**Should I Rent Out My Home or Sell It?**

Before deciding whether to rent or sell your home, carefully weigh the financial, legal, and personal implications. Consider the following:

**Property Management: DIY or Hire?**

**1. Self-Management:**  
Managing the property yourself saves on costs but requires time, energy, and reliable local contacts—especially in emergencies (e.g., a furnace breaking while you're on vacation).

**2. Hiring a Property Manager:**  
Professional management typically costs **10–20% of your gross rent**. While this reduces your stress, especially if you live out of the area, finding a dedicated and capable property manager can be challenging. Avoid managers who also sell real estate or work other jobs—they may lack the focus needed for proper management.

**Key Considerations**

1. **Vacancy Rate:**  
   Even a single month without a tenant can significantly reduce your annual profits.
2. **Tenant Laws in New Mexico:**  
   New Mexico is considered a **tenant-friendly state**. Evictions—whether for nonpayment or holdovers—can be slow, costly, and complex. Any legal missteps could delay the process while you collect no rent.
3. **Potential Damage:**  
   A typical damage deposit (one month’s rent) may not cover extensive repairs. Be prepared to cover out-of-pocket expenses.
4. **Maintenance Costs:**  
   Budget **5–20% of annual rental income** for maintenance—older homes usually need more upkeep.
5. **Tax Obligations:**  
   Rental income must be reported. Failure to do so could be considered **tax fraud**, potentially jeopardizing your job and triggering IRS penalties.
6. **Return on Equity:**  
   Would selling your home and investing the proceeds generate **better returns** with less effort? If you’ve lived in the home **2 out of the past 5 years**, you may qualify for a **capital gains tax exemption**—up to **$250,000 (single)** or **$500,000 (married filing jointly)**.

**Basic Return on Investment (ROI) Estimate**

**Step 1: Calculate Home Equity**

* Estimated Sales Price: $\_\_\_\_\_\_\_\_\_
* Less Mortgage Payoff: $\_\_\_\_\_\_\_\_\_
* = **Equity**: $\_\_\_\_\_\_\_\_\_

**Step 2: Estimate Net Rental Income**

1. Gross Annual Rent (monthly rent × 12): $\_\_\_\_\_\_\_\_\_
2. Minus your annual mortgage payments (principal and interest)
3. Minus Property Taxes: $\_\_\_\_\_\_\_\_\_
4. Minus Homeowners Insurance: $\_\_\_\_\_\_\_\_\_
5. Minus Property Management (10–20% of gross rent): $\_\_\_\_\_\_\_\_\_

Even if you manage it yourself, your time has value—account for it.

1. Minus Vacancy Loss (expect at least 1 month/year): $\_\_\_\_\_\_\_\_\_
2. Minus Maintenance (10% of gross rent is a good estimate): $\_\_\_\_\_\_\_\_\_
3. Minus Estimated Income Taxes: $\_\_\_\_\_\_\_\_\_

**Estimated Net Annual Income**. what you actually have left in your pocket $\_\_\_\_\_\_\_\_\_

**Return on equity** - Divide you Equity from above by your estimated net annual income to get the return on your equity. Can you make the same or more in other investments with less effort? (Stocks, bonds, etc)

**Tax and Depreciation Considerations**

* **Depreciation:**  
  Residential rental property is typically depreciated over **27.5 years**. Advanced techniques like **cost segregation** can increase deductions but require a tax professional.

Important: **Depreciation is recaptured (taxed) when you sell the property.**

* **Capital Gains Taxes:**
  + If owned **>1 year** and **not a primary residence**, expect **15% long-term capital gains tax**.
  + If owned **<1 year**, gains are taxed at your **ordinary income rate**.

**Other Factors**

* **Market Uncertainty:**  
  Real estate values fluctuate. Appreciation is not guaranteed.
* **Mortgage Paydown:**  
  Tenants help pay off your mortgage over time, growing your equity.
* **Alternative Uses for Equity:**  
  Consider whether that equity could work harder in **stocks, bonds, or paying off high-interest debt**—with less involvement on your part.

**Final Thought**

Focus on **net income**, not just cash flow. In business, they use EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), but as a homeowner, your concern is simpler: **How much money do you actually keep after all expenses and risks?**

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