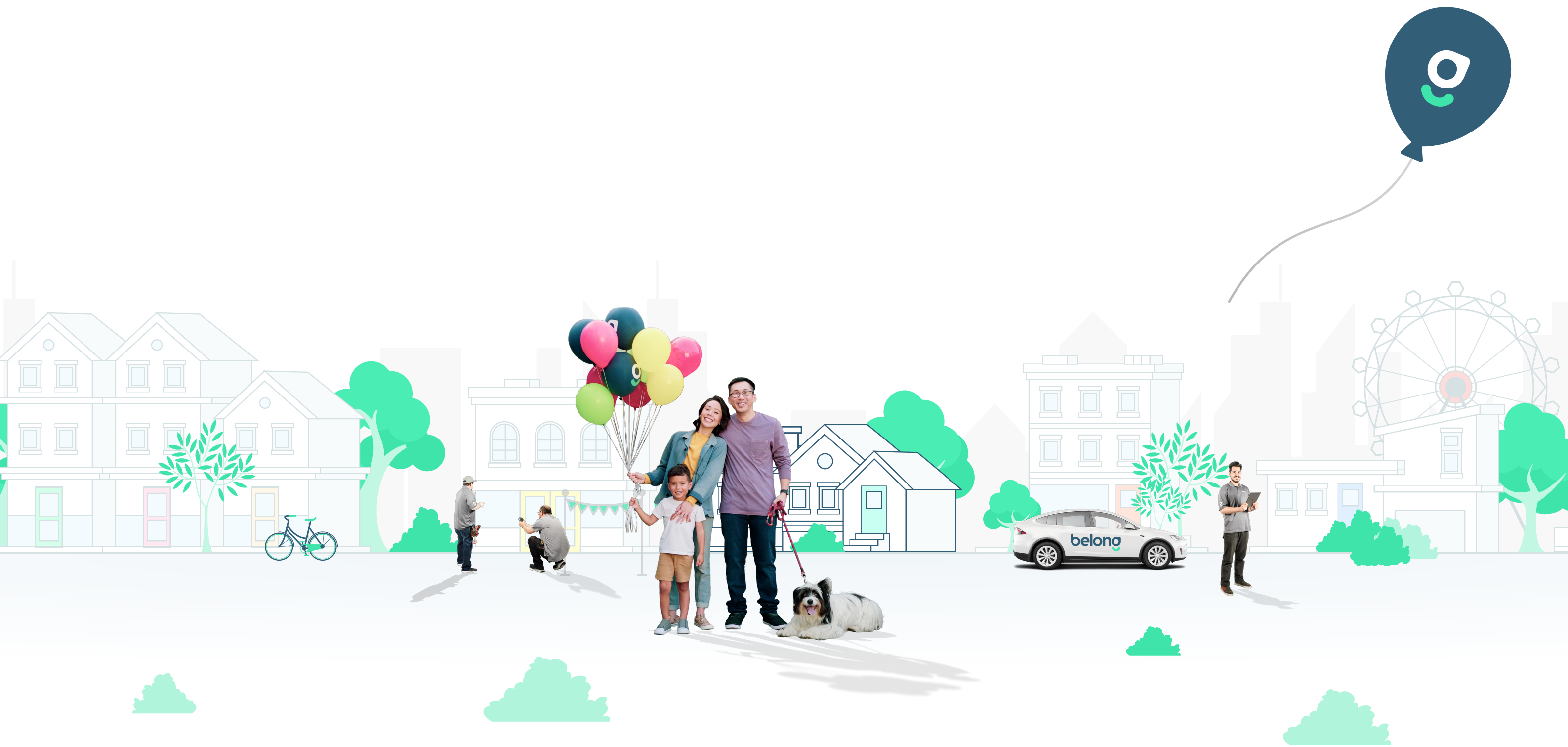
Renting vs. Selling 101: The Homeowner's Guide

A Belong guide created in collaboration with Jonathan Martin, Jim Kantowski, Don Cramer, and Sage Blinderman



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About Belong

As the world's first residential network, Belong is taking down traditional property managers, one happy homeowner at a time. Belong offers rental property owners inclusive services for one transparent fee, from marketing and listing your home through taking care of your awesome residents. We help you price your home for maximum cash flow and guarantee rent, so you can always count on getting paid on the first of each month, no matter what. We serve select metro areas in California, Florida, and Washington, and are expanding to new cities quickly. To learn more or see if you qualify to become a Belong homeowner, click here.

Introduction

If you own a home you don't want to live in, you have two options — rent it to happy new residents, or sell it to an excited new owner.

Neither is a bad option, necessarily — but this is still an intimidating choice. There's a lot of money at stake, not to mention personal and emotional considerations to navigate.

The right decision will depend on your needs, local market, and financial goals. But there are clear advantages and disadvantages to both renting and selling, and external factors that will also influence which is the right choice for you. In this guide, we'll cover all the major pros and cons of each option in detail.

Only you can determine the best path forward. But with a solid understanding of the reasons to sell or rent out your home, you can feel informed and supported as you get ready to make this major life decision.

In this guide, we'll cover:

- **Why renting vs. selling is a challenging decision**
- **A quick rent vs. sell cheat sheet**
- **The pros and cons of renting**
- **The pros and cons of selling**
- **Factors to consider as you make your decision**

Renting vs. Selling: A Critical Decision

The choice to rent or sell your home is a tough one because it's not just about your immediate situation — it's about what's right for you and your family, long-term.

Real estate, especially real estate investing, can be very intimidating. If this is your first time as a homeowner or you were pushed into it unexpectedly (for example, through an inheritance), the choice might feel even more daunting.

The COVID-19 pandemic has become another major contributing factor — and New Jersey realtor Sage Blinderman has seen her clients struggle with this choice firsthand.

"More and more owners are flip-flopping between selling or renting out their home and moving to a more desired location," she says. "A few different reasons are driving this, but it's mostly due to the aftermath of the pandemic. People are working from home, needing more space, or just have no need to stay near their office as they are allowed to work remotely," she explains.

And of course, homes are more than just a financial asset. If you grew up in the property or associate it with a loved one, you likely have a personal, emotional stake in the situation. Those feelings are important too, and deserve to be considered as you make your decision.

As you consider whether to rent or sell your home, ask yourself questions like;

Is it possible you or your kids might move back into the house one day?
Do you need an influx of liquidity right now — or will you need it even more in a year, or a decade?
How will your local market affect those realities? Can you realistically find renters — or get the sale price you want — in your local region?

These are big questions. To answer them, you'll need to look deeply into your local property
market, your financial situation, and your hopes and dreams for the future.

It's okay to feel overwhelmed. But as we'll explain, there's no right or wrong answer — just the one that's best for your unique situation.

By understanding your needs and the external market, the right choice still might not magically reveal itself. But the path forward will feel much more clear.

Renting vs. Selling: A Critical Decision

Renting

Pros

+ Long term wealth and equity building
+ Keep sentimental property in your family
+ Home-related tax deductions
+ Flexibility to sell at a later date
+ Avoid capital gains taxes

Cons

– Rental market limitations
– Time, cost, and effort of landlordship
– Financial risk of self-managing rental property

Selling

Pros

+ Short term liquidity
+ Speed and convenience
+ May free up equity to pursue other forms of investments

Cons

– Real estate market limitations
– Closing costs
– Time, cost, and effort of preparing home for sale
– Potential capital gains tax burden

Renting Out Your Home: Pros and Cons

Why rent out your home?

Renting out your home means the potential for both ongoing income, and a larger eventual payoff.

Keep your home in the family

Your home is so much more than just a way to earn income and build wealth.

Unlike other types of investments, owners often have deep emotional connection to their real estate. This is a unique situation compared to other types of assets, like stocks and retirement accounts.

If you're deliberating about whether to sell or rent out your home, it's likely because you came into its ownership unexpectedly, or it holds a cherished place in your family history. You may have inherited the home -maybe even because of the passing away of a loved one.

An experienced real estate investor or house flipper likely would not have the same uncertainty, because they planned to acquire their property with a detailed plan for how to profit from it.
But instead of worrying about your emotions clouding your judgment, think of your personal investment in the situation as a strength.

You truly want the best for this home — to see it cared for, maintained, and bringing joy to its residents, whether they be new renters or owners. That's a goal that will complement your ability to monetize homeownership, not hold it back.

💡**Key takeaway: You can care for a beloved home and be financially responsible, whether you choose to rent or sell.**

Build equity

By renting out your home, you give yourself options. In the future, you can move back into the property yourself, sell it when you need the capital, or even pass it down to your children. In the meantime, the home will hopefully generate both income in the form of rent, and equity by rising in value.

For example, your home equity could be used as collateral for other loans like a home equity line of credit (HELOC). That could allow you to pursue other kinds of investments — potentially even other properties if you find that real estate investing is something you enjoy.

In effect, renting adds to the lifetime payoff you get from the home, by turning it into an ongoing income stream until you eventually decide to sell. And the longer you wait to list your home on the market, the more it is likely to have risen in value, bringing in a higher sale price.

💡**Key takeaway: Renting your home provides immediate income and long-term wealth building.**

Tax write offs

Owning a rental property also comes with serious tax advantages. As the owner of a rented home, certain home-related expenses are tax-deductible that would not be if you lived in the home yourself.

Deductible expenses include:

- **Mortgage interest**
- **Property management fees**
- **Maintenance and repairs, such as roof and windows**
- **Utilities paid on behalf of the home's residents**

Obviously, large capital expenditures are never ideal. The fewer upgrades and repairs your home needs, the more attractive it becomes as an investment.

"Some owners whose homes need updating don't take into account that everything will be even older and less trendy in a year or more," shares Blinderman. "That costs money. But if you do the math, and make sure what it would cost to fix or upgrade the house is less than what you would be earning as rental income, then by all means, renting is a great plan."

Keep in mind though, should you list your home for sale, those improvements might be required anyway — and in that scenario, they would no longer be tax-deductible. In short, if you can reasonably rent out the home before making these repairs, you'll save yourself thousands in taxes by doing so.

However, rental property depreciation can also work in owners' favor come tax season. "When you sell a home that you have rented, you're required to pay tax on depreciation that was taken during the time you rented out the home," says Jim Kantowski, a Certified Public Accountant, and Founder, Principal, and Financial Advisor at Bay Point Wealth. "In addition, many taxpayers' income is too high to use annual losses, so they carry forward to the future."

💡**Key takeaway: If you choose to rent out your home, significant home-related expenses become tax-deductible.**

Why not rent out your home?

Renting out your home can be a great source of ongoing income. But it should never be considered “easy money,” or guaranteed.

Usually, the costs, constraints, and time commitments of renting out property are not prohibitive. But understanding them is crucial for owners to make an informed choice.

The reality of renting your home

In general, people tend to underestimate the time and effort involved in owning a rental property.

“Owners miscalculate how much time needs to be spent addressing repairs, tenant needs, turnover, and leasing the house,” says Jonathan Martin, Principal at JDM Asset Management. “Adding these responsibilities to someone’s already busy life can be detrimental.”

Renting out property should be considered a part-time job, not a truly passive income stream, and it comes with significant overhead costs around maintenance and repairs. “Your renter is probably not going to handle your home with the same level of care that you do,” explains Martin. “So, your repair costs will end up being a bit higher than when you lived there yourself.”

These needs take up owners’ money, labor, and time. If you can work on the house yourself, you’ll save money, but instead invest hours of your own free time. Hiring a professional is less time-consuming, but requires up-front diligence and industry knowledge to connect with a trustworthy contractor at the best available rate.

💡**Key takeaway: If you self-manage your property by becoming a landlord, be ready for serious investment of time, cost, and labor.**

Know your rental market

Most homeowners are aware of real estate prices and trends in their region. But many fail to consider what the rental landscape looks like around their home — and just because one is strong, doesn't mean the other will follow suit.

"You may live in an area that's considered a good housing market, but that doesn't necessarily mean it's a good renter's market," says Martin. "Are you in an area with lots of transients and young professionals? Or is this a home farther out in a metropolitan area, where there's much less demand?"

It's also important to remember that while property is generally a safe asset, your home is not guaranteed to rise in value. Nor will market prices for rent rise at the same rate as the value of your home.

"The biggest pitfall I see is that often, homeowners assume rents will rise at the same rate as pricing appreciation, or vice versa," Martin says. These concerns may be especially pertinent if you don't own the home outright, and a monthly mortgage payment will cut into your ongoing income stream.

💡**Key takeaway: If you attempt to rent out the property yourself, you risk finding a less-than-ideal resident, or securing a lower rate in rent than you deserve.**

Mitigating rental risk and cost

Working with a property management company, or modern alternative like Belong, is one way to mitigate the risk associated with renting.

While most people realize that these partners can take care of the actual labor involved in renting, like site visits and minor repairs, the right management company can actually reduce financial risk, too.

An experienced company will have connections with reliable, well-priced contractors, and specialists. Over time, these relationships can reduce owners' maintenance and repair costs by thousands of dollars.

They'll also have an in-depth understanding of the local rental market — both getting you the best possible rate, and finding trustworthy residents who are looking for a stable, long-term living situation they can treat as their own.

"Almost everybody uses a real estate agent when selling, and for good reason!" says Martin. "But much fewer people use professional management for single-family rental. Yet professional management companies consistently help clients achieve higher rents, keep expenses lower, and take any issues faced with tenants into their own hands."

💡**Key takeaway: Just like realtors can do for a sale, the right rental partner will mitigate the cost, time, and risk involved in renting out your property, while maximizing your financial gain.**

Did you know?

Belong guarantees rent for our homeowners so you know you'll always be paid on the 1st of each month, even if your home is vacant. We also work with full-time, in-house maintenance staff so your home is always cared for with the highest standards at the fairest price. How's that for mitigating risk?

Selling: Pros and Cons

Why sell your home?

The short answer? Cash up front. Along with lack of interest in being a landlord, a need for liquidity is the main reason owners choose to sell rather than rent out their homes.

Liquidity

The reason to sell anything, your home included, is to make money. And this is perfectly valid — access to liquid capital can be incredibly important, even at the cost of long-term gains.

“If you sell the home, your net worth is more liquid than owning a rental property,” explains Kantowski. “This means you have access to spend the money. If your equity is tied up in a rental property, you cannot access it without refinancing and taking on debt.”

Understanding whether sale is right for you is about assessing why you need that influx of cash, and what you plan to do with the proceeds of the sale.

“The housing market is in a bit of a shift right now in several directions. Interest rates are at 20-year highs. Owners have a lot of equity and a drop in home prices are beginning to happen,” says Don Cramer, Partner and Realtor at The Cramer Group in Nevada. “If you can still sell a larger home at a historic high and buy two smaller properties with one being a rental, that may look appealing as you have some additional income coming in.”

You may also want to consider selling if:

You have financial demands like medical bills or raising a child
You’re looking for another home, and making mortgage payments on the first is a problem
You have other investment opportunities that will generate a higher return than a rental.

Next, you'll again need to return to analyzing your local market. No matter your own financial needs, you may find your local real estate and rental market forces your hand toward either renting or a quick sale.

💡**Key takeaway: In a strong real estate market, selling your home turns equity into liquid cash.**

Speed and convenience

Another reason to sell your home is to avoid the time, labor, and energy involved in being a landlord. While you could reduce that labor with a management company, you may simply want to opt for a quick sale — especially if you're in a strong market, and your home is in great condition.

If you have no personal desire to keep the home, and it's ready for market, you may want to jump on that opportunity before investing more into upgrades and maintenance.

💡**Key takeaway: If you have no attachment to your home and it's market-ready, selling gets it out of your hands so you can focus on other financial goals.**

Market conditions

Before listing your home for sale, it's crucial to speak with local experts, and understand whether you're in a buyers' or sellers' market. Just like renting, the ease of selling your home — and how much you can get — is defined by the unique conditions of your geographical area.

Sidebar: What's my market?

Just like any other market, housing is driven by supply and demand.

- **In a sellers' market, demand outstrips supply. There are less homes available on the market than people want to buy.**
-
- **In a buyers' market, there are more homes being offered than buyers. There's greater housing supply than demand.**

In a seller's market, closing a sale will happen much more quickly. You're likely to command a higher price — maybe even well over asking.

But while a quick sale might sound appealing, it's not the end of the story. What are your plans after you sell the house?

"If you're in a good market currently, but then want to buy a house after selling yours, consider that you'll then be on the other side, as a buyer," Martin says. "And that you'll get hit with commissions, financing and closing costs twice!"

Blinderman agrees. "In general, the real estate market all over the country is very strong," she says. "However, if you are fortunate enough to live in an area where the price of the home you sell is substantially higher than a home in the area you will be moving to, it's a win-win."

But just as a strong market doesn't make selling the only option, nor is it always a bad idea in a slower, buyer's market. Just be aware of those conditions, and anticipate that if you prioritize selling quickly, you may not get the highest possible price.

💡**Key takeaway: Know your market. Can you realistically expect to sell quickly, and close at or above your asking price?**

Costs of sale

Another common pitfall is for homeowners to see high prices on sites like Zillow, and assume that's how much cash they'll take home.

Don't be blinded by numbers — they don't tell the whole story! As part of your sale, you'll need to consider closing costs like:

- **Realtor commission**
- **Staging and cleaning**
- **Capital improvements**
- **Renovations and repairs**
- **Capital gains tax**
- **Attorney fees**

Together, these costs typically account for as much as 8-10% of the sale price. If your home needs substantial improvements or upgrades to be market ready, count on them being much higher.

Sidebar: What to know about capital gains tax

Capital gains should be a huge consideration when deciding whether to rent or sell your home. Luckily, many homeowners are exempt, through the Home Sale Exclusion on primary residences.

You should always consult a professional when calculating capital gains, but there are a few rules of thumb that can help you get started.

In general, if the home being sold is your primary residence, your first $250,000 of capital gains are tax-exempt, or $500,000 for a married couple. 'Primary residence' typically means you've lived in the home for two of the last five years. Gains above this threshold will be taxed like income, dependent on your income tax bracket.

💡**Key takeaway: Selling a home isn't free. Consider all your closing costs, including capital gains tax, before estimating what you will earn.**

More work than you think

Perceived time, cost, and effort are typical fears that scare owners away from putting their home on the rental market. But selling is rarely a quick fix either, or a lightning-fast route to effortless cash.

Preparing your home for sale involves investments of effort and labor all its own. Your home may need repairs and upgrades to get market-ready — or buyers may request them as a condition of purchase.

At a minimum, expect to invest in professional cleaning and staging. A welcoming, sparkling clean home is a must for getting the best offers, no matter how desirable the property. Even if you don't handle any of the cleaning, staging, or upgrades yourself, it takes a significant amount of time and energy to find the right professional to take on the job.

Even in a strong market, it can take a long time to find a buyer, especially if getting the highest possible price is your priority. Renting, by contrast, is a much smaller financial commitment, meaning you may be able to find happy new residents for your home much faster.

💡**Key takeaway: Don't underestimate the cost and effort involved in preparing your home for sale.**

Factors to consider: understanding your situation

Both renting and selling are good options — it's about finding the right choice for you, and your unique situation.

That means evaluating both your personal financial circumstances, and the realities of your local real estate and rental market.

"Do they need access to the money? Do they want to be a landlord? Do they have a gain they would like to exclude? Is the real estate market for selling real estate good?" asks Kantowski.

Cramer also recommends that owners look carefully at their own financial goals and needs. "Strategic factors include age, or how long you have before retirement," he says. "Another is portfolio diversification and strategy."

Near term or what I like to call tactical factors is the ability to rent out the home now while being able to afford a home in today's market.

Before deciding to rent or sell, owners should think through many possible situations, assess how they'd be affected, and deeply understand the realities of both their own financial situation and the externa market.

As you consider renting, try asking yourself:

- **How long of a vacancy would I be able to weather, financially?**
- **Could I pay for an eviction or property damage caused by irresponsible residents?**
- **Could I still turn a profit on this property if rents in my region stagnated or declined?**
- **Should I be anticipating any expensive improvements or upgrades?**
- **Do I want to live in this home again one day?**

To determine if selling is the better option, explore questions like:

- **Am I in a buyers' or sellers' market?**
- **Am I subject to capital gains tax?**
- **Do I have an urgent need for liquidity?**
- **Do I need to purchase another home after this sale?**
- **Is my home market-ready?**

"It's important to run the numbers," says Martin. "There needs to be research done to understand whether your home could rent, or if you might lose money every month, even with a renter."

At the end of the day, the goal is an informed decision — to go into renting, or selling your home knowing exactly what to expect.

If you're not a numbers person, you don't need to figure it out alone. Schedule a free consultation with one of Belong's real estate investment advisors.
We're here to help understand both your market and your personal situation, so you can make the best choice for you and your family.

Long-term income, with less cost and hassle

Long-term income, flexibility, and great equity are compelling reasons to rent your home. But many owners have no desire to become landlords, and add expenses and inconvenience to their busy lives.

Just like a real estate agent makes your sale go as smoothly as possible, renting can be easy, or even effortless, with the right partner. Unfortunately, traditional property managers often create more problems than they solve. The field is weighed down by inefficient, low-tech ways of working that cause hassle for owners, stress for residents, and waste valuable money and time.

Instead, Belong is a great option — because we're not a property manager.

We're a long-term rental platform that brings the entire rental experience into the 21st century. Unlike the low-tech, middleman approach associated with traditional property management companies, Belong handles every stage of the rental process, from upgrades to finding residents.

Belong is designed for homeowners who want security, efficiency, and convenience — the financial advantages of renting without the hassle of being a landlord. From guaranteeing rent payments to handling your move, Belong makes renting hassle-free — and, dare we say, even makes it magical.

Ready to enjoy monthly, guaranteed long-term rental income? Find out how Belong can help. Book a call with our team to get your questions answered, see if you qualify for our service, and receive a rental estimate. Had enough of Zoom calls lately? We're happy to meet in person.

Schedule your call today.

Thank You to Our Contributors

This guide would not have been possible with the real estate and financial professionals who generously shared their expertise. Belong would like to thank the below experts for generously contributing their knowledge and professional experience to make this guide as useful to owners as possible.

Jonathan Martin
Principal, JDM Asset Managemen

Jonathan Martin is the principal of JDM Asset Management, a commercial real estate advisory, management and investment company. Prior to JDM, Jonathan served as the Director of Asset Management for multiple Family Offices based in Los Angeles, focusing mainly on value-add multifamily properties with a secondary focus on retail and office Asset Management.

Prior to his experience as a Director, Jonathan was an Asset Manager for Walker & Dunlop, where he was responsible for overseeing a loan portfolio of multifamily properties. Prior to that, he served as an Asset Manager for the CMBS Special Servicer CWCapital Asset Management, where his primary duty included managing an REO portfolio of office, retail, and industrial properties.

Jonathan earned a B.S. in Finance from George Mason University and a Masters in Real Estate Finance from Georgetown University.

Jim Kantowski
CFP®, CPA, Founder, Principal, and Financial Advisor, Bay Point Wealth

After 20 years with some of the nation's largest financial management and accounting firms, Jim decided that he wanted to focus on helping clients achieve their goals with thoughtful advice and carefully crafted inancial plans. So he built and grew his own firm, JSK, under the guiding principle that the client is the most important person in the room. Eight years later he decided it was time to join forces with another company that shared his values and desire to help people; JSK and Bay Point Wealth Management officially merged in January 2020.

Today, Jim enjoys getting to know his clients and helping them identify — and plan for — their ideal financial future. He specializes in working with clients getting close to retirement or recently retired. He also works with recent widows as he has a personal experience and empathy with this difficult situation.

Don Cramer
Realtor The Cramer
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Realty, Las Vegas

Don Cramer entered the real estate world after a standout career in the golf industry, followed by building his web development business. Today, he serves clients in Las Vegas with unmatched quality, professionalism, and old-fashioned friendliness. Despite the home buying and selling process being quite emotional, he realized it was possible to provide better experiences and customer service through a data-driven process.

Over the past three decades, throughout every industry, there's been a common refrain: Don is someone you want on your team. He's honed the knowledge, the resourcefulness, and the strong trust and relationships required for a flawless real estate transaction. In a field that requires a true understanding of each customer's needs, he has become known for his extreme organization and preparedness — while still being easy to talk to, friendly, and making the process fun.

Sage Blinderman
Coldwell Banker Realty,
New Jersey

Sage is a trusted, knowledgeable neighborhood partner who comes to work every day to make her clients real estate dreams come true. From search to sale, she provides expert advice and unwavering support to help make her clients' home-buying experience stress-free with strong negotiation skills, friendly service and a track record to back it up.

From advertising to financing, inspection, and closing assistance, Sage handles it all from start to finish, even providing tips and tricks on staging and minor home improvements to help clients sell their home fast.