MarketWatch

5 real estate mistakes retirees make

By Amy Hoak
Published: Oct 22, 2014 8:53 a.m. ET

Downsizing, relocating and renovating all involve pitfalls

Shutterstock.com

Just because it has palm trees doesn't mean it's right for your retirement.

Most people heading into retirement inevitably make some sort of real estate decision—whether they downsize, relocate to a different community or make renovations to an existing home that makes the place more accessible to live in as they get older.

So, not surprisingly, there are numerous real estate mistakes people in this group make.

"Real estate is usually one of the biggest assets retirees have, but it's the area with the most emotional attachment—and a place where it's very easy to mess up," said Larry Luxenberg, managing partner with Lexington Avenue Capital Management, a financial advisory firm in New City, N.Y.

Below are five common retiree real estate stumbles.

Not downsizing soon enough

Big homes come with big energy bills and large lawns to mow—not to mention sizable real estate taxes and homeowner-insurance premiums. The longer you delay a move to a place that better fits your current needs, the more savings you're missing out on.

“You don’t necessarily need to wait until the last [child] gets out of college to pull the trigger,” said Thomas Scanlon, an adviser with Raymond James in Manchester, Conn. “Lots of folks wait until post-college, and then children boomerang into the basement—it could be an eight- to 10-year run of having more home than you need.”

Not investing the downsizing proceeds

When downsizing, not everyone walks away with cash at closing—some people buy a smaller home, but it doesn’t come with a less expensive price tag. If, however, you are able to purchase a home and bank some cash at the same time, it’s crucial to invest that windfall, Luxenberg said.

Real estate coaches make a game plan

(2:13)
Real estate agents are increasingly hiring coaches, who draw crowds at seminars and earn millions in fees.

“People have a tendency to look at that as found money,” finding a way to spend it quickly, he said.

Individual circumstances will determine exactly what to do with the cash, said Scott Bishop, director of financial planning with STA Wealth Advisors, in Houston. In some situations, it might be best to live on the home equity money first, which would allow you to leave retirement funds untouched for a while, allowing them to grow for a longer period. (Doing so might also enable you to wait longer to claim Social Security, thus entitling you to larger benefits.) Also consider the tax implications when deciding which pot of money to tap for expenses first, he said.

Not researching an area before relocating

Those with dreams of relocating to a sunny locale need to research the place before moving—and early, Bishop said. Know how your taxes will be affected, the cost of the living in the new area, and generally how you’ll fill your days there.

But also be mindful about your health-care options, Bishop said. Research doctors and make sure the ones you’d choose are accepting new patients—and that they’d be in your insurance network. Those with specific health concerns should make sure there are specialists in areas they need.

“As you age, even if you’re healthy now, you may need to visit hospitals more frequently,” Bishop said. That might not be top of mind for people when they’re moving, say, in their 50s and 60s.

Maintaining two homes

Maybe you’re a snowbird, who likes living part-time in two locations. Maybe you’ve purchased a second home with the intent to retire there someday, thinking that you’d save money by buying at today’s prices. Either way, maintaining two homes is a drain on your finances, Scanlon said.

If you’re a snowbird, make sure both homes are small, with manageable running costs, Scanlon said. And if you’re buying now to live in later, reconsider, Luxenberg said. Buying now may end up not being that much of a savings, after factoring in the cost of running two homes—and may even cost more in the long run, he said.

“My own experience owning a house is that everything costs more than anticipated beforehand,” Luxenberg said.

Having a mortgage in retirement

Yes, mortgage rates are favorable, and owners can deduct mortgage interest when filing their income taxes. But most retirees live on Social Security, IRA distributions, their savings and portfolio, and for many, the tax deduction isn’t very significant, Scanlon said. Also, not having a mortgage can keep expenses down, perhaps allowing a retiree to delay taking Social Security distributions early, he said. When you wait until full retirement age, Social Security distributions are larger.

Scanlon also advises against taking out a mortgage if you downsize to a new home—despite low rates. “If someone is 50 years old, he’d have the mortgage until he’s 80,” he said.
