INVESTOR FIELD GUIDES / BOOK 02

The Truth About Rental Property Cash Flow

A practical guide to finding out what a property may really put in your pocket

Real Estate Nate

Free Investor Academy

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The properties, numbers, and circumstances in this draft are hypothetical. They are teaching examples, not Nate's transaction history. Costs and results vary by property, location, financing, and ownership.

The number left over

When someone tells me a rental brings in $1,500 a month and the mortgage is $1,100, I do not call the difference cash flow yet. I call it the amount left to pay everything the mortgage does not cover.

Who pays for a vacant month? What happens when the water heater fails? Who answers the phone and finds a contractor? Those costs may not arrive neatly every month, but they belong in the decision before you buy. A property can look profitable on paper and still drain your checking account when normal ownership costs show up.

My approach is straightforward: support the rent, include realistic operating costs, separate principal and interest from the expenses already counted, and leave room for reserves. Then I test the result against a less comfortable set of assumptions. If a deal only works when nothing goes wrong, I would rather know that before closing.

1. Start with rent you can support

Scheduled rent is what you expect to collect if the property is occupied at the stated rate. It is not a guarantee. Compare similar homes in the same market and look at size, condition, location, included utilities, and availability. An asking rent is useful evidence, but a listing does not prove a resident will pay it quickly.

For a property with existing residents, ask to review leases, payment history, deposits, and the seller's records. A lease

amount and money actually received are different facts. Do not assume a large increase simply because a seller says the rent is below market. Investigate lease terms, local requirements, resident circumstances, and what comparable homes support.

Write down the rent you use, the evidence, and an alternative. If you use $1,500 in your base case, ask what happens at $1,400. A $100 monthly difference is $1,200 over a full year before considering related changes in expenses.

2. Budget the costs that do not arrive on schedule

Vacancy accounts for periods when rent is not collected. A percentage is a planning allowance, not a prediction that the home will sit empty for that exact fraction of the year. A single vacancy can require cleaning, repairs, advertising, and utilities in addition to the lost rent. Review the local market and the property's condition before choosing an allowance.

Management pays for a job, even if you do it yourself. Someone must communicate with residents, coordinate repairs, handle records, and arrange turnover. Using a management allowance helps you compare the property with the option of hiring the work out. Read an actual manager's fee schedule; leasing, renewal, maintenance coordination, and other services may have separate charges.

Maintenance covers recurring upkeep and repairs. **Replacement reserves** set aside money for larger components, such as a roof or heating system, that eventually wear out. These are budgeting categories. A future repair may cost more or less than the amount saved; a monthly allowance does not create a guarantee that enough money will be available at the precise moment it is needed.

Taxes, insurance, owner-paid utilities, association dues, landscaping, pest control, and other expenses must be included when applicable. Confirm who pays each bill. Obtain property-specific tax and insurance information; a seller's historical bill or policy is not necessarily your future expense.

3. Work the numbers without counting anything twice

Imagine a single-family home with $1,800 scheduled monthly rent. This illustration assumes a $90 vacancy allowance, $144 management, $135 maintenance, $125 replacements, $240 taxes and insurance, and $35 other owner costs. The total of these items is $769, leaving $1,031 for principal and interest.

If monthly principal and interest are $700, estimated cash flow is $331 a month, before income taxes and any expenses not included in the example. Expense-adjusted coverage is $1,031 divided by $700, or about 1.47.

The payment used here is principal and interest only because taxes and insurance are already in the expense list. If your lender's quoted payment is $940 including $240 of taxes and insurance, subtract the $940 payment from the amount after the other allowances; do not subtract that $240 again. Either consistent approach arrives at the same $331 in this simplified case.

Nate's perspective: Positive cash flow matters, and I also want my expense-adjusted coverage to be at least 1.30. This example meets both of those tests under its assumptions. I still need to check the loan terms, available cash, condition, insurance, and reserves before deciding whether I would move forward.

4. Give the property a difficult first year

The monthly allowance gives you a planning average. It does not mean the first year will unfold evenly. Using the same $1,800 home, the base estimate implies $3,972 in annual cash flow before omitted expenses and income taxes if the assumptions hold.

Now suppose the house experiences one additional month without rent beyond the vacancy already built into the base budget. For illustration, assume all other costs stay the same. That extra $1,800 loss would reduce the annual estimate to $2,172. In practice, management fees and some expenses may change during vacancy, and cleaning or leasing fees may add costs; calculate those terms rather than assuming they cancel out.

Next, assume an unexpected $4,000 repair occurs. Some or all of it may already be represented by the maintenance and replacement allowances; do not double-count those dollars. Ask a different question: is there enough accessible cash to pay the invoice when due? A property can have a positive annual projection and still create a cash emergency in a particular month.

That is why I keep separate property reserves. A reserve is not an expense to subtract again from cash flow if you have already included the related maintenance or replacement allowance. It is cash you have set aside to meet obligations as they arise. Track the allowance, actual spending, and reserve balance so you can see when estimates need to change.

5. A duplex with one empty unit

Suppose each side of a duplex rents for $900, for scheduled monthly rent of $1,800. When one resident leaves, scheduled rent from the remaining unit is $900 until the other side is leased again. The mortgage, insurance, and many other costs continue. Some utilities and management charges may vary, while turnover work adds its own cost.

Do not annualize that one empty month as if it were the normal long-term result, and do not ignore it because both units will eventually be occupied. Model the timing: how many months could the unit be vacant, how much make-ready work is needed, what cash is available, and how does the outcome change if it takes longer? Verify the lease and actual expenses on each side.

This stress test is not a replacement for a vacancy allowance. It helps you see whether you have the liquidity to survive a specific interruption while still meeting your obligations.

6. When the deal falls short

Suppose the supported numbers produce $1,031 before principal and interest, but the lender's principal and interest quote is $850. Estimated cash flow would be $181, and coverage would be about 1.21. It is positive cash flow, yet it falls below my 1.30 expense-adjusted target.

Could a lower price reduce the required loan and payment? Possibly. The maximum principal and interest supported at 1.30 is approximately $793: $1,031 divided by 1.30. Ask the lender what loan amount produces that payment at the proposed rate and amortization, then work back to a purchase price using the actual down payment and closing assumptions. Recalculate any expense or loan term affected by the price. If the seller will not accept a supported price, I

can pass without forcing the rent or expenses to improve on paper.

Paying more cash down might also reduce debt service, but it consumes cash that could be needed for repairs or other opportunities. Compare the remaining reserves and your return on the actual cash invested. A lower payment is not free if it requires you to deplete your safety cushion.

7. Keep reviewing after closing

Once you own the property, compare actual rent received, vacancy, management costs, repairs, taxes, insurance, and debt service with the original assumptions. One quiet month does not prove your maintenance allowance was excessive. Review longer periods and known upcoming work, and adjust the budget when credible information changes.

Keep your personal reserves and property reserves clear. When several properties are owned, track each property's performance as well as the portfolio's total obligations. A strong property should not conceal another one that consistently consumes cash.

8. Build three views of the same rental

I want to see a rental in three ways before I put money into it. First, I want a normalized operating view. That is where I see whether a reasonable year supports the price and payment. Second, I want a month-by-month cash view. That is where I see whether the owner can pay the bills while a unit is empty or a repair is underway. Third, I want a return-on-cash view. That is where I compare the ongoing dollars with what I actually have to commit. A property can look good in one view and fail in another, so I keep the answers separate.

Take a house with $1,700 scheduled rent. Assume monthly allowances of $85 for vacancy, $136 for management, $115 for routine repairs, $100 for future replacements, $275 for taxes and insurance, and $35 for other owner costs. That leaves $954 before principal and interest. On a $710 principal-and-interest payment, projected monthly cash flow is $244 and expense-adjusted coverage is about 1.34. Annualized cash flow is $2,928. These are hypothetical planning numbers; they do not tell me the house will deposit $244 into an account every month.

Now take the same property and look at its first ninety days. Suppose closing takes place before the unit is ready, the property does not collect rent for one month, and a $1,200 make-ready bill comes due. Assume the actual monthly bills while vacant are $710 for principal and interest, $275 for taxes and insurance, and $70 for owner utilities. If no manager fee applies during that month and the make-ready bill is separate from those costs, the property needs $2,255 of cash for that month. Do not use the $85 normalized vacancy allowance as an additional cash bill in this calendar. The absence of rent is already the vacancy. Likewise, the $115 repair allowance is not a second invoice on top of the actual $1,200 in that same cash column.

Finally, consider committed cash. Suppose cash needed for down payment, closing and initial repairs is $45,000, and I plan to hold $7,000 in property reserves on top. On the simplified annual stabilized figure of $2,928, the return on the $45,000 invested in the acquisition is about 6.51%; on the $52,000 of total cash earmarked for this investment, it is about 5.63%. These are two ways of describing the same investment. If you present a percentage, label the denominator. The second figure recognizes that those reserves are committed to the plan even if they are still in a bank account. Neither figure is an estimate of first-year cash

flow, appreciation, after-tax results or the proceeds from a future sale.

If I have $52,000 in available cash and the lender's final statement says I need $49,000 to close and finish the work, my reserve would fall from $7,000 to $3,000 before any further surprise. The normalized income view did not change. The opening cash position did. That is exactly why I review all three.

Exercise: reconcile the views

Start with the house above. Now assume the cash required to acquire and prepare the property is $48,000 and you want to preserve a $9,000 opening reserve. The operating estimate is unchanged. What cash must be earmarked, and what does the stabilized cash estimate represent as a percentage of that amount?

Worked answer: You need to earmark $57,000. The $2,928 annualized stabilized estimate is about 5.14% of that total. If the property loses $2,255 in its opening month and nothing replenishes the reserve, accessible reserve cash falls to $6,745. The month-one shortfall is an actual liquidity event, not a reason to subtract $2,255 every year. Decide whether the planned starting reserve is enough after that specific event, or whether the acquisition needs more cash or a different start date.

9. Give each unit its own row

If you buy a small multifamily property, do not stop at the advertised total rent. Separate the units. A duplex with one occupied unit and one vacant unit is not a single tenant paying the sum of both rents. Each side can have different utilities, lease dates, arrears, concessions, conditions and costs to place in service. A three-unit property with one unit producing half of the rent is also exposed differently than a property where all three produce the same amount.

Suppose a three-unit building advertises scheduled rent of $3,300. Unit A is occupied at $1,100 and the ledger shows timely collections. Unit B is occupied at $1,000 but has a documented $150 credit this month and an unresolved balance from a prior month. Unit C is vacant and the listing assumes $1,200. Treat the $1,200 as an assumption until comparable evidence and the actual condition support it. Do not record it as a receipt. For this month, assuming the occupants pay their current adjusted amounts and no old balances are collected, receipts would be $1,950, not $3,300.

For a rough liquidity test, assume the owner must pay $1,550 in principal and interest, $420 in taxes and insurance, and $210 in owner-paid utilities this month. There are no other actual bills in this simplified calculation. That is $2,180 of outlays before any management invoice, repair or turn work, against $1,950 of receipts. The shortfall is already $230. If the vacant unit needs $3,400 to complete its turn and that bill comes due this month, the shortfall becomes $3,630. That may be a solvable cash-planning issue if the price, condition and verified future rent support it. But it cannot be solved by adding the empty unit's planned rent to this month's receipts.

Review the units physically and read the available lease and ledger records with the proper permissions. Ask which items belong to the property and which are merely seller estimates.

For utilities, check the meter arrangements, who the documents say pays, and what the bills actually show. Do not assume you can shift a bill to residents after closing. Have the arrangement reviewed by an appropriate local professional and use the cost you can actually support in the meantime.

I also want to see lease expirations on a calendar. If the leases for two large units end at the same time, my downside test includes the possibility both need work in the same period. I am not predicting both residents will leave. I am deciding how much cash I want available if they do. A normalized vacancy allowance can stay sensible while my opening reserve increases to reflect that timing.

Exercise: test simultaneous turnover

Units A and B in the three-unit example become vacant in the same month while Unit C has already leased at $1,150. Assume the recurring actual outlays remain $2,180, and make-ready work for A and B is $800 and $1,200. What is the month's cash need, and what are two things to verify before using the result as an operating forecast?

Worked answer: The gross cash outlay is $4,180. Subtract $1,150 of collected rent and the cash need is $3,030. Verify the work costs and timing, and whether recurring costs, management fees and utility obligations stay the same when units are vacant. Also confirm the forecast's rent is a collection assumption rather than just a signed lease amount. If a contractor needs payment before the $1,150 arrives, the highest cash need within that month can exceed the end-of-month shortage.

10. Look for expenses the seller's records do not explain

I respect the books an owner keeps, but I do not automatically carry their expenses forward as my own. A landlord may manage the property personally, have a contractor in the family, defer maintenance, bundle insurance across a portfolio or pay a different price for services than I will. The right question is not whether the seller is wrong. The question is what the property will cost me under my ownership plan.

For each major line, write three things: what the seller says, what you can verify and what you are underwriting. Suppose the seller shows $100 a month in insurance. The buyer obtains a written estimate of $175 a month for the coverage contemplated, subject to final underwriting. Model the $175 if that is the best available quote, and check what it actually includes. Ask about the deductible, vacancy terms, exclusions and whether any condition or work is required before the policy is effective. The deductible is not automatically another monthly expense. It can still affect the amount of cash you need to protect your position.

Now consider the property tax line. The seller gives you their latest bill. It is good evidence of what was billed, not a guarantee of what you will pay after the purchase. Ask a qualified local source how to estimate a buyer's liability for the property and any upcoming changes or assessments. Keep the current bill and buyer estimate as separate records. Avoid copying a number from a listing with no period, jurisdiction or source attached.

Owner-paid utilities often come in as a single annual number. Ask to see the month-by-month records, distinguish charges attributable to the building from unrelated items and note any billing gaps. If a water bill is materially higher than expected,

you may need a plumber, a manager's explanation or additional statements before you can tell whether it was a leak, a turnover, a billing issue or a recurring condition. The difference between a one-time bill and a permanent monthly cost can change the price you can justify.

Deferred work gets its own treatment. If a known repair is needed immediately, put it in the opening project budget. If a major component will likely need replacement in several years, account for it in the reserve plan. Keeping the buckets separate does not mean ignoring one of them. It means you can explain exactly what is due now and what you are planning for later.

Case: expense verification changes the decision

A proposed acquisition shows $1,620 in scheduled rent. After all original operating and reserve allowances, the buyer expects $975 available for principal and interest. Debt service for principal and interest is $710. The base case shows $265 of monthly cash flow and expense-adjusted coverage of about 1.37.

Before closing, the insurance estimate increases by $55 a month, and the manager's written agreement reveals a separate recurring owner charge of $30 that was not included. With both added, there is $890 available for principal and interest. The cash estimate falls to $180 and coverage falls to about 1.25. Under my 1.30 screen, I would go back to the purchase price and financing terms. The maximum supported principal and interest is about $685, before any further change. If $710 is still the payment at the seller's last price, the original approval inside my own underwriting no longer applies.

Notice what I did not do: assume a future rent increase to replace the $85. I can test an increase as a separate scenario if the lease and market evidence support it. I do not treat a

possible improvement as a substitute for costs I have already verified.

11. Follow the actual cash after closing

When you receive an owner statement from a manager, check the beginning and ending balances and reconcile the receipts and disbursements. If you own several buildings, do the work by property. Looking at the portfolio's account balance alone can hide which property paid for which work. That distinction matters when you decide whether to renew a loan, replace a component or fund another purchase.

Say a monthly manager statement shows $1,700 collected, $136 for management and $210 for a plumbing invoice. It also shows $100 retained in the manager's reserve account and $1,254 distributed to the owner. The arithmetic reconciles: $1,700 less $136, $210 and $100 equals $1,254. If the owner pays $750 in principal and interest, $220 in taxes and insurance and $30 for a separate owner expense, $254 of cash remains in the owner's account for the month. Another $100 was retained by the manager. Whether that retained amount is available for the owner depends on the agreement and reconciliation; do not count it as spendable cash if you cannot access it when needed.

The plumbing invoice is a cash cost, while the transfer into a reserve account is a change in where the cash is held. Both matter when reconciling the owner's distribution. They are different when you analyze what the property costs to operate. If the manager later pays a repair out of the retained reserve, record the repair when it is paid and identify the balance from which it came. Do not record the earlier transfer as the same repair all over again. If you need help with bookkeeping or tax treatment, get professional guidance; the

cash exercise here is about keeping your operating decisions clear.

Then compare the statement against the underwriting, line by line. Did actual rent come in higher or lower than expected? Was a maintenance invoice early, or is it evidence that the normalized budget is too low? Is a recurring fee missing from your model? Did your manager keep money in reserve that you counted on receiving? Write a short note beside each material variance. A quiet month does not prove the budget was too conservative. A rough month does not by itself prove the property never worked. Repeated deviations and new verified information deserve a change to the operating plan.

Exercise: distinguish a distribution from cash flow

A manager collects $2,000, pays $160 in management fees and $260 for a repair, then retains $150 of owner funds and distributes the remainder. The owner pays $1,050 of separate property bills. How much cash arrives at the owner after those bills, and how much remains across the owner's cash and retained funds, assuming the retained balance belongs to the owner and no other movements occur?

Worked answer: The distribution is $1,430. After the owner's separate bills, $380 remains in the owner's cash. Add the $150 held by the manager and $530 remains across both balances. You still need to check the terms for accessing the retained funds. Do not plan to spend the same $150 twice.

12. Make the reserve decision visible

A reserve is a decision about how much money you keep accessible for risk you can see and risk you cannot. If I am underwriting a house with aging systems and a coming turnover, I want a larger opening cash cushion than I would for the same house with recent documented work and no planned turnover. That does not mean the second house needs no reserve. It means I should be able to explain why the amount differs.

Use the inspections, upcoming lease events, deductibles, loan dates and normal property obligations to build a downside timeline. Show the low point. Suppose you close with $9,000 in reserves. During a difficult first quarter, operations produce a $1,200 net cash shortfall and you pay a separate $3,500 repair. Assuming those figures do not overlap and there is no other cash movement, the reserve falls to $4,300. If your operating plan calls for at least $6,000 available at that point, the projected reserve misses the floor by $1,700. It is better to discover the shortfall on a sheet of paper than after calling the contractor.

List the options in real terms. A lower price might reduce the down payment; it might not reduce the cash requirement dollar for dollar. A lender credit may be limited by the approved loan and closing structure. Additional owner cash may be available, but it has an opportunity cost and should not come from money you need for other obligations. A later closing may allow time to verify bids, but it does not erase the cost of the work. Before moving forward, check whether the chosen option actually brings the low point above your reserve requirement. If it does not, be willing to pass.

After acquisition, give the reserve a rule for rebuilding. For example, the owner might retain a stated part of positive monthly cash after ordinary obligations until the property

returns to its target. Track what you have actually set aside. If the target cannot be rebuilt under reasonable collections and costs, revisit the operating assumptions instead of calling the gap temporary indefinitely. A property that continually depends on transfers from other properties may be a poor fit even if its projected cash flow once looked good.

13. Put your numbers on one decision sheet

For the next rental you review, start with a single page or spreadsheet tab. Write the property identifier, analysis date, rent evidence, lease conditions and expected start date. Break out scheduled rent, concessions, vacancy, collections and owner-paid expenses so the income path is visible. List routine maintenance and replacement reserves separately, and note any known opening repairs you have already included in project costs.

Record the loan terms used, including what the payment actually includes. Show how taxes and insurance are counted once. Divide the estimated amount available for principal and interest by that payment for your expense-adjusted coverage, and show the cash estimate as a dollar figure alongside it. If a lender provides its own coverage number, label it as their calculation and keep their income and debt components on a separate line. Comparing the results is useful; combining the two formulas is not.

Next, show the cash calendar for at least the period through stabilization. List expected deposits, actual obligations, opening repairs and the assumed dates of rent collections. Run a downside with at least one plausible operating problem and one timing problem. Mark the low point and identify which evidence would make you revise it. Then include the

cash earmarked for the deal, the reserve still available and the return denominator you used.

Finish the sheet with one decision: investigate, offer, renegotiate or pass. Explain what would change it. For example: “At the supported $1,620 rent, the verified insurance and manager charges reduce coverage below my target at the quoted payment. I will investigate a purchase price that supports a lower payment and leaves the opening reserve intact. If the verified price and loan terms cannot deliver both, I will pass.” That is more useful than writing “numbers look good” because another person can read your decision and see exactly what would have to change.

The goal is not to be perfect about every future month. It is to be honest about what you are buying, what it costs to own and what you can afford to have go wrong. If the numbers still work after you have done that, you have earned the right to keep investigating. If they do not, declining is a good outcome too.

Your cash-flow review

1. What rent is supported, and what evidence did you use?

2. What does your mortgage payment include, and have you avoided double-counting taxes or insurance?

3. What vacancy, management, maintenance, replacement, and property-specific expenses apply?

4. Is estimated cash flow positive after those costs and debt service?

5. Does your expense-adjusted coverage meet your target? What does the lender calculate separately?

6. How much cash is required at closing, and what reserves remain afterward?

7. What happens with lower rent, a vacancy, or a major repair?

8. What fact would cause you to renegotiate or pass?

Use the rental numbers course, its worksheet, and the deal tools to explore your own assumptions. Confirm property-specific financial, tax, insurance, and legal questions with qualified professionals.

Appendix: A maintenance allowance is not a monthly invoice

Consider two identical hypothetical houses. Each budget includes $150 a month for maintenance and $150 a month for replacements. In the first six months House A has no maintenance invoices. House B needs a $1,800 plumbing repair in month two. The fact that House A had a quiet six months does not prove its allowance was unnecessary. The fact that House B spent $1,800 does not mean the owner should automatically add that invoice on top of the full annual allowance and call the combined figure a normal annual expense. The owner should compare the actual work, the period covered and what the allowances were intended to fund.

Both houses also need enough liquidity at the time a bill is due. If the owner bought House B with no reserve and expected the monthly allowance to accumulate first, a $1,800 bill in month two exposes a cash shortfall. The planning allowance helps estimate performance over time; the opening reserve helps pay a bill that arrives earlier than expected. Track them separately.

At year end, review the actual work and the remaining condition of major systems. A new roof may reduce one near-term concern, but it does not eliminate the eventual

need to replace other components. Revisit the allowance using property-specific information and a reasonable planning horizon. Do not promise that a fixed percentage fits every age, location and condition.

Appendix: Read a management agreement before comparing fees

Imagine Manager A charges 8% of collected rent and a separate leasing fee. Manager B charges 9% of collected rent and includes one specified leasing service. The lower percentage alone does not establish which option costs less. Ask how each manager handles a vacant month, new leases, renewals, maintenance coordination, inspections, monthly reporting, minimum fees and termination.

If a resident pays $1,800 in a month, 8% of collected rent is $144 and 9% is $162, a difference of $18 for that month before other charges. If a leasing fee arises, add it under the manager's actual terms. If no rent is collected, the result depends on the agreement: do not assume the management charge is zero without checking minimum and vacancy fees. Compare the services, authority and communication as well as the total modeled cost.

Appendix: Try a downside case

Assume monthly scheduled rent is $1,600. Budget $80 for vacancy, $128 for management, $100 for maintenance, $125 for replacements, $250 for taxes and insurance and $17 for another owner cost. That leaves $900 before principal and interest. With a $650 principal-and-interest payment, estimated monthly cash flow is $250 and expense-adjusted coverage is about 1.38.

Now obtain an insurance quote that is $75 a month higher than assumed. Keeping all other items unchanged, $825 remains for principal and interest. Estimated cash flow becomes $175 and coverage falls to about 1.27. The property remains cash-flow positive in this simplified example, but it falls below my 1.30 expense-adjusted target. I would investigate a supported lower price, financing terms and other verified facts; I would not erase the insurance increase to force a pass.

If you are considering a lower purchase price, ask the lender to calculate the new loan and principal-and-interest payment. The target payment under the revised $825 operating figure is about $635 per month: $825 divided by 1.30. A lower price can also change financing and other costs, so rerun the entire model. Review the cash required and reserves alongside the resulting coverage.

Appendix: Operating cash is not a tax return

This guide uses cash-flow and reserve allowances to help make an operating decision. A tax calculation follows different rules and can treat principal, interest, repairs, improvements and depreciation differently. Do not assume a replacement reserve contribution is automatically deductible, or that a mortgage payment is a single deductible expense. Keep good records and consult a tax professional about the specific property. The IRS discusses residential rental expenses and depreciation in Publication 527.

How a strong month can hide a weak year

A property rents for $1,650 a month and has $1,200 in recurring monthly cash outlays, including debt service. If every month looks the same, it appears to generate $5,400 a year. Now model one vacant month and a $2,200 turnover. If all $1,200 of monthly outlays continue and you have not already included the turnover in them, the result falls to $1,550 for the year. In an actual model, adjust any costs that really stop when rent stops and avoid counting a repair twice.

The annual result still does not tell you whether you can pay the bills in the vacant month. In this example, that month could require $3,400 of cash for the outlays and turnover before any new rent arrives. Track the lowest monthly cash balance as well as the annual return. If a delayed move-in would put your reserve below the amount you need to operate safely, change the acquisition or reserve plan before you close.

Field exercise: The rent roll and the bank statement disagree

The facts you have

A two-unit property shows $2,500 in scheduled rent. The seller supplies a statement showing $2,300 collected last month and calls the $200 difference temporary. One lease includes a $100 monthly concession for six months, and another tenant is behind $100. The buyer expects a $125 increase after a renewal but has no signed renewal.

How I would work it

Document $2,400 as the scheduled amount after the current concession and $2,300 as that month’s actual collection. A past-due balance is not cash, and an unsigned increase is not earned rent. Model the concession through its documented end and compare a recovery scenario with a case where the late rent is never recovered. Review deposits and the ledger before relying on the seller’s description.

Work the next decision

With $1,950 of illustrative monthly cash outlays, compare the $550 spread implied by the rent roll with the $350 spread implied by cash collected. Which number belongs in a cash reconciliation, and which assumptions need separate treatment in a forward model?

Worked answer: The $350 spread belongs in a reconciliation of that month's cash, assuming all $1,950 of outlays were actually paid. The forward model needs separate lines for the concession, the timing and likelihood of collections, and a renewal increase that is still unverified. The $550 is a hypothetical scheduled spread, not a number you can use to replenish reserves today.

Optional case: When a promising deal stops working

In this example, the same vacant house is modeled at $1,650 in monthly rent. After $132 for management, $165 for vacancy and repairs, $250 for taxes and insurance, and $70 for replacements, there is $1,033 before principal and interest. At a $740 payment the modeled monthly cash flow is $293. A property-specific insurance quote adds $90, leaving $203. That is the new steady-state estimate, not the opening bank balance.

Suppose the first move-in slips by a month and the bills due in that specific month total $1,180. With no rent arriving, you need $1,180 in accessible cash to pay those bills. Do not subtract the underwriting vacancy allowance again from the actual zero-rent month. I would check the lease start, invoice dates and reserve together before calling this a workable hold.

See how the full deal played out in the optional case in Is This Really a Good Real Estate Deal?.