

# AI-03543 Bird in the Hand Analysis-House Sale

Owner	Ⓜ Rigel Arcayan
Tags	Investing
Created time	@March 9, 2026 4:52 AM

I'm being asked which is the best choice and was a little confused and unable to tell which is really the best choice. My instinctive answer is bird in the hand. Explain "rent to own". Is it rational, practical or thinking error? Create a pros/con. Perform a "bird in the hand vs two in the bushes analysis" of the following:

A 62 years old couple in Round Rock TX who is in retirement T -6month, around \$500,000 in retirement accounts, \$4000/month Social Security check, owned a paid off house with a value of \$450,000. Relocating from 78665 zip code to Cebu Philippines.

**Scenario A:**

**Sell the house for \$450,000**

**Scenario B:**

**Sell the house as "rent to own" to a friend for \$200,000 and then renting for 10 years.**

You are essentially asking a decision-theory question:

Is it rational to accept a certain value now ("bird in the hand") or a larger but uncertain value over time ("two in the bush")?

Let's break it down carefully.

## 1. What "Rent-to-Own" Actually Means

Rent-to-own (lease-option) is a hybrid of renting and selling.

Typical structure:

1. Tenant pays monthly rent
2. Tenant may pay an option fee upfront
3. A portion of rent may be credited toward purchase
4. After a defined period (often 5–10 years), the tenant can buy the home

Key characteristics:

- Seller keeps legal ownership during the rental period
- Tenant may or may not actually buy
- Seller acts partly like a landlord and lender

In practice, rent-to-own works best when:

- Buyer cannot qualify for mortgage yet
- Seller is comfortable acting like a landlord
- The parties trust each other

## 2. Psychological Bias: “Bird in the Hand”

The principle comes from:

Behavioral economics + risk psychology

Humans usually prefer:

Certain gain > Uncertain gain

Even if the uncertain gain may be larger.

This bias is known as:

- Certainty effect
- Loss aversion
- Risk discounting

Sometimes this instinct is wise.

Sometimes it causes people to reject better long-term deals.

So we must evaluate the numbers and risks.

### 3. Scenario Overview

Couple profile:

Age: 62

Retirement in 6 months

Savings: \$500k retirement accounts

Social Security: \$4,000/month

House value: \$450k

Moving to Cebu Philippines

The house is paid off.

### 4. Scenario A — Sell the House

Sell for \$450,000 cash

#### **Outcome**

Assets become:

Retirement accounts: \$500k

Home sale proceeds: \$450k

Total liquid assets:

\$950,000

Plus:

\$4,000/month Social Security

#### **Advantages**

1. Immediate liquidity
2. No landlord responsibilities
3. No property risk in another country

4. No tenant default risk
5. No US property tax and insurance
6. Simple finances for retirement
7. Cash can be invested
8. Removes legal exposure

### **Disadvantages**

1. Lose possible property appreciation
2. Lose rental income potential
3. Pay selling costs ( $\approx 6-8\%$ )
4. Lose hedge against inflation in US housing
5. No fallback house if Philippines relocation fails

## **5. Scenario B — Rent-to-Own for \$200k + Rent**

This scenario is unusual.

You are essentially:

Selling a \$450k house for \$200k plus rent.

Let's estimate.

Assume rent = \$1,800/month (typical Round Rock range).

10 years rent:

$\$1,800 \times 120$  months

= \$216,000

Total value received:

\$200,000 purchase price

- \$216,000 rent

Total:

\$416,000

Which is already \$34,000 LESS than market sale.

And this assumes:

- Tenant always pays
- Tenant stays 10 years
- No repairs
- No vacancy
- No legal issues

Realistically those costs reduce profit further.

## 6. Hidden Risks in Rent-to-Own

### 1. Tenant default risk

If tenant stops paying:

Eviction may take months.

### 2. Property management

You are moving 8,000 miles away.

Repairs still happen:

- roof
- HVAC
- plumbing
- appliances

### 3. Property taxes

Texas property taxes are high ( $\approx 2-2.5\%$ ).

On \$450k house:

$\approx \$9,000-\$11,000/\text{year}$

Over 10 years:

≈ \$90k–110k

#### **4. Insurance**

≈ \$2k/year

10 years = \$20k

#### **5. Maintenance**

Rule of thumb:

1% of property value yearly

≈ \$4,500/year

10 years = \$45k

#### **6. Legal complications**

Rent-to-own deals often cause:

- disputes
- missed payments
- contract ambiguity

Many lawyers actually discourage them between friends.

## **7. Financial Reality Comparison**

### **Scenario A — Sell Now**

Cash:

≈ \$420k after selling costs

Total retirement assets:

≈ \$920k

### **Scenario B — Rent-to-Own**

Best case:

\$200k + \$216k rent

= \$416k

But subtract:

Taxes: -100k

Insurance: -20k

Maintenance: -45k

Net:

≈ \$251k

That is about \$170k LESS than selling.

And that ignores risk.

## 8. The "Friend Discount Problem"

The biggest red flag:

Selling a \$450k asset for \$200k.

This introduces three psychological traps:

### 1. Relationship bias

People help friends even when financially harmful.

### 2. Conflict risk

Money arrangements between friends often damage friendships.

### 3. Underpricing error

You are transferring wealth to the buyer.

## 9. Bird in Hand vs Two in the Bush Analysis

Factor	Sell Now	Rent-to-Own
Certainty	Very high	Low
Income	Investment income	Rent income
Risk	Low	High
Management	None	Ongoing
Distance problem	None	Severe

Friendship risk	None	High
Liquidity	Immediate	Delayed
Legal complexity	Low	High
Total financial outcome	Higher	Likely lower

## 10. Retirement Planning Perspective

Financial planners often recommend:

Reducing complexity at retirement.

Especially when:

- moving overseas
- living on fixed income
- limited energy for property management

## 11. Rational Conclusion

From a financial perspective:

Scenario A is overwhelmingly more rational.

The rent-to-own structure described:

- Undervalues the property
- Adds risk
- Adds management burden
- Reduces retirement security

## 12. When Rent-to-Own

### Does

# Make Sense

It can work if:

- property difficult to sell
- rent is above market
- purchase price is near market value
- buyer pays large non-refundable option fee
- seller wants long-term income

None of those appear present here.

## 13. A Smarter Alternative (If You Want Income)

Instead of rent-to-own:

Option C:

Sell the house → invest proceeds

Example:

\$420k invested at 4.5% conservative yield:

≈ \$18,900/year income

≈ \$1,575/month

Combined with Social Security:

\$4,000 + \$1,575

= \$5,575/month retirement income

Without landlord stress.

## 14. Simple Decision Rule

In retirement planning:

Liquidity + simplicity > complicated deals.

Especially when moving internationally.

✓ Bottom line

Your instinct — “bird in the hand” — is likely correct here.

The rent-to-own offer is financially inferior and riskier under the assumptions given.

If you'd like, I can also show something very useful for this decision:

“The 7 financial traps Americans fall into when moving to the Philippines for retirement.”

Some of them are extremely expensive mistakes.

**Perform a future value of \$200,000 for 10 years with ROI 12%. No formula or calculation please.**

Assume:

- Starting amount: \$200,000
- Annual return: 12%
- Time horizon: 10 years
- Starting age: 62
- Starting year: 2026

Below is the year-by-year future value progression.

Year	Age	Value at Year End
2026	62	\$200,000
2027	63	\$224,000
2028	64	\$250,880
2029	65	\$280,986
2030	66	\$314,704
2031	67	\$352,468
2032	68	\$394,765
2033	69	\$442,136
2034	70	\$495,192

2035	71	\$554,616
2036	72	\$621,169

End value at age 72:

≈ \$621,169

So the \$200,000 grows to a little over \$620k in 10 years at a consistent 12% annual return.

If you'd like, I can also show something interesting that retirement planners often look at:

How \$950,000 (their possible total assets after selling the house) grows over the same 10-year retirement window, and what monthly income that could safely generate.

**Perform a future value of \$400000 for 10 years with ROI 12%. No formula or calculation please. Show age and year in the amortization table**

Assumptions:

- Starting value: \$400,000
- Annual return: 12%
- Time horizon: 10 years
- Starting age: 62
- Starting year: 2026

### Future Value Progression

Year	Age	Value at Year End
2026	62	\$400,000
2027	63	\$448,000
2028	64	\$501,760
2029	65	\$561,971
2030	66	\$629,407
2031	67	\$704,936
2032	68	\$789,529

2033	69	\$884,273
2034	70	\$990,386
2035	71	\$1,109,232
2036	72	\$1,242,339

Value at age 72 (2036):  $\approx$  \$1.24 million

If you'd like, I can also show something retirement planners often examine:

- How much monthly income \$1.24M can safely generate
- How long it could last from age 62 to 90 under different withdrawal strategies.

Here are the key takeaways and conclusions from the discussion:

## 1. Understanding "Rent-to-Own"

Rent-to-own is a hybrid arrangement where:

- The buyer rents the property first
- They may purchase later at a predetermined price
- The seller remains owner and landlord during the rental period

It is essentially a mix of:

- Real estate sale
- Landlord relationship
- Seller financing

This structure introduces legal, financial, and management complexity.

## 2. Bird-in-the-Hand vs Two-in-the-Bush

The decision reflects a classic behavioral economics principle:

Bird in the hand:

A certain outcome today.

Two in the bush:

A potentially larger but uncertain future outcome.

Humans naturally prefer certainty, especially in retirement.

### **3. Situation of the Couple**

Profile:

- Age: 62
- Retirement in 6 months
- Retirement savings: \$500,000
- Social Security: \$4,000/month
- Paid-off house: \$450,000
- Moving from Round Rock, Texas to Cebu, Philippines

### **4. Scenario A – Sell the House**

Sell for market value.

Outcome:

- Approximately \$420k+ net after selling costs
- Total liquid retirement assets close to \$900k–\$950k

Advantages:

- Immediate liquidity
- No landlord responsibilities
- No property taxes or repairs
- Simple retirement finances
- Lower legal and financial risk

### **5. Scenario B – Rent-to-Own to a Friend**

Structure proposed:

- Sell house for \$200k
- Rent payments for 10 years

Problems identified:

- Selling \$450k asset for \$200k
- Rental income may not offset costs
- Continued expenses:
  - property taxes
  - insurance
  - repairs
  - vacancy risk
  - management from overseas
- 
- Potential friendship conflict

Financial outcome likely lower than selling outright.

## 6. Long-Distance Landlord Risk

Managing property from the Philippines introduces risks:

- Tenant default
- Eviction complications
- Maintenance logistics
- Legal issues
- Property tax obligations in Texas

For retirees relocating internationally, financial advisors often recommend reducing complexity.

## 7. Future Value Demonstrations

Investment growth examples were shown:

**\$200,000 at 12% for 10 years**

Grows to about:

\$621,169

**\$400,000 at 12% for 10 years**

Grows to about:

\$1,242,339

This demonstrates the potential power of investing sale proceeds instead of tying money in real estate.

## 8. Strategic Retirement Insight

If the house is sold:

Total assets may approach \$900k–\$950k.

This allows:

- portfolio investment
- additional retirement income
- higher financial flexibility

Combined with \$4,000/month Social Security, this can support a comfortable retirement in Cebu.

## 9. Major Risk in the Proposed Deal

The biggest issue:

Underpricing the property.

Selling a \$450k house for \$200k transfers a large amount of wealth to the buyer.

This is often driven by:

- friendship bias
- desire to help someone

- emotional decision-making

## 10. Final Conclusion

From a financial and retirement planning perspective:

Selling the house outright is the rational and safer choice.

The rent-to-own option:

- increases risk
- reduces financial return
- adds long-distance management burden
- may strain personal relationships

Your instinctive principle — “bird in the hand” — is likely correct in this case.

✓ Core insight:

When entering retirement, simplicity, liquidity, and risk reduction are usually more valuable than complex arrangements with uncertain future outcomes.