A RENT OR SELL HANDBOOK

SIMPLE CALCULATIONS TO HELP YOU UNDERSTAND THE BENEFITS OF RENTING VERSUS SELLING

RentersWarehouse®
THE PROFESSIONAL LANDLORDS™

www.renterswarehouse.com

Introduction

Are you a property owner -- or a real estate investor?

You may never have considered the prospect of real estate investment. At the same time, you may have been considering it for years, but have yet to make the leap. The reasons for getting into real estate vary. Regardless of your reason -- whether you're a first-time home buyer, upgrading to accommodate a growing family, or you're in it to turn a profit -- it's comforting to know that real estate is still one of few investments that has a long-proven track record, and a potential ROI beyond that of your 401K, stocks or bonds. When it comes to stability and tax advantages, real estate investment simply can't be beat.

At Renters Warehouse, we know this all too well. So when one of the most commonly asked questions we saw popping up is 'should I turn my property into a rental income property, or should I sell?', we decided to share three quick ways to analyze the opportunity.

**The information contained in this Handbook is intended for informational purposes only. It is not intended, nor should it be used as a substitute for tax, accounting, investment, legal, or other professional advice. Renters Warehouse recommends working with a licensed tax professional and certified financial advisor to help you analyze the financial implications of real estate investment. This Handbook provides examples only. Actual results and experience may vary.*

1. The Basic Sell Analysis

Think you are better off selling your home? Do the quick math to understand how much you could get today. A few things to remember:

- Selling your home is a one-time transaction, not recurring revenue.
- Realtor fees are typically around 6% of the sale.
- Your house may not sell for the value you want or close in the timeframe you're expecting.

Below is an example calculation for a home priced at $300,000.

The Basic Sell Analysis	
Value of your home	$300,000
Debt (Usually your mortgage)	$270,000
Equity	$30,000
Realtor Fees (Typically 6%)	$18,000
***Profit**	**$12,000**

* *To keep these calculations straightforward, we have excluded other common variable costs and fees associated to selling your home, like closing costs, legal fees, property tax adjustments, mortgage prepayments and discharge fees. The rate of these costs depend on various factors, but should be included in your calculations if using these figures to make an informed selling decision.*

Now, let's take a longer-term look at your potential return on an investment property.

2. Cash-on-Cash Analysis

We like to call this The Napkin Test and have created a quick video to show you how we make these calculations. Simply put, this is the annual cash flow divided by the cash invested. A few things to keep in mind:

$$\frac{\text{Annual Cash Flow}}{\text{Cash Invested}} = \text{Cash-On-Cash Analysis}$$

- After your mortgage is paid off, almost all of your rental income becomes profit!

- In most cases, your cash invested is your down payment.
- The ideal rental price is based on: the desirability for the unit, market demand, the ability to attract the perfect tenants, is priced on par with competing units, and leads to profits.

Cash-On-Cash Analysis	
Market rent (What you can rent your place for)	$1,600
Debt (Usually your mortgage)	$1,200
Cash Flow	$400
Annual Cash Flow (Cash flow x 12 months)	$4,800
Purchase Price	$300,000
Down Payment	10%
Cash Invested	$30,000
Annual Cash Flow	$4,800
Cash Invested	$30,000
Cash-on-Cash Return (%)	**16%**

And there you have it. Now you have two important numbers to compare: how much you'd make selling your property today versus your potential rate of return on an investment property. But we aren't done yet. Before you make any decisions to rent or sell your home, there is still one more comparison to make ... how your rental income property measures up to other investments.

3. How Does Your Property Measure Up To Other Investments?

Holding your property for rent may easily outweigh the benefits of the one-time sale, but you might want to see how it compares to other investments, like your 401K. The table below allows you to make a simple comparison calculation between the two over a 1, 5, and 30-year investment.

Property Versus Other Investments	
Rental Income Property	
$300,000 Rental Income Property	
One-Year Profits	$4,800
Five-Year Profits	$24,000
Thirty-Year Profits	$144,000
Appreciation Value (*2% / year)	$243,408.48
Value of Home in 30 Years	$543,408.48
Sell Current Home	
Immediate Profits	$12,000
Investments	
401k (*Typical 5% rate of return)	Assuming a $30,000 investment (same as the down payment)
One-Year Profits	$1,500
Five-Year Profits	$7,500
Thirty-Year Profits	$45,000

* Appreciation rate subject to 13-county Twin Cities metro area (approximately 2-2.5%)
* http://www.interest.com/401k/news/kind-return-expect-401k-plans/

Now that you've done all the basic calculations, you have three numbers to compare; the revenue from selling your home today, your investments, and the value of your home in 30 years. A short-term payout may be a good option if you are needing immediate cash, but as an investment opportunity you risk losing out on long-term gains.

So tell us: are you a property owner or a real estate investor?

Take a look at our Professional Landlord services and FREE Rental Price Analysis. Let us help you find the right tenant, take care of maintenance, and make sure your properties are safe and rented.

If you have any landlord and property management questions, we are also happy to answer them. Tweet at us @ProLandlord or visit our Facebook page.

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The Basic Sell Analysis

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Property Versus Other Investments

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Rental Income Property	
Value of Your Rental Income Property	
One-Year Profits	
Five-Year Profits	
Thirty-Year Profits	
Appreciation Value (5% / year)	
Value of Home in 30 Years	
Sell Current Home	
Immediate Profits	
Investments	
401k (Typical 5% rate of return)	
One-Year Profits	
Five-Year Profits	
Thirty-Year Profits	

DO YOU KNOW THESE

TAX BENEFITS

OF RENTING YOUR PROPERTY?

Owning or managing rental property can be a great way to reduce your personal taxes. Understanding which tax deductions (benefits called "taxable losses") you may qualify for can help reduce your salary income considerably. And that means less taxes to pay!* Sounds great, doesn't it? If you're ready - let's get started!

*Renters Warehouse always recommends working with a licensed tax professional to help you navigate the tax advantages of real estate investment. Renters Warehouse cannot give tax advice as we are not certified tax professionals. This document is merely an example.

Management fees

Renters Warehouse fees, like placement and management fees are all tax deductible. This includes fees for our **Certified Tenant Match & Warranty Program, Professional Landlord Services and Optional Protection Plans.**

Maintenance

Any repairs, provided they are reasonable, are deductible in the year in which they occurred. Such repairs often include, paint, some plumbing, fixing drywall, doors/locks and broken windows. Be warned, only replace items with the same quality goods. Upgrades are considered improvements and may not qualify for tax deductions.

Advertising

Any fee you pay, within reason, to advertise your property can be partially or fully expensed. If you use **Renters Warehouse's Certified Tenant Match & Warranty Program,** the cost of advertising is already covered.

Depreciation

You can deduct a certain percentage of your property through lost value depreciation. Property that wears out, decays, gets used up or becomes obsolete over time qualifies for depreciation. Land is not a depreciating asset so is not included in this deduction.

Travel

Any travel to or from local or long distance rental properties can be expensed as mileage (standard mileage rate for 2014 is 56 cents/mile).

Interest

The interest on your mortgage or credit cards used for management purposes can be deducted. Mortgage interest is often the single largest deduction landlords make.

Insurance

The premiums you pay for your property can be deducted. This includes fire, theft, flood and liability insurance as well as **Renters Warehouse's optional Protection Plans** that help defray accidental tenant damage costs and manage tenant risk.

Sources:
http://www.houselogic.com/home-advice/tax-deductions/tax-deductions-rental-homes/#

SAMPLE ANNUAL SAVING CALCULATIONS

Annual Rent	$20,000
Annual Expenses (35%)	($7,000)
Net Operating Income	$13,000
Mortgage Interest	($12,000)
Net Income	$1,000
Depreciation Expense (1/27.5 of building cost for residential rental real estate - buildings or structures anc structural components)	($8,500)
Taxable Income (Loss)	($7,500)
Potential Savings (Assumes 10 - 39.6% tax bracket rates)	$750 - $2,970

This sample calculation shows a $7,500 loss which you would then enter into your IRS 1040 form to reduce your taxable income, therefore reducing your taxes. Potential annual savings depends on your income tax bracket.

Other tax deduction bonuses and must-knows:

- You don't have to pay taxes on rental income from properties that are rented up to 14 days.
- How much of your taxes are reduced depends on your income and filing status.
- You can deduct up to $25,000 in losses if your modified adjusted gross income is $100,000 or less.
- You can deduct some of the lost value that occurs on a property through depreciation. Use Form 4562 to calculate depreciation.
- Be warned though, Passive Activity Loss Limitations limits how much loss you can use to reduce your income.
- You cannot depreciate the value of the land.

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