



## A SPECIAL REPORT MATURE BUYERS

# SENIOR RESIDENTIAL PROPERTY BUYERS

*Answering Eight Most Frequently Asked Questions*



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 **ABOUT SENIORS REAL ESTATE SPECIALISTS®** 

Seniors Real Estate Specialists (SRES®) are licensed salespeople or brokers, members in good standing of the National Association of REALTORS®, who have taken the additional hours of training needed to help senior clients make wise decisions when buying, selling or investing in real estate. Many seniors have not invested or sold in years and their issues, requirements and needs are special in order to protect and enhance their equity.

SRES designees belong to the Senior Advantage Real Estate Council® (SAREC®) which offers the SRES designation nationally to those REALTORS® who have demonstrated the requisite knowledge, experience, insight and expertise to be a Seniors Specialist. The Council also offers its members frequent updates on senior housing issues.

The REALTOR® who delivered this Report to you is a member of the Senior Advantage Real Estate Council, having earned the prestigious and nationally recognized designation - **Seniors Real Estate Specialist (SRES®)**. For more information about this program, call your REALTOR® or email them from the council's web site at [www.seniorsrealestate.com](http://www.seniorsrealestate.com).

## THE 8 QUESTIONS MOST FREQUENTLY ASKED BY SENIOR RESIDENTIAL PROPERTY BUYERS

1. I've decided to sell my home. Should I rent or should I buy another home?



Whether maturing sellers should rent or buy their next home is not only an emotional decision, but also largely a question of economics. The most important financial factor that comes into play is determining the highest and best use of the cash you receive from selling your home. Many times, tying up a lot of cash as equity in a home does not provide the best cash flow.

The question to ask yourself is: Do I have sufficient cash flow from other sources such that using the equity from my current home to buy my next home will be an acceptable financial decision? If the equity in your current home represents a substantial portion of your assets, how you use these funds is very important in determining your quality of life.

To understand how this works, consider what maybe called the "Cheap Living Myth." One of the most commonly uttered phrases by senior homeowners is, "Our mortgage is paid off, so it's really cheaper for us to keep living in our home than it would be for us to rent a home." Most seniors honestly don't know that they might be able to rent an equally nice home in the same neighborhood and pocket thousands of dollars in extra cash every year.

2. Is there a simple rule of thumb I can use to decide whether I should buy or rent my next home?



Advanced courses in real estate economics use a "two-thirds/one-third" rule. The first two-thirds of most people's lives are spent acquiring and leveraging assets

while the last one third of most people's lives is spent earning income (i.e., generating cash flow) from those previously acquired and leveraged assets. So, people who used to figure they would live to be 60, 65 or maybe 70 years old would acquire and leverage assets until they were 45 years old. Then, from that time forward, they would try to generate income from those assets. People who, today, figure they will live to be 90 years old, say, could be acquiring and leveraging assets until they are 55 or 60 years old. After that, they can start buying income property that generates cash flow. It may not be prudent for someone who is 75 years old or older to purchase additional property unless it's located in some type of assisted care living situation.

**3. I'm planning to move into my vacation home.  
Is this a good idea?**




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Maybe. It's important to make a careful and considered decision about where you want to live at any time in your life. You should select an area where you feel comfortable and secure and that you have had ample time to visit.

Many people make a quick decision to sell their home and move into a previously purchased second home (i.e. a vacation place in the mountains, the desert, or a ski resort). However, there is a *big* difference between living somewhere for a couple of weeks each year and living there year-round. Many times, people don't know what the place is really like. Also, those few weeks each year are usually during the height of the social or recreational season and may not reflect year-round activities. For example, many people decide to move to a desert community without ever having visited that locale in the middle of the summer when the temperature can reach 120 degrees.

People who are considering moving to their second home on a year-round basis should live in that home for an extended period of time before making this a permanent decision and certainly before selling their primary residence.

#### 4. Should I consider relocating to another state?



Younger seniors generally are more flexible and enthusiastic about relocating to a brand-new distant community, while older seniors tend to be more inclined to stay in a familiar community. Seniors also tend to relocate to be closer to trusted family members. That usually means moving to wherever their children or grandchildren have decided to live or returning to a hometown they themselves left behind years earlier. Many seniors moved to sunny retirement-friendly states (e.g., Florida, Arizona and California) a generation ago, when they were in their late '50s or early '60s. These seniors are now living much longer than they had expected and are facing more difficult housing decisions.

Another consideration is whether you will be comfortable making a long-distance move, which involves more complicated logistics, than a short-distance move does. Approximately 30 percent of seniors have lived in the same home for 30 years or longer. It's no wonder that making a major move with a lot of accumulated belongings seems daunting. If you decide to make a long-distance move, be sure to spend a lot of time in your destination state and at various times of the year, if possible, before making your decision. You may want to rent a home in your new community before you decide to buy a home.

Whether you're moving a long distance or a short ways away, start packing for your move as early as possible. Choose a reputable moving company, sign a moving services contract and consider purchasing additional mover's insurance.

#### 5. How can I be assured that my next home won't be a "money pit"?



If you are buying an existing resale home (i.e. not a brand-new home), it's important to obtain as much protection as possible. Talk to a REALTOR® who specializes in helping seniors and who understands senior issues. This is a good step toward learning about all the options available to you.

One such option is to make sure the property is thoroughly inspected by a competent building contractor or home inspector (your choice) prior to signing off on your contingencies. Another option is to make sure your written purchase agreement includes all the legally permissible warranties from the seller guaranteeing the condition of the property.

You may, if required in your state, want to obtain a professional termite report from a pest control company. If the seller agrees to pay for the home condition and termite inspections, you'll still need to feel assured that these reports are competently, professionally and thoroughly prepared.

Many real estate professionals recommend the purchase of a home warranty product. For example, American Home Shield Warranty and other companies provide warranties with certain special benefits for seniors. A warranty means you'll have to pay only a maximum fee — for any type of repair covered by the warranty program. These products give you the opportunity to ensure the quality of your next home. A REALTOR® with the Seniors Real Estate Specialist® (SRES) designation can tell you about other quality-assurance opportunities.

Remember: *Everything in a real estate transaction should be in writing. Any promises that aren't written are not promises at all with regard to the quality or condition of the home.*

6. How can I be sure I won't lose money on my new home?



There is no guarantee that any particular home will appreciate in value; however, residential real estate has historically proven to be ***an excellent long-term investment***. Keep these strategies in mind to choose a home that will pay off over the years:

- ◆ Purchase a home in a well-established neighborhood with good schools, a low crime rate, and easy access to transportation and attractive shopping areas.
- ◆ Purchase an undervalued home, or one that is unpopular at the moment due to its architectural style or specific location within the well-established neighborhood.
- ◆ Avoid over-paying for a home just because it has a strong emotional appeal to you. Paying too much in the first place means your home will be worth less than you paid for it on the day you move in.

## 7. Should I pay cash for my next home or obtain a mortgage?



If you're buying a home in an unfamiliar area, you should probably take advantage of the financial leverage of a mortgage. That way, you can check out the area more thoroughly before tying up a lot of cash in your home. Leverage is important because if you bought a home for \$250,000, for example, and made a down payment of only \$50,000 or \$60,000, you wouldn't have all your cash tied up in the home. You would have to make mortgage payments for a while, *but* if you didn't enjoy the area and wanted to move, you would still have cash available for that purpose. Of course, if you decided to stay put, you could pay off the mortgage. (Make sure the mortgage doesn't contain an onerous pre-payment penalty, so you'll be able to pay it off in full at any time.)

Another option is to bundle a reverse mortgage, which pays the homeowner a portion of the equity in cash every month, into your home purchase mortgage. With a reverse mortgage, you can buy a home for all cash, then get the cash back in a lump sum or gradually over a period of many years. It's less expensive to obtain a reverse mortgage as part of the financing package than it is to obtain a conventional mortgage first and then add a reserve mortgage sometime later. This strategy is a positive way to buy a home outright but still produce bundling cash flow.

## 8. Should I put my money into other investments instead of buying another home?



One good answer to this question is that you might well be able to buy a home AND put money into another investment. Many seniors look at purchasing a small multifamily building with two, three or four attached homes. (A two-home building is called a “duplex” and a three-home building is called “triplex.”) Instead of using the equity in your existing home to buy another home or a condominium, you can buy a multiple-unit building, move into one of the units and rent the others to tenants. The benefit is that you’ll be an owner and be able to generate income from this investment. The point isn’t to buy a large apartment building with 10 or 15 units that could bring on a lot of management and maintenance responsibilities. Another advantage is that you could move from one of the larger units in the building to a smaller one if you need less living space in your later years.

If you finance part of the purchase with a mortgage, you can use the rental income from the other units to pay some or maybe all of the monthly mortgage payments. For example, suppose a couple in their early 50s sold their home for \$250,000, then bought a triplex for \$350,000. If they applied the income from renting two of the units to the \$100,000 in mortgage debt, they might be able to repay it within 15 years. That way, by the time they were in their 70s, they would own the property free and clear and could keep the extra cash from the rents. If the two units each rented for \$800-\$1,000 a month, that would bring in \$1,600 to \$2,000 a month before operating expenses. In the event of a financial emergency, they could refinance the mortgage or obtain a mortgage against the property with relative ease.



## SUMMARY



The American Dream is to own your home. Over 80% of mature Americans over 75 still live in and own their properties. However, many of us, as we age, are not able to maintain our homes. Some will choose to downsize to a condominium or other maintenance-free dwelling. Others will decide to move to an active adult community with recreational and social amenities. Still others will need to look at assisted-care living facilities.

Today, when many Americans are living to 85-90+ years, we have until 60 before converting to cash flow. What are you planning to do with your equity? Where you live for the rest of your life is a major part of your retirement plan. Believe it or not, many seniors could be better off renting and using their equity to develop better and more effective retirement income.

Ask yourself or discuss it with your spouse: What is the highest and best use of my current Equity? The security of homeownership is not to be denied but it must make economic sense. Your Seniors Real Estate Specialist® will help you to find the best housing for your specific needs.