INVESTOR FIELD GUIDES / BOOK 01

Is This Really a Good Real Estate Deal?

A conservative investor's guide to the numbers, risks, and decisions behind a smarter offer

Real Estate Nate

Free Investor Academy

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All figures and properties in this guide are hypothetical. They illustrate a process, not Nate's transaction history. Estimates are not lender approvals or promised results.

Start with the decision, not the discount

A seller tells you a house is priced below market. An agent says it needs only cosmetic work. Another investor believes you can refinance your cash out in six months. Any of those things may be true. None, by itself, tells you whether you should buy the property.

When I look at a deal, I want the numbers to work after I account for the expenses and risks that come with owning it. I want a reasoned offer price and enough reserves to handle a problem. If I have to rely on the highest possible rent, the lowest possible repair estimate, and a perfect exit, I do not have a safe deal. I have a collection of things that all have to go right.

That does not mean every deal must be perfect. It means you need to know which facts you have verified, which are estimates, and what happens if an estimate is wrong. The goal of this guide is to help you make one of four decisions: investigate further, make an offer, renegotiate, or pass.

1. Decide how you intend to make money

The same property can produce very different answers depending on your exit. A rental must support its operating costs, debt, and reserves over time. A flip must leave enough after purchase, repairs, financing, holding, and sale costs. A wholesale transaction must make sense for the end buyer after that buyer's costs and your fee are included.

Write down your primary exit and at least one realistic alternative. Then ask what must be true for each to work. A second exit is useful only if its numbers stand on their own. Calling a property a backup rental does not make it one if it cannot cover its expenses and mortgage.

Before you calculate, gather the asking price, property condition, likely repairs, comparable sales, supportable rent, financing terms, closing costs, and the cash you can safely commit. Make a separate list of what you still need to verify. A missing number is not zero; it is an open question.

2. Estimate value with evidence

For a sale exit, use recent, relevant comparable sales and look closely at location, size, condition, layout, and timing. A beautifully renovated sale across a busy road may not be comparable to an unfinished house on the subject street. Active listings can help explain competition, but an asking price does not show what a buyer actually paid.

Your after-repair value, or ARV, assumes a defined finished condition. If your budget pays for basic repairs, do not use a premium fully remodeled sale without adjusting for the difference. A practical way to limit optimism is to write down a range and explain which facts support its lower and upper ends. If the deal works only at the highest number, investigate harder.

Rent deserves the same care. Compare similar properties that a prospective resident could actually choose. Ask whether the quoted rent includes utilities, parking, or other features. A rental listing is evidence to investigate, not a guarantee that your house will lease immediately at that price.

3. Work through a rental example

Assume a house could rent for $1,500 a month. The following are monthly planning assumptions, not universal rates:

Item	Monthly amount
Scheduled rent	$1,500
Vacancy allowance	-$75
Management	-$120
Maintenance	-$100
Replacement reserves	-$100
Property taxes and insurance	-$210
Available for principal and interest	$895

If principal and interest are $550 a month, estimated cash flow is $345 before income taxes and any expenses omitted from this simplified example. Expense-adjusted coverage is $895 divided by $550, or approximately 1.63.

Nate's perspective: I look for positive cash flow and at least 1.30 expense-adjusted coverage after realistic operating allowances. This illustration clears that test. It is not approval to buy: rent, taxes, insurance, repairs, the loan, and the cash needed at closing still require verification.

Do not confuse this calculation with a lender's DSCR. A lender may use rent divided by PITIA-principal, interest, taxes, insurance, and applicable association dues-or another method. Ask the lender what it includes. Their approval and my expense-adjusted test answer different questions.

Now test a problem. If supported rent is $1,400, vacancy and management remain at 5% and 8% of scheduled rent, and the other allowances remain unchanged, the amount available for principal and interest becomes $808: $1,400 - $70 - $112 -

$100 - $100 - $210. With $550 principal and interest, cash flow is $258 and coverage is approximately 1.47. If a real quote or local evidence requires a different allowance, recalculate it. A model is only as useful as the assumptions behind it.

4. Set a rental ceiling instead of guessing

The maximum payment supported by a coverage target is the available amount before principal and interest divided by the target. With $895 available and a 1.30 target, the maximum principal and interest is approximately $688 a month. Translate that payment into a loan amount using the actual proposed interest rate and amortization, then account for the lender's loan-to-value and other limits. This is a payment test, not a guaranteed loan amount.

The cash test can be tighter. Suppose you have $70,000 available after personal reserves and insist on retaining $10,000 as a separate property reserve. If closing costs are $5,000 and repairs are $30,000, you have $25,000 left for the down payment. If your loan requires 25% down, that supports a $100,000 purchase price before any additional costs or lender restrictions.

Compare the cash-based ceiling with the coverage-based ceiling and any other limit. The lowest supported amount is the starting point for your offer analysis. Do not spend the property reserve simply to make a down payment fit. If you cannot fund the purchase, repairs, closing, and required reserves, the right answer can be to wait.

5. Analyze a flip as a complete project

For a flip, start with a supported finished value and subtract every expected cost and the profit you require. Then stress the selling price. Do not treat a repair contingency as the same thing as a lower resale price: the former addresses construction uncertainty; the latter tests the exit.

Consider a hypothetical finished value of $200,000. Assume repairs of $35,000, a separate $5,000 repair contingency, other acquisition, financing, holding, and resale costs of $25,000, and a target profit of $25,000. If those costs are fixed for illustration, the simple purchase ceiling is $110,000: $200,000 - $35,000 - $5,000 - $25,000 - $25,000.

At a 5% lower resale price of $190,000, that same ceiling falls to $100,000. At 10% lower, or $180,000, it falls to $90,000. Real closing costs, financing costs, and commissions can change with price and time, so recalculate them instead of assuming every cost stays fixed. The illustration shows why paying $110,000 based on a perfect exit can leave much less protection if the market or project changes.

Nate's perspective: I want to see whether the flip can handle a 5% to 10% lower exit. If a downside scenario wipes out the profit I need for the risk and work, I would seek a lower price or pass. The percentage is a stress test, not a promise that losses are capped at 10%.

6. Work backward on a wholesale

A wholesale opportunity has to work for the person who ultimately buys and completes the project. Begin with the end buyer's supportable price after their own repairs, closing costs, holding costs, selling costs, risk, and profit. Then subtract your proposed fee and any transaction costs the structure requires. What remains is a preliminary ceiling for the seller contract, subject to verification and the actual transaction terms.

Suppose a buyer's maximum supported acquisition cost is $105,000 including a proposed $10,000 assignment fee. In this simplified example, no other assignment-related costs are assumed, so the preliminary seller contract ceiling is $95,000. If a seller needs $110,000, putting the property under contract at that price does not create the missing $15,000 of value. You can explain your numbers and see whether a different price works; you should not represent an unsupported profit as certain.

Contracts, assignments, marketing, disclosures, and licensing requirements vary by location and transaction. Verify the structure with qualified local professionals before acting. Be transparent about your role and the facts you are presenting.

7. One property, three choices

Imagine a seller asks $115,000 for a house. You estimate a $200,000 finished value and $35,000 in repairs. A rental analysis supports a maximum price of $100,000 after applying its coverage and cash tests. The flip example above supports $100,000 if you require your target profit at a 5% lower exit. Your preliminary wholesale ceiling is $95,000 after the prospective buyer's cost and your fee.

Those numbers do not mean you should simply offer $100,000. They are separate hypothetical ceilings with different assumptions. Verify whether the repair budget is appropriate for each exit, whether the cash needed is available, and whether each estimate includes all relevant costs. If the seller is firm at $115,000, this example does not meet any of the stated limits. Passing is a reasoned result, not a failed analysis.

Suppose the seller later considers $92,000. That can justify renewed investigation. It does not settle the question: an inspection might reveal foundation work, or the rent and insurance quotes may differ from your estimates. Rerun the numbers with the new facts before removing protections or committing funds.

8. Turn uncertainty into the next action

Separate your notes into three columns: known, estimated, and needs verification. For example, an asking price is known; a proposed rent is estimated until supported; a roof's remaining life may need a qualified inspection. Then assign an action and a deadline to each material unknown.

Common reasons to investigate further include missing insurance quotes, uncertain access, an incomplete repair scope, unverified rent, unclear title, and financing that depends on future approval. A deal can look attractive while remaining unready for a final decision. Avoid turning an unknown into a favorable assumption merely because you want the deal to work.

Your four decisions should be clear:

- **Investigate** when important facts are missing but a reasonable range could work.

- **Offer** when your verified information and written protections support a price within your limits.
- **Renegotiate** when new evidence changes the supported price or terms.
- **Pass** when the deal does not meet your requirements or the risks cannot be reasonably evaluated.

9. Your deal review

Before you move forward, write down the answers:

1. What is the primary exit, and what facts support it?

2. Which comparable sales or rental properties support the value and rent?

3. What are the purchase, repair, financing, closing, holding, and sale costs for this exit?

4. If it is a rental, what remains after operating allowances and principal and interest? Is expense-adjusted coverage at least 1.30 under your assumptions?

5. If it is a flip or wholesale, what changes at a 5% and 10% lower supported exit, and has the repair contingency been kept separate?

6. How much cash will the deal require, and what reserves remain?

7. What is the maximum supported offer, and which constraint produces it?

8. What must be verified before you make a final commitment?

9. What would make you renegotiate or walk away?

Use the complete deal worksheet to record the numbers. Review the deal-analysis course, DSCR course, and deal tools for related instruction. Rates, taxes, legal requirements, lender methods, and property conditions vary. Consult current primary sources and qualified professionals for your specific situation.

The purpose of a good analysis is not to make every property fit. It is to help you recognize when it does-and to be comfortable moving on when it does not.

Appendix: A second look at the price that works

Suppose a seller asks $145,000 for a house that might work as a rental. The listing says it will rent for $1,700 a month and needs only light repairs. Before discussing an offer, you ask for the basis of those two claims. Comparable rental listings suggest a range of $1,550 to $1,650, but several include utilities and one has an extra bathroom. A contractor's early inspection suggests $18,000 to $25,000 of work, depending on what is found behind a damaged wall.

At this point I would not average the highest rent with the lowest repairs and call it a deal. I would build a base case using the rent supported by the most relevant properties and a repair budget that includes the work I expect. I would record the wall as an unresolved issue, schedule the appropriate inspection and identify what an unfavorable finding would do to my cash requirement. The listing gives me a reason to investigate; it does not give me permission to skip the questions.

Imagine the evidence later supports $1,600 monthly rent. Your monthly planning allowances are $80 vacancy, $128 management, $125 maintenance, $125 replacements, $250 taxes and insurance, and $42 in other owner-paid costs. That

leaves $850 for principal and interest. At my 1.30 expense-adjusted target, the maximum principal and interest supported by this test is about $654 per month: $850 divided by 1.30.

Suppose a lender's preliminary payment estimate for the proposed loan is $760 in principal and interest. The estimated cash flow under those assumptions is $90, and coverage is about 1.12. It has positive estimated cash flow, but it does not meet my stated coverage target. A lender may offer a different calculation or decision; this is my separate ownership test.

The next question is not, 'How can I make the ratio look better?' It is, 'What change is supported by evidence and still leaves enough reserves?' A lower purchase price could reduce the loan; a different loan may change the payment and fees; a revised rent or insurance estimate may be appropriate if credible new information supports it. Ask the lender to calculate the actual loan amount corresponding to the $654 payment using the proposed rate and amortization. Then compare that loan amount with the down payment, closing costs, repairs and reserve you have available. The lowest supported ceiling governs the offer.

Now stress one assumption. At $1,500 rent with vacancy and management still modeled at 5% and 8% of scheduled rent, the other allowances unchanged, the amount available for principal and interest falls to $763: $1,500 minus $75, $120, $125, $125, $250 and $42. At a $654 payment, the coverage would be about 1.17 and monthly cash flow about $109. Even the price that met the original 1.30 test would need another look if the lower rent is credible.

The numbers tell a story, but they do not make the decision for you. Perhaps the $1,500 rent is an unlikely stress case; perhaps it is the more defensible figure. Review the evidence,

the consequences of being wrong and your ability to hold the property. If the seller's price and your supported ceiling remain far apart, passing is a complete and useful decision.

Appendix: Explain a lower offer without overselling it

Imagine the seller says, 'My neighbor's house sold for $200,000. Why is your number lower?' A useful answer starts with the facts you have, not a criticism of the property or the seller's situation.

'I can see why you looked at that sale. I would like to compare the condition and layout more closely. Based on what I know today, this property needs work, and I have to account for repairs, financing, closing costs and the possibility that the final value is lower than expected. My current analysis supports a lower price, subject to verifying the property and terms.'

That conversation leaves space for the seller to correct an assumption or decline. It does not guarantee that an offer will be accepted, that your estimate is complete or that the seller has no better alternative. If you represent another buyer or have a contractual interest, explain your role and follow the obligations that apply to your transaction.

Appendix: Practice the decision

Write your answer before looking at the discussion. A rental produces $1,000 per month after all modeled operating costs and before principal and interest. The proposed principal and interest are $800. Is it cash-flow positive? Does it meet a 1.30 expense-adjusted target? How much principal and interest would that target support?

The simplified cash flow is $200 and the ratio is 1.25. At 1.30, the supported principal and interest are approximately $769. The property is therefore cash-flow positive in this example but falls below the stated coverage target. It may merit a lower-price discussion or a review of verified financing terms. You still need to consider cash at closing, reserves, repairs and all costs omitted from the exercise.

For a separate flip exercise, assume a $220,000 supported exit, $40,000 repair scope, $8,000 separate repair contingency, $30,000 of other fixed project costs and $25,000 target profit. The simplified base purchase ceiling is $117,000. At a 5% lower exit of $209,000, it is $106,000; at a 10% lower exit of $198,000, it is $95,000. Actual costs that change with price, financing or time need to be recalculated. A buyer whose minimum requirement is the target profit under the full downside would investigate whether the lowest ceiling is attainable, not assume the base-case ceiling provides that protection.

Case study: one property, three different answers

The following property and every number in this section are hypothetical. They are designed to show the decisions, not to represent an actual transaction or a guaranteed outcome.

A seller is asking $105,000 for a vacant single-family house. Early information suggests a completed retail value of $190,000, monthly rent of $1,500 after repairs, and a $30,000 repair scope. The investor has not yet verified the roof, the insurance quote or whether the comparable sales support that finished value. The seller would prefer a quick closing.

That is enough information for me to begin asking questions. It is not enough to decide the property is a good deal. I need

to understand the condition, my financing, the price the exit can support and whether I have the cash to finish the work and hold reserves. I also need to be honest with the seller about the stage of my analysis. Wanting a quick closing does not make an unverified property worth buying.

The rental path

Suppose the $1,500 rent is supported by comparable homes after adjusting for condition and included utilities. Model monthly vacancy of $75, management of $120, maintenance of $100, replacement reserves of $100 and taxes and insurance of $210. Assume no additional owner costs solely for this illustration. That leaves $895 for principal and interest. At a $700 principal-and-interest payment, estimated monthly cash flow would be $195 and expense-adjusted coverage would be about 1.28.

The house appears cash-flow positive, but the coverage is below my 1.30 target. I would ask the lender what purchase price and loan structure could support a principal-and-interest payment of approximately $688 or less: $895 divided by 1.30. Then I would compare the down payment and other costs with the cash available. That is an expense-adjusted test, not a lender's approval calculation. Actual loan terms, closing costs and a separate property reserve can produce a lower supported purchase price.

Now assume the insurance quote is $60 more per month than the original estimate. The available amount falls to $835. At the same $700 principal-and-interest payment, coverage falls to about 1.19 and cash flow to $135. At 1.30, the supported payment is about $642. The point is not that the insurance will rise by exactly $60; it is that a real quote can move the offer ceiling. I want the quote before I become committed to a price that only worked with the earlier estimate.

The flip path

Use the same hypothetical $190,000 finished value and $30,000 defined repair scope. Add a separate $6,000 repair contingency, $24,000 in other acquisition, finance, holding and selling costs, and a $25,000 pre-income-tax profit target. If those costs remain fixed solely for this illustration, the base purchase ceiling is $105,000. The seller's asking price lands exactly on that base ceiling, leaving no room for a lower exit while preserving the full target profit.

At a 5% lower exit, the selling price becomes $180,500 and the simplified ceiling falls to $95,500. At a 10% lower exit of $171,000, the ceiling is $86,000. The repair contingency remains a separate line from the lower exit. Real commissions, loan charges and holding costs can change with the transaction, so recalculate those before relying on a final number.

Would I pay $105,000 because the base case produces the target? Not if my decision requires the target profit to hold under the lower exit and these are the verified numbers. I could discuss a lower price with the seller and continue investigating the property. If we cannot agree on a price that supports the risk, passing protects my capital and time.

The wholesale path

Assume a particular end buyer's verified analysis supports a maximum total acquisition cost of $95,500 under the 5% lower-exit scenario, including a proposed $8,000 assignment fee. With no other assignment costs in this simplified illustration, the preliminary seller-contract ceiling would be $87,500. Actual transaction costs, buyer requirements and legal structure could change the result.

The seller is asking $105,000. That is a $17,500 difference from the preliminary ceiling, not an $8,000 fee waiting to be

collected. I would not describe the property as a guaranteed opportunity or put a buyer's name on an offer they have not made. I would verify the assumptions, be clear about my role, and discuss whether the seller wants to consider the supported range. Contract, disclosure, marketing and licensing rules vary; review the actual structure with qualified local professionals.

The new information

Suppose a qualified inspection finds the roof needs replacement and the existing repair scope did not include it. A roofing estimate adds $12,000 and may affect the timeline. For the flip, if the $12,000 is an additional known cost and the prior $6,000 contingency is retained for other unknowns, the simplified 5%-stress purchase ceiling becomes $83,500, before any added carrying costs. If you instead use part of the existing contingency for the roof, do not also count those same dollars again; state what contingency remains and whether it is still adequate.

For the rental, the roof changes the cash needed before or after closing. It may not directly change the monthly principal-and-interest payment unless financing changes, but it can reduce reserves or require additional borrowing. Recalculate the full cash plan and financing. An expense can affect the decision even when it is not part of the monthly ratio.

This is what I mean by a good analysis: the answer can change when the facts change. The offer is a decision supported by a set of assumptions, not a number to defend after the assumptions stop being true.

Compare two offers without guessing

Suppose the seller counters at $92,000 and offers a longer inspection period, while another opportunity is available for $86,000 with a much shorter deadline. Price is important, but compare the work and risks that come with each offer. Which property has more reliable value evidence? Can the needed inspections and financing review be completed by the deadline? How much cash will each require, and how much will remain in reserves?

Do not assume the longer inspection period gives an unconditional right to cancel, or that every cost can be recovered. Have a qualified professional review the actual terms and dates. A lower price with an unresolved title issue, uncertain access or an unrealistic deadline may still be the weaker opportunity. If you cannot verify a material fact within the available time, include that uncertainty in your decision.

Exercise: write your decision in four sentences

1. **My intended exit is:** Describe who will rent or buy the property and what condition it must reach.

2. **My supported offer ceiling is:** Show the binding calculation and the assumptions that drive it.

3. **The most important unknown is:** Name the evidence you need, who can provide it and the date it is needed.

4. **I will renegotiate or pass if:** State a condition that would make the property fall outside your price, cash-flow, coverage or reserve limits.

If you cannot complete one of those sentences, you have identified useful work to do before a final commitment. If the seller cannot accommodate the time needed to answer a

material question, that is information too. I would rather keep looking than assume an unknown has a favorable answer.

Due diligence: turn a good estimate into a better decision

A deal can look promising on the first pass and still fall apart when the details become clear. That is not wasted work. The purpose of due diligence is to discover what you need to know while you still have the opportunity to make a decision under the terms of your agreement.

I divide the work into four questions: Do I know what I am buying? Can I carry out the intended use? Can I pay for the purchase and the work? And does the deal still meet my standards with the current facts? The contract and applicable law control your rights and deadlines. Work with qualified local professionals to understand them before relying on any general checklist.

What am I buying?

Confirm the property's legal description and ownership through appropriate title work. Ask the closing professional how liens, easements, taxes and other matters will be addressed. A seller may give you useful information, but an estimate of a mortgage payoff is not the same thing as an official payoff or a complete title review. A fence, driveway or shed visible on the ground may not establish the legal boundary or a right to use an adjacent parcel.

For a rental with residents in place, review leases, deposits, payment history, notices, service contracts and who pays utilities. Check with qualified local advisors about how existing obligations carry into the transaction. A spreadsheet that assumes vacant possession or an immediate rent increase

should not be treated as fact until you understand the actual agreements and requirements.

Can I carry out the plan?

Inspect the property with the exit in mind. A rental that needs a safe, durable finish may require a different scope from a retail flip. Have qualified people investigate material structural, roof, plumbing, electrical, heating and other questions. Ask local authorities and professionals about permits, permitted use and inspections where relevant. If an issue requires a specialist, record the cost and the expected date of that answer.

Imagine your original $30,000 repair allowance assumed the heating system was serviceable. An inspection indicates replacement may cost $8,000. If the $30,000 allowance did not include that work, your revised known scope becomes $38,000 before any separate contingency. A flip that previously supported a $95,500 purchase ceiling in a fixed-cost stress case would, with all other assumptions unchanged, support $87,500 after the additional $8,000. If the work also adds a month of holding costs, recalculate those too. This is a change in the facts, not a failure to negotiate hard enough.

Can I fund the entire plan?

Put the cash on a timeline: deposit, inspections, down payment, closing costs, contractor milestones, interest and other costs until the property is occupied or sold. If a lender reimburses work through draws, determine what must be paid before reimbursement and when the draw is expected. A project can have adequate total estimated funding and still run short of cash at the wrong point.

Keep a separate property reserve after the initial work. A reserve is available cash for obligations and surprises; it is not

a reason to omit expected repair costs from the budget. If the only way to close is to spend the reserve you need to own the property, I would reconsider the offer or pass.

What changed and when must I decide?

Maintain a short decision log. Record the original assumption, the new evidence, the financial effect, the person responsible for follow-up and the relevant contractual deadline. If an inspection is scheduled after a key deadline, discuss your options with your professional advisors before that deadline. Do not assume an extension or refund is automatic.

When a fact changes, recalculate all affected pieces. An insurance increase changes monthly cash flow and coverage; a repair increase changes project cash and may affect the loan or timeline; a lower appraisal can change the loan amount, cash required and potential refinance proceeds. Recalculate the linked numbers rather than changing only one line on a worksheet.

A closer look at the seller's needs

A seller's goal may be speed, certainty, fewer repairs, a particular move date or a price needed to satisfy obligations. Ask questions and listen without assuming the answer. You may discover that the seller needs time to move and that a later closing is more valuable to them than an immediate one. You may also learn that the seller's minimum price is above your supported ceiling. Both are useful outcomes.

Suppose your analysis supports $90,000, while the seller says they need $105,000. It is tempting to promise $105,000 and hope the numbers improve later. I would rather explain that my current figures support a lower amount, identify what still needs verification and let the seller decide whether that is worth discussing. Do not present an estimate as an appraisal,

guarantee a closing you cannot perform, or conceal your role in the proposed transaction.

If there is a listing agent, work through the appropriate channel. If the seller has questions about legal, tax or other consequences, encourage them to consult their own qualified advisors. A deal only makes sense for me when I can understand my numbers and communicate the basis of the offer honestly.

A one-page decision record

Before proceeding, write the intended exit, the supported value or rent, the complete expense and repair assumptions, the proposed financing, the cash required and the reserve remaining. Put the base and downside results side by side. Then list the three facts most likely to change the result, who will verify each and the date by which you need the answer.

Finish with a decision and a reason: investigate because a material question remains; offer because the supported numbers fit; renegotiate because new evidence changes the ceiling; or pass because the price, risk or cash requirement does not fit. Keep the record with the source documents. When you revisit a deal later, you should be able to see what changed rather than starting with an old number and forgetting why you reached it.

The offer memo that survives a second look

Put two prices in your memo: the maximum supported by today’s evidence and the offer you would actually make. They serve different purposes. The ceiling keeps you from buying a deal your underwriting cannot support. The offer reflects what you know about the condition, competition, timing and terms. If a seller accepts your first number immediately, you still have the same work to do. An accepted price does not verify a roof, settle title or fund a renovation.

Imagine a house supports a $92,000 ceiling with current rent, taxes and insurance, and your opening offer is $86,000. The seller counters at $90,000. Before calling the difference a win, check what is included in the counter. A shorter inspection window or an earlier closing date could make the property harder to investigate and finance. If an inspection reveals $6,000 of work your original budget omitted, update the sources and uses of cash as well as the offer model. A $2,000 margin below your old ceiling does not absorb a $6,000 surprise.

Here is what I would keep in the file: the two strongest comps and why they fit, a written insurance quote, the contractor’s actual scope, the financing assumptions, the price ceiling and the event that would make me walk away. A month later, I want to be able to read the memo and understand the decision without remembering the conversation that produced it.

Field exercise: The offer that looked safe until the cash calendar changed

The facts you have

An investor has $58,000 available and wants $12,000 left after the project is ready to operate. The proposed down payment is $24,000, closing is $5,000, immediate work is $14,000, and carrying costs before rent are $2,000. The lender has not approved any reimbursement. An inspector then identifies $4,500 of additional work that must be done before the home can be rented.

How I would work it

Before the inspection update, the project requires $45,000 and leaves $13,000. Afterward it requires $49,500 and leaves $8,500, or $3,500 below the reserve target. Even if the stabilized rental still passes its monthly underwriting test, the cash plan fails. Find a supported change to price, documented funding or scope. Do not defer work that is necessary for safe occupancy to make the arithmetic fit.

Work the next decision

If the seller reduces the price by $4,000 and your down payment is 25% of price, with everything else held constant, does it restore the reserve? No. The down payment falls by $1,000; recalculate loan costs and verify cash at closing before claiming any further savings.

One final check: do the alternatives compete for the same money?

Before making the final call, I put the purchase beside the best realistic alternative for that cash. I may have another property that needs a roof, a loan renewal approaching, or a stronger acquisition that will take time to verify. I do not need an exact prediction of the next opportunity. I do need to know what I would give up if this deal locks up the capital for a year longer than expected.

Suppose the purchase needs $46,000 of acquisition and opening-work cash. You have another $14,000 you intend to hold as reserves and no other money earmarked for this project. The flip model assumes a sale in six months. A slower sale does more than add interest and other monthly costs: it can keep the $46,000 unavailable while you wait. Before assuming a future purchase can use the same dollars, ask what you would do if both obligations came due at once. I would rather plan for the money I can actually access than make two promises with the same capital.

For a rental, run the same comparison without pretending that a refinance returns all the cash. If the deal leaves $31,000 invested after a hypothetical refinance, compare what you earn on that amount and what you still need in reserves. Verify whether the proposed refinance is actually supported, and consider a case where it does not happen. A purchase can still be a sound hold without returning every dollar. It cannot work as part of my larger plan if the next decision requires cash I would no longer have.

Optional case: When a promising deal stops working

The ask is a starting point

A seller is asking $105,000 for a vacant house. The preliminary rehab estimate is $30,000. Comparable sales support investigating a $190,000 retail exit after the planned work, and the rental screen starts at $1,650 per month. At this point I would spend time verifying the facts, but I would not tell the seller that my number is firm. All figures here are hypothetical; each financing and exit illustration has its own stated assumptions.

The insurance quote arrives

The rental screen allows $132 for management, $165 combined for vacancy and routine repairs, $250 for taxes and insurance, and $70 for replacements. That leaves $1,033 before principal and interest. At a $740 principal-and-interest payment, I estimate $293 in monthly cash flow and about 1.40 in expense-adjusted coverage. Then a written insurance quote adds $90 a month. Available income drops to $943. Cash flow is still positive at $203, but coverage falls to about 1.27. At my 1.30 minimum, the revised income supports about $725 in monthly principal and interest. I want the lender to calculate the price or terms that could actually produce that payment.

The inspection changes the scope

The inspection identifies $8,000 of necessary work outside the original scope. I now budget $38,000 for known repairs and recheck whether I can fund them on schedule. For the flip, assume $22,000 in other project costs, including the separate repair contingency, and $22,000 in required pre-tax profit. Holding those assumptions fixed, the updated offer ceiling is $108,000 at a $190,000 exit, $98,500 at a 5% lower exit and $89,000 at a 10% lower exit. At the $105,000 ask, the flip passes the base screen but misses both downside screens. I would use the downside that matches the evidence and rerun the price-sensitive costs before relying on an offer.

The cheaper payment has a cost

Assume one written quote calls for $740 in monthly principal and interest and $2,400 in upfront financing fees. A second calls for $710 and $5,700. At the revised $943 before principal and interest, the second quote clears the coverage screen at about 1.33. But if the first option leaves $14,500 after all other funded costs, the extra $3,300 in fees leaves just $11,200 under the second, below my $12,000 reserve requirement. And if this project depends on a future refinance, I test the appraisal and the date separately. In a BRRRR illustration, a $165,000 appraisal rather than $180,000 at 75% loan-to-value reduces gross refinance proceeds by $11,250. A delay can add carrying costs even if the loan still closes.

The decision I would put in writing

At the current ask, I would pass on the quoted structures. The rental either misses coverage or uses too much cash, the flip misses my downside screen, and a future refinance does not fix either problem today. I would revisit the house only with verified terms that protect reserves and meet coverage, or a lower price that meets the supported resale stress test. Before changing my decision I want the complete repair scope, lender terms, insurance quote and comps in the file. A price conversation is worth having; the old assumptions are not worth defending.

Where I'd draw the line

If the numbers are close, I write down which fact could actually change the answer. On this deal it's a verified lower entry price or financing that clears both coverage and reserves. A seller's urgency, a lender's approval, or a better-looking spreadsheet does not change what I can support.

A real deal I passed on

On one house I looked at, the comparable sales were around $130,000, the rehab estimate was about $30,000, and estimated rent was about $1,350 a month. I looked at offers of $97,000 and $100,000. At $97,000, purchase and rehab alone came to $127,000. At $100,000, they came to $130,000. Neither total included closing or holding costs. I passed. The house was worth looking at; the price didn't leave the room I wanted.

If you're looking at a property now, put your own purchase and rehab estimates on the deal worksheet. Write down what you would need to verify before making an offer. If you're still deciding how to buy your first rental, start with Your First Investment Property: A Safer Way to Start.