Snowbirds and the Loonie – time for new earmuffs

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Snowbirds who own property in the US and travel there during the winter months – imagining the cold is difficult during this August heat wave – will be faced with financial issues due to the plunging Loonie. Costs loom larger if retirement income is received in Canadian currency and expenses are in US dollars. But there is one possible winning strategy.

Chart courtesy of BCA Research Inc.

In my research I found that buying a US-based retirement home didn’t work well for most people. With the restrictions regarding the number of days Canadian citizens are allowed in the US and the issues with potential income taxation payable to the IRS and healthcare access problems that seem to hit everybody eventually – renting a US winter home is much preferred.

But many, many Canadians bought homes in the US in the last ten years. Some of these purchases were very rewarding for two reasons. First, the US real estate bubble burst in 2006-09 so anyone buying in 2010 or later found prices were very...
good. And if Canadian buyers were lucky enough to convert Canadian dollars at par to US dollars to complete the purchase they became “double-winners”.

But times have changed and the Loonie is on the skids. As well, if the Canadian snowbird has investments in the Canadian stock market or GICs, which they all do, the value of the income stream converts to fewer US dollars to pay bills. Canadian pensions are paid in Canadian dollars whether it’s a defined benefit plan from an employer or the CPP or the OAS. So the dilemma has arrived: income in Canadian currency and expenses in US dollars.

According to an April 2015 article on the CBC website – many snowbirds are selling their Florida and California properties. And what a good time to sell! Prices are up perhaps 10-20% and those US dollars from the sale proceeds convert back to a much larger amount of Canadian dollars. Or perhaps sellers would leave those dollars in US currency and invest the money to earn US income to use for travel outside of Canada, anticipating a further decline in the Canadian dollar. As one snowbird said, “five thousand Canadian dollars doesn’t go very far” in reference to expenses in Palm Springs.

Many businesspeople in retirement havens like Palm Springs say that without Canadians they would be out of business. I’ve heard this sentiment expressed in Maui and Palm Desert directly by hotel workers and shopping clerks. Real estate agents will be devastated if the Loonie stays down at current levels and don’t even talk about what happens if it goes to sub-70 cents as many predict, including this writer. Unless the price of crude oil rebounds soon Canadian dollars will continue to shrink. Already the Canadian buyer of US real estate is on the endangered species list.

But for those who are already owners, what about the option of selling that property? A sense of freedom from responsibility and enhanced wealth to enjoy retirement would be the immediate benefits of selling. There would also be a substantial capital gain for many people. One of the few drawbacks for individuals selling their US properties is that capital gains taxes will be payable since the owner-occupied residence exemption would not apply. (It’s important to contact your accountant for tax advice).

But the extra money and the freedom to explore the rest of the world will be used to travel to those places that are still on the “bucket list”. Or it will just be nice to enjoy the absence of payments for maintenance, homeowners association fees, property taxes and travel.

In their new role as former owners all those snowbirds need is a good set of earmuffs, some ‘long johns’ and a new pair of cross country skis. I suspect there will be frequent trips to a rented condo in some warm climate too, if finances permit.