BY DEBBIE RESLOCK

RENTING OUT YOUR HOUSE IN RETIREMENT

AMONG THE FIRST DECISIONS that retirees planning to relocate must make is what to do with their home. Renting it out instead of selling is one choice worth considering because of the flexibility it affords, both financially and geographically. Others choose to buy a home in retirement for the sole purpose of renting it out and bringing in cash flow.

Testing the waters in their new location before making a commitment to move is the No. 1 reason many owners rent out their home, says Jeanne Herrmann, a Coldwell Banker real estate agent in Goodyear, AZ. If it doesn't work out, they can move back. And while renters are there, "the advantage is now you have an extra set of eyes to watch the place," she adds.

Having renters in their former home "can be like a get-out-of-jail-free card" for retirees looking to relocate, says David Rae, a certified financial planner and president of DRM Wealth Management in Los Angeles. "Whether owners aren't sure of their decision or maybe couldn't get the sale price they wanted, this gives them options down the road."

Renting also is a good choice for retirees who are undecided about what to do with the money from a sale, Rae says. "You don't want to park it in a checking account, but may need more time to compare rental income to other investments."

Yet real estate can be a difficult asset to manage, says Steve Burnett, also a certified financial planner and president of Hanson McClain Advisors with locations in California and Colorado. "It can bring in a good income if the property is paid off, but if you relocate, you'll be managing this from a distance."

But with the right foresight, attitude and planning, renting out a former home can be a win-win for extra money in retirement.

Money in and out

According to MarketWatch Inc., single-family homes now make up more than one-third of U.S. rental properties and the demand continues. You should determine first if you will need the equity from a home sale to purchase another home or fund retirement.

"With real estate, unless you're refinancing, you can't access the equity," Burnett says. "And you don't want to acquire more debt in retirement. You're still on the hook for expenses and maintenance the rent will need to cover."

Retirees who have not yet relocated should find out if they will qualify for a second mortgage, Rae advises. "You need to think the timing through if you don't have the cash to buy the next house."

The profit you make from renting out your home, meaning income minus expenses, is taxable. In some cases, having a larger mortgage on this home may make sense, since this would increase your rental expenditures. And you'll need to calculate your break-even point, in terms of money coming in and going out, factoring in taxes, insurance, property management fees, increases or decreases in property value, rental rates and vacancies.

Don't assume expenses will remain unchanged when your house becomes a rental instead of your primary abode. For example, some insurance companies will triple the premiums for homeowners who don't live in the same state as their property, or even refuse to insure the property, Herrmann says.

Rental property is a different sort of investment vehicle, unlike traditional Wall Street products. "It's an asset class that's not subject to the daily moves of the stock market or headlines," Burnett says. "It tends to be a steady investment, but needs to be somewhere that's poised for growth."

IRS Publication 527 addressing "Residential Rental Property" defines income, expenses and depreciation, but retirees should speak with an accountant or financial adviser to explore the best strategy. Calculations differ depending on the primary function of the property. The amount of deductable rental expenses can be limited if the home is used for personal purposes for more than 14 days or 10 percent of total days it's rented to others.

Depending on which state the home is in, homestead exemptions most likely won't apply, as they typically are allowed only on a primary residence. The same goes for reverse mortgages. And be aware of timing issues and deadlines. "There are strategic issues you need to think through," Rae says. "If you're living in a home for two of the last five years, you have the capital gains exemption. But if you move and rent it out for five years, you lose that exemption when you do sell."

Choosing rental and management options

Short-term and long-term leases both have their pros and cons. Short-term leases of up to six months can bring higher rents while long-term leases often mean more income stability. Vacation rental websites have made it easier to book short-term leases for the house or even spare rooms. You need to check with local jurisdictions ►

for what is allowed.

"Homeowners associations usually don't want bed-and-breakfasts with people constantly coming and going," says Herrmann, who also has been a landlord and is a resident at CantaMia at Estrella, an active-adult community in Goodyear. "At CantaMia, you can lease only four times a year. You also must register with the city as a rental and pay a 2.5 percent tax. In Arizona, you can collect that tax directly from tenants, but that differs state to state."

Finding great tenants is the next challenge. If you will act as the property manager, meet prospects in person, check references, conduct background checks and collect an appropriate security deposit. This is not the time to go with your gut, advises Eric Gill, owner of Bear Paw Stanbro Property Management Inc. in Evergreen, CO.

Another great resource is a local real estate agent, as he or she can list and market your home as a rental, Herrmann says. The cost varies from a flat fee to a percentage of the rent. The flat fees often are between $300 and $500, but it depends on the rent amount. If the cost is charged by percentage, this typically is 75 to 100 percent of one month's rent for every 12-month lease or 10 percent of the rent for the duration of the lease.

Herrmann's firm interviews applicants and does background checks, then presents to the homeowner the clients who meet the criteria for credit scores, income, references, pets or number of occupants. "And if they need a property manager, we can guide them with the affiliates we know," Herrmann says.

Handling renter applications and household repairs may make the extra expense of a property manager worth it, Rae says. They can handle evictions, property inspections, rent collection and lease enforcement. They also know the best repair companies and are up to speed on landlord-tenant laws.

"Anyone can get a lease and fill in the blanks, but our leases are approved by our attorney," Gill says. "These are binding documents outlining what the tenant and owner are responsible for. There's no gray area."

As with real estate agents, costs for property managers range from a flat fee to percentages of rent and may be negotiable for multiple properties. Gill's fees are 10 percent of the rent, which appear to be typical for property management, but depends upon the services included. Bear Paw also conducts market analysis for current rents and offers a leasing only program for owners who want to manage their property, but need help finding and screening tenants.

Here are the stories of three retirees who added rental property to their portfolios and aren't looking back, even after an initial learning curve.

Rita and Fred Wieners

With Fred's career in the military, the Wienerses were no strangers to relocation. But after moving in 2012 from Whitesboro, NY, to the Penn National community in Fayetteville, PA, in retirement, the couple purchased a cottage in the same community and rented it out.

"It made me nervous that all of our investments were in the stock market," says Rita, 65, a homemaker. So, she and Fred, 66, a retired Air Force pilot and colonel, diversified and used some funds for the second home. Now, the renters help pay down the mortgage.

Their tenants mostly are future homeowners who want to try out the community first or who are building a home there and want to be close to the construction. She collects the rent but the office at Penn National finds the tenants and does the background checks.

"I wouldn't want to rent out property if it was far away. I can keep my eye on it here," Rita says. And they know Penn National is where they plan to stay. "We watch out for each other here. Most of us are transplants and don't have family nearby so it has been a good transition for us."

Mariann and Jeff Grady

While still living in suburban Chicago, Mariann and Jeff purchased a new home in 2017 in Westhaven, a master-planned community in Franklin, TN, ►

20 miles south of Nashville. They rented it out while waiting for Mariann to retire.

It was a great house but due to the layout, they realized it might not be the best home for them in retirement. They bought another house in Westhaven and moved later that same year.

Renting out a new home minimizes problems, since repairs are few. "It's also easier because it's so close and Jeff does the maintenance," says Mariann, 61, a retired elementary school teacher. "If you're far away, you'll need a list of people to call if there are problems."

"Being a landlord has made our retirement comfortable," says Jeff, 62, a former vice president of marketing for a bank. "It pays the bills and provides cash flow for both homes." However, Mariann and Jeff caution that it might not work in every circumstance.

"It's not for everyone, but we haven't had a bad experience," Jeff says. "There's always a chance of getting that phone call, but it doesn't keep us up at night. We tell our friends to go ahead, buy the home now and then rent it out."

"We didn't start out thinking we would do this," Mariann says. "It has been such a pleasant surprise."

Kelly Hayes-Raitt

Kelly, 56, has traveled the world, including Dublin, London, Amsterdam and Kuala Lumpur in Malaysia. Renting out her West Coast home makes it possible.

Her home in Santa Monica, CA, is close to the beach — a great location for short-term or vacation rentals. It allows Kelly to fund her retirement and return home every three months. Once a political consultant and candidate, Kelly was forced to reset her career after 9/11 and the following economic downturn.

"I thought of selling, but then realized my home was my greatest asset. Renting it out allowed me the freedom to launch a second career," she says.

Since 2009, Kelly has traveled and authored "How to Become a Housesitter: Insider Tips from the HouseSit Diva." The first step to renting out your home is checking local laws and homeowners association rules on whether rentals are allowed, and, if so, what type. For example, some areas only allow long-term rentals or limit the number of nights your home can be used as a vacation rental.

And if you use someone other than a professional property manager, make sure they're available a majority of the time and don't travel a lot themselves, because problems can arise at any moment, she adds. "You need a people person and someone who can calm, not inflame, a situation. Your brother-in-law may not always be the best choice."

'An active investment'

Rental property can be a great asset in a retirement portfolio, but don't assume it's an easy way to make money. Managing property from your new state makes it even more difficult, Burnett says. And if you're looking for a relaxing retirement, this might not be the answer.

"Rentals and real estate are very hands-on," Burnett says. "It's an active investment."

If you're the property manager, treat it as a business, Gill cautions. This can change how you react to tenants' excuses for why the rent is late or why they should get their deposit back. They need to be held to the lease.

When you receive word that a tenant is leaving, start searching immediately for the next renter, Gill adds. In the right market, the house should be vacant only a few days a year. "The money you lose from vacancy can never be recouped," he says.

But also consider your overall retirement goal. "You may want to spend your time playing golf or taking a cruise, not dealing with the headaches of rental property," Herrmann says. "Will the extra income outweigh the sleepless nights?" If not, sell your home and take the investment.

Renting out your house instead of selling may supplement your income or allow more time to make a decision. But if you give it a try, remember, if it doesn't work out, you can change your mind and walk back through your own front door. W

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