Plan to unlock equity

Selling a Sydney apartment could boost super and fund a move to a cheaper area

NAME: Michele Mossop
STATUS: Home owner who is planning for the future.
QUESTIONS: Do I sell my apartment in Sydney, unlock some capital, move out of Sydney and bolster my super? Or do I stay where I am and take out a reverse mortgage?
ANSWERS: Don't sell up without renting and testing out the new location. Subscribe to the local newspaper for 18 months, talk to a long list of people in the area, including real estate agents, police, medical services and the chamber of commerce. A larger equity in your home will result in a higher age pension. Maximise your super contributions.

Michele Mossop, a photographer, bought her two-bedroom apartment in a beachside Sydney suburb 20 years ago when prices were low. Over that time, the value has climbed as the area has become sought after and old apartments like hers are in demand. "I love where I live. It is beautiful and sunny and a great apartment," says Michele. She has renovated and the street has a conservation order.

But with such strong property prices, Michele is wondering if she should sell. She has a dream job as a freelance photographer. But she is looking to the future and would like to pump up the value of her superannuation. One way is to sell her apartment and move somewhere with lower property prices. "I could use half of the equity from the sale of my apartment to boost my super and draw down an income when I retire."

One of the advantages of having no children is that there is no need to leave an inheritance. She can spend the principal super amount as well as the income it generates.

Michele has her eye on two beautiful coastal spots: one six hours north of Sydney and the other close to Adelaide. "I could have a garden, a couple of dogs and be close to the sea."

But she would miss her friends. What would be the cost of selling her apartment and relocating? Another strategy is taking a reverse mortgage out on her apartment and staying put. What are the advantages and disadvantages of that? How does the Centrelink reverse mortgage compare with others on the market? Are there options she hasn't considered?

Michele is a big fan of super and has been salary sacrificing extra contributions for many years after advice from the pay office at work. "I managed to make contributions without losing cash in hand by shifting into a lower tax bracket," she says. But then disaster struck when her savings were halved in the GFC in 2008. After nine years, her super has only just reached its pre-GFC level. "If I hadn't lost it in the GFC, I wouldn't have to think about selling my home," says Michele.

Try before you buy

JILL WEEKS

Jill is a retirement speaker and the author of 21 Ways To Retire and co-author of Where To Retire In Australia and Retire Bizzi.

A big move can be financially and emotionally costly. It's not just the cost of the removalist, but there are also other costs such as legal fees, stamp duty and the buying of various household appliances.

Moving away from a city where the property value has escalated in a suburb close to the CBD is likely to mean that Michele is very unlikely to return to the same suburb should she change her mind in the future.

People who try to move back to the place they once lived are known as "half backs", as they can often usually only afford to move "halfway back".

Before doing a dream change, do your research and consult financial professionals.

It would also be prudent for Michele to do some research about her preferred areas.

Is it possible to "try before she buys"? Is house swapping, housesitting or renting an option? Living in an area before buying allows you to experience the cost of living, the different seasons, find out about the locals, and see whether you are compatible with people and the area. Experiencing the weather in the best and worst times of the year should be a must before moving.

Looking at the demographics is also a good idea. Is the area, for example, a magnet for families, retirees or singles and what is the median age? Is it a diverse area? Check out the online ABS community profiles for an overview.

Ask a real estate agent whether there are a lot of holiday homes, or are there mostly permanent residents? Some people like the company of neighbours rather than people who are transient and don't necessarily interact. Also, is it easy or difficult to buy or sell in the areas of interest to Michele?

Visiting the local chamber of commerce or similar organisation would also be worthwhile. How does it support local businesses? Is it active in holding networking events or seminars? Such groups may also be able to assist with communications information; is there good, consistent mobile phone and internet reception? What are the alternative transport options, such as a nearby airport?

If the areas that are tempting Michele are favourites with tourists, it is a good idea to ask about the cost of living. Do prices rise in the peak tourist season? Also, what is the crime rate like in those times?

The need for medical services may not be crucial at present but, looking ahead, what are the options for medical treatment in the area or nearby? Do the areas have problems with attracting and retaining medicos? Do you have a choice of specialists? One resident of a favoured lifestyle area reported that the local saying was, "If in pain, jump on a plane"!

Subscribing to the local newspaper for at least 18 months before moving allows people to see what types of recreation and culture are available and the kinds of issues that are important in the local area.

(Also see page 62 for more tips from Jill Weeks on the best places to retire.)

Focus on lifestyle

JASON PETERSEN

Jason is a Sydney-based financial planner and head of wealth management at independently owned boutique planning business 5 Financial.

With Sydney property prices showing solid growth in recent years, Michele's question is not unusual. Financially she has options and, as we say to clients in similar situations, her primary focus can be on what's important to her in terms of lifestyle.

You could nearly say that Michele is spoilt for choice, and it's a matter of where her lifestyle priorities lie.

If Michele decides to stay in her home, she avoids transfer costs such as stamp duty and agent's fees, which are probably likely to be in the vicinity of $50,000.

Under current legislation, the benefit of maintaining equity in your home is that you can expect a larger age pension as your home doesn't currently count towards the assets test.

Michele has many opportunities to use super to further build her nest egg for the time she does decide to retire. In terms of performance, most super funds tend not to differ greatly, with the key drag on performance often being fees, transaction costs and unnecessary taxes, so it's important Michele takes the time to identify the right fund for her.

Michele should continue to make the most of contributions. Being self-employed, maximising personal deductible contributions is crucial. With a healthy balance, Michele needs to think about taking advantage of the transition-to-retirement opportunity where earnings on the fund can be tax free.

Note, however, this is changing from July 1 and would need to be reviewed at that time.

If Michele does sell her home, the "bring-forward rule" is likely to be needed to maximise contributions to super.

Currently three times the non-concessional cap of $180,000 ($540,000) can be made, reducing to three times $100,000 ($300,000) after July 1.

A reverse mortgage used sensibly allows you to stay in the home and location you like. Ideally these shouldn't be used until later in life once other assets, such as super, are exhausted. Major financial institutions offer reverse mortgages with interest rates ranging from the low to mid 6s, which is quite reasonable.

The key concern for anyone taking out a reverse mortgage is that interest is capitalised over a long period of time. This will eat into the equity in your home, particularly when rates rise. Under the National Credit Code, reverse mortgages must have a "no negative equity guarantee", which means you can't owe more than the value of your property.

With a current interest rate of 5.25%, Centrelink's reverse mortgage is quite useful. Known as the Pension Loans Scheme, it's available to those not receiving the full age pension. Its limitation is that if you receive the full age pension then you can't access the scheme to improve your lifestyle.

Given her solid financial position and opportunities, Michele can choose to move or stay, and base her decision on what gives her the most satisfying lifestyle.