

Retirement Lifestyles: Should I trade in my house for a condo?

Submitted by Sean Gross

I am pleased to introduce the next installment in our *Retirement Lifestyle* initiative. In this segment, we'll explore the answer to a question that many retirees ask: should I trade in my house for a condo?

Today, the average house is much bigger than it used to be. According to the U.S. Census Bureau, homes built back in 1978 were an average of 1,750 square feet. By 2006, the average house grew to 2,456 square feet—29 percent larger.

But many retirees are moving in the opposite direction—they are leaving homes that may now be too big for them in favor of *right-sized* condominiums. This can offer day-to-day flexibility and convenience, in addition to many financial incentives.

Still, before you put a “for sale” sign in your front yard, it's important to assess the impact on both your finances and your day-to-day lifestyle. Let's begin by looking at some of the financial considerations.

- **Liquidity:** If you've paid off your mortgage, selling your house for a less-expensive condo means that you'll have a big chunk of cash at your disposal. This could be used to supplement your retirement income stream or fund long-awaited extracurricular activities. Even if you haven't paid off your mortgage, you may be able to reduce or eliminate a high monthly payment.

And if you sell your house for a profit, you can bypass all capital gains taxes for the first \$250,000 in profit if you're single and \$500,000 in profit if you're married and file jointly. To qualify for the exclusion, you must have owned and lived in the property as a principal residence for at least two of the previous five years (no need for the years to be sequential). But there are a few nuances to the rule—for example, you can only claim the exclusion once every two years—so consult with your accountant or tax professional *before* selling your home.

- **Appreciation potential:** There's always speculation about which makes a better long-term investment—a house or a condo. Unfortunately, the answer is not clear-cut. Many factors affect the value of a property, including the condition of the local and national real estate markets, the desirability of the location, trends in neighborhood crime rates and traffic patterns, and renovations and improvements made to the property.

Right now, real estate markets have hit a slow period—and the condo market appears saturated in many regions. According to the National Association of Realtors, the U.S. was sitting on enough condos at the end of 2007 to supply 10-months of demand. This is the highest surplus since the association began tracking this indicator back in 1999.

Although there is no way to predict the future, if you expect to stay put in your new condo for the long-term, you may be less concerned with the ups-and-downs. But if you plan to move again within a few years, you'll want to consider the investment risk.

- **Condo fees:** Condo associations assess a monthly fee to cover maintenance costs and insurance (for the property, not for your personal possessions). A portion of the fee also goes to a reserve fund for major repairs. In a sense, condo fees are like a forced savings plan for property maintenance, so it can make it easier to budget for these costs.

That being said, if there isn't enough money in the reserve fund to cover the cost of an unexpected repair, you could be charged a special assessment. For this reason, review a condominium association's financials *before* committing to a purchase to ensure that the reserve fund is adequate.

- **Property taxes:** If you downsize to a home with a lower appraised value, you should incur a decrease in property taxes, too. This could save you a lot of money in the long run and add to your available income. If you're relocating to a new area, be sure to factor variations in tax rates.

Downsizing to a condo can give your financial situation a big boost, but don't rush to sell your house just yet. You'll want to be sure that condo living suits your lifestyle. Let's consider, for example:

- **Convenience:** Condos are great if you're itching to retire your lawnmower and spend more time on the golf course. You aren't responsible for exterior maintenance and have less interior space to maintain. This frees up your time to do whatever you want.
- **Access to prime locations:** Condos offer more affordable options for living in the city, on the waterfront, and other premium spots. Single-family properties in these same locations are often extremely expensive.
- **Luxury amenities:** With a condo's smaller price tag, you might feel more comfortable upgrading to cherry cabinets or other top-grade amenities. And, depending on the development, you may also have access to shared facilities such as party rooms, fitness centers, swimming pools, and business centers—without the burden of upkeep.

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- **Security:** Many condo developments provide 24-hour security, guarded parking, and other security measures. In addition to feeling safe while at home, you won't have to worry about your property if you travel frequently.
- **Space challenges:** Giving up interior and storage space is one of the most obvious challenges to downsizing. You may have to part with beloved furniture, house wares, collections, and other space takers. A smaller home could also dampen plans to host lavish parties or out-of-town visitors.
- **Rules:** Condo residents are governed by bylaws, which are commonly referred to as covenants, conditions, and restrictions (CCRs). These are set forth in a legally binding contract that regulates everything from parking to pets to outdoor barbecues. Some developments even require that you get approval before making *interior* modifications to your property. Before making a move, you'll want to be comfortable following these guidelines.
- **Community:** Living in close quarters means you'll probably have a lot more interaction with neighbors. Although this can represent a great opportunity to make new friends, it can also mean less privacy and more noise. If you're considering a particular condo, introduce yourself to your future neighbors up-front so you can determine whether the community is a good fit for you.

Deciding whether you should swap your house for a condo takes extensive planning and thoughtful consideration. The pros and cons should be weighed carefully—preferably with the help of a financial advisor. As always, I invite you to contact me when making decisions that impact your financial situation.