

Sellers turn landlords amid sluggish market

By Marilyn Kennedy Melia | Special to the Tribune
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"When you hit a wall, you have three options." That's what Bill Barnes, an agent with Re/Max Vision II, Chicago, tells frustrated home sellers.

"You can either do more of what you're doing -- price cuts, advertising and marketing. Or, you can decide to pull your home off the market and wait. Or, you can shift your strategy to renting."

Motivated by income, lots of buyers are choosing the rental escape route from a stalled market, say agents around the Chicago area.

After Tom and Tamara Kobylinski dropped the price on their Chicago home below what a professional appraisal pegged its worth at a couple of years earlier, and buyers still didn't appear, they decided to make money renting until selling became a more profitable option.

That's the same logic of most of the temporary landlords spawned in this market.

They're not living in the home they're selling, so renting is an option. And it's because they're already living in a new home that renting can also be a necessity. The income helps pay two mortgages and home expenses.

These landlords are in it for the short-run. They believe that within a couple of years they'll be able to sell profitably.

Other frustrated sellers considering their options should simply see if they fit into the above profile, suggests Bert Whitehead, founder of Cambridgeadvisors.com, a Franklin, Mich., non-profit that trains financial planners.

It's not that the rental decision doesn't have a lot of other considerations.

For one thing, owners could lose the tax-free gain of \$250,000 [for couples it's \$500,000] that those who've used a home as their principal residence for two of the five years before a sale can claim.

On the other hand, being a landlord carries some tax perks of its own. Rental income can be off-set by depreciation on the property, for instance. And, if the market never recovers and an owner sells at a loss, landlords have a loss deduction not available to homeowners.

But thinking of all the tax implications is "information overload," says Whitehead. "The more variables you put into play, the more wrong your thinking is apt to be," he says. "Narrow it down to the key variables and make your decision on that."

Morris Oldham, a CPA with McGladrey & Pullen, Chicago, agrees that if it's monthly income you need to cover expenses on two homes, then renting to partially offset those costs is the key decision.

"Most of the time people doing this [renting out] would not be as concerned with the tax consequences as much as with getting through each month."

The other option for obtaining temporary cash -- borrowing it -- doesn't work for many, says Kobylinski, who besides becoming a landlord himself, works in the mortgage business.

Bridge loans, a traditional option offered by lenders for sellers straddling between two homes,

isn't viable. "You need to have a lot of equity in your [old] home and these loans are for six to twelve months," he notes.

Home sellers who turn to renting usually think of putting their property back on the market in a year or two, says Patrick Cullen, with Century 21 Sussex and Reilly, Chicago.

They believe a more robust market will then emerge. But Cullen acknowledges that renting may detract from the sale potential. "Even if there's not a lot of wear and tear from the renters, it can shed a different light on the property when it's not owner occupied."

The agent who lists the property can often also provide an idea of rental demand and help determine an appropriate tenant.

In the areas northwest of the city, rental demand is high, says Sara Mitchell, an agent with Century 21, New Heritage, Huntley. "A lot of people now renting are renting because they can't get a mortgage."

"We are not getting renters with good credit scores." Mitchell advises landlords to request that rents be automatically deducted from the tenant's checking.

Owners who are toying with the idea of renting can leave the decision up to the marketplace, concludes Ed Jelinek, an agent with Coldwell Banker/ Lincoln Park. "We can list [property] as 'for rent or sale.' Then whoever comes in first with the better option is what works."

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