# Rental Properties Retirement Tool

## Idea In Short

Buy rental properties in suburban markets with smart leverage to build retirement wealth. Target 10 percent-plus return on equity through cheap financing, tax advantages and disciplined tenant screening. You make money when you buy, not when you sell.

## The Balance Sheet Is the Real Game

This post is about rental properties, not consulting. That said, all consultants and professionals earning good money need to start putting it away to get retired. Ask your friends and acquaintances what they are doing to get money working for them through assets. Financial literacy across the world is low. The core idea is getting assets on your balance sheet working for you. Having assets earning 10 percent-plus return on equity (ROE) matters more than getting a 10 percent raise. The income statement is the beginning, but the balance sheet is the real game.

## Why Rentals Offer Advantages

Money was cheap when this was written, with mortgage rates at 3.25 to 3.75 percent for a 15-year fixed loan. United States banks lend three to one, requiring only a 25 percent down payment. Real estate varies, but a crafty investor can get 1 percent of the purchase price in monthly rents. One percent monthly times 12 months equals 12 percent of the purchase price annually.

Real estate is tax advantaged. Depreciation creates accounting expenses that reduce tax burden today. Cost basis goes down, but investors can use Section 1031 transfers to keep postponing capital gains. The market is imperfect because every property differs and sellers have varied motivations including marriage, divorce, inheritance, job transfer and bankruptcy. As a long-term investor, volatility is your friend.

## Achieving 10 Percent-Plus ROE

If you buy smart and manage properties yourself in non-metro areas, you can achieve return on equity above 10 percent. Bank certificates of deposit paying 1 percent and an unpredictable stock market make that attractive. The math looks like this. Buy a house for $185,000 with a 25 percent down payment of roughly $50,000.

Put in $25,000 for fix-up, totaling $75,000 invested. Rent the property for $1,700 per month. Pay the 15-year mortgage at 3.25 percent for a monthly payment of $1,300 including taxes and insurance. Monthly cash flow is $400, and equity buildup from amortization is about $500. Total monthly return is $900, which equals $10,800 annually. Divide $10,800 by $75,000 invested to get a 14 percent return on equity. Additional expenses exist, including repairs, vacancy and small fixes. This is an illustration, not financial advice.

## Location, Location, Location

Convenience is key. Access to highways and proximity to jobs matter. Good school districts drive demand. Zillow provides informal school ratings from 1 to 10. If you buy where schools rate 9-9-9 across elementary, middle and high school, tenants with school-age children will love the property.

## You Make Money When You Buy

This is a real estate adage because you cannot predict the sale price. The market is cyclical, and counting on capital appreciation is speculation rather than investment. Cash flow is like a dividend-paying stock. Hoping for capital appreciation is not smart, and that is how you lose money. Buy at a price that works regardless of future market movements.

## Set Criteria and Make Low Offers

Do the research. Figure out what you want to pay for your target house based on location, neighborhood, room count, bathrooms, price per square foot, relative age and estimated monthly rents. Watch the market for a few months and get smart. Listen to BiggerPockets and read books. Brandon Turner wrote The Book on Rental Property Investing. Robert Gallinelli wrote What Every Real Estate Investor Needs to Know. Gary Keller wrote The Millionaire Real Estate Investor. Jon Schaub wrote Building Wealth One House at a Time.

Put in embarrassingly low offers. The pros do this because it is okay to not get the property.

More at-bats is better. Do not get buyer's remorse. As an investor, your job is to get great deals because you are not desperate. You are not a residential buyer whose daughter attends the local school. Emotions do not get in the way. This is a numbers game plus judgment.

## Financing and Remodel Strategy

Use a broker rather than a dedicated loan officer from a big bank. Get someone who can shop around rates. Interest rates were historically low for years, but this will not last. Smart leverage works for Goldman Sachs and Warren Buffett. If you secure a 3.5 percent rate, you are a champion.

Do not overdo the remodel. Newbies put in fixtures and finishes that are unnecessary, expensive and gaudy. They make a B-class property fit A-class taste. In most cases, you target Honda Accord and Toyota Camry taste, not Tesla X and Audi A7. This is an experience curve because beginners pay retail for tiling, hardwood, painting, landscaping and plumbing. New appliances cost $3,000, granite countertops $3,000, lighting $1,000 and fixtures with paint $2,000. All doable.

## Market, Screen and Manage

Market aggressively. Some people put signs in yards and hold open houses. Use listing services that blast your property to the top rental sites including Zillow, Hotpads and Trulia. Craigslist works too. Put a spare key in a lock box. Take great pictures and keep the house presentable with a good lawn and tidy interior.

Keep your privacy. Get a post office box and a Google Voice account. Do not let people know your cell phone or home address. Always meet candidates during the day and never accept cash. Be smart because there are unsafe people out there.

Screen tenants carefully. Read NOLO books written by lawyers for laypeople. Ensure the tenant has gross income of three to four times the monthly rent. People without enough money to pay rent make bad decisions. Meet candidates and assess character and affability. You want easy-going, low-maintenance people who are neat, responsible and looking for a good landlord. Get a good contract that clarifies expectations and consequences of noncompliance, like a statement of work. If you stay in this business long enough, you will eventually go to court for an eviction. 1

## Be a Responsive Landlord

Being a landlord is not easy, nor is it impossible. Be responsive to problems but treat tenants like employees, not customers. Set them up for success with clear expectations and coaching. Be fair and firm. Set guidelines and be practical.

Read up on tips and tricks. Brandon Turner wrote Managing Rental Properties. Mike Butler wrote Landlording on Autopilot. Marcia Stewart and Ralph Warner wrote Every Landlord's Legal Guide. The learning curve is real, but the rewards of building a portfolio that generates cash flow and equity buildup are substantial for retirement planning.

This is not financial advice. For any legal, financial or tax questions, consult a paid professional. The observations here reflect the writer's experience in a specific market at a specific time. Principles endure, but conditions change.

- 1Investopedia on 1031 exchanges and like-kind property tax deferral

## Summary

Rental properties offer a path to retirement wealth through leverage, tax advantages and cash flow. Buy in good school districts, screen tenants carefully and keep remodels modest. Treat landlording as a business, not a hobby. Consult professionals for legal and tax matters.