BE WEALTHY PODCAST

THE SFR REALITY CHECK

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Does your rental deserve your equity? One page. Ten minutes. No mercy.

From the Be Wealthy Podcast episode: *"Why Your Single Family Rentals Might Suck"*

Most landlords have never run their rental's real numbers. Not the ones you tell your friends, the real ones. Fill this out for your worst house first. Use last year's actual figures, not your best year's.

01 WHAT'S ACTUALLY TRAPPED IN THIS HOUSE

			AMOUNT
A	What the house would sell for today	$	
B	What you still owe on it	$	
C	Selling costs at ~7% (agent + closing): A × 0.07	$	
D	**TRAPPED EQUITY** = A − B − C	$	

That number in D is capital. It doesn't know it lives in a house. It could work anywhere.

02 WHAT THE HOUSE REALLY EARNS

Income (be honest):

			ANNUAL
E	Rent × 12 (at actual rent, not the Zillow dream)	$	
F	Vacancy: E × 0.06 (national vacancy is ~7% and climbing; use your real history if worse)	– $	
G	**REAL COLLECTED INCOME** = E − F	$	

Operating expenses (every line, no skipping):

			ANNUAL
H	Property taxes	$	
I	Insurance (this year's renewal, the number that made you wince)	$	
J	Property management (≈10% of G) + leasing fee ÷ years between tenants	$	
K	HOA dues	$	
L	Repairs & maintenance (12-month average, the little stuff)	$	
M	Turn cost ÷ years between tenants (paint, floors, cleaning ≈ $2,000–4,000 per turn)	$	
N	Capex reserve, the big stuff WILL come: roof ≈ $30K/20yrs + HVAC ≈ $8K/15yrs + water heater ≈ $1.5K/10yrs ≈ $2,200/yr minimum	$	
O	**TOTAL OPERATING EXPENSES** = H+I+J+K+L+M+N	$	

03 THE THREE NUMBERS THAT DECIDE EVERYTHING

1 Your TRUE expense ratio O ÷ G = ______ %

Under 35%	you're operating like a REIT. (Check your math, even Invitation Homes barely holds 35, with in-house crews and program insurance.)
35–45%	normal for a mom-and-pop rental. This is why your cashflow never matches the spreadsheet.
Over 45%	the house works for your vendors, not for you.

2 Your REAL annual cashflow G − O − (mortgage payments × 12) = $ ______

Not what you hoped. What's left.

3 THE KILL SHOT
Return on trapped equity Cashflow ÷ D = ______ %

This is the only number that matters. Your equity could earn 8–12% in bigger, quieter assets. What is it earning trapped in this house?

04 THE VERDICT

YOUR RETURN ON EQUITY	THE VERDICT
Above 8%	Keep it. It earned its place.
4–8%	Yellow. You're being paid something, but you're betting the rest on appreciation returning. That's a bet, not a plan.
Under 4%	Your wealth is parked, not invested. Every year you wait costs you the spread.
Negative	You don't own an investment. You own a savings account that calls you about plumbing.

One more question: Over the last five years, what percent of this house's total return came from appreciation vs. cashflow?
______ %

If it's mostly appreciation, understand that Phoenix home prices have been flat-to-down since June 2022, and rent growth is running ~3% while your costs run 5–7%. The engine that carried you isn't running.

THE WAY OUT (WITHOUT PAYING TAX)

A Section 1031 exchange lets you move every dollar of that trapped equity into a bigger, quieter, higher-cashflow asset, multifamily, commercial, net-lease, and defer 100% of the tax. Your equity graduates. You stop paying retail for repairs on scattered doors and start operating at scale.

That's exactly what the next episode covers: where the equity goes.

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