The Financial Perks of Downsizing

Simplifying is all the rage nowadays, and here are three reasons it makes sense financially.

Downsizing can lead to lower property taxes and fewer maintenance costs.

From TV shows like "Tiny House Hunters" to blogs like "Becoming Minimalist," it seems as though people everywhere are talking about how to pare down possessions.

"I have a client who rides his bike a lot of places," says Bob Gavlak, a certified financial planner and wealth advisor with Strategic Wealth Partners in Ohio, as an example. Others may look to eliminate smaller possessions. "Maybe [they] don't need four or five TVs around the house," he says.

Many people tout downsizing as a way to free up time and focus on more important and less material pursuits, but there are financial perks to the process as well. Whether you move to a smaller house or simply clear the clutter from the one you have, here are three ways downsizing possessions can upsize your bank account balance.

Immediate inflow of cash. While people understand they can make money by selling excess items, they may underestimate the potential value of what's in their house. "We don't realize the pieces of art we were given for our wedding now have a $5,000 to $10,000 price tag," says Jacquie Denny, founder and chief development officer for Everything But The House.

Denny's company caters to those looking to clear out an estate through an online auction. Her service will photograph, catalog and list items on behalf of sellers in more than 20 U.S. cities. However, she encourages people to consider downsizing early rather than leaving it as a task for heirs to complete. "Over time, our personal property starts owning us and taking over our time and energy," Denny says. By selling items, either locally or online, people can not only regain time otherwise spent on maintenance but also recoup money that can be used for other, more meaningful purposes.

Reduced long-term financial costs. Beyond an immediate influx of cash, downsizing can also lead to long-term savings. Kevin Finkel, executive vice president of Resource Real Estate, says this is a prime reason to consider renting rather than buying a house. "I don't want to discount the emotional part of owning a home," he says. "But when you buy a house, you're really just renting from the bank."

Increasingly, people move frequently and often build little equity in a property before it's time to sell. Even those who are committed to living somewhere long term may come out financially ahead by renting, Finkel says. He argues potential homeowners could invest their 20 percent down payment in the S&P 500 and earn more than the equity they'd gain in a house, once inflation is factored in.

Renting, or even downsizing to a smaller house, can save you money in other ways as well. Lower property taxes, fewer maintenance costs and less space to fill with furniture and home décor can all keep more money in a person's pocket.

Increased possibility of a secure retirement. Naturally, having lower living costs means more opportunity to save for retirement and other life priorities. It could even pave the way for an early exit from the workforce in some situations. "If you have a mortgage, you can either eliminate it or greatly reduce it [by downsizing]," says Gavlak. "When you eliminate that, everything becomes much more affordable."

At that point, workers may find they can easily shift careers or reduce hours without sacrificing their lifestyle. Others may keep their same hours and use money previously budgeted for housing for other purposes such as travel or college costs.

For many people, the biggest hurdle to minimizing their mortgage and other expenses is the expectation that their life should involve a big house filled with plenty of possessions. "The financial perks of downsizing are pretty evident," Gavlak says. "A lot of people have to get over the emotional side of it."

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