DealGauge

Before Your First Rental

The plain-English beginner's kit for people who have never bought an investment property. No jargon, no calls, no one watching.

Read this first

You do not need to know anything about real estate to use this. That is the entire point.

This kit exists because the gap between "I think I want to buy a rental" and "I understand what I am looking at" is where most people either give up or make an expensive mistake. Nobody wants to ask basic questions out loud, in front of an agent who is trying to sell them something or an investor who has done it twenty times. So people either stay stuck or they wing it.

You can work through this alone, at your own pace, with nobody watching.

Nothing here is investment, tax, or legal advice. It is general education. Every number is a rule of thumb, not a promise, and you should confirm anything that matters with a qualified professional before you spend real money.

Part 1: The only question that matters

Everything in real estate investing reduces to one question. **After the rent comes in and every single cost goes out, is there money left over?**

That sounds obvious. It is also where nearly everyone goes wrong, because most beginners calculate it like this:

> **WATCH OUT**
>
> Rent is $1,800. The mortgage is $1,300. So I make $500 a month.

That number is wrong, and it is not slightly wrong. It is usually wrong by enough to turn a good-looking deal into one that loses money every month.

Here is what is missing from it.

The property will sit empty sometimes. Tenants leave. The place needs cleaning and painting. It takes weeks to fill. Over the long run this typically costs somewhere around five to eight percent of your rent, and more in slower markets.

Things break, constantly. Faucets, disposals, locks, a toilet that will not stop running. Budget something like eight to ten percent of rent, and understand that it arrives unevenly.

Big things break, eventually. A roof lasts perhaps twenty to thirty years. A furnace fifteen to twenty. A water heater ten to fifteen. None of them break this month, all of them break sooner or later, and each one is thousands of dollars at once. Setting aside another eight to ten percent of rent for these is normal. This is the single most-skipped cost in the entire category.

Someone has to manage it. If you hire a manager it is commonly eight to ten percent of rent, and most managers charge a separate tenant placement fee of half to a full month's rent every time the unit turns. If you manage it yourself, you have not saved that money, you have simply chosen to work for it. Budget it either way, so you know whether the deal works or whether you have just bought yourself a part-time job.

Property taxes usually go up when you buy. More on this in Part 3, because it is the trap that catches the most people.

Insurance costs more than you think, and in a number of states it has risen sharply since 2024.

Add all of that up and a large share of your rent is gone before the mortgage is paid. That is not pessimism. That is the actual business.

Part 2: The words people will use around you

You do not need to memorize these. You need to recognize them so that nobody can bluff you.

Cash flow. What is left every month after everything, including the mortgage. This is the number that matters. If it is negative, you are paying for the privilege of owning the property.

Net operating income, or NOI. Annual rent minus all operating costs, but before the mortgage. It describes what the property earns on its own, regardless of how you paid for it.

Cap rate. NOI divided by the price. It lets you compare two properties on earning power alone, ignoring financing. Useful for shortlisting. Not a decision.

Cash-on-cash return. Your annual cash flow divided by all the money you actually put in. Not just the down payment: also closing costs, initial repairs, the reserves your lender makes you hold, and the cash you keep in the bank. This is the honest measure of what your money is earning, and it is the one most calculators quietly inflate by dividing by the down payment alone.

DSCR, or debt service coverage ratio. Whether the property covers its own loan. Lenders usually calculate it as gross rent divided by the full monthly payment including taxes and insurance, and many want to see roughly 1.20 to 1.25. There is a stricter version that uses income after all operating costs, and that one tells you the truth about the property rather than the truth about your loan application.

The 1% rule. A ten-second screen: monthly rent should be at least one percent of the price. At current interest rates it rarely holds. Use it to decide what is worth analyzing, never to decide what to buy.

Appreciation. The property going up in value. Real, but it is a hope, not a plan. Never buy something that loses money monthly on the assumption it will be worth more later.

Walk-away price. The highest price you can pay and still hit your target. Decide it before you negotiate. This is the single most valuable habit in this entire document.

Part 3: The five mistakes that cost the most

One: budgeting the seller's property tax bill. In many places the tax bill rises after you buy, and there are two separate reasons for it. In some states the sale triggers a reassessment, so the assessed value moves toward what you actually paid. In others the assessed value barely moves, but the seller's homestead or owner occupant exemption and any cap on annual assessment increases do not transfer to you, so the bill still jumps. Either way, the seller may have owned it for fifteen years and been paying far less than you will. Ask the county assessor how it handles both: whether a sale triggers reassessment, and which exemptions and caps you lose when the deed changes hands. Then budget that number. This single mistake has turned countless "positive cash flow" deals negative on day one.

Two: forgetting that big repairs are certain. See Part 1. A deal that works only if the roof never needs replacing is not a deal.

Three: counting your own labor as profit. If the numbers only work because you are unpaid property manager, handyman, and leasing agent, you should know that before you buy, not after.

Four: using the down payment as your total investment. Closing costs, inspection, initial repairs, the reserves your lender requires, and the cash reserve you must hold are all real money out of your pocket. Include them, and your return will look lower and more honest.

Five: falling in love with the property. This is why the walk-away price exists. Write the number down before you get emotionally involved, and then hold it.

Part 4: What you actually do, in order

Step one, decide what you want the property to do for you. Monthly income, or long-term equity, or a tax position? These lead to different properties. Write down a specific target, for example "at least $200 a month after everything."

Step two, pick a market before you pick a property. Investors routinely buy in cities they do not live in. That is normal. What matters is that you understand the local rent levels, property tax treatment, insurance costs, and landlord-tenant rules. Pick one area and learn it properly rather than looking everywhere at once.

Step three, learn what things rent for. Search current rental listings in that area for the bedroom count you are considering. Then call two property managers and ask what a specific address would lease for. They will tell you, because they want the business. Use the lower estimate.

Step four, get a real financing picture. Talk to a lender or two about what rate and down payment you would actually be offered on an investment property. Investment loans usually require more down and carry higher rates than a home you live in. You want the real number, not a headline rate.

Step five, run the numbers before you get attached. Put the price, the rent, and your real local costs into a calculator that shows you every assumption. Look at cash flow after everything, cash-on-cash, and your walk-away price.

Step six, verify in person. No spreadsheet can see a failing roof, a difficult street, or a property nobody wants to rent. The math tells you what is worth visiting. Your eyes and an inspector tell you whether to buy.

Step seven, decide, and be willing to walk. Most properties you analyze should fail. That is the system working. The discipline of walking away is what protects you.

Part 5: A worked example

A property is listed at $230,000. It would rent for $2,450 a month. You plan to put 25 percent down at 6.5 percent interest on a 30 year loan.

The naive version: rent $2,450 minus a mortgage payment of roughly $1,090 equals about $1,360 a month. That looks extraordinary.

The honest version subtracts vacancy at six percent ($147), maintenance at nine percent ($220.50), capital expenditures at nine percent ($220.50), and management at nine percent ($220.50), which together is $808.50. Then property taxes of about $208 a month, which is about $2,500 a year, and insurance of $150 a month, which is $1,800 a year. That leaves net operating income of $1,283.50, and after the mortgage the real cash flow is closer to **$193 a month.**

It is $193, not $1,360, and that difference is the whole education. But the example is not finished, because $193 a month is not your return. The return is that cash flow measured against every dollar you had to put in.

Your cash in. The down payment is 25 percent of $230,000, or $57,500. Closing costs and upfront repairs come to about $6,000. Your lender will want six months of reserves on the full payment. That payment is $1,090 plus $208 of tax plus $150 of insurance, or $1,448 a month, so six months of it is about $8,690. Then keep an operating float of $3,000 for the first surprise. That is about $75,200 of your own money, not $57,500.

Your return. $193 a month is $2,318 a year. Against $75,200 of cash in, that is a cash-on-cash return of about **3.1 percent**, and DealGauge grades this deal **C**. Its walk-away price, the most you could pay and still reach the 8 percent cash-on-cash target, is about **$189,000**, roughly $41,000 below the asking price.

This is not a deal to talk yourself into. At about 3.1 percent it sits well below the 8 percent cash-on-cash that many buy-and-hold investors set as a target, so on these numbers it is a walk or a lower offer, nearer the walk-away price. That is the point of running the numbers before you get attached: the naive $1,360 was never real, the honest $193 is real but does not clear the target, and the walk-away price tells you what would.

Now change one thing. Suppose the property is in a higher-tax county and the reassessed tax bill is $7,200 a year rather than $2,500. Taxes go from $208 a month to $600, and the same property now **loses about $199 every month.** Nothing else changed. That is how much a single assumption matters, and it is why you check the tax treatment before you make an offer.

Part 6: What to do next

Run your own numbers. The free DealGauge calculator grades any property from A to F, shows the cash flow after every cost listed in this document, and gives you your walk-away price. It requires no account and no card, and every assumption is shown on screen so you can change it to match your market.

getdealgauge.com

When you are analyzing several properties seriously and want side-by-side comparison of three deals, five-year projections with IRR, an after-tax view, a BRRRR planner, and a sensitivity grid, the DealGauge Investor Model does all of that, and it comes with a separate short-term rental model as well.

Take your time. The best first deal is the one you understood completely before you signed anything.
