Planning to Downsize in Retirement? Why Caution is Key

For many Canadians, the family home represents more than just a place to live — it's also a cornerstone of their retirement plan. With residential real estate making up over 40% of household assets, according to Statistics Canada, selling a home to fund retirement feels like a natural step for many. But recent market trends and economic uncertainty highlight why relying on a big profit from downsizing could be a risky move.

The Housing Market Isn't a Guarantee

Home prices across Canada have been under pressure. The Canadian Real Estate Association reports that the national composite price declined 3.6% from April 2024 to April 2025. Some areas in Quebec and the Maritimes saw price gains, but markets in Ontario, including the Greater Toronto Area, have experienced significant drops. Since the February 2022 peak, the GTA's benchmark price has fallen over 21%.

If your retirement strategy includes selling your home for 10% or 20% more than it's worth today, you may want to take a second look. Even a modest rebound isn't guaranteed — especially as economic forecasts suggest Canada could be heading toward a recession in the latter half of 2025.

One Shot, High Stakes

Selling a home is unlike other investments. Unlike stocks and bonds that can be gradually drawn down over time, a home sale is a one-time event. You don't get a second chance at timing it right. And for retirees, especially those planning a move in the next few years, the financial window may not align with market reality.

The True Cost of Downsizing

Many people underestimate the costs involved with selling and buying real estate. Between agent commissions (typically 3–6%), legal fees, land transfer taxes, moving expenses, and the cost of setting up a new home, the final tally can eat up as much as 10% of your home's value — especially if you're only planning a modest downsize. In the end, that financial cushion may be thinner than expected.

Investing the Proceeds: Proceed with Care

If downsizing frees up cash, the next challenge is how to invest it. Some retirees find their tolerance for market volatility has decreased — and that can lead to overly conservative investment choices or risky decisions driven by fear or market timing.

Past market returns may not be a reliable guide either. The S&P 500 returned over 13% annually over the last decade, but expecting those same results going forward may be overly optimistic. Planning for more modest returns can help avoid disappointment.

It's Not Just Financial — It's Emotional

Selling the family home isn't only about the numbers. For many, it means parting with decades of memories, routines, and personal comfort. Giving up a garden, the ability to host family gatherings, or the familiarity of a neighbourhood can take a toll. If the emotional cost is too high, the downsizing plan can stall indefinitely — or not happen at all.

That's why where you move to matters just as much as where you move from. If your new home doesn't feel like "*home*," even the financial benefits may not make it worthwhile.

Don't Wait Too Long

Physical mobility and safety also become bigger considerations as we age. A multi-level home that once worked well for a growing family might become a hazard later in life. Planning a move earlier rather than later may improve quality of life and reduce stress down the road.

Final Thought

Downsizing can be a smart step in retirement, but it's not without its risks. The key is to plan, be realistic about market conditions and costs, and take both financial and emotional factors into account. Whether you work with a financial adviser or manage your own plans, building in flexibility and a contingency strategy is more important than ever.

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