

To   
**Rent or Sell?**  
Miller Long Term Rentals helps you decide

ARTICLE BY KEITH A. MILLER

Sometimes property owners are faced with the question, "Do I sell or rent my home?" The answer depends upon the current real estate market, home equity, (the difference between market value and mortgage value on the home) and the property owner's goals or circumstances.

When the home was purchased, at the height of the real estate market or when prices were depressed, will greatly influence a homeowner's options. In recent years, because of the downturn in the real estate market, many people lost equity in their homes, which became a major influencing factor to put their homes on the rental market, particularly if they purchased during the height of the real estate market, 2005-2006. When considering a typical appreciation rate of 3 percent, those who bought homes during that time will not likely see values return to that level for many years. In this case, the owner might consider a short sale, unless a rental will produce a positive cash flow.

**THREE CATEGORIES OF RENTAL OWNERS**

- **THE INVESTOR.** The property owner has purchased a property and the rent will provide a higher rate of return than other forms of investments, such as bank interest rates, stock or bond market. This is called capitalization, where the annual rent received after expenses is divided by the real estate value. Example: monthly rent of \$3,000 (\$36,000 annual rent), less annual taxes \$6,500, less annual estimated expenses \$3,000, less monthly fees of \$250, (\$3,000 annual fees) equals a net rental income of \$23,500 divided by the likely sales price of \$370,000, equals a capitalization rate of 6.35 percent. In today's terms, that would be considered a good rate return.

- **THE TEMPORARY LANDLORD.** The owner is looking to offset the carrying cost of the home due to an economic need, e.g. he or she has changed jobs and relocated out of the area and is not able to sell due to market conditions, or because of a loss in equity; or the mortgage is underwater, and the owner decides to become a landlord until the real estate market recovers and prices appreciate.

- Ideally, renting will cover the carrying cost of home mortgage, property insurance and real estate taxes and allow the owner to maintain the home until such time when he or she can sell. Over the last few years, this has

been a popular option, as the supply of rental properties has diminished and the demand for rentals has increased. Rent values, as a result, have increased between 7-10 percent in the Bluffton and Hilton Head Island areas. Once the real estate value increases to a sufficient point, it will be worthwhile to list the house for sale rather than continue to rent.

- **THE FUTURE RESIDENT.** This owner/buyer is buying with today's dollars in the anticipation of eventually moving into the home and making it his or her residence, renting the house in the interim to help build equity. Factors to consider include: 1) Will the home fulfill the owner's needs?; 2) Will the rent cover all costs associated with home ownership, such as taxes, insurance, management fees, and other fees that can be expected when renting the property, such as upkeep?; and 3) How much can the owner afford monthly if the home is not rented or what can he or she afford to pay above the rental income received? In some cases, a positive cash flow is not as important as how much are the owner is willing to pay out of pocket to make it work.

Management companies suggest that yard maintenance, pest control and heating and air-conditioning service agreements are provided by the property owner for a tenant. Typical costs are \$170 per month for yard, \$30 per month for pest control and \$200 per year (for one unit) for an HVAC service agreement. Depending upon how long a home may be held as a rental property, there are associated costs to preparing the house for a tenant, such as painting, carpeting and possible updating, if needed, to attract a rental prospect and to gain the best rental rate return. Then there are the costs of turning a property between tenants, repairing any damage or wear and tear and preparing the unit for a new tenant.

Whether considering selling or renting, it is wise to consult with a licensed professional real estate agent or a licensed professional property management company. Discussing your personal situation with your mortgage holder, your legal advisor or your financial advisor can help guide you through these difficult times. These professionals can provide valuable information so an informed decision can be made and costly mistakes avoided. 2

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*Miller Long Term Rentals is located at 4 Dunmore Court, Building A, Suite 100 on Hilton Head Island. For more information, visit millerltr.com or call (843) 682-4310.*