PERSONAL FINANCE

The decision to sell your home vs. rent it out is 'complicated,' experts say — what to know

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KEY POINTS

- Many homeowners are sitting on low-interest-rate mortgages and could face the decision of whether to sell or rent out their property when it's time to move.
- Roughly 6 in 10 existing fixed-rate U.S. mortgage holders had an interest rate below 4% during the fourth quarter of 2023.
- The average 30-year fixed-rate mortgage was around 7% in May.
- You should weigh affordability, hassle and possible tax breaks before renting out your property.

A "For Rent" sign is posted near a home in Houston, Texas, on Feb. 7, 2022.

Brandon Bell | Getty Images

Many Americans are sitting on low-interest-rate mortgages and could face a decision when it is time to move: sell or rent out their existing property. That choice could be tricky, especially for those eager to buy another home.

Roughly 6 in 10 existing fixed-rate U.S. mortgage holders had an interest rate below 4% during the fourth quarter of 2023, according to the latest figures from the Federal Housing Finance Agency. By comparison, the average 30-year fixed-rate mortgage was around 7% in May.

However, renting out your old home while buying another "gets very, very complicated, which is why most people don't do it," said Keith Gumbinger, vice president of mortgage website HSH.

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Homeownership has become increasingly unaffordable amid higher interest rates and soaring home values. That makes qualifying for a second mortgage harder, especially without tapping equity from your original property, Gumbinger said.

The typical down payment for first-time homebuyers was 8% in 2023, compared to 19% for repeat buyers, based on transactions from July 2022 to June 2023, according to a survey from the National Association of Realtors.

Plus, if you are using rental income to qualify for the second mortgage, lenders typically only consider 75% of your proceeds, Gumbinger said.

Renting out your home isn't 'easy money'

You also need to consider whether you have the time or desire to manage a rental property, said certified financial planner Kashif Ahmed, president of American Private Wealth in Bedford, Massachusetts.

"Be careful about wanting to be a landlord," he said. "It's not the panacea you think it is."

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>
> — Kashif Ahmed PRESIDENT OF AMERICAN PRIVATE WEALTH

Ahmed, who owns rental property in Austin, Texas, warned that some first-time landlords do not consider the costs of ongoing maintenance, lower rents or vacancies, among other expenses.

Plus, you will typically pay about 25% more for insurance as a landlord compared to your standard homeowners policy, according to the Insurance Information Institute.

"It's not easy money" after factoring in the stress and added costs, Ahmed said.

The capital gains tax break is a 'huge factor'

If your original home has significant equity, you will also need to consider the capital gains exemption for primary residences.

Married couples filing together can earn up to $500,000 on the sale without owing capital gains taxes and single filers can make $250,000.

But there are strict IRS rules to qualify.

Renting your home starts the clock for the "residence test," which says the home must be your primary residence for 24 months of the five years before the sale. The 24 months do not need to be consecutive.

"It's a huge factor," said CFP David Flores Wilson, managing partner at Sincerus Advisory in New York. "Those numbers go into projections."