

Should we stay... or should we go?

There is no end of financial advice on preparing for retirement: superannuation, investments, tax minimisation, pension eligibility, funding your desired lifestyle - the list goes on. All this advice highlights the importance of planning ahead - the sooner you start the better prepared you will be.

One of the biggest decisions for many retirees is whether to stay in the family home or purchase smaller or 'retiree' accommodation. It may be their most significant decision both financially and emotionally.

Downsizing is on the move

Between 2009 and 2014 one in four Australians aged 55-64 moved to a smaller property¹. It is expected this trend will increase as more Baby Boomers move into retirement.

As a result, there has been increased demand for housing suitable for retirees such as villas, townhouses and units. Growing competition for limited stock in many established areas has increased prices - in some locations the cost of a villa can be as expensive as a three bedroom house. This trend may continue. But beware - the reverse can happen in an off the plan situation. Some off the plan properties are coming in under purchase price and lenders have restricted lending in certain areas.

Is it better to plan ahead?

In the years prior to retirement many homeowners find themselves with substantial equity in the family home and fewer expenses as kids (hopefully!) leave home. It's an ideal time to consider using the equity in your home to buy that retirement property now. In the years leading up to your retirement the rental income and possible tax benefits will help pay for your property.

With the potential benefit of positive movement in the housing market - and now having two properties - this may place you in a good position to increase your retirement nest egg if you choose to sell your family home when you downsize. Depending on your situation you may even be able to keep the family home as an investment.

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Why downsize?

The decision may be as simple as living in a property that is easier to maintain, closer to family or one that supports your lifestyle choice - many grey nomads LOVE being able to lock up their small pad and hit the road!

Selling could also release money for other investments that provide you with additional income in the future. This may give you more choices in retirement and avoid alternative equity raising options such as a reverse mortgage on your current property.

Look before you leap

Before putting your home on the market you should consider the following:

- Understand your reasons for selling. Don't just consider short term needs – factor in potential long term needs.
- Explore ALL the implications of selling your house – financial and otherwise.
- What are the advantages to YOU? If you're moving to be near family what will happen if they move elsewhere?
- Smaller isn't always cheaper. Explore all the costs of moving and maintaining a new home. Will you be ahead?
- Have you sought financial advice? How will funds from the sale of your home affect your assets and income tests? Will selling impact your age pension?
- You may miss people, activities and services in your current area if you relocate to another region. Make plans to re-establish yourself or keep contact with your social circle.
- You will need to cull a lifetime of possessions. 'Letting go' can be difficult. Try doing without items or living in a confined area of your house for a bit to see how you adjust to 'smaller living'.

Ultimately, downsizing from your family home should provide you with a whole new way of life that is better than the one you left behind. With careful planning and a clear understanding of your future goals you will be well on the way to making it your best move yet!

If you have friends or family who are thinking of downsizing in the next few years make sure you pass on this article!

1. www.ahuri.edu.au