Money

Retirement interrupted

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By Donna Rosato, Money Magazine staff writer

Walking along a pier in Daytona Beach with their youngest grandson on a recent Saturday afternoon, Steve and Carol Daimler stopped to see what fish the locals were catching. The fishermen wowed 10-year-old David with a big flounder they'd just landed and photos of a 500-pound, nine-foot shark they'd once caught.

After a day spent playing miniature golf, eating homemade ice cream and splashing around in his grandparents' in-ground pool, David declared, "This is the best day of my life."

Such perfect afternoons are exactly what Steve, 61, and Carol, 60, had in mind when they retired to Florida from Virginia two years ago. But those days are rare. Instead, the Daimlers spend most of their time consumed with selling two investment properties they bought shortly after the move - holding open houses, distributing fliers, cold-calling realtors and catering to prospective buyers.

A more typical day: On a midweek afternoon, Carol got a call from a prospect who said he and his wife were just outside one of the houses and wanted to see the interior. The only hitch: The house is an hour's drive from where the Daimlers live. The caller said he'd wait, so Carol and Steve jumped in the car. But by the time they arrived, the phantom buyers had disappeared - the frantic trip was a bust.

To this day, the properties remain unsold, draining nearly $6,000 a month from the Daimlers' dwindling retirement kitty. The couple had thought the properties would help finance the lovely new life they planned to lead in Florida. They had retired from their jobs - Steve was a sales executive and Carol a benefits consultant - and moved to Florida to be closer to David and twins Mark and Nicole, 13, their oldest daughter's kids.

To supplement their retirement savings of $260,000, they figured they'd buy fixer-upper homes to renovate, then sell at a profit in the state's hot housing market. "We thought we'd make $100,000 without batting an eye," says Carol.

But when the housing bubble burst, so did their dreams of a real-estate funded retirement. The properties have been on the market for nine months without a serious offer, and the carrying costs are killer: The Daimlers pay more than $65,000 a year on their mortgages (including loans for their primary residence and a vacation house in North Carolina), plus tens of thousands more for property taxes, insurance and maintenance.

The couple are pulling out $15,000 a month from savings to cover their expenses, and they've already run through more than half of their nest egg. The irony: On paper they seem to be in great shape, with a net worth of $1.6 million. But since most of that money is tied up in real estate - assets they can't easily sell - it doesn't ease their current cash crunch.

Money is so tight that Carol has stopped filling prescriptions for her cholesterol medicine. Steve says he has no choice but to go back to work. "The financial pressure is too great," he says.

The Daimlers are certainly not the only retirees to have miscalculated financially. In fact, nearly two-thirds of workers who retired and subsequently returned to work say they went back because they needed the income.

But being in good company is no comfort to the couple. "We're in this beautiful area and see our neighbors doing fun things like cruises, golfing and going to the country club, and we can't enjoy any of it," says a frustrated Carol.

Watching their savings drain away, she admits, "is scary." Worst of all, Steve confesses quietly: "I feel like I've let down Carol and the kids." She counters, "We both made this decision, but now it feels like a failure."

Putting faith in real estate

Of course, when home prices were rising fast - especially in hot spots like Daytona Beach - the Daimlers' plan to turn a quick profit flipping houses seemed to make sense. Especially since, unlike many hopeful flippers, the couple were experienced home buyers and investors.

The high school sweethearts - Steve spotted Carol at a pizza parlor across from their Long Island high school - bought their first house at 19, shortly after they married. It was in Florida, where Steve was working as a technician at the Kennedy Space Center.

When the couple moved back to New York seven years later, they sold the house for a $10,000 profit and bought a fixer-upper. Four years later they sold that house too and bought a more spacious home in northern Virginia, where they settled down to raise their two daughters and son (now ages 38 to 42).

Shortly after the move, Steve changed careers and began selling computers. Eventually he became a sales director, earning about $150,000 a year. Carol focused on raising the kids when they were young, later getting her real estate license. By 1991, though, she was working for the state of Virginia as a disability case consultant, raising their income to $200,000 a year.

The family lived well but not lavishly. They saved enough to put the kids through college without loans and steadily put away money for their own retirement too - although not enough, they readily admit. But they weren't worried because they had made a conscious decision to finance their retirement largely through real estate investments.

"I know you should have a diversified portfolio," says Steve. "But I believed real estate would give us bigger returns." In 1986 the couple bought their first investment properties - two townhouses near their home in Springfield, Va. - using money Carol inherited from her mom.

In the early 1990's they sold one of the houses and used the proceeds to build a vacation home in the Outer Banks. Current estimated value: $900,000. They sold the other townhouse in 2001 and used the money to add on to their Virginia home, which they sold in 2005 for nearly $700,000.

A life-changing move

The idea of retiring and moving to Florida came to the Daimlers after a family Christmas gathering at their home in 2004. When their grandkids, then 7 and 11, went home to Daytona Beach after the holidays, Steve and Carol were heartbroken.

"They seemed to be growing up so fast, and we were missing out," says Steve. Plus, he'd become weary of the extensive job-related travel that kept him away from home for long stretches.

To supplement their savings, the couple planned to launch a sideline business, buying houses in need of a little TLC, fixing them up and then selling them for a profit. "We knew prices wouldn't keep going up like they had been," says Steve. "But we figured with demand from baby boomers retiring, homes in Florida would keep appreciating."

Carol quit her job first, in the spring of 2005. Shortly after, the couple sold their house in Virginia and paid cash for their retirement dream home: a $640,000, 3,700-square-foot house with a game room and an in-ground pool in a gated community in Port Orange, south of Daytona Beach.

The couple took real estate investing courses online and joined the Central Florida Realty Investors Association to network with local experts. When Steve retired in March 2006, their daughter, an area real estate agent, helped them search for properties to launch their business.

Exactly how fast the local real estate market was deteriorating wasn't clear in August when the Daimlers bought two three-bedroom, two-bath houses: one in a Daytona gated community for $235,000; the other in Palm Coast for $120,000.

To finance the purchases, they took out a $400,000 mortgage on their home. They spent $31,000 on renovations and listed the houses in September. But since then the market has been flooded with homes for sale, and the Daimlers have been caught in the changing current.

They've tried every strategy they can think of: holding dozens of open houses; offering a higher-than-usual 4 percent commission to buyers' agents; distributing brochures; running thousands of dollars' worth of newspaper ads; lowering the prices on the homes by $40,000; and offering rent-to-own and other financing options.

They've met with countless buyers but have yet to close a deal. Time and money are running out. The Daimlers' only income is the $36,000 a year they get from renting their vacation house in peak season. They're reluctant to tap Carol's small $25,000 lump-sum government pension. Plus, they're too young to collect Social Security. And they have $31,000 in credit-card debt from the renovations of the investment properties.

Perhaps worst of all, they're so busy trying to sell the houses, they see their grandkids - the primary motivation for the move - only once a month.

With just $120,000 left in his 401(k), now all in money-market funds, Steve decided in March to go back to work. He's an energetic man who likes to rock climb and run. But at 61, he's concerned that he'll find it hard to get a job or earn close to his former six-figure salary. "I know he doesn't want to go back but we don't have a choice," Carol says.

One thing hasn't changed: The Daimlers remain staunch believers in real estate. "If the financial pressure was off, we'd still look for opportunities to invest," says Steve. "For now, though, we just don't have the means to hang on."

The advice

The Daimlers have a few good options to help them get back on track, says the team of experts Money recruited to help them. Here are their recommendations.

Make local connections. Steve needs to land a good job quickly and has already reached out to former business associates in Virginia. But since he now lives in Florida, he should also work on developing professional contacts in his new home state, says Russ Jones, president of First Transitions, a Chicago career counseling firm.

He suggests Steve join a couple of local networking groups, such as the Glazer Kennedy Inner Circle for sales professionals and Execunet, an online executive-recruitment firm that holds meetings in nearby Orlando. Steve should also ask his Virginia contacts if they know of any jobs in Florida.

Sell the vacation home. To alleviate their cash shortage and help rebuild their savings, Michael Cirino, a financial planner with Lincoln Financial Group in Jacksonville, Fla., urges the Daimlers to sell their beach house in the Outer Banks. Probable net: $650,000. But while Steve is open to the idea, Carol is reluctant. "I have an emotional attachment to that home," she says, "and I don't want to make any more fast decisions."

Institute bargain pricing. To expedite the sale of their investment properties, Greg Antonich, a Daytona Beach real estate agent, urges the Daimlers to cut the prices to at least 5 percent less than those of other homes for sale in the area. To bring in more prospects, he also suggests offering incentives, such as paying half of a buyer's closing costs.

Spread the wealth. The Daimlers have too much of their net worth tied up in real estate and low-growth cash investments, Cirino says. He suggests creating a more balanced portfolio by shifting most of the money left in their retirement account out of money markets and into stock and bond funds. The planner urges the couple to pay off their credit cards and start rebuilding their savings as soon as Steve starts working.

Consider what lies ahead. Within the next couple of years, both Daimlers will be eligible to take early Social Security benefits, which would give them an additional $32,000 a year in income. That means Steve may not need to work for as long as he thinks, says Cirino. One drawback: Taking benefits ahead of their full retirement age of 65 will permanently reduce their take by about 20 percent.

After hearing the experts' advice, the Daimlers feel relieved. While their life in Florida isn't what they imagined, they now know that they have options to ease their financial crunch.

They're determined to unload their investment properties, even if it means taking a loss. And once they have a cash cushion from the sale, they're looking forward to doing all the activities they haven't had time for, like going boating with friends and traveling to Europe.

"We want to enjoy the last third of our life," says Steve. "And now we finally see ways that we can." Making a comeback after retirement