

August 2010
Circulation: 50,103
Impressions: 200,412



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Advice for the Reluctant Landlord

Thinking of renting out your home instead of selling into a still-sinking market? Follow these five smart steps.

By AMANDA GENGLER

Illustration by LUCY VIGRASS

WITH PLANS TO START A FAMILY, Michael and Becky McCullough, 33 and 31, wanted more space. So last year they snapped up a four-bedroom foreclosure in Brookhaven, Ga., for \$480,000. Then came the hard part: trying to sell their Atlanta townhouse. Priced at \$309,000, it sat on the market for months. They dropped it to \$291,000. Still no bites.

Reluctant to sell for less, the couple decided to rent out their townhouse instead. They're collecting \$1,475 a month, enough to cover the mortgage. "The possibility of having to cover →

two mortgages was a bit frightening,” says Michael, a PR consultant.

And their two-year lease buys time for the Atlanta market to improve.

Like the McCulloughs, you may have to move on from your home—for more space, perhaps, or to relocate for a job. But if you’re worried you can’t get a decent price, today renting out your place until the market improves may be your best move. As the chart shows, prices in many places are unlikely to rise for a year or more. Until they do, these simple steps will help you maximize what you make while minimizing hassles.

STEP 1

Calculate what it really costs to be a landlord. Your carrying costs will be higher than your current mortgage, taxes, and insurance. For

WHY YOU WANT TO BE A LANDLORD

Rents have held up much better than home prices ...

... And it could take another year—or longer—for housing prices to stop sliding.

2005 vs. today



Further losses before trough



NOTES: Rent data from Q2 '05 to Q1 '10. Home data from 7/05 to 3/10. SOURCES: REIS Inc., Case-Shiller index, Moody's Economy.com, Fiserv

starters, the cost of your insurance policy is likely to rise once you no longer live in the home. And if you rent out your home for more than three years, you’re likely to end up paying capital gains taxes on any appreciation of the home when you sell.

Moreover, if you dread fixing broken toilets/lights/etc.—or live too far away to do so—you may opt for professional management. That’ll cost around 7% to 10% of the monthly rent (to find property managers, go to narpn.org and irem.org).

STEP 2

See if local rents cover most of those costs. You may not know what to charge if there’s not a lot of rental activity in your neighborhood. So, do some legwork: Interview rental brokers to seek pricing advice; visit competing rentals; and go to rent.com and rentometer.com.

Even if the numbers fall a bit short, renting may still make sense. If your monthly costs run, say, \$2,500 but you can get \$2,300, you’d still come out ahead if your home appreciates modestly a year or two from now when you sell.

STEP 3

Spread the word. A good place to start is calling local relocation firms and HR departments, which often help workers new to town find rent-

als, says Robert Griswold, author of *Property Management Kit for Dummies*. Also, market your home on Craigslist, rental websites like rent.com, and social networks like Facebook. And don’t forget to put a sign in your yard.

STEP 4

Screen prospects. Give them an application (you can find one at ezlandlordforms.com) that asks for:

- Income (it should be at least three times rent). Check their pay stubs.
- Length of time with employer (should be at least six months). Call the employer to check.
- Social Security number to run a background and credit check. Do so through e-renter.com or youcheck-credit.com for about \$25. Your local or state landlord association can also help with this process.

► Names of the prior two landlords. Call to find out if the renter caused problems. But remember: Turning away folks who don’t fit your nonfinancial preferences—say, families with kids—“violates fair housing laws,” says Griswold.

STEP 5

Specify your needs in the lease. If you’re looking to sell in about a year, a 12-month lease that converts to month-to-month would fit the bill. But don’t be afraid to write in language that permits you to, say, show the home to potential buyers if you abide by terms like giving the tenant 24 hours’ notice. Being upfront about your needs will start you on the right foot with your renter. ■

With additional reporting by Jasmin Sun