The Boring Money Guide to Downsizing (or not)

With a buoyant property market and declining pensions, downsizing has been a popular solution to raising funds for retirement. Recent research shows that around half of pensioners – equivalent to 5.7 million people – contemplate moving to smaller homes. This could accelerate as state pension ages rise and defined pension contributions become a thing of the past. Estimates suggest 11.1 million people could be looking to downsize in the next 20 years. That's a massive shift – a sixth of the population looking for smaller homes.

That said, while downsizing can seem like a good solution to a tricky problem, moving is expensive and you need to make sure to reach the goals you had in mind after the upheaval. Do your sums carefully.

Why downsize?

- **To realise capital to give to your children**. This may be part of inheritance tax planning, or to help them onto the property ladder, or simply to help them out of whichever mess they've got themselves into this week.

- **Smaller homes are more manageable.** Big gardens and lots of bedrooms are great when there are people to fill them, but less fun when all you have to do is clean them. Also, it can be best to move early while you still have the energy to do it, rather than as an emergency measure when you feel unable to cope.
- **You don't have enough money to support yourself in retirement.** A house is usually your biggest asset and you may have built up a lot of capital over time. That said, do your sums ahead of time using a retirement income calculator like this one **https://retiready.co.uk/retirement-income-planner/retirement-income-calculator.html** - You don't want to go through all the bother of moving if it doesn't give you as much as you need.

Advisers' view:

Martin Pollard, a Boring Money Adviser, says these are the important questions that people need to ask themselves:

- Why do you want to downsize? Do you need the money to clear debt or to live comfortably?
- If not, what are you going to do with the released equity? Invest it, or spend it on, for example, a holiday home? Holidays, new cars or some other luxury? If you're investing, where? Buy-to-let, SIPP, stock market, peer-to-peer lending?
- Are you happy with the area in which you live? If yes are there suitable downsizing opportunities in the area?
- Are you happy with the house apart from its size? Does it just need refurbishment or maintenance or upgrade and does it also need you to spend money to optimise its sale value?
- What is your requirement for the downsized place – flat, house, bungalow, garden, sheltered accommodation, location etc. and what would be the TOTAL cost of buying or renting our "ideal" choice – including ongoing costs and fees – estate agent, stamp duty, council tax, heating costs, service charges.

He concludes: "You really need to think about WHY you want to downsize and then downsizing itself becomes only a consequence and some other need is driving your decision."

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Consumers' view:

Simon Cullum, a recent downsizer**,** says there are two factors that are always more significant than people think:

- **Costs** – For most people the difference in price of the two properties could be as little as £100k – £200k. On a sale price of £500k and a purchase price of £300k the costs are roughly:
  - Stamp Duty £5000;
  - Removal £1500;
  - Agents (1.5% on £500k) £7500;
  - Legal £2500;

Costs of £24000 are a big chunk of the released capital.

- **Status** – There is a reduced personal status resulting from downsizing. Not having the same space to invite family and friends to stay and entertain is a lifestyle change that can be hard to accept. Those among your peers who have not downsized can appear to be in a different social group – which can be a problem on all sides.

Points to consider:

Timing – unfortunately, it matters. For most of your life, you are trading up and any fall in the market is an advantage. Your house is worth £500,000 and you want to buy a house worth £1,000,000. The market falls 10%. Your house is worth just £450,000, but lo and behold your dream house is worth just £900,000. Of course, it's not quite that simple, but you get the picture.

Trouble is, that dynamic works against you if you are downsizing. You're the schmuck getting £900,000 for your house and still having to pay £450,000 for the next one. That's £50,000 that could be going towards children's home deposits, a more secure retirement, or a few really spanky holidays.

While you may not have complete flexibility over when you buy and sell, it is worth being aware of market conditions. The RICs survey – **www.rics.org/uk/knowledge/market-analysis/rics-residential-market-survey/** – if you can wade through it, is about as much detail as you'd ever need.

There may be unanticipated changes, too.

"We hadn't banked on the problems of shared living - there are always parking problems with people using my allocated space, plus parcels being stolen from our shared delivery point and increased noise from the neighbours!"

Now or later? – If 11.1m people are planning to downsize, that is likely to put up the prices of suitable retirement homes (where there will be lots of demand), and push down the prices for larger homes (where there will be lots of supply). This would suggest that – where you have a choice – doing it sooner rather than later is probably a better option.

Mortgage age limits – Mortgage lenders are considerably more relaxed these days about the age of people borrowing. It used to be that the mortgage term needed to expire before a person retired. They have now become more realistic, recognising that the market has changed. Lenders vary in their criteria, but some will now allow the mortgage to run until a borrower is in their eighties providing they have proof of income in retirement. Online brokers such as Trussle **trussle.com/** or Habito **www.habito.com/** can give you an idea of your eligibility.

Stamp duty – If you're trading down, you should pay a lower level of stamp duty. However, you can't afford to forget about it altogether and it will affect the pot of cash you receive at the end. This calculator is regularly updated and gives you an idea of likely costs. **www.moneyadviceservice.org.uk/en/tools/house-buying/stamp-duty-calculator**.

Other costs – The costs of moving can mount up – conveyancing fees, surveys, mortgage fees, removal firms. You may also incur costs doing up your new home. These fees are likely to run into thousands, possibly the tens of thousands. This – **www.reallymoving.com/moving-cost-calculator** – gives you some indication of the costs you can expect to pay.

"We ended up doing a lot of work to our new house and spent more than we realised. We moved from a lovely house, where everything was 'just so' to a lower quality house and it took work to get it how we wanted it."

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Some may also have to consider capital gains tax. Although your only or main residence is exempt from the tax, second homes are not. If you have more than one house, make sure HMRC considers it your 'only or main residence'. **www.gov.uk/government/publications/private-residence-relief-hs283-self-assessment-helpsheet/hs283-private-residence-relief-2017--2**.

Inheritance tax – if you are passing the money from a home sale to your children, you will need to consider inheritance tax. Any gift, however large, is considered a 'potentially exempt transfer' – if you survive for seven years after giving it, it falls out of the inheritance tax net. Remember that inheritance tax rates have gone up, and there is now a chunky 'nil rate band' for the family home. Check the rules out here: **www.gov.uk/inheritance-tax**.

It takes time – Start thinking about it at least a year before you want to move. There may be decorating jobs that need doing, leaks that need fixing. If you've lived in a house for a long time, you will have blind spots. Consider roping in a (tasteful) friend to give an honest appraisal. For higher end homes, you can even get them professionally 'dressed'. **www.robinsonstone.co.uk/**, **www.davidphillips.com**, **www.instyledirect.com/home-staging-service.php**.

Estate agents will often say that you shouldn't undertake major work because every buyer will want to put their own stamp on it. However, people don't always have great vision, and may not have a lot of capital left after a house purchase. If there are short-term fixes – new cupboards in a kitchen, new tiling in a bathroom, they might be worth doing.

"When we found the right place, we had around 9 months to finalise the deal, which gave us time to think about decluttering. We had been at the house for 32 years and had a lot of stuff."

Dealing with 'stuff' – If you are downsizing, you will almost certainly have too much stuff for too small a house. If it's worth anything, you may be able to dispose of it via ebay, car boot sales, or a local auction house. Failing that, it's the charity shop or the tip. This could be tough and full of memories. Don't underestimate how sad you may feel.

Alternative options:

Equity release

Equity release products allow you to release the capital in your property, but to stay living there. They used to have a bad reputation. High charges, poor interest rates, inflexible structures, they ended up as a 'last resort' option for those who had fallen on hard times. They have smartened up considerably and can be a life-saver for those who find themselves short of cash. Take advice – these are complex products. You can find an adviser here: **www.equityreleasecouncil.com/membership/find-a-member/**.

Rent a room

Rather than downsizing, you can be creative about making money from your home in other ways. The simplest way is to rent out a room – **www.spareroom.co.uk/flatshare-house-share/uk/ or www.gumtree.com/**. You can also try local universities if you have one in the area. You can earn up to £7,500 a year tax-free. If you don't fancy sharing your home permanently, you can try renting a room short-term with AirBNB – **www.airbnb.co.uk/**.

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