

Dilemma: Hold or sell that rental income property



Q: I have a debt-free rental condo that I've used as a source of income. Since real estate is sizzling and my condo is almost back to its 2006 value, I'm analyzing whether to sell it and invest the proceeds, or keep it and continue to collect rental income. If I sell it, is this a good time to invest or is the stock market in bubble territory?

A: A recent mutual fund survey shows that about half of investors are asking your bubble question. Markets are high before they go higher and it's difficult to gauge whether stock or real estate markets are overheated until after the fact.

The financial crisis began in the fall of 2007 and by the spring of 2009 stock prices bottomed out at about 50% of their share value. Investors who didn't sell their stock shares were near their high water mark again around 2013. These events accentuate the need for a diversified portfolio along with a cash emergency fund.

Local real estate markets peaked around 2006 and by 2008 many properties dropped to about half of their highs. According to your assessment, your rental condo has recently returned to its high water mark. Let's agree that markets rise and fall and be grateful that real

estate doesn't have daily closing valuations.

Decide if you enjoy owning and managing the condo and whether liquidity is your priority. Talk to your tax professional about the tax consequences of a sale. You may be selling an asset that provides you with an annual tax deduction and, when selling, it may cost you tax when the depreciation is recaptured.

The proceeds from the condo sale can be invested in a wide range of portfolios with any combination of stocks, bonds, mutual funds and CDs. You have a wide spectrum of choices from ultra conservative to aggressive. It's all about your specific goals and risk tolerance.

Real property requires cash for repairs, taxes, insurance and condo assessments. Investment portfolios don't require additional funds.

Analyze the cost of owning the condo and factor in the possibility of a vacancy and other expenses. Compare the return on your real estate investment to the return on your portfolio of investments.

Both are excellent investments with similar long term returns. Keep a healthy emergency fund. Life can happen at the most inconvenient time.

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