# Is a real estate investment property right for you?

Thinking of becoming a landlord to generate income in retirement? Here are some key aspects to keep in mind:

## Initial purchase

The key is to purchase the right property at the best price with optimal terms. What's the best price and terms? It's the point at which the property is cash flow positive. In other words, will the forecasted monthly revenue (rental income) exceed the monthly costs of operating the dwelling (including mortgage, insurance, property taxes, maintenance, and utilities) plus the profit (income) required?

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## Ongoing maintenance

- Are you willing and able to respond to emergency— and non-emergency — calls from your tenants?If you expect to travel often or spend part of the year as a snowbird, this may be exceedingly diffi-cult. You can hire a property manager to tend to these details, but typical costs are about 10% of monthly rental income, making it more difficult to turn a profit.
- Will you need to hire laborers to fix issues, or can you do it yourself?

## Tenant considerations

- Do you understand the legal and financial risks of potentially being sued?
- How will you find good tenants?
- How could a loss of rent via vacancies, tenants not paying (squatters), and damage above a security deposit affect your break-even point?

## Other costs

Maintenance expenses are only part of the costs associated with rental property ownership. You also need to factor property taxes into your break-even analysis. Insurance is another mandatory cost. You may also consider getting an umbrella policy to further insure against a lawsuit.

## Liquidity

Selling a property is more complex than selling a stock, for example. You may not be able to sell the property promptly or for the price you expect. It can also be costly — property sales can incur costs of 6% or more of the price. If you need money immediately, this asset may not offer you that flexibility, forcing you to access cash from other sources.

## Opportunity costs

Another common mistake is looking at what income “should” be without modeling the reality of capital improvement, maintenance, and other homeownership expenses. Landlords often view their cash flow through rose-colored glasses without analyzing potential income from an equivalent investment in the stock market. Suppose you divide your annual income by the equity in the property and have less than a rate of 4%. In that case, it may be prudent to consider traditional investing rather than income-producing real estate.

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