Would downsizing be worthwhile for you?

It seems to make logical sense. You retire, sell the now cavernous family home, buy a cosier place and use the cost difference to boost your retirement income – win-win right? The answer is – "it depends."
Downsizing can be an excellent strategy to supplement your income and simplify your lifestyle, but it's not right for everyone.

Here's what you need to consider to see if downsizing is the right move for you.

Where you could save
Super: If you own your home outright and choose to downsize, that extra money could substantially improve your retirement income. The attraction of contributing money into super is that investment earnings on money in a super fund are generally taxed at 15%, representing a potential tax saving of up to 34%. This is because when you hold an investment outside super, the earnings are generally taxed at your marginal tax rate which could be up to 49%.

Mortgage: If you're still paying off your home, downsizing could help you minimise your repayments or eliminate them entirely. You could even downsize and continue to make the same repayments to pay off your mortgage much sooner.

Utilities: A smaller home typically runs more economically. Why pay to heat or cool space you no longer need? If your new home provides renewable energy options such as solar power, you may even be able to sell energy back to the grid and make money.

Maintenance: Less space to occupy means less space to maintain. In the case of larger properties, downsizing could offer substantial savings on cleaning and garden maintenance.

Travel: Downsizing can help you relocate to a more convenient location. If the local shops, public transport and amenities are all within walking distance, you could make substantial savings on fuel.
Garage sale: Selling your home is a great time to sell any items you no longer want, need, or will fit into your new house. Any money you make could be contributed towards moving costs.

Costs to consider

Home value: If you sell your home during a market lull, you could lose some or all of the equity you've built up. This could eat into, or erase entirely, the cost saving you make by purchasing a less expensive property.
Fees and commission: Home selling is a highly competitive market. To ensure your home is positioned favourably to sell, you may need to appoint a real estate agent and potentially pay for marketing services, which can cut into your profit margin.

Moving costs: If it's been a while since your last move, you might be surprised at how much it costs to pack up and transport all of the items you've accumulated. That's why it's a good idea to offload all the items you can live without before your move. Why pay to transport items you no longer need?

Strata fees: If you purchase an apartment you'll have to pay quarterly strata levies. Although these fees can end up saving you money in the long term, compared to paying for the maintenance of your home and yard, they will eat into your profit margin in the short term.

Stamp duty: You'll have to pay stamp duty to buy a new home or apartment so you'll need to include this cost in your calculations.

Storage costs: One drawback of buying a smaller home is you have less space to store your treasured belongings. If you run out of room, you may need to purchase additional storage which can add up quickly.

Doing the sums

Balancing the potential savings and costs of downsizing can be tricky, and that's before you take all the potential lifestyle impacts into consideration. A financial adviser can help you work out if downsizing makes sense for you as a part of a tailored financial plan.

Source: MLC