What happens when retirees can’t sell their homes?

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SPECIAL TO THE GLOBE AND MAIL
PUBLISHED 6 HOURS AGO

The current real estate market is more of a concern for those who need to sell because of a funding gap in their retirement plan than for retirees wanting to downsize, says an advisor.
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For some retiring clients, the recent slowdown in the housing market – both in terms of falling prices and declining sales activity – is impacting longstanding plans to sell their primary residences and free up cash as they enter their retirement years.

As they consider their next moves, many are looking to their advisors for help in adjusting their expectations and for support in implementing new solutions to mitigate the impact of the pullback. They also want clarity on how best to proceed.

With fewer buyers in the market as interest rates rose, home resale activity in Canada fell nearly 25 per cent year-over-year in August, according to a recent monthly housing market update from RBC Economics. The national composite MLS Home Price Index was down 7.4 per cent since the February, 2022 peak. Market conditions also vary across the country with the number of sales in the year to August down 34 per cent in Toronto from the same period last year, but lower by only 3.4 per cent in St. John’s, according to data from RE/MAX Canada.

Léony deGraaf Hastings, certified financial planner (CFP) with deGraaf Financial Strategies in Burlington, Ont., says the rapid slowdown in the real-estate market is affecting new retirees in many scenarios – from those looking to downsize for a lower cost of living to others hoping to become snowbirds.

“Something that they’ve been thinking about for 20 or 30 years, now all of a sudden, they have to rethink,” Ms. deGraaf Hastings says. “They’ve had to maybe pare back their expectations of what their principal residence can buy them in retirement.”

In this market, advisors are supporting and coaching clients, helping them to weigh options and come up with creative solutions to navigate a situation that wasn’t part of their plan, she says.

One client couple, for example, managed to finally move toward their goal of downsizing, purchasing a townhouse in the Greater Toronto Area in the early spring after months of losing bidding wars in 2021. Unfortunately, when it came time to sell their principal residence, it had dropped in value.

“They didn’t get quite as much for their house as they had anticipated during the bidding wars and have actually gone into the townhouse with a little bit of debt now,” Ms. deGraaf Hastings says.

“They had to do bridge financing between the principal residence and the new downsize and they took a line of credit.”

As the couple didn’t anticipate having debt heading into retirement, they are becoming increasingly concerned as interest rates rise. They are currently discussing options for paying off their line of credit, including withdrawing money from their tax-free savings account, she adds.

Giving clients options to move forward

Putting the numbers in perspective for clients in this scenario is key, Ms. deGraaf Hastings says, and that includes outlining the interest charged on their line of credit, how much their investments have fallen this year and what it would look like if they made a withdrawal now versus waiting for the portfolio to recover. This way they have the information to move forward in a way that makes them most comfortable.

For example, while some retirees are prepared for interest rates around 5 per cent or 6 per cent, others haven’t carried debt for decades.

“Part of it is finding where the comfort level and the risk tolerance for the particular clients are and how that is best applied to give them the peace of mind that they’re looking for,” she says.

Hamza Bahadurali, senior investment counsellor and portfolio manager with BMO Private Wealth in Toronto, says the current real-estate market is more of a concern for those who need to sell because of a funding gap in their retirement plan than for retirees wanting to downsize.

As he and his clients have been able to anticipate any retirement funding gaps well in advance, many are not in a situation where they have to sell their primary residence in this market. As a result, some can consider other options such as borrowing against the property to create some cash flow to fund the gap in the interim. But this will ultimately depend on individual risk tolerance.

“We can tell a client what makes the most sense – what’s right. It may be to wait it out,” he says. “I think there’s what the textbook says, there’s what makes sense, and at the end of it is ‘what is the client’s temperament.’”

And if a client can’t sleep at night taking on a certain strategy, then it doesn’t make sense, he adds.

“Sometimes you just get clients who are saying ‘no, I can’t handle the stress’ and they want to move on,” Mr. Bahadurali says.

Helping those going ahead with a sale

While the real-estate pullback has been challenging for many Canadians, Scott Plaskett, CFP and chief executive officer of Ironshield Financial Planning in Toronto, who works with clients across Canada, thinks retirees who always planned to make a lifestyle change by selling their home are unlikely to hold back from doing so this year.

But the move may require more patience as it may take longer for retirees to realize proper value for their properties, he adds.

For advisors, he says, helping retiree clients gain clarity by updating their financial planning model with current market values so they can see the impact of changes on their long-term goals will allow them to proceed with confidence and properly manage their real estate exit.

“Then they understand ‘okay, we just need to do this’ – whatever ‘this’ may be for them,” he says, adding it could be holding out a bit longer so they’re not in such a panic to sell or investing in a bathroom upgrade to increase the value of their home when they do sell.

“It just allows them to be a little bit more proactive.”

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