RE/MAX Properties

Real Estate Investing for Retirement

Compare income potential, responsibilities, and risk

Doug Petersen, Broker Associate
RE/MAX Properties | Colorado Springs

Real estate may provide rental income, distributions, and long-term appreciation, but returns vary and losses are possible. For someone approaching retirement, dependable spending money, accessible reserves, and manageable responsibilities may matter more than the highest projected return.

1 Long-term residential rentals

A house, duplex, or small apartment property can provide rent and potential appreciation. Subtract vacancy, taxes, insurance, management, maintenance, major repairs, and debt payments before estimating spendable income. Buy-and-hold is a holding strategy, not automatically passive: owners must oversee operations even with a property manager.

2 Vacation and short-term rentals

Nightly rates can look attractive, but occupancy may be seasonal and costs can include furnishings, cleaning, booking fees, utilities, and frequent repairs. Verify local permission, HOA restrictions, insurance, and management pricing. Model annual net results rather than multiplying peak-season rates by a full year.

3 Commercial property

Office, retail, industrial, or other business property may provide lease income, but returns depend on tenants, lease terms, and market demand. Vacancy can last, and re-leasing may require substantial improvements or commissions. Clarify which expenses the tenant pays; a commercial lease does not eliminate owner risk.

4 Publicly traded REITs and REIT funds

Listed real estate investment trusts and funds can offer property exposure and distributions without direct landlord duties. Shares generally trade on an exchange, but prices can fall and distributions can change. Review property-sector concentration, borrowing, investment strategy, and fund fees with a qualified investment professional.

5 Private partnerships, crowdfunding, and non-traded REITs

These may provide access to professionally managed projects, but terms, fees, and investor eligibility vary. Capital can be locked up, distributions can stop, and additional contributions may be required in some deals. Read offering documents and verify exit restrictions. A target return or preferred return is not a guarantee.

Choose the management burden you want in retirement

Direct ownership offers control but requires decisions, reserves, and oversight. Professionally managed securities reduce day-to-day property duties but introduce manager, market, fee, and liquidity risks. Neither approach guarantees income or protects the amount invested.

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Understand the return before relying on it for living expenses

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There is no single reliable return percentage for real estate. Evaluate the specific price, property, financing, expenses, and exit plan. The following numbers illustrate a method, not current Colorado market yields or a forecast.

6 Separate the different measures of return

Gross rent is income before expenses. Net operating income (NOI) subtracts vacancy and operating expenses but excludes debt service, income taxes, and capital expenditures. Cap rate compares NOI with property value or price. Cash-on-cash return compares annual pre-tax cash flow with cash invested. Appreciation is not spendable cash until realized or borrowed against.

7. Hypothetical all-cash rental: from rent to available cash

Item	Annual amount / assumption
Purchase price	$400,000
Closing and initial work	$20,000
Total cash invested	$420,000
Scheduled rent	$30,000 ($2,500 per month)
Less vacancy / collection allowance	-$1,500
Less operating expenses	-$10,500
Net operating income (NOI)	$18,000
Less reserve for major replacements	-$3,000
Cash available before income taxes	$15,000 ($1,250 monthly average)

Operating expenses assume taxes, insurance, management, routine maintenance, and other applicable operating costs. No loan is used. Income taxes, appreciation, sale costs, and costs exceeding the reserve are excluded. Cash flows will not arrive evenly each month.

Cap rate: $18,000 / $400,000 = 4.5%
Cash yield after reserve: $15,000 / $420,000 = about 3.6%

8. Stress-test the result: An additional $7,000 vacancy or repair shortfall reduces available cash to $8,000, or about 1.9% of cash invested. Debt payments would reduce cash flow further. Keep essential retirement spending from depending on an uninterrupted rent stream.

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Build a retirement plan that can withstand a difficult year

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Evaluate each investment as part of your entire retirement picture: reliable income sources, housing costs, health and family needs, other assets, and the time you can leave money invested.

9 Protect liquidity and avoid excessive concentration

Keep accessible funds for personal needs and separate reserves for the investment. One property, tenant, or market can represent a large share of retirement wealth. Selling property can take time and cost money. A private investment's redemption program may be limited or suspended when you need it.

10 Understand borrowing and a declining market

Debt can increase returns on your cash when things go well, but also magnifies losses and requires payments during vacancy. Review loan maturity, any variable rate, and refinancing risk. A fall in value can reduce equity even if rent continues. Plan for a sale that takes longer or produces less than expected.

11 Treat flips and undeveloped land as different strategies

A flip earns its return from a successful resale after purchase, renovation, carrying, financing, and selling costs. Land may produce no current income while taxes and other costs continue. Both can depend heavily on timing and future prices; they may be a poor match for money needed for routine retirement expenses.

12 Check the assumptions and the people involved

For property, verify rent evidence, condition, leases, title, insurance, operating costs, and rental rules. For a fund or partnership, review sponsor experience, debt, fees, distribution sources, and exit terms. A distribution may include returned capital rather than profit. Compare actual results with projections and ask what could go wrong.

13 Coordinate taxes, ownership, and an exit plan

Rental deductions and depreciation can affect taxable income, but loss deductions may be limited and a sale can create tax consequences. Decide who could manage or sell if your circumstances change. Have a CPA, qualified financial adviser, and attorney review the relevant tax, portfolio, ownership, and estate issues.

Questions to answer before committing retirement funds

How much net cash is realistic after all costs? Can I absorb a year with little or no income? How quickly can I exit? How much of my wealth is tied to this investment? Who will manage it if I cannot? What does the investment add to my overall retirement plan?

Ask Doug Petersen to help evaluate direct-property opportunities; use qualified investment professionals for securities and portfolio advice. Adapted from the supplied document. Sources: SEC listed REITs, non-traded REITs; IRS Publication 527. Educational information, not personalized investment or tax advice.

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