

A step by step guide to obtaining a long
and prosperous retirement

Lesson 8 – Sorting out the House

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Introduction

This document is part of the comprehensive training material written to assist Kiwi's in their 50's or 60's that are looking at retirement but have no idea what to do, what is needed, and how or where to get help. Or those that already have some ideas of how to survive retirement, are looking at alternatives, or just checking they are on the right path. They might even be looking on behalf of their 'elderly' parents, to ensure they are considering all options available to them.

This training material was also written for the younger partners in a relationship. Statistically they are likely to live longer, and are likely to be living alone in their retirement years. And if they are female, their average life expectancy is 5 years greater than that of men. They might have 10 years alone, so need to ensure there is enough in the bank account to enjoy those later years, as their partner won't be there to help them!

While this course can also help those already in retirement, and those where retirement is a longer way off, it is targeted towards those that still have time (for some - not much) to make adjustments, to learn some basic financial skills, make some big decisions, and positively influence the quality of their pending retirement.

They have the time and the need to make a plan. A plan that will take them into a longer and more prosperous retirement – *with buckets of money!*

This course provides a simple comprehensive step by step process to create your own retirement plan. It includes a summary guide, road map, lessons and discussion topics to help you prepare for your retirement. It will help you answer questions such as:

- *How much money do I need in retirement?*
- *How much money will I receive from Government Superannuation?*
- *How, and from where, can I get more money?*
- *Where can I safely investment my money?*
- *How much should I put into KiwiSaver?*
- *Should I buy a 2nd property, a business, or invest in the share market?*
- *How much do I need to keep aside for a rainy day?*

all from a very New Zealand perspective.

About the Authors

The authors have a long history in Financial Advisory Services. One has a Post Graduate Diploma in Financial Planning and Business Studies. The other as a Partner of one of the top global Accounting and Consulting Firms. They have run training sessions throughout New Zealand, taught other financial mentors, and have lectured overseas.

They both now give their time and experience to others through volunteering and teaching. One as a volunteer Financial Mentor – helping individuals and families through their financial difficulties, the other as a Business Mentor – helping small to medium sized businesses. They continue to run their own businesses and manage their own investment portfolio.

They both managed to retire before they were 45.

Course outline

This document is “Lesson 8 – Sorting out the House” of the comprehensive course material supporting our simple step by step approach to creating your financial retirement plan.

The course material comprises:

- a summary ‘Retirement Planning Guide”
- a ‘Retirement Roadmap’
- a supporting ‘Retirement Planning excel spreadsheet’
- more comprehensive training guides (“Lessons”) for various tasks along the way if you need them
- additional supporting spreadsheets if you need any further assistance

All material can be downloaded and printed from the downloads page on our website:

<http://www.bizextra.co.nz/>

Most people complete their retirement plan using just the Planning Guide, Roadmap and the Excel spreadsheet that supports the guide. Additional information is provided to support you along the way if you get stuck, don’t understand a concept, or just need some further ideas to try out as part of your planning.

Each training guide contains a “Lesson” associated with the 6 Step retirement planning process that you follow to produce your Retirement Plan. You can skip any “Lesson” if you already understand the financial concepts and terminology used, or if they are not applicable to your financial circumstances.

The course uses a case study couple – John and Jane Doe (not their real names) to explain and demonstrate each step and decision in the process. The material describes their journey, outlines the steps they followed to increase their financial knowledge and provides examples of the decisions they made along the way. They agreed to anonymously make their journey available to help others prepare for, and enjoy their retirement.

The internet is your friend. A lot of advice, financial guidelines and rules already exist, and are well documented out there somewhere. But it is often difficult to find something when you don’t know what you are meant to be looking for.

We would like to thank the many internet companies and authors that are out there continuing to provide and document many of the ideas that appear in these guides. They continue to help people like John and Jane increase their financial understanding.

No commissions, gratuities, or kickbacks from any of the companies or names mentioned in this planning material have been received – and no-one is looking for any. All names are provided for clarity and to document what John and Jane learnt during their ongoing journey towards financial

freedom in their retirement. There may be better – or worse – names, examples, companies and providers that John or Jane failed to stumble upon. Use them or find others as needed, as your financial literacy grows.

“Don’t ever forget, that the main plan in life is always to enjoy a long and prosperous retirement.”

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Latest Version

Market prices, superannuation and benefit rates, Government policies, inflation, costs of living, house values etc. all change on a regular basis. The numbers in this document have been updated to reflect the market position as at July 2025.

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Lesson 8 – Sorting out the House

Before we look at options to bridge any financial gaps we have, we may need to decide a strategy to access all (or some) of the money tied up in our home (asset) that is currently not generating any income. If you don't own any property you can skip this lesson.

How much money is actually tied up in the home?

The first thing to check is how much the house is really worth. To do this we have several options:

1. Hire a valuer to obtain an independent written assessment of the value of the property in today's market,
2. Ask a real estate agent for a free appraisal,
3. Use your latest rates assessment,
4. Use online property sites such as:
 - Homes.co.nz
 - Trade Me Property Insights
 - Realestate.co.nz Property Profile
 - MyValocity (you do need to create an account to use the AVM)
 - QV – mobile app for iOS and Android.

All of these are great, and if you tried all of them you will have collected lots of different numbers:

- Valuers tend to be the most accurate, but you pay for their service, and they don't look at the structural details of the property. They are Valuers not Builders.
- Real estate agents have a habit of giving you a high estimate in the hope you will list the property with them. Once you call them for an appraisal, they will be calling you weekly to see if you are ready to list it for sale.
- Rates assessments are only updated every three years. So, depending upon how long ago it was updated, the property market may have moved, and your house could be worth more (or less) than your rates assessed value. The rates value is also an overall assessment of the value based on its size within the local area. The rates value can often be very wrong!
- Online sites all use various algorithms linked to the Rateable Value of the property compared to recent sales in your area. If recent sales in your area have all been at a value 15% higher than their RV, then they assume yours will be 15% higher. But this assumes that your house is similar to the other recent sales. Your house could be bigger, smaller, unique, of a higher quality, of lower quality etc.

What you could do is take the average of all the above or ask a friendly real estate agent and deduct a bit from their assessment, or just pay for an independent valuation. If your heart is leaning towards a 'sale of the house' get a written valuation because you need to make a more informed decision. If you are still at the 'I am really unsure what to do' stage, take an average of a few of the free online sites. Even drive past a few of the recent sales listed to confirm if they appear similar to your house, look for the advertisements online as they are often still available on the internet (with their photos). Visit a couple of current open homes to see what price they are being advertised for, guess what the sale price is, then track them (on the online sites) to see what they sell for. This way you can compare their RV against their sale price. This will help validate how well you can guess the price of your own property.

Irrespective of how you obtain it, you need a number of what your house could reasonably expect to fetch in today's market.

Once you have this number, it would be great just to be able to subtract any mortgage owing on the property to get 'the amount of money I could get in my hand once I sell my house'. But that is not the case.

To calculate the money remaining from the sale you also need to subtract all the costs involved in the sale process: valuer reports, LIM reports, building reports, advertising, legal fees, real estate agent commissions, any decorating or quick fix maintenance costs to increase the potential sale price etc.

The basic formula is therefore:

Revised estimated value of the property	\$775,000
Less all costs incurred in the sale process	-\$19,500
Less any money owing on the house (at sale time)	\$0
Equals the Value locked up within the property	<u>\$755,500</u>

Table L6.1

Once you have revised numbers, don't forget to update you budget with the value of the house less costs of sale (\$775,000 – \$19,500). You should already have the debts (liabilities) listed in your budget, but if you forgot to include them, now is a good time to fix this error in your budget.

Once updated, you should notice that your net assets may have changed. In John and Janes example it went up by \$45,500 (755,500 – 710,000). Unfortunately, this doesn't mean they have an extra \$45,500 to spend on a new house, other houses may have increased in value by a similar amount (or a greater amount in different regions, or less in others).

How can I extract some of this money to convert to income generating assets?

For many people owning a house is the biggest asset they will ever own. Unfortunately, the family home doesn't generate any income, it actually costs money to keep it (rates, insurance, maintenance, body corporate fees, additional council fees and levies etc.). The other problem is accommodation is needed for survival. We don't really want to sell up and move back into a cave and cook (whatever we catch) over an open fire.

We have previously introduced some ideas as to how we can extract income from the family home.

Common options people consider are:

1. Subdivide. Subdivide any excess (usable) land from the section and sell it off, either with a property on it or without
2. Rent out spare space. Rent out some spare rooms or build a spare room and rent it out. This could be a long-term rent, or on an ad-hoc basis such as via Airbnb.
3. Downsize. If you are happy to rent out the rooms you don't need, why just sell up and buy a smaller house
4. Upsize. Upgrade to a newer house to avoid all those maintenance costs. Hopefully a newer home will be warmer, need less maintenance, could be single story vs multi story (avoid ladders, climbing stairs in older age etc.)

5. Relocate. Sell up, buy a house in a different location at a cheaper price. Could be closer to family, overseas, closer to activities you want to undertake
6. Rent instead of own. Sell up and just rent.

There are also some more 'financial' options that should go onto the list to be considered later:

7. Reverse mortgages. This can be thought of as basically a sale of your property to someone else, you can continue to live in it and maintain it until you die, and instead of a lump sum payment, you will receive a fortnightly payment of the sale price. This is generally a discounted sale price – but should still be considered
8. Use the equity in the property to buy an income generating asset. Get a new mortgage on the house and buy a rental property or a business, or some other asset that will generate income for us (above and beyond the expense of servicing the new mortgage – or else we just purchased an income eating liability).

The two key decisions you need to make are 1:'what to do' and 2:'when to do it'.

When should I sell the family home?

The ideal answer to this is "every 7 to 10 years". That way you just live in houses and form no emotional bond to any particular house. Moving is just a financial/practical decision rather than an emotional decision. If you have lived in the same home for 40 or 50 years, you feel safe and attached. You really don't want to move. You probably look around and ask yourself "what am I going to do with all this stuff I have collected (that I 'wanted' at the time, probably didn't 'need' and in hindsight, it didn't help with any retirement 'goal') it is just too hard to box it up or get rid of it."

Looking ahead in our retirement plan, we see that the life expectancy of Jane vs John suggests Jane could have anything from 10 to 13 years living alone. Will Jane want to be cleaning the gutters? painting? doing house maintenance? cutting the lawns? or cleaning all those big empty rooms in her 80's and 90's? The obvious answer is No!

At some stage the house will need to be sold and Jane (and hopefully John) will move to more suitable accommodation. All we are really discussing then, is not "should we sell the house?", but 'when shall we sell the house?'

Our last accommodation might be a retirement home, a hospital, and then a funeral home. So why not ensure all previous accommodation is fun, suitable, easy to maintain, and not only frees up money for us to enjoy our retirement, but also frees up 'time' to undertake different activities. Hitting a ball around a golf course for some is more enjoyable than pushing a lawn mower around the section.

The most practical answer to the 2nd question "when should we sell the family home", is "when I need to release some money to start generating income for my retirement". Based on their budget, the most practical time for John and Jane is sometime over the next 5 to 7 years.

Gathering some data

You probably need to start a new spreadsheet to evaluate alternate options for the house. This will enable you to make an informed decision rather than an emotional decision.

The first number we should collect is 'rent'. How much could we rent a room out for, or even the whole house?

Rent

Many of the web sites listed at the start of this lesson, don't only provide an estimate of the value of your house, but they can also provide an estimate of what you could rent it out for. While this is often an interesting number, more reliable numbers are available from real estate agents (ask them to give a rent appraisal of the house, when they give you the sale appraisal), Valuers (they generally work out what a landlord might be prepared to pay as part of valuing your home), or just look up other properties listed to rent in your suburb (and even visit a couple of them).

What you need to collect are two numbers:

1. The rent per week if you rented out the whole house, and
2. The rent per week if you rented out a single room

Trademe Property is a good place to start : <https://www.trademe.co.nz/property> search for properties available to rent in your area. Drive past, or even visit them.

Another place is the IRD site. When renting room's, you can always look at taking in a boarder. The IRD set a maximum rate that you can charge each year (before you must declare the income, fill in lots more forms and keep a lot more paperwork). A boarder is different to a tenant. Generally, a tenant pays their own power, internet, food etc. They generally rent an empty house and supply everything. A boarder is generally renting a bedroom, and you are providing power internet and food (maybe) for them. You also need to be in the house (or at least have a room for yourself in the house, you can be overseas travelling and still have a boarder)

Boarding house rates can be found at : <https://www.ird.govt.nz/property/renting-out-residential-property/tax-by-rental-property-type/renting-out-a-room-in-my-main-home>

After looking at a few web sites, walking around the neighbourhood to look at properties available to rent, and checking the IRD's Boarder rates, John and Jane found:

- If they Rented out their 3br house in Churton Park they would receive \$500 per week
- The average per room rate in Churton Park was about \$130 per additional room
- The IRD indicate that the maximum rate they could charge per Boarder was \$207 per week .

Get two boarders for \$207 per week each, looks like the best option!

No! that is not what the research is showing.

The IRD number is just the maximum you can charge without having to file additional tax returns and keep lots of additional records. It is not the current market rate for renting a room in Churton Park. A boarder would pay something around the standard room rate plus a proportional share of their costs (a % of the electricity + something for food + something for the internet + something for wear and tear of furniture and any other things they might use). The good thing is, in our budget we have

already found a lot of these numbers (cost per person per week for food, internet and electricity costs etc) so we can easily come up with a number for our planning, and as long as it is less than the IRD rate – we are good to use it in our elephant hunting exercise.

Building Costs

By researching the rents we could receive, we are part way through collecting information we need to evaluate if we should renovate (to construct a self-contained granny flat or unit) or subdivide and build another standalone structure on our section that we could rent out.

A quick google search indicates: <http://www.buildingguide.co.nz/planning/building-costs/>

“As a very rough starting point, \$2000 m2 is very cheap, \$2-2500 m2 is more usual and then anything from \$4000 m2 and up is more consistent with bespoke designed houses.”

This range was also recently updated (March 2022) at: <https://www.moneyhub.co.nz/building-costs-per-square-metre.html>

“Building costs continue to soar, and 2022 looks to bring frustration to home builders. Overall, the average building cost per square metre in New Zealand is currently \$2,459, having risen from \$2,359 in 2020. However, this shouldn't be relied on given the global materials shortage, varying council consent costs and, of course, the specifications of what you're building.”

\$2500 per square metre sounds like a good starting number for a construction cost estimate.

Testing the water

Next you want to test a few of the possible scenarios to see if any are financially suitable for deeper analysis and consideration.

Let's sell and rent somewhere

This is an easy one to check.

If John and Jane rented a similar house in the same suburb the annual rent could be \$26,000 (52*\$500)

The annual accommodation costs in their budget (rates, insurance, maintenance, remaining mortgage etc) was \$17,873 (\$7,488 once the mortgage was repaid).

If they sell up and rent – they would lose money each and every year in their retirement! No wonder there are so many articles saying that people who don't own their own house unencumbered by a mortgage, are unlikely to survive retirement.

This number also excludes any capital gain they might receive through owning their own house. Capital gain is basically the amount the value of the house goes up over time. While it increases the value of your house – it generally increases the value of other houses (that you may want to purchase) at the same time.

A general guideline a financial planner will recommend is that “you own your own house, and it is debt free (i.e. you have no mortgage) before you retire. It is a lot cheaper than having to rent”.

At least by doing this calculation we now understand what they are saying.

Although it looks like John and Jane will lose over \$11,000 a year by selling up and renting, we haven’t added the other part of the equation – what could they do with the money they receive if they sell the house?

Value of House if sold	\$	755,500	
Annual Income if invested at:			
5%	\$	37,775	
6%	\$	45,330	
7%	\$	52,885	
Less Annual Rent	\$	26,000	\$500 per week
Cash Available after renting	\$	19,330	at 6%

Table L6.2

Maybe this isn’t such a bad option after all, on paper (or at least in Excel) they generate more income by selling, renting and investing, than if they hold onto the house. What is the catch?

There are no catches – just risks. And in retirement we need to manage risks very carefully, as we don’t have a lot of time to correct our mistakes.

The obvious risks are:

- rents will go up over the 25 -30 years we need accommodation
- suitable houses could be difficult to find in the area we want to live (especially is we want a pet)
- our landlord could sell up whenever they want (and kick us out)
 - we have no long-term security of accommodation
 - we could be overseas or ill when they give notice to kick us out
- we are no longer in control of our own accommodation, and
- we are not sure we can get 6% returns each year.

If we sell too early – we might miss out on any potential capital gains that could occur. We will investigate the impact of this later, as it might help with our decision making.

Let’s Downsize

Downsizing is when you sell your house and move to a smaller one. John and Jane have an older style three-bedroom house, maybe they could move to a 1 or 2 bedroom house. Hopefully a smaller one is cheaper, and they could re-invest the money they obtain from the difference.

A quick check of online property sites indicated they could live in the same area, in a smaller home, free up some capital locked up in the house, and invest it in income generating assets.

Value of Current House	\$	755,500	\$	755,500	
Est price of smaller place		2br		1br	
		\$660,000	\$	570,000	
Difference		\$95,500		\$185,500	
Annual Passive Income if invested at:					
	5%	\$	4,775	\$	9,275
	6%	\$	5,730	\$	11,130
	7%	\$	6,685	\$	12,985

Table L6.3

Additionally, by moving to a smaller home, John and Jane may reduce the rates, insurance and maintenance paid each year, freeing up even further income for investment.

Current Costs (rates etc)	\$	7,488	\$	7,488
Est. costs of new place		2br		1br
	\$	6,488	\$	5,988
Difference		\$1,000		\$1,500

Table L6.4

Downsizing is a very common option in retirement. Many people take the opportunity to not only downsize, but to relocate. Being close to schools and colleges is not such a requirement in retirement. Being close to friends, family and community is more important.

Let's move

Changing location can impact the price of properties, and therefore the amount of money you could free up to re-invest in income generating assets.

A quick way to do this is to ignore the suitability of the location at the start, and just calculate the numbers to see the impact. Some people can spend weeks or years arguing over the new location. It is a lot easier for each person to just say what they want, both ideas get evaluated as test cases. If they don't work out financially then you have avoided an unnecessary argument.

John choose Havelock North (he likes wine), Jane choose Nelson (she wants to take up painting in her spare time). It is very quick to work out the difference in house prices in various cities. Real estate companies publish this information on a monthly basis usually to try and attract you to come and buy a house (with them).

A good place to start is: <https://www.reinz.co.nz/residential-property-data-gallery>

REINZ provide a good selection of reports by region, house type etc that can provide the needed information.

Their November 2022 summary report suggested that the average house price in Wellington (where John and Jane currently live) was \$795,000.

A quick calculation suggests that their current home is just below the median house price (-3%). Maybe it is smaller, older, who knows for now it is just a number.

If we compared equivalent prices in Nelson and Hawkes Bay, we get some initial numbers we can use to discuss:

	Nelson	Hawkes Bay
Median	\$ 700,000	\$ 687,500
-3% below	\$ 682,390	\$ 670,204
Our House (after costs)	\$ 755,500	\$ 755,500
Equivalent in	Nelson	Hawkes Bay
	\$ 682,390	\$ 670,204
Difference in locations	\$ 73,110	\$ 85,296

Annual Income if invested at:

5%	\$ 3,656	\$ 4,265
6%	\$ 4,387	\$ 5,118
7%	\$ 5,118	\$ 5,971

Table L6.5

Maybe moving could work, and this is potentially without downsizing. Imagine what money John and Jane could potentially free up if they moved and downsized.

Let's upsize

Aren't we trying to release money to invest in income generating assets? Why would we want to buy a bigger home?

One of the challenges with renting out rooms, is that we have to live with strangers – and the friends they bring around. It was hard enough living with our own kids! why would we want to share our space again?

An improvement to renting rooms is to have a total separate area or unit – a granny flat. Instead of building a separate area or renovating to create a separate area, why not look to see if you can buy an existing property that already has one. An area you are happy to live in, and a separate area that you can rent out to generate income. Maybe even in a different location.

Median House Price	
\$810,000	
Northland	729,500
Auckland	1,065,000
Waikato	789,000
Bay of Plenty	857,000
Gisborne	660,000
Hawke's Bay	687,500
Manawatu-Wanganui	574,000
Taranaki	620,000
Wellington	795,000
Tasman	869,500
Nelson	700,000
Marlborough	700,000
West Coast	420,000
Canterbury	668,000
Otago	685,000
Southland	475,000
NZ excl. Auckland	715,000
New Zealand	810,000

Even though there are a lot of larger homes for sale (as a lot of retirees generally downsize), it is more difficult to filter search results to 'already have granny flats', as real estate agents use words such as 'potential for subdivision', 'potential for a separate unit', 'buy 2 – rent one out, live in the other'. It is often easier to talk to a real-estate agent and describe what you are looking for. It is a lot easier if you have a potential area or location in mind.

If you have to borrow money to upsize, you should check with your bank first. Some banks are reluctant to lend money to older people – as they realise they may not have the income required to service the loan in later years, and if they do lend you money it might be at a higher interest rate to cover that risk. Important numbers to know in advance when you are evaluating this option.

If this idea appeals, then the type of information you need to collect is:

Proceeds from our house	\$	755,500		
Cost of new property(s)	\$	900,000	2x 3br units	
New Mortgage required	\$	144,500		
Potential Rent/yr (one unit)	\$	26,000	500 per week	
less additional costs/yr				
mortgage	-\$	14,733	5.85%	15 yrs
rates	-\$	2,000		
insurance	-\$	1,000		
maintenance	-\$	500		
Actual Income generated	\$	7,767	per year (pre tax)	

Table L6.6

Rent out the spare rooms

This is still a valid option and should be considered. Don't confuse renting out a room or the house while you are away on holiday (you are not there) with renting out a room while you are still living there. For anybody that has not planned well for retirement, this is a very valid option, and generates revenue. For some it might be their only option.

John and Jane had options of renting out one or both spare rooms. Maybe even the garage to get extra rent. John could leave the old Toyota out on the street (it was worth nothing) and maybe get an extra \$40 per week from the garage for a couple of years before the new car was purchased.

If you are living alone, this can provide companionship while generating revenue. It can also be very annoying in early retirement, the time you finally have that freedom. Maybe keep it as an option for a later phase of retirement.

Information needed to assess this option includes:

Weekly	1 Room		2 Rooms		
Average rent per room	\$	130	\$	260	The market we researched
Plus Food	\$	90	\$	180	From the Otago Uni Study
Electricity	\$	60	\$	120	Based on what we pay
Internet	\$	-	\$	-	We are on a fixed plan
Wear and Tear	\$	20	\$	40	a guess
	\$	300	\$	600	
Assumed value we will charge	\$	207		414	the IRD rate
Annual Income	\$	10,764	\$	21,528	

Table L6.7

An alternate option is to consider renting out your spare rooms via Airbnb - occasionally. www.Homes.co.nz provide an estimate of what you could receive if you rented you home per week, but also provide an estimate of the income you might receive for renting out a room 15 nights a month. The Airbnb estimate can be easily converted into a per night value. You can then consider options such as: weekends only, big events and concerts only, long weekends only etc. If you plan to move in the next couple of years, maybe renting out the spare rooms a few nights a year might be a good idea until you move to your new home.

Per Night	1 Room		
Average rent per room per night	\$	100	The market we researched re AirBnB
Number of nights		12	4 long weekends (3 night stays)
		12	Additional nights re shows etc
		24	
Annual Income	\$	2,400	

Table L6.8

Build a Unit

An alternate to this is to upsize by adding a room. The same type of calculations above can be used to evaluate the potential used in the upsizing example, combined with the rent a room example.

The cost of the new property becomes the cost of the renovation. We have a sq. metre price as a starting point. Look at different options; build an average quality 100sq unit on your existing property and rent it out, evaluate a smaller unit, less quality unit, maybe you could build a better quality unit to live in, and rent out the old house.

		3br		
Size (sq Metres)		100		
Rate per metre	\$	2,500		
Build Cost	\$	250,000		
Land Cost	\$	300,000		
Consent Cost	\$	30,000		
New Mortgage required	\$	580,000		
Potential Rent/yr	\$	26,000	500 per week	
less additional costs/yr				
mortgage	-\$	59,134	5.85%	15 yrs
rates	-\$	2,500		
insurance	-\$	2,500		
maintenance	-\$	500		
Actual Income generated	-\$	38,634	per year	

Table L6.9

In summary

There are lots of options to consider regarding the family home. And each option can provide a different range of results regarding the passive income each option could generate.

Also, these options may not be exclusive. Why not sell the house, rent in Nelson for a while and see if you like it (and look for a suitable home) or then rent in Havelock North (see if you like it there), then select where you want to buy.

In the case of John and Jane, they still had 5 years pre-retirement where they needed to work, and they had decided to work part time in early retirement. Moving to a new location during that time might not be a good idea.

At least we now know the sort of numbers we need to help make an informed decision and can now see that there are potential ways to release some income from the home, while still having somewhere to live.

Options	Income range generated	
Sell and rent	\$ 11,775	\$ 26,885
Downsize	\$ 5,775	\$ 14,485
Relocate	\$ 3,656	\$ 5,971
Upsize	\$ 7,767	?
Rent 1 or 2 rooms	\$ 10,764	\$ 21,528
Build a Unit	-\$ 38,634	?

Table L6.10

As you evaluate your options, you need to look at the impact on your overall retirement plan, not just the option for the house. If you move – can you still get part time jobs? Will your travel costs increase or decrease – no international flights leave Napier or Nelson airports, John and Jane needed to add connecting flight costs to their ‘fun activities’ category.

Hopefully by now you have enough experience and understanding to know you must reflect changes in all four areas of your budget. The impact on your assets (if you buy or sell something), the liabilities (if you have to borrow money), the income (if you think you will generate some or lose some) and the expenses (what does the idea cost – more or less?). For the common options the Forms will guide you through this process. But if you adopt a less common option you may need to update you plan manually.

Capital Gains

One last key thing to consider when thinking about property is ‘capital gain’.

The value locked up in John and Jane’s house today is \$710,000. In 5- or 7-years time, this value may have changed. They should have paid off their mortgage, and over that time period the value of their house could have gone up. House prices generally go up in value over time. The price John and Jane paid for their house is way different to what it is now worth.

That is capital gain, the gain in capital value over a period of time. Capital gain is just like making money while you sleep. The problem is you can’t get your hands on it to spend it.

Currently in New Zealand these capital gains are generally not taxed (we’ll ignore the bright line test for now, as John and Jane have owned the home all their married life). You get to keep it all, but only when you sell the house. Conversely, the new house you may want to move in to, will have also gone up in value. Maybe more, maybe less.

While you evaluate what you plan to do with the family home, that new home could be going up in price at an even faster rate than the house you own.

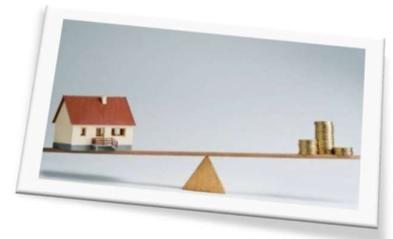
From a planning perspective, just assume they will both go up at the same rate, therefore any extra money you might receive, you will need to spend on the alternate accommodation. Worry about it at the time you want to buy or sell, rather than updating your budget every month when a new real estate report arrives in the mail.

Capital gain doesn’t just occur in the housing market. If you invest in company shares on the stock market, and the share price of that company goes up in value, that is also a capital gain.

Typically share market gains are greater than the housing market gain in value. Both have risks. But by planning, you will develop the skills to mitigate these risks.

One major difference between the two types of investments, is that banks will lend people money to invest in houses, but generally do not lend money to invest in the share market. As such, in New Zealand people have invested in the housing market (e.g. their own home or a rental property) and this has caused distortions in the market. Higher immigration, a shortage of houses, and a desire for everyone to want to live in Auckland has seen significant capital gains in the Auckland property market, with smaller gains in other centres across New Zealand.

These are some of the external influences that impact markets. With greater financial understanding you can have an informed guess of what may happen in the future, and prepare yourself for what could happen, but it is just that – a best guess. As one economist (people who get paid to make predictions) said, *“no economist will be putting their bank interest rate forecasting record over the past 11 years on their CV.”*



Lifetime annuity options

New financial products are always entering (and exiting) the market for retirees to consider as alternatives. Many of these products offer to provide regular income for life. Basically, you invest a lump sum of your savings, and they will provide a regular weekly or fortnightly income until you die.

These provide a lower risk alternative option, but are guaranteed for life. If you live longer than planned – the regular payments continue. The downside to these is the inaccessibility to the funds that are tied up in the scheme. You limit your options for the future.

A similar option is a reverse mortgage. These products involve borrowing against the equity in the property (i.e. taking on debt to fund retirement). These may be suitable in some circumstances, but with some basic financial literacy you can generally obtain a better low risk return from other options. As such in New Zealand very few companies offer reverse mortgages.

We will look at these options as we develop our strategy to bridge our financial gaps.