



Downsize Your Home To Downsize Expenses

by Lisa Smith ([Contact Author](#) | [Biography](#))

[Downsizing](#) your home is most commonly associated with empty-nesters and retirees looking for smaller spaces after the kids have moved out, but it's also becoming a more popular move for a growing number of hard-working, money-smart homeowners. It's also a move that makes a lot of financial sense.

From a corporate perspective, the whole concept of downsizing is financial. Companies close facilities, shed business lines and lay off workers in order to save money. When they do, [Wall Street](#) cheers and stock prices rise because lower [expenses](#) lead to bigger [profits](#). The exact same thing occurs, on a smaller and more personal scale, when you downsize your house.

Chasing the Savings

Soaring home prices, soaring energy prices and high gasoline prices all add to the cost of living. As a result, the financial benefits of moving to a smaller place are numerous, and well worth exploring. (To continue reading about real estate, see [Investing In Real Estate](#) and [Smart Real Estate Transactions](#).)

Reducing the Mortgage Payments

The monthly [mortgage](#) payment is generally the largest single expense consumers face. It routinely accounts for 30% or more of their [gross income](#) – often accounting for 50% of [net income](#). Downsizing your house can have a dramatic and direct effect on mortgage expenses. At the very least, it can result in a significant reduction in your monthly expenditures, a significant increase in your [free cash flow](#) and massive savings in interest over the term of your mortgage. (To learn more about mortgages, see [Shopping For A Mortgage](#), [Understanding The Mortgage Payment Structure](#) and [Paying Off Your Mortgage](#).)

If you make the right move, you might be able to trade in your house and use the profit from the sale to purchase your next home in cash. If you are really in great shape financially, you might even pay off the new home and have tax-free profits from the sale of your old house left over to invest. (For more insight, see [Will Your Home Sale Leave You With Tax Shock?](#))

Calculating Taxes and Mill Rates

Real estate taxes are generally the next largest expense for homeowners and, unlike the mortgage payment, they never go away. Downsizing your home is an easy way to minimize real estate taxes. Simply moving from a 3,000-square-foot home to a 1,500-square-foot home can cut your taxes by half. See the example below.

Example – Downsizing Tax Liability

The owner of a 3,000-square-foot home assessed at \$300,000 and taxed at a 30-mills-tax rate pays about \$9,000 per year ($\$300,000 \times 0.03$) in real estate taxes, while a 1500-square-foot home assessed at \$150,000 and taxed at a 30-mills-tax rate pays about \$4,500 per year in real estate taxes. This means that if you trade down from a 3,000-square-foot home to a 1,500-square-foot home you could cut your taxes by 50%. (For more information on taxes on your home, see [A Tax Primer For Homeowners](#).)

Finding the Right Location

Downsizing your house is great way to lower your real estate taxes due to the lower assessments on a smaller home, but it's also an excellent opportunity to move yourself right into a new neighborhood – preferably one with lower real estate taxes and lower income taxes. Better still, it may be a chance to move to place that has a lower overall cost of living.

The site of your primary residence can have a big impact on the cost of groceries, gasoline, car insurance, commuting and more. A new location can result in a shorter trip to work and may, if you move from the suburbs to the city, enable you to get rid of your car altogether.

Lowering the Cost of Utilities

The cost of utilities is another big bill that's easy to downsize if you move to a smaller place. If you've got less space to heat or cool, you should end up with more money in your pocket at the end of the month.

Cutting the Maintenance

Over the long term, less space to maintain translates into less money spent. If you move to a smaller place, you can cancel the landscaping service and the pool boy, paint fewer rooms and resurface a smaller driveway. When things get old, dirty or need to be redone or replaced, you'll save money by fixing the smaller roof, buying one furnace instead of two and laying 1,000 square feet of carpet instead of 3,000 square feet.

Downsizing Presents Opportunities

When you move to smaller place, reducing your expenses is just one of the opportunities that will become available to you. The other part depends on what you do with the money that you save. Just saving \$500 per month for the next 10 years turns in to \$6,000 per year. That's \$60,000 over the course of a decade, even if you just tuck the money under your pillow.

Over the course of 15 years, investing in the stock market should turn that cash into \$150,000 with ease, if the stock market is kind to you. Of course, you can also take some of that cash and use it celebrate your freedom. A shopping trip, season tickets to the local baseball team, a new car or a chance to travel could add some fun to your personal agenda. (To read more about saving plans, see [Fundamentals Of A Successful Savings Program](#), [Understanding The Time Value Of Money](#) and [How To Become A Millionaire](#).)

Looking Beyond the Money

In addition to substantial cost savings, moving to a smaller place has other benefits. For example, you're likely to have substantially less work to do around the house. With your newfound time, you can start a hobby, visit friends, travel or simply relax instead of spending hours cleaning, improving, or fixing your too-big house. You can even move to condominium and delegate most of the chores to the maintenance man.

Stopping to Think First

Before you trade your palace for a condo, consider all of the angles. Carpenters say to "measure twice, cut once". According to the National Association of Home Builders, the average home size in the United States was 1,400 square feet in 1970 and nearly twice that by 2004, coming in at 2,330 square feet. Think about your current home: How many rooms do you have? How many of those rooms do you actually use? How much time do you spend in that basement that you have to pay to heat and cool? But before you call the movers, remember think through your reasons for moving. Is a new lifestyle right for you? Can you live in a place where the neighbors are close? If the condo doesn't allow pets, will that bother you?

Like any major lifestyle decision, planning is the key to success. Plan first, then move! It just takes a little bit of strategy to make sure that you are doing the right thing and that you won't be sorry about it after the fact.

To read about related topics in real estate, see [Tax Deductions For Rental Property Owners](#), [Tips For The Prospective Landlord](#), [To Rent Or Buy? The Financial Issues – Part 1](#) and [Part 2](#).

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