

Sell or rent home when relocating?

By [Michele Lerner](#) • Bankrate.com



Highlights

- Relocating homeowners should ask five questions before renting home.
- Tax considerations weigh on financial wisdom of renting home.
- Emotional costs should factor into decision.

When homeowners suddenly have to relocate, they face the dilemma of whether to sell their [home](#) or keep it as an investment property. The recent nationwide [drop in housing values](#) complicates the decision.

Homeowners should weigh several factors before deciding whether to sell now or rent and wait for the market to recover, experts say.

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"Relocating homeowners need to shift their thinking and recognize that the property is no longer their home, it is an investment," says Joseph Himali, principal broker of Best Address Real Estate in Washington, D.C. "The decision to sell or rent should depend on whether keeping the home is the best use of their investment dollars."

The following are five questions to ask when deciding whether to sell a property or rent it out.

How much equity do you have?

Homeowners with significant equity should sell unless their home is a desirable rental and they want to take on the [challenges of a landlord](#), says Diane Rule-Enos, a registered financial consultant with The Patriot Financial Group in Beverly, Mass.

"Even if you have to sell at a price that is lower than what it was worth a few years ago, if you have equity, it is a much less risky choice to sell," Rule-Enos says. "The higher-risk decision is to deal with renters who may not pay the rent and who may damage the property."

However, real estate expert and author Robert Irwin, who lives in California, takes the opposite view.

"Homeowners with significant equity usually have lower mortgage payments, so they are more likely to have positive cash flow when renting the property," says Irwin.

For [underwater homeowners](#) or those with little equity, the decision to sell depends first on whether they have the cash to bring to settlement. If not, they can attempt to negotiate a [short sale](#) with the lender or choose to hold onto the property in the hope it will increase in value.

What's the local market prognosis?

Irwin recommends homeowners contact a Realtor to ask about current local market trends and research home values on the Internet.

"Homeowners should make the [calculation](#) to determine how long it will take to reach the breakeven point in terms of gaining enough value to make a profitable sale," Irwin says. "That calculation should be made on as local an estimate as possible."

Irwin says homeowners should look past national or even statewide trends and focus on the health of the housing market in their neighborhood.

"Some areas are already increasing in value by 5 percent or 6 percent while others will take years to see positive price improvements," he says.

Himali says employment is the primary driver of real estate. In areas where employment is steady, housing likely has stabilized.

What's the state of the rental market?

Irwin recommends consulting with a [real estate agent](#) who specializes in rentals to estimate rental rates and how long it will take to find a qualified renter.

Homeowners should know that rent is based on market rates, not the amount homeowners need to cover their [mortgage payments](#).

"Homeowners who choose to rent need to be financially prepared for the possibility of negative cash flow, vacancies and the chance that the renters will stop paying the rent," Rule-Enos says.

What are the costs of owning investment property?

Owners who become investors need to continue paying principal and interest on their mortgage, property [taxes](#), homeowners [insurance](#), homeowners association fees, and maintenance and repair costs.

Homeowners who hire a property manager will have an additional expense to weigh. Himali and Irwin estimate property managers charge 8 percent to 12 percent of the gross monthly rent.

"The first calculation to include should be a fee for a property manager, because the last thing anyone wants is to have to be on constant call for maintenance issues, especially if they are not local," Himali says.

Of course, many of these costs are tax-deductible to landlords. Owning a home as an investment property changes an owner's tax liability in ways that may or may not be to the owner's advantage. Talk to a [tax professional](#) for more guidance.

Are you ready to be a landlord?

Irwin says the emotional cost of being a landlord includes handling tenant complaints, maintenance problems and even the possibility of eviction. The application process should include a background check by the landlord.

"Landlord-tenant laws vary from state to state, so it's very important to either hire a professional who knows the laws or to make sure you have a thorough knowledge yourself," says Himali.

In the final analysis, homeowners need to weigh the emotional and financial costs of being a landlord against the potential for profit. A Realtor can create an estimated net profit or loss statement based on the potential sales price.