

Retirees: Is it time to downsize, even in this real estate market?

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From cash flow issues to bad knees, here are some situations that might match up with a "For Sale" sign in later life. (Getty Images)

By Kate Ashford | NerdWallet

Your home is your sanctuary, but it's also one of your biggest budget items. And after you retire, it may feel like more house than you need. But in this housing market, when a smaller home with upgraded features may be about as expensive as the one you're selling, is it still smart to downsize?

In some cases, downsizing is appropriate, but not necessarily money-saving. You may be able to [sell your house](#) and buy something cheaper, but it might also make sense to downsize to move closer to family or have less house to clean.

It's important to be clear on what you want. "Goals are so crucial," says Juan Hernandez Ariano, a certified financial planner in Houston. "There are multiple pathways people can take."

Here are some situations that may match up with a "For Sale" sign.

You're in a cash flow bind

In retirement, you might find that [rising prices](#) combined with a fixed income make you feel a little squeezed.

Hernandez Ariano notes that his clients in southeast Texas are bothered by high [home insurance](#) premiums due to severe weather events, plus high property taxes. "A lot of insurance companies are dropping coverage on the southeast side of Texas," he says.

If downsizing is a question of money, consider all your housing costs. Weigh the mortgage, property taxes and insurance, plus basic bills like electricity and water services for your current and future homes.

One client in Houston did the math and moved 90 minutes away, where they got a cheaper home and dropped their homeowners insurance by 60%. "Property taxes also went down since they weren't in a highly competitive school district," Hernandez Ariano says. "They still spent more on gas and water and had to pay for relocation expenses, but overall, they saved monthly."

You're in a pricey area

If you live in an expensive city, you have a better chance of selling your home and finding something cheaper. "When you're in a lower-cost area, it's going to be difficult to find something even [more] lower cost," says David Demming, a CFP in Aurora, Ohio.

Just do some looking before you leap. Inventory is low in many places, and competition is steep for a smaller home with upgrades.

To save money overall, the value of the home you're purchasing should be at least 20% less than the house that you're selling, says Diane Pearson, a CFP in Wexford, Pennsylvania.

You can't live there safely anymore

Your health may require you to [find a new home](#) with fewer stairs, a first-floor primary bedroom or an accessible bathroom.

Michael Maye, a CFP in Gillette, New Jersey, notes that his clients who've seen parents go through long-term care or health issues are more likely to consider future mobility when planning their retirement. "Recently, I proactively worked with a couple and they knew that they didn't want to age in place, because they have a bigger house," he says.

They wanted to buy into a continuing care retirement community, where they could take advantage of graduated levels of care as they needed it. "They could stay in their house, but they don't plan to," Maye says.

You want to be closer to family

While being closer to children or aging parents is a good reason to [downsize](#), don't count on this being the cheaper option, especially if you're moving into a [hotter market](#).

Consider one of Demming's clients, who moved from one part of Ohio to another part of the state. "It cost her \$150,000 more to move there, to get a house that was acceptable to her," Demming said.

Even with the higher cost, Demming says, it was worth it to be closer to her children and grandchildren — and her new city is booming. "There is no looking back," Demming says. "Her new home has appreciated quite a bit since moving."

You're prepared to create a new support network

If downsizing means a new city, keep in mind that you may have to rebuild your community. Even if you're moving to be near family, you shouldn't count on them to be your activities hub. "Are you a social person who's going to be able to get out and about and make your own way?" Maye says.

You'll need to make new friends, find new medical professionals, find a new gym. "Those are the trade-offs," Maye says. "None of them are deal breakers, but I think people should really think about all these other things."

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