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. Maxmise 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 at the future and how 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: Centrelink reduced its reverse mortgage.

Is it possible to “try before they buy”? 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, is it 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 medical staff? Do you have a choice of specialists? One resident of a favoured lifestyle area reported that the town had no GP to call. “If I leave, I will Die alone on a plane!”

Subscribing to the local newspaper for at least 18 months before moving allows people to see what type of service is available and the kinds of issues that are important in the local area. Michele recommended to “be a know it all” for more tips from JILL WEEKS on the best places to retire.

To be reviewed at that time. If Michele does sell her home, the “seven forward rules” is likely to be needed to maximise contributions to super.

Currently three times the non-concessional cap of $380,000 ($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 live off your income. Ideally those shouldn’t be used until later in life once other assets, such as super, are exhausted. As the Major financial institutions offer reverse mortgages with interest rates ranging from the low to mid fiv, 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 own 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 then you can’t access this top-up to improve your lifestyle. If you have sold financial position and opportunity, Michele can choose to move or stay, and base her decision on what gives her the most satisfying lifestyle.