

Renting or Owning for Seniors

**SENIOR
SOLUTIONS**

CHANGE IS HARD, WE CAN HELP

As real estate professionals, we are often approached by those looking to buy, sell or invest in real estate. For many of our clients, they have very clear goals in mind, and we are happy to assist them. For others, given their situation, it may be best to consider not owning a real estate asset, but rather leasing or renting instead. At Senior Solutions, we are focused on assisting all of our clients and helping each one of them achieve the best fit for their unique situation.



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When you OWN real estate, you OWN it! You need to have the cash or the financial ability to secure a mortgage to purchase real estate and then the additional cash flow to maintain your investment and to stay current on the property taxes, insurance and debt service. If your plans are to live in the home, that's great. If your intentions are to be a landlord and to use this as investment property, that's also great. But no matter what your intended use, you **OWN** it and will eventually need to sell this asset to convert it back to cash.

We believe that many homeowners do not factor in the future selling costs when buying a home. These will often include real estate commissions that range between 6% and 7%, the potential to pay some of your buyer's closing costs and the temptation to make improvements to your home right before you sell it. It can get even more complicated when you start to consider the tax ramifications and time value of money.

Below are a few scenarios that you can read to stimulate more thinking on this topic. The Internet is full of articles and books that go into far more detail than we need to consider here. Our intention is to just discuss what the various options are and then work with you more to help you find your best fit.



Town homes can either be rented or purchased and someone else can do any of the required maintenance.

Renting or Owning for Seniors

Unlike the above scenario, things are different when you are a senior. Many of our clients are seniors and have lived in their homes for 30-plus years. They may have started out like the example above and have fully enjoyed all that they could in their present home. However, along



the way, the enjoyment they once had when cutting their grass, cleaning gutters or doing their own home maintenance may have decreased. Perhaps there has been some illness or some other life changing event that has made it clear that it's time for them to sell and move on.

(The owner of this home lived here for 62 wonderful years and then decided to try something new.)

Sample Seller

Let's begin with a scenario where an average couple sells their home and then look at it from a few different perspectives.

In this example, Mr. and Mrs. Smith are 75 years old, and they own their current home free and clear. Their home is valued at \$300,000, and they have a combined pension and social security income of \$5,000 per month and another \$100,000 in the bank. For all intents and purposes, the Smiths are in good health, and their focus is really just to settle into a safe place where they can spend more time enjoying their senior years and not maintaining a home. When they sell their current home, they will get a check for \$277,000 at the closing table to add to their other \$100,000.

So like many of you, the Smiths have to decide what type of living situation best fits their future needs. In this example, they are in an excellent position to either buy another home or to consider renting their next home. Your situation could be better or worse, but you will still have to choose at some point. So let's begin by looking at some of these options in more detail.

100% Ownership

SCENARIO ONE - 100% OWNERSHIP

If you want to own your next home, you may be able to buy it using your cash from the above scenario, or you may want to use a portion of this money and take out a new mortgage to finance this purchase. Often times, seniors will purchase a condominium, townhome or cooperative to avoid the home maintenance aspect so they can focus on other opportunities.

In this example, consider the home you purchase costs \$300,000 and you live there for 5 years. The home appreciates and later sells for \$325,000. Your effective cost to sell the home



Townhomes offer 100% ownership but without the usual maintenance and upkeep required by a traditional single family home.

will range between 7% and 10% of the sales price, and on average you will walk away close to where you started at \$300,000. All of the risk to convert this home back to cash falls on you along the way including the normal monthly financing costs. Like when you started earlier in life, the majority of your cash is again tied up in your home. On a positive note, you can deduct any mortgage interest paid, property taxes and other items allowable under the new tax code. To get an exact answer, consult your tax advisor.

We can assist you on both finding your new home and selling your current home. The homepage has some specific links that you might find interesting

100% Rental

SCENARIO TWO - 100% RENTAL

Using the same starting point from above, now let's assume that instead of buying a home, you rent your next home for 5 years. Assume the monthly rental cost is \$2,000 per month. Your out-of-pocket cost would be \$24,000 per year or \$120,000 over the entire 5-year period.

In this scenario, the \$2,000 monthly cost would be paid out of your \$5,000 in monthly income and the renter could invest the full \$300,000 received from the sale of their home above. Even at a 1% compounded annual return, this same \$300,000 cash balance would grow to \$315,303 in 5 years. If after 5 years you wanted to move to a different location, you could just give your notice and leave. You do not have any other selling expenses along the way, and while you were renting, you had immediate access to your invested funds. If your annual Adjusted Gross Income is less than \$61,000 and you itemize your taxes, then you could claim a renters credit of \$4,080 per year on your Minnesota state return.



You can rent just about anything. Townhomes and condominiums are very common but single family homes are also an option.

Popular rental options could include leasing a condominium unit or townhome but could also be at some sort of senior apartment building or a senior rental building that offers progressive care. Here you pay a monthly amount that often includes a variety of food options and adds services as your needs change.

This is a very important topic, and we can discuss each of these options with you in more detail to help you in your decision-making process. After we help you tie up your future home, we can market and sell your current home. This allows you to safely move forward.

Variable Ownership

SCENARIO THREE - VARIABLE OWNERSHIP AT APPLEWOOD POINTE

The above two examples contrasted buying a new home and renting a home over a 5-year period. Purchasing an Applewood Pointe home falls someplace in the middle. It seems rather complicated when you consider that for each floor plan in a specific community, it could have been purchased under one of four debt to equity ratios. These are referred to as - Plans A, B, C or D. Regardless, from a tax standpoint, you can still deduct the mortgage interest and property taxes associated with your specific home. Another positive is that most Applewood Pointe homes are sold to those on an internal waiting list, and you would generally not use a traditional realtor to assist you when selling. You would only pay a small internal transfer fee. This could potentially save you considerable money when selling.

When you are considering the purchase of a brand new Applewood Pointe home, you as the buyer get to choose which rate plan fits your needs the best. In contrast, when buying a home in an existing community, you must assume the rate plan that the original owner chose. So in essence, you must know how much cash you have or are willing to invest in your next Applewood Pointe home along with the amount of cash flow needed to pay the monthly fee. Together these will determine which homes best fit your financial situation.



A typical front foyer and seating area to enjoy at Applewood Pointe.

Variable Ownership

SCENARIO THREE - continued

To see if this situation is right for you, we strongly suggest meeting together and allowing us to learn more about you and your goals. If you want, we could give you an idea of the estimated cash you would get once you sold your current home and then look at your financial situation based on the Applewood homes you are interested in. We are not financial planners and will always suggest you seek professional financial advice. Since we have done this so many times, we can help you get better prepared so when you speak with your advisors, you can make the best overall plan for you and your family. In addition, we can run projections to show you how your new Applewood Pointe home will appreciate and what your likely selling price will be in the future.



A typical Applewood Pointe workshop for you to enjoy.

WHAT TO DO NEXT?

To see if this situation is right for you, we strongly suggest meeting together and allowing us to When working with seniors, we find ourselves repeating this phrase over and over again - "You need to tie up your next home before you sell your current home." It does not matter if you intend to purchase your next home or rent, you need to have it locked up so you can work through the sales process on your current home and not be left scrambling as your closing date approaches. We understand the difference between renting and owning real estate and want to assist you as you make a smooth transition into your next home. We are very good in this area, so please get us involved early on.

So what do you say? Do you want to start down a new path in life? We would enjoy working with you.

We look forward to meeting with you soon!

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