

RETIRING

You're Retired. Should You Rent or Buy Your Home?

Let's say you've downsized from a larger place. Here's what to consider before you commit.

By **Susan B. Garland** March 12, 2020



"The thought of putting down a large amount of money is a major reason why my friends and I decided to go the rent route," said Merrily Hardisty, 75. Credit...Ting Shen for The New York Times

In 2015, after her husband died, Merrily Hardisty decided she no longer needed the space or the maintenance hassles of their four-bedroom house in Bethesda, Md., a Washington suburb. Like many older people who downsize, Ms. Hardisty faced another decision: Should she buy a new place or rent one?

Ms. Hardisty moved two years later to a condominium community not far away, but instead of buying a unit, she rented a three-bedroom. When her lease expired, Ms. Hardisty, 75, signed a three-year lease on another apartment, with two bedrooms and a den, in the same complex. She moved in December and pays \$2,950 a month plus electricity.

A comparable condo in the community runs close to \$550,000, plus a monthly maintenance fee of \$1,300 and about \$500 a month in property taxes. Ms. Hardisty said she preferred to invest her take from the sale of her house — roughly \$500,000.

Her rent is covered by income from the investments, a survivor pension from her husband's government job, Social Security and profits from the sale of unimproved lots her husband owned. The extra cash she reaped from the sale also allows her to pursue her retirement dreams: travel overseas and a planned Disney cruise with her daughter and son, their spouses and her two grandchildren.

She said most of her widowed friends were renting, too. "The thought of putting down a large amount of money is a major reason why my friends and I decided to go the rent route," Ms. Hardisty said.

What are your goals?

Though most older people prefer to stay put, many others who own houses in the suburbs are trading in the stairs, the unused rooms and sometimes the headaches of lawn care for something more manageable. Once they decide to downsize, retirees should weigh the emotional and financial factors of renting or buying their next home.

Because of all the costs of owning a home in retirement, buying a new, though smaller, one may not be the wisest financial decision, some experts say. Rather, "most people make a decision based on the

emotional and lifestyle aspect — ‘I want to be in warmer weather or closer to my children,’” said Jamie Hopkins, director of retirement research for Carson Wealth, a wealth management firm in Omaha.

Downsizers who lean toward buying take pride in homeownership and want to fix things up the way they like. Those who opt to buy a new single-family home may relish puttering in the garden or grilling in the backyard. And “there is a negative stigma to renting,” said David Blanchett, head of retirement research for Morningstar, the investment research and management company. “Even if the numbers don’t make sense, you would buy because you don’t want to be perceived as a renter.”

Other retirees, like Ms. Hardisty, prefer the benefits of renting: fewer maintenance aggravations and the freedom to try out new towns or neighborhoods. Others prize the amenities offered by many rental communities, particularly independent-living complexes.

Ms. Hardisty said some of her friends chose to rent because they could easily pull up stakes if they decided to move closer to their children. If she eventually needs assisted living or another type of care housing, she said, she can simply hand over the apartment keys. “I am 75 — you never know,” she said.

Close to 80 percent of people 65 and older [own their own homes](#). But renting appears to be on the rise among older people, according to an analysis of Census Bureau data by RentCafe, an apartment search website. It found that the number of renter households where the primary resident was 60 or older [grew 43 percent](#) from 2007 to 2017.

Among the 30 most populous cities, the RentCafe data showed, the retirement destinations in the Sun Belt experienced the biggest growth in those renter households: Austin, Texas (up 113 percent); Phoenix (112); Fort Worth (95); and Jacksonville, Fla. (83). The number of older New York City renters grew 20 percent, but 27 percent of all renters in the city were older people — a larger percentage than for any other of the 30 cities. For a comparison, 12 percent of Austin’s renters were 60 and older.



Co-op City in the Bronx. The number of renters 60 and older in New York City grew 20 percent in a decade. Credit...Kyle Johnson for The New York Times

What is your time frame?

If finances are a factor, retirees should consider the length of time they intend to spend in a new place, experts say. Older buyers may be unable to recoup transaction costs if health or other issues force them to sell early.

“If you plan to leave within three to five years, buying a house may not be a good investment, and you could lose money,” said Kirk Chisholm, a principal at Innovative Advisory Group, a wealth management firm in Lexington, Mass.

“The only way to make money is appreciation in the market, and in some places housing prices might be down when you want to sell,” Mr. Chisholm said. “You can get a better return elsewhere.”

He recalled one retired couple who bought a home by the water and decided they did not like the community. “Now they can’t sell it,” he said.

Before shelling out money on a home, people who are moving to a new destination should consider the medical facilities, cultural offerings and other features.

“It could make sense to rent for a couple of years to see if you like it,” Mr. Blanchett said. But “if you’ve done a reasonable review of home prices versus the cost of renting and can afford to eat a loss — sure, buy.”

Do you want to be mostly liquid?

Another financial issue is an older person’s need for cash flow. A retiree who sells a house, buys a cheaper one and invests the balance of the equity can create a new income stream.

In many circumstances, renting could free up even more equity, which is especially valuable for someone with little in retirement savings, Mr. Hopkins said.

“Mentally, people consider owning a home as an investment, even if they have recurring expenses,” he said. “But retirees should look at renting as an investment into a lifestyle. Renting can be cheaper than owning a home, and retirees can free up home equity to improve their life.”

To illustrate, Mr. Hopkins assumed an older couple owned a house valued at \$500,000 and spent \$1,000 a month on taxes and maintenance. They sell the house and rent an apartment for \$2,000 a month.

Say they did not have a mortgage and, after closing and moving costs, clear \$480,000, which they invest in a portfolio divided equally between stocks and bonds. Their investments generate an inflation-adjusted \$19,200 a year, based on a 4 percent distribution, so although they are spending more each year on rent, their annual cash flow rises by \$7,200.

If this couple had a mortgage, the improvement in cash flow from renting could be even larger, Mr. Hopkins said. They eliminate the mortgage payments and other ownership costs and can invest the equity.

“That is a huge benefit for someone who has less than an ideal amount of money saved up in retirement accounts and is likely relying heavily on Social Security,” Mr. Hopkins said.

Retirees should also consider changes in the tax laws. Many home buyers who in the past would have deducted mortgage interest on a new home will be better off taking the standard deduction.

In 2020, married couples filing jointly can claim a standard deduction of \$24,800, plus \$1,300 for each spouse 65 and older. Congress also replaced the unlimited federal deduction for state and local taxes with a \$10,000 annual cap. Residents in high-tax states, such as New York, Connecticut and California, are hit the hardest.

What do the numbers say?

To help with a decision, retirees could ask a financial adviser to review the pros and cons of each option, and the impact on retirement savings and spending. Retirees can also use The New York Times’s [buy-versus-rent calculator](#) to work out relative costs.

Here’s how the calculator works: Say a retiree is thinking of moving to Charlotte, N.C., and has a choice between renting a recently advertised two-bedroom apartment or buying a similar one in the same building. The condo is priced at \$349,000 while the monthly rent runs \$1,650.

After plugging in assumptions on investment returns, maintenance costs, home appreciation and other factors, the retiree would come out ahead financially by renting for less than five years. If the retiree plans to stay longer, buying would be a better choice.

Retirees who may be buying a condo should review monthly homeowners association fees, which cover the cost to maintain common areas. Owners generally pay for repairs inside the unit but can be hit by assessments, which pay for large expenses such as a new roof. An assessment, Mr. Chisholm said, “can blow you out of the water if you are not prepared for it.”

Ms. Hardisty is happy with renting. She enjoys walking the trails on the complex’s 28 wooded acres and can take a short stroll to a grocery store, pharmacy and French bistro. If she needs something repaired, she calls the maintenance office, which bills the apartment’s owner. And when it snows, she said, “there is a sense of freedom.”

Perhaps even more important, she said, “I have no debts, and it’s a wonderful feeling.”