When downsizing, it comes down to lifestyle

My husband and I are planning to sell our century-old four-bedroom Hamilton home in four years and hope to realize net proceeds of $600,000 when my husband retires at age 65. The mortgage will be paid, the kids will be gone and we'd rather be travelling than trimming the hedges.

Question is — should we own or rent? And if we own, should we consider opting for a condo or a smaller home? Certified financial planners Tom Feigs, with Money Coaches Canada in Calgary, and Steve Sztricsko, with IPC Securities Corporation in Hamilton, help analyze the numbers and examine the pros and cons of each scenario.

Downsizing to a smaller home
The bottom line: Spend $400,000 of $600,000 house proceeds to purchase a bungalow. Earn $8,000 annually (4-per-cent rate of return) by investing remaining $200,000 from sale of house. Annual property-related expenses include property tax ($4,000), maintenance ($2,400) and utilities ($3,600): $10,000. Net out-of-pocket annual costs: -$2,000. Pros: This scenario offers all the benefits of home ownership (such as real estate that will likely increase in value and also help to keep our portfolio diversified), plus extra dough for investments or to use for perks such as travel or a new car. Cons: We may have to uproot ourselves to find affordable housing. "Many retirees move to smaller communities where the housing costs can be 25 per cent cheaper," notes Sztricsko. We'd still be on the hook for the property taxes, utility costs and home maintenance expenses and chores attached to home ownership. Instead of investing the entire $600,000 proceeds from the sale of our house, most of that cash would be tied up and not easily accessible should we need it.

Buying a condo
The bottom line: Spend $300,000 of $600,000 house proceeds to purchase a condo. Earn $12,000 annually (4-per-cent rate of return) by investing remaining $300,000 from sale of house. Annual property-related expenses include property tax ($3,600), condo fees ($6,000) and special assessments ($1,200): $10,800. Net surplus yearly cash flow: +$1,200. Pros: Turnkey and worry-free living. This option is ideal for snowbirds who want to simply lock their door and leave for a few months. We'd be able to say goodbye to fix-it jobs around the house and condo fees often include access to services we'd otherwise have to pay for: utilities, laundry facilities, a fitness centre, security, landscaping and movie screening/party rooms. Cons: Condo fees aren't fixed and can be expensive. Plus special assessments, which are imposed if there's an unexpected shortfall or repair, can be unpredictable.

Renting
The bottom line: Invest $600,000 house proceeds. Earn $24,000 annually (based on 4-per-cent rate of return). Rent two-bedroom apart- ment/condo or part of a house for $1,600/month. Utilities: $100/ month. Total annual rental expense: $20,400. Net surplus yearly cash flow: +$3,600 Pros: Renting offers lots of freedom — more mobility (we have dreams of living in places like Chicago and New York for a month or two at a time and renting out our apartment on Airbnb) and fewer responsibilities (if something breaks, someone else fixes it). Renting also

allows us to tap into our home equity to increase our nest egg and offers dramatically reduced utility costs. Cons: Since real estate tends to appreciate in value, we'd potentially miss out on future profits if we are no longer homeowners. And investing our $600,000 house proceeds comes with some risk since there's no guarantee on rate of return.

Then there is the adjustment in lifestyle to consider — can we put up with potentially noisy neighbours, lugging our clothes to a laundromat or basement laundry room and giving up backyard space?

We'd also have to incur monthly storage costs of about $100 since we won't have room for stuff such as sports gear and Christmas decorations. And where do we put the kids — and potential grandkids — if they come for a visit or move back home? Will we miss the comforts of a cosy home, mature garden and longtime neighbours?

"People spend a lifetime building a sense of community and that's something we need when we age," cautions Feigs. "If you move away from your neighbourhood, you can risk losing important connections."

As these examples illustrate, "renting may be the most economical option but the difference is only a few hundred dollars a month — lifestyle factors play the biggest role," says Feigs.

And there's no denying that it would be hard to give up a home we've lovingly maintained and that holds so many memories. Maybe that's why "most people say they plan to stay in their homes until they are dragged out kicking and screaming," says Sztricsko.