

As a retiree, view your home as a 'financial asset'

It is interesting to see how many people are beginning to look at their home as a retirement asset. There are two reasons for this. Firstly, the average person nearing retirement is under funded, in some cases their homes are their only assets. The second reason has to do with the boom in property and current value of homes. A home is no longer just a "roof over their heads", but rather a significant part of their total wealth.

Retirees are now looking at ways to "unlock" the value of their homes to provide for income. The most common approach is to sell the home in a popular area in favour of "down-scaling" to another less expensive area. This allows the retiree to realise the difference between the sale price and the purchase price on the new place to provide for income. A variation to this plan would be to rent instead of buying and, thus, have the full capital available from the sale to provide for an income.

No fancy maths skills are required for calculating the financial benefit of this option. In fact, if you can view your home as a financial asset in your portfolio, and ignore all the emotional issues around owning your own property, it would make sense to sell your home and rent it back from the buyer. I say this because you can rent a R2 000 000 property for R120 000 per annum.

Assuming you invested the R2 000 000 at 7% (money market rate), you would earn R140 000 per annum with the benefit of no rates and taxes and no maintenance costs. This is a very simplistic calculation, only to make a point. Usually, someone would consider this plan if they intended to draw down on their capital over the remainder of their life.

I am told that in the UK it is quite common to sell your home and retain the right of enjoyment or usage until your death. The value of the property is split between the "bare dominium"



Money Matters

Mark Williams

and the "usufruct". On the death of the usufructuary the full rights of property ownership revert to the bare dominium holder, and he or she can deal freely with the property.

The mechanics would be to calculate the value attached to the right of use and subtract this from the market value to determine the selling price.

Another variation of the above is the Reverse Mortgage plan, which allows the homeowner to borrow a monthly amount against the value of the property, without having to pay the money back until the property is sold or the homeowner dies. The advantage of this plan is the homeowner gets to stay in their home while accessing the equity in the property to live from.

This plan needs to be considered very carefully as one has a debt growing with interest slowly eroding the value of your property. The risk is that the property value does not keep up with that of the debt, and the bank ends up owning the property before you planned.

Speak to your certified financial planner if you are concerned about the longevity of your money versus your age. -www.markwilliams.co.za