dangerous, and instead retirees should have a mix of cash and low-risk investments, as well as longer-term investments like real estate.

"It's not a good idea to have real estate as the only card in your deck, because it's not liquid," he said. "It's not easy to sell usually. It takes time, so you want to have some diversification."