

Best Places to Downsize in Retirement 2020

Downsizing in retirement may provide a financial answer for those with limited retirement savings who hope to remain in a real estate market that has become very expensive.



As much of a nest egg as people may save for retirement, often their single biggest asset is their home.

This means downsizing in retirement has the potential to enhance retirement savings for homeowners.

There are many reasons to downsize; but whatever the primary motivation, it is important to consider whether it makes financial sense.

For example, going from being a homeowner to renting might unlock the equity you have built up on your home, but it could also raise your annual expenses due to the cost of rent.

This study examines the trade-off between the value of cashing in home equity and the subsequent cost of being a renter. The results identify the places where it makes the most sense to downsize in retirement.

How We Identified the Best Places to Downsize in Retirement

This study is not about the best places to retire.

While there are various lifestyle and economic reasons people choose to relocate when they retire, the reality is that many retirees wish to remain in the community where they have lived and worked over the years.

For people who want to stay put, the key question about downsizing is whether the proceeds from selling their home would be enough to finance the cost of renting in the same area. That cost has to be financed throughout the remaining retirement years.

MoneyRates.com calculated this trade-off by looking at the median home value in over 500 American municipalities.

The study determined the net annual cost of renting per year by subtracting the median annual property tax in each community from the median annual rent. That shows how much more it would cost annually to rent rather than own in a particular area.

The final step was to divide the median property value in each community by that net annual cost of renting. This approximates the number of years of rental expense selling a home would finance in each community.

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10 Best Places to Downsize in Retirement in 2020

The numbers show that the financial logic of downsizing depends very much on where you live.

In the best case, which is in the San Jose, CA area, MoneyRates found that proceeds from the average home value would finance over 50 years of the extra cost of renting. That's more than enough to carry someone through the average length of retirement.

Worst case, the study found that in Hinesville, GA selling a home would finance less than ten years of the extra cost of renting. That could easily leave someone high and dry later in their retirement years.

Based on the above methodology for calculating the best places for downsizing, the following were found to be the 10 places where downsizing makes the most economic sense in 2020:

1. San Jose/Sunnyvale/Santa Clara, CA

(Covers 54.74 years of net rental expenses)

Every aspect of housing is expensive in this community.

It is the only metropolitan area in the United States where the median property value tops \$1 million. This area also has the most expensive median rental cost in the nation, at over \$27,000 per year, and it has the fourth highest median property taxes.

While the cost of owning a house and the cost of renting are both very high in the San Jose area, the MoneyRates downsizing formula puts these costs in perspective.

The outcome shows that, while rents are expensive in this area, by comparison, property values and taxes are even more expensive. As a result, the proceeds from selling a home in this area should finance the extra cost of renting for decades to come.

The formula found that downsizing would finance 54.74 years' worth of extra rental expenses - well beyond the normal span of retirement. From a financial standpoint, this makes the San Jose area the best place to downsize in retirement.

2. Santa Cruz/Watsonville, CA

(Covers 54.62 years of net rental expenses)

Just a little south of San Jose you'll find a fairly similar situation in Santa Cruz. Property values, real estate taxes and rents are all very high; but when you crunch the numbers, this is a good place for homeowners to downsize.

With a median property value of \$815,100, selling the typical home in Santa Cruz would be enough to finance 54.62 years' worth of the net cost of renting after you factor in the savings from no longer having to pay property taxes.

That ranks Santa Cruz just a fraction behind neighboring San Jose and second on the list of best places for downsizing.

3. San Francisco/Oakland/Hayward, CA

(Covers 54.09 years of net rental expenses)

Anyone who has lived in the Bay Area lately knows that housing is extremely expensive. However, the fact that communities in this area took the first three spots on this list suggests there is a silver lining for seniors looking to downsize in that area.

As expensive as renting is, area homeowners who have benefited from the local housing boom should have enough equity to finance the cost of renting for a good long time should they choose to downsize.

In the case of the San Francisco area, it has both the second highest median home value and the second highest median annual rent in the nation. However, because home values have become even more inflated than rents, downsizing could make good sense.

Selling a typical home in San Francisco or its surrounding communities would finance 54.09 years' worth of the extra cost of becoming a renter.

4. New York/Newark/Jersey City, NY-NJ

(Covers 51.50 years of net rental expenses)

The New York metropolitan area may be a long way from the San Francisco Bay, but it fits the pattern of that region in terms of favorable conditions for downsizing. Sky-high rents are more than offset by soaring property values. Having the highest median property tax in the nation adds to the savings from downsizing.

As a result, selling the median residence in New York would finance 51.50 years' worth of net rental expenses.

5. Los Angeles/Long Beach/Anaheim, CA

(Covers 45.60 years of net rental expenses)

Los Angeles may have the 14th highest median annual rent in the nation, but that is a relative bargain compared to the 7th highest residential property values.

The upshot is that, when you also factor in savings on property taxes, downsizing in L.A. should net an average of 45.6 years of incremental rental expenses.

6. Bridgeport/Stamford/Norwalk, CT

(Covers 45.21 years of net rental expenses)

This wealthy commuter community just outside the New York metropolitan area has the second highest median property tax in the nation. That creates a large potential savings from downsizing.

That savings cuts down on the net cost of renting and helps the median property value in Bridgeport cover 45.21 years' worth of the net cost of renting.

7. San Luis Obispo/Paso Robles/Arroyo Grande, CA

(Covers 45.03 years of net rental expenses)

Located roughly halfway between the major urban hubs of Los Angeles and San Francisco, this area offers a break from the hubbub of California's more crowded places - but not from the prices.

Again, though, it comes down to the proportions. While this area ranks 21st in terms of the highest median rent in the nation, property values are even more inflated, with owner-occupied housing prices ranking 13th nationally.

The upshot is that downsizing from a typical home in this area could subsidize 45.03 years of net rental expense.

8. Napa, CA

(Covers 43.58 years of net rental expenses)

This renowned wine area is home to some pretty hefty real estate prices. Median owner-occupied home prices rank fifth nationally. As a result, even with the nation's tenth-highest rents, downsizing in Napa should finance an average of 43.58 years' worth of net rental expenses.

9. Kapaa, HI

(Covers 42.82 years of net rental expenses)

This relatively small area on the island of Kauai has been called the island's most charming town. Charm is nice if you can afford it, and in Kapaa it helps if you've benefited from thriving property values locally.

The median value of an owner-occupied home in Kapaa ranks tenth nationally. For someone thinking of downsizing, that would more than make up for rent prices that rank 25th in the U.S. Based on these figures and after accounting for property taxes, downsizing in Kapaa would normally finance 42.82 years' worth of renting.

10. Santa Rosa, CA

(Covers 42.11 years of net rental expenses)




With seven of the top ten rankings in this study, California dominates the list of the best places for downsizing. The general pattern shows that even retirees in high-cost areas don't necessarily have to worry about being driven out by high rents as long as they have built up equity in their homes over the years.

In the case of Santa Rosa, for long-time homeowners the value of that equity has been enhanced by a median property value that has risen to be the sixth highest in the nation. Cashing in this value by downsizing would typically be enough to fund 42.11 years' worth of the net cost of renting.

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Does Downsizing Make Sense for You?

The decision to downsize also involves health and lifestyle factors, but this study is intended to point out some of the financial considerations.

Before deciding to downsize, you should consider the property value of your home, how much you would save by eliminating property taxes and other costs of ownership, and what you would have to pay to rent instead.

Age is another factor: The younger you are, the more years of rent you'd likely have to finance if you downsize. And of course, the financial resources you have beyond the value of your home come into play as well.

Even if you choose not to stay in the area where you have owned your home, figuring out how many years of rent you could finance by selling your home is a crucial aspect of downsizing. In some cases, relocating could increase the benefit of downsizing, but in other cases it could make it more expensive.

That's why it pays to crunch the numbers so you know how cost-effective downsizing would be for you.

Metropolitan Areas We Surveyed

This list is dominated by some of the most expensive real estate markets in the United States. However, it seems in several cases that the cost of ownership has run well ahead of the cost of renting. That means that downsizing could help make living in one of these expensive areas relatively affordable.

For retirees who don't want to uproot themselves from family and community after many years, downsizing in any of the top 10 cities could be just the economic solution they need.

Here is the full ranking of 517 cities:

Rank (By Ratio)	Metropolitan Area	Home Value To Extra Rent Cost Ratio
1	San Jose-Sunnyvale-Santa Clara, CA Metro Area	54.74
2	Santa Cruz-Watsonville, CA Metro Area	54.62
3	San Francisco-Oakland-Hayward, CA Metro Area	54.09
4	New York-Newark-Jersey City, NY-NJ-PA Metro Area	51.50
5	Los Angeles-Long Beach-Anaheim, CA Metro Area	45.60
6	Bridgeport-Stamford-Norwalk, CT Metro Area	45.21
7	San Luis Obispo-Paso Robles-Arroyo Grande, CA Metro Area	45.03
8	Napa, CA Metro Area	43.58
9	Kapaa, HI Micro Area	42.82
10	Santa Rosa, CA Metro Area	42.11
11	Missoula, MT Metro Area	40.97

12	Bozeman, MT Micro Area	39.80
13	Santa Maria-Santa Barbara, CA Metro Area	39.72
14	Providence-Warwick, RI-MA Metro Area	39.25
15	Truckee-Grass Valley, CA Micro Area	39.19
16	Corvallis, OR Metro Area	39.10
17	Salinas, CA Metro Area	38.82
18	Trenton, NJ Metro Area	38.48
19	San Diego-Carlsbad, CA Metro Area	38.46
20	Boston-Cambridge-Newton, MA-NH Metro Area	37.69
21	Urban Honolulu, HI Metro Area	37.62
22	Concord, NH Micro Area	37.31
23	Oxnard-Thousand Oaks-Ventura, CA Metro Area	37.16
24	Boulder, CO Metro Area	36.93

25	Bend-Redmond, OR Metro Area	36.53
26	Helena, MT Micro Area	36.44
27	Ukiah, CA Micro Area	36.28
28	Kalispell, MT Micro Area	35.94
29	Torrington, CT Micro Area	35.91
30	Barnstable Town, MA Metro Area	35.60
31	Wenatchee, WA Metro Area	35.47
32	Greenfield Town, MA Micro Area	35.18
33	Oak Harbor, WA Micro Area	35.14
34	Manchester-Nashua, NH Metro Area	35.12
35	Ocean City, NJ Metro Area	34.82
36	Seattle-Tacoma-Bellevue, WA Metro Area	34.58
37	Eureka-Arcata-Fortuna, CA Micro Area	34.53

38	Bellingham, WA Metro Area	34.47
39	Bismarck, ND Metro Area	34.36
40	Mount Vernon-Anacortes, WA Metro Area	33.79
41	Yuba City, CA Metro Area	33.58
42	Atlantic City-Hammonton, NJ Metro Area	33.56
43	Keene, NH Micro Area	33.52
44	Kahului-Wailuku-Lahaina, HI Metro Area	33.45
45	Worcester, MA-CT Metro Area	33.41

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