

Real Estate Investing Fundamentals — Workbook

This workbook turns the course into a real, analyzed first deal. Work through it in order: define your buy box, learn to reject bad listings fast, underwrite a property end to end on cap rate and cash-on-cash, pick your financing path, and screen your first tenant. Use the included spreadsheet templates to run any listing's numbers, build a conservative operating budget, and compare financing options before you ever make an offer.

How Rental Real Estate Actually Makes Money

Define your strategy, target property type, and market before you look at a single listing.

Worksheet: Define Your Buy Box

A buy box is the precise set of criteria a property must meet for you to consider it. Filling this in turns vague browsing into a targeted search. Be specific; you will use these numbers to filter listings.

Primary goal (cash flow / appreciation / house hack / mix)

Target market(s) and why (rent-to-price ratio, job growth, you live there?)

Target neighborhood class (A / B / C) and reasoning

Property type (single-family / 2-4 unit / condo)

Purchase price range you can finance

Minimum rent-to-price ratio you will accept (e.g., 0.9%, 1%)

Minimum cash-on-cash return target (e.g., 8%)

Maximum hands-on effort you can sustain (turnkey vs. light value-add)

Exercise: Map the Four Profit Centers on a Sample Property

Pick any real listing in your target market and estimate how each of the four profit centers would contribute. This trains you to see a rental as a stacked return, not a single bet on price.

- Cash flow: roughly what monthly cash flow could this property produce after all expenses and the mortgage? Is it positive?
 - Appreciation: what has this market's home price done over the last 10 years (check Zillow/Redfin)? Would you still buy if it appreciated 0%?
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- Loan paydown: in year one, roughly how much principal would your tenant pay down on the mortgage?
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- Tax benefits: estimate annual depreciation (building basis divided by 27.5). How much rental income would that shelter?
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Checklist: Market and Neighborhood Research

- [] Pulled rent comps on Rentometer and Zillow Rental Manager (not the seller's claimed rent)
- [] Checked the rent-to-price ratio against the 1% rule for the market
- [] Reviewed 10-year price history on Zillow or Redfin
- [] Checked school ratings (GreatSchools) and crime maps for the area
- [] Classified the neighborhood (A/B/C/D) honestly
- [] Confirmed the market is landlord-friendly (researched local eviction timelines and rent rules)
- [] Drove or virtually toured the neighborhood at more than one time of day

Underwriting a Deal: The Numbers That Matter

Reject bad listings in seconds, then fully underwrite the survivors on cap rate and cash-on-cash.

Exercise: Fast-Screen Five Listings

Pull five real listings in your buy box and apply the quick filters before any deep analysis. The point is speed: spend two minutes per listing and reject the obvious losers.

- For each listing, what is the monthly rent as a percent of price? Which pass your 0.9-1% threshold?
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- Compute the gross rent multiplier (price divided by annual rent) for each. Rank them lowest (best) to highest.
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- Which one or two listings survive to a full analysis, and why did the others fail?
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- For any that barely missed, what price would make it pass the 1% screen? Is that a realistic offer?
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Worksheet: Line-Item Operating Expense Budget

For your top candidate, fill in a realistic monthly operating budget. Pull taxes from the county assessor and get a real insurance quote; estimate the rest conservatively. Then compare your total to the 50% rule.

Gross monthly rent (verified with comps)

Property taxes (monthly, from county assessor)

Insurance (monthly landlord policy quote)

Vacancy reserve (5-8% of rent)

Repairs & maintenance (5-10% of rent)

Capital expenditures / CapEx reserve (5-10% of rent)

Property management (8-12% of rent, even if self-managing)

Utilities you pay + HOA + lawn/snow

Total operating expenses (sum above)

Sanity check: total as a % of rent vs. the 50% rule

Exercise: Calculate Cap Rate and Cash-on-Cash

Using your operating budget and a financing assumption, work both return metrics end to end for your top candidate, following the course's worked example.

- Net Operating Income = gross rent minus all operating expenses (before mortgage). What is your annual NOI?
 - Cap rate = NOI divided by purchase price. What is it, and how does it compare to typical 6-8% deals?
 - Estimate your annual mortgage payment (use a loan calculator: price, down %, rate, 30 years). What is annual cash flow (NOI minus debt service)?
 - Cash-on-cash = annual cash flow divided by total cash invested (down + closing + initial repairs). Is it at or above your 8% target?
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Checklist: Buy-vs-Pass Decision Gate

- Verified rent with independent comps, not the listing or seller
- Built a conservative line-item expense budget including CapEx and vacancy
- Cross-checked expenses against the 50% rule
- Calculated cap rate and compared it to the market norm
- Calculated cash-on-cash on my actual financing and cash invested
- Confirmed positive monthly cash flow under conservative assumptions
- Documented the price/rate at which the deal turns from pass to buy

Financing Your First Income Property

Compare financing paths and assemble your cash and pre-approval before you make offers.

Exercise: Choose Your Financing Path

Decide which loan strategy fits your situation. The right choice can cut your down payment by tens of thousands of dollars, especially if you can house hack.

- Can you live in the property for a year? If yes, would an FHA (3.5% down) or conventional owner-occupant (5%) house hack work?
 - Are you a veteran or service member eligible for a 0%-down VA loan on a 1-4 unit you occupy?
 - If this must be a pure (non-occupied) rental, can you fund 20-25% down plus 2-5% closing plus 6 months reserves?
 - Would a DSCR loan (qualifies on the property's rent, not your income) make sense now or later for scaling?
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Worksheet: Cash-to-Close & Reserves Plan

Total the real cash you need so there are no surprises at closing. Reserves are not optional; they are what keep a leveraged investor solvent through a vacancy or repair.

Purchase price

Down payment (% and dollars for your chosen loan)

Closing costs (estimate 2-5% of price)

Initial repairs / make-ready budget

Required cash reserves (target 6 months of PITI per property)

Total cash needed to close + reserve

Cash I have available today

Gap to fill (and plan to close it)

Exercise: Run the DSCR on Your Deal

Even if you use a conventional loan, computing the DSCR shows whether the rent comfortably covers the payment, which is the same test a lender and a prudent investor apply.

- What is the property's total monthly rent?

- What is the full monthly payment (PITIA: principal, interest, taxes, insurance, HOA)?

- DSCR = rent divided by PITIA. Is it at or above 1.0? Above 1.25?

- If DSCR is below 1.0, the rent does not cover the payment. What lever fixes it: lower price, more down, or higher rent?

Checklist: Financing Readiness

- Checked my FICO score and know which loan tiers I qualify for
- Got pre-approved with a lender before shopping
- Confirmed the down payment required for my chosen loan type
- Confirmed lender reserve requirement (often 6 months PITI)
- Calculated total cash to close including closing costs and repairs
- Stress-tested the deal at 15% vacancy and a major repair
- Chose long-term fixed-rate debt where possible

Tenants, Management, and Closing Your First Deal

Screen tenants legally, set up operations, and execute due diligence from offer to keys.

Worksheet: Tenant Screening Criteria (Written & Uniform)

Write the objective criteria you will apply identically to every applicant. This both finds reliable tenants and protects you under fair housing law. Publish these in your listing.

Minimum income standard (e.g., 3x monthly rent, verified)

Minimum credit considerations (score floor + how you weigh history vs. score)

Eviction history standard (e.g., no evictions in past X years)

Rental history requirement (e.g., references from past 2 landlords)

Employment verification method

Pet / occupancy policy

How applications are ordered (e.g., first complete & qualified)

Where these criteria are published to applicants

Checklist: Fair Housing & Screening Compliance

- Written, identical criteria applied to every applicant
- No decisions based on the 7 federal protected classes (race, color, national origin, religion, sex, familial status, disability)
- Checked state/local added protected classes (e.g., source of income)
- Ran credit/background through a screening service (RentPrep, SmartMove, etc.)
- Called the previous two landlords, not just the current one
- Verified employment and income directly
- Documented the approve/deny reason against stated criteria for each applicant

Exercise: Set Up Lease and Operations

Plan how you will run the property as a business from day one. Rental law is state-specific, so anchor your lease and deposit handling to your state's rules.

- Which state-compliant lease will you use, and have you confirmed your state's security deposit cap and return timeline?

- How will you collect rent automatically and timestamp it (Avail, Baselane, RentRedi, Zelle, etc.)?

- What is your late-fee and grace-period policy, and will you enforce it consistently?

- Will you self-manage or hire a manager (8-12% + leasing fee)? Does the deal still cash flow with management budgeted?

Checklist: Offer-to-Keys Due Diligence

- Offer includes inspection, financing, and appraisal contingencies
- Earnest money deposit set (1-3%) and kept refundable via contingencies
- Professional home inspection ordered and report read personally
- Repair quotes obtained for major findings; renegotiated or walked if needed
- For tenanted property: collected actual leases, rent roll, payment history, deposit accounting
- Appraisal received and reviewed against purchase price
- Title search completed and title insurance purchased
- Closing disclosure reviewed line by line
- Final walkthrough completed before signing and funding

Your Action Plan

1. Define your buy box: market, neighborhood class, property type, price range, and minimum cash-on-cash target.
2. Research markets with the 1% rule and pick one or two landlord-friendly areas to focus on.
3. Fast-screen listings with rent-to-price ratio and GRM; only fully analyze the survivors.
4. Build a conservative line-item operating budget for each finalist and cross-check it against the 50% rule.
5. Underwrite cap rate and cash-on-cash on your actual financing; require positive cash flow before proceeding.

6. Choose a financing path (house hack with FHA/VA, conventional, or DSCR) and get pre-approved.
7. Total your true cash-to-close plus 6 months of reserves, and confirm you have it before offering.
8. Write uniform, fair-housing-compliant tenant screening criteria and publish them in your listing.
9. Make an offer with inspection, financing, and appraisal contingencies; complete inspection and income due diligence.
10. Clear title, review the closing disclosure, do the final walkthrough, then close, place a screened tenant, and operate the property like a business.

