

## PLANNING FOR LIFE EVENTS: HOUSING TRANSITIONS

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For most people, housing transitions are infrequent, though hugely influential. After paying expenses devoted to taxes, savings, and children, housing-related expenses (mortgage costs, taxes, upkeep and insurance) typically consume the largest percentage of income during our working years and, if we're not careful, a disproportionate percentage of our nest egg during our retirement years.

Whether you're making a decision regarding your first-time home purchase, the purchase of a second home, new construction or renovation, the famous downsize (upsized?) on the cusp of retirement, or decision to rent, any major housing decision deserves thoughtful evaluation within the context of other goals and values. But thoughtful analysis can be difficult. Shaping a home is often a very personal matter, and we want housing markets to be in alignment with our own careers and lifestyles. In reality, housing markets are very cyclical, and the ebb and flow of affordability plays a measurable role in our everyday lives as well as our quest towards our goals.

Just recently, the National Association of Realtors Housing Affordability index recently dipped to a 10-year low. The demand for homes remains, but higher interest rates and higher prices without proportionate wage growth has created the lowest consumer sentiment towards home buying since 2008. This is a precarious situation for anyone facing a housing transition within the coming years, and it only increases the importance of proactive planning.

With ample time, realistic expectations, and a written plan for proper context, you can make housing-related decisions without having to cycle with the markets, and it can always be an exciting experience. To help with this often-challenging and emotionally charged process, take the following actionable steps to help you reach your goals.

1. Develop cash flow awareness. Without an understanding of current and projected income streams and expenses, it's nearly impossible to project the affordability of a housing-related decision within the context of our needs, wants, and wishes.

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- a. Write it down. If your cash flows are not on paper, within an app, or within an Excel spreadsheet, they can fall through the cracks. On paper, you can identify what you prioritize via your spending patterns and if they align with your actual goals. If not, you have the empirical data to help you make changes.
  - b. The Center for Advanced Hindsight at Duke University found that a good way to think about spending in general is to think about the following seven spending categories: eating out, digital services, recharge, travel, entertainment and shopping, and basic needs. Basic needs are the least exciting but by far the most important category, because the cost of basic needs determines how much discretionary income is left for all the other more 'fun' categories.
2. Location. Location. Location. Think of your desired location as it relates to the people, goals, and activities that are important to you now and in the future. How will the location and price range of your housing decision accommodate your evolving spending habits, values, and lifestyle? Owning a great house is wonderful, but if it's at the expense of other goals, it may have undesirable consequences.
  3. Do the math. Now do the math again, and build in a cushion. When assessing the potential affordability of a new living situation, it's impossible to predict every expense, let alone account for various one-time expenses or unexpected opportunities. And, don't forget inflation. Rising tax rates and insurance premiums should not be a surprise; plan for them.
  4. New construction and renovation costs are almost always higher than expected. We've witnessed and counseled hundreds of construction projects, and in almost every case, the homeowner was confident *their* project would be within budget, and it wasn't. For planning purposes, we suggest grossing up projected costs by at least 20-30%.
  5. Ownership is not always the right decision. In many situations, renting during various stages of our lives may allow for greater fulfillment at a lower cost. For example, buying a second home comes with a lot of responsibilities. It requires financial and time commitments and may limit the ability to vacation elsewhere. Renting provides the flexibility to visit different destinations as our lives evolve.
  6. Sequencing matters. Buying a new property before selling your old home creates financial risk. Without the proceeds from the sale in hand, we expose ourselves to market-related risks outside our control. Being stuck with two properties or seeing the "For Sale" property decline in value may create financial strain.

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7. The older we get, the more we appreciate the value of time – time to do what's important to you. Is this housing decision in support of what's truly important to you? Are you going to increase or decrease your housing-related responsibilities? Are you making desired or undesired compromises? There is truth to the old saying: less is more.

Most Importantly, embrace the process. Planning to achieve something that's important to you should be fun. In fact, according to Sonja Lyubomirsky, the author of [The How of Happiness: A Scientific Approach to Getting the Life You Want](#), building and executing on a plan is, in itself, a source of happiness. As you make your housing decisions, remember these actionable steps, and your journey should be a joyful one!

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