

## Is Your Home A Castle? Or A Retirement Nightmare?

Since I am a specialist in mortgages and real estate, my financial planning clients often talk to me about how they expect to use future home equity to help fund their retirement. With rising real estate values, this often looks like an appealing way to add significant dollars to their retirement portfolio in the future.

I am here to tell you it just isn't that easy, and with real estate prices reaching all time highs both here in Denver/Boulder metro area and in the mountain communities, I am getting a bit nervous about relying on this strategy as a principal way to save for retirement.

As a planner who has seen 25 years of real estate market boom and bust cycles, I know that the idea of downsizing in retirement faces many pitfalls.

Here are some great questions to ask yourself, so that you can accurately estimate **actual realizable equity** from your home, and avoid significant disappointment down the road.

1. What is your expected holding period for your current home, and when do you plan to buy your "retirement" home?
2. Are the value increase assumptions for your home reasonable in the long run?
3. Are replacement costs for the new, smaller home estimated appropriately?
4. Have you ever really lived in Vail, Telluride, Aspen, Arizona or Florida all year round? In a condo or patio home?
5. Do you really want to leave your city or neighborhood?
6. Have you physically toured the replacement homes you priced? Could you really live there for 12 months of the year?
7. Do mortgage issues need to be addressed? What kind of a mortgage, if any, would you need to obtain?
8. Would there be a point in time where you owned both your primary and "retirement"/secondary home? What kind of dent would that put into your retirement cash flow budget?
9. Are pre-sale refurbishment costs factored into the sale estimates for your old home?
10. Are transaction costs - selling and buying - factored into the numbers?

These are all things that can quickly whittle down the estimated additional retirement capital or make a particular "downsizing" strategy less attractive. That's why I think it's important to stay educated about downsizing issues, and moderate your expectations appropriately, especially in such a frothy real estate market.