

BRENDAN BZDEL

Investment Focus

Thinking About Downsizing Your Home?

This may sound familiar: your first home started out small, but as your family grew you needed more bedrooms and a backyard. Now the children have left the house and the bedrooms are empty – but over the years, with the rise in housing prices, you have built up significant equity through your home's value. Perhaps you may be asking: is there an opportunity to downsize?

Releasing some home equity has the potential to provide financial benefits such as better supporting your retirement longevity, helping out family members or increasing your retirement options. Downsizing to a smaller residence may also result in lower maintenance costs, property taxes or utility bills. If you are contemplating a move, here are some things to consider.

First, the potential financial upside may not be as large as you expect:

The sale price may be unrealistic. Real estate prices have the potential to fluctuate, and home values are dependent on many factors. To understand the real value of your home, a good starting point may be to ask the advice of an experienced realtor.

The cost of changing homes may be underestimated. Don't forget to factor in the costs involved in the sale process, such as real estate, legal and others, for which estimates range between four and seven percent of the sale price. You may also need to pay for renovations or maintenance to sell an old home or fix up a new one. Even the cost of "trading down" may be underestimated. A modern condominium with high-end appliances may cost more than anticipated, especially when considering monthly condominium fees that weren't a factor with home ownership.

Yet, the opportunity may have potential benefits:

Capital may be freed to invest for retirement. Capital can be invested and grown for the future, with the potential to offer the freedom and flexibility to do the things that you have always wanted.

Proceeds may help to draw down a mortgage. As interest rates rise, so do mortgage costs. Proceeds from a home sale may accelerate mortgage repayment. Of course, this depends upon the mortgage structure, as some carry penalties for early repayment.

There may be non-financial benefits. Downsizing can be a way of adapting to a change in lifestyle. Advancing age or health issues may force a move – perhaps to a retirement or assisted-care facility, which can offer the benefits of becoming part of a community or improved support/security.

Have a Plan

As with any large financial decision, it is helpful to have a plan in place. Think ahead; don't rush into a sale process. If you wish to move to a different city, consider visiting during various times of the year to test the new environment. If you decide to leave the country, be aware of tax, healthcare and other residency implications. Or, if you plan on downsizing to a condominium, do your research to understand the new building's rules. Perhaps you can't have a patio BBQ or paint the outside of your residence: certain restrictions may be deal breakers. Once you have fully explored the options, you can make the best decision.

What could be the end result? While your home may become smaller, the opportunities that lie ahead could multiply.

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