

How Much Rent Do You Need for a Rental Property to Break Even?

Learn how to estimate the rent a rental property needs to break even after vacancy, management, mortgage payments, and operating expenses.

CALCULATOR

**Investment Property
Calculator**

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ARTICLE

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Short Answer

A rental property breaks even on monthly cash flow when collected rent covers vacancy, management, mortgage payments, and operating expenses. In the example below, a \$450,000 rental with a 20% down payment and a 7% mortgage needs about **\$3,950 of monthly rent** just to reach first-year cash-flow break-even.

That does not mean \$3,950 is automatically a good deal. It means the property is no longer asking the owner to add cash each month before taxes, repairs above the estimate, capital replacements, or the opportunity cost of the down payment. A better investment test asks two questions:

- What rent keeps monthly cash flow near zero or better?
- After tying up the down payment and closing costs, does the property beat the next best use of that cash?

The [Investment Property Calculator](#) is useful because it lets you change rent, vacancy, management, mortgage rate, expenses, holding period, appreciation, and stock-return assumptions one at a time.

What Break-Even Rent Means

Break-even rent is the monthly rent target where the property stops losing cash before income taxes. It is a cash-flow test, not a total-return test.

A simple version looks like this:

$$\text{break-even rent} = \text{monthly mortgage and operating costs} / \text{rent collection rate}$$

The rent collection rate is gross rent after vacancy and management fees. If vacancy is 5% and management is 8% of collected rent, each dollar of advertised rent turns into about 87.4 cents before the mortgage and other expenses:

$$\$1.00 \times 95\% \times 92\% = \$0.874$$

That small adjustment matters. A \$4,000 rent listing does not produce \$4,000 of usable rent if the unit is vacant part of the year or if a manager collects a percentage of rent.

The Example Property

Here is the screening scenario for this article:

Input	Scenario
Purchase price	\$450,000
Down payment	20%, or \$90,000
Buyer closing costs	3%, or \$13,500
Initial cash invested	\$103,500
Mortgage	\$360,000 at 7% for 30 years
Monthly principal and interest	About \$2,395
Vacancy assumption	5%
Property management	8% of collected rent
Operating expenses	\$1,050 per month
Appreciation assumption	3% per year
Selling costs	6% at sale
Holding period	10 years
Stocks-side alternative	7% per year

The \$1,050 operating-expense line is a sample allowance for property taxes, insurance, maintenance, repairs, reserves, HOA dues, owner-paid utilities, and other recurring costs. It should be replaced with local numbers before making an offer.

Rental tax rules are separate from this first cash-flow screen. The IRS explains rental income, ordinary expenses, depreciation, and related rules in [Topic No. 414](#) and [Publication 527](#). This article is an educational model, not tax advice.

Step 1: Convert Rent Into Collected Rent

Start with a rent estimate, then reduce it for vacancy and management.

Gross monthly rent	After 5% vacancy	After 8% management fee
\$2,800	\$2,660	\$2,447
\$3,200	\$3,040	\$2,797
\$3,600	\$3,420	\$3,146
\$4,000	\$3,800	\$3,496
\$4,300	\$4,085	\$3,758

Vacancy should be explicit because a full-rent month and a collected-rent year are not the same thing. The U.S. Census Bureau publishes [Housing Vacancies and Homeownership](#) data as a national data source, but local vacancy and turnover can be very different from national averages.

Step 2: Add The Monthly Cost Stack

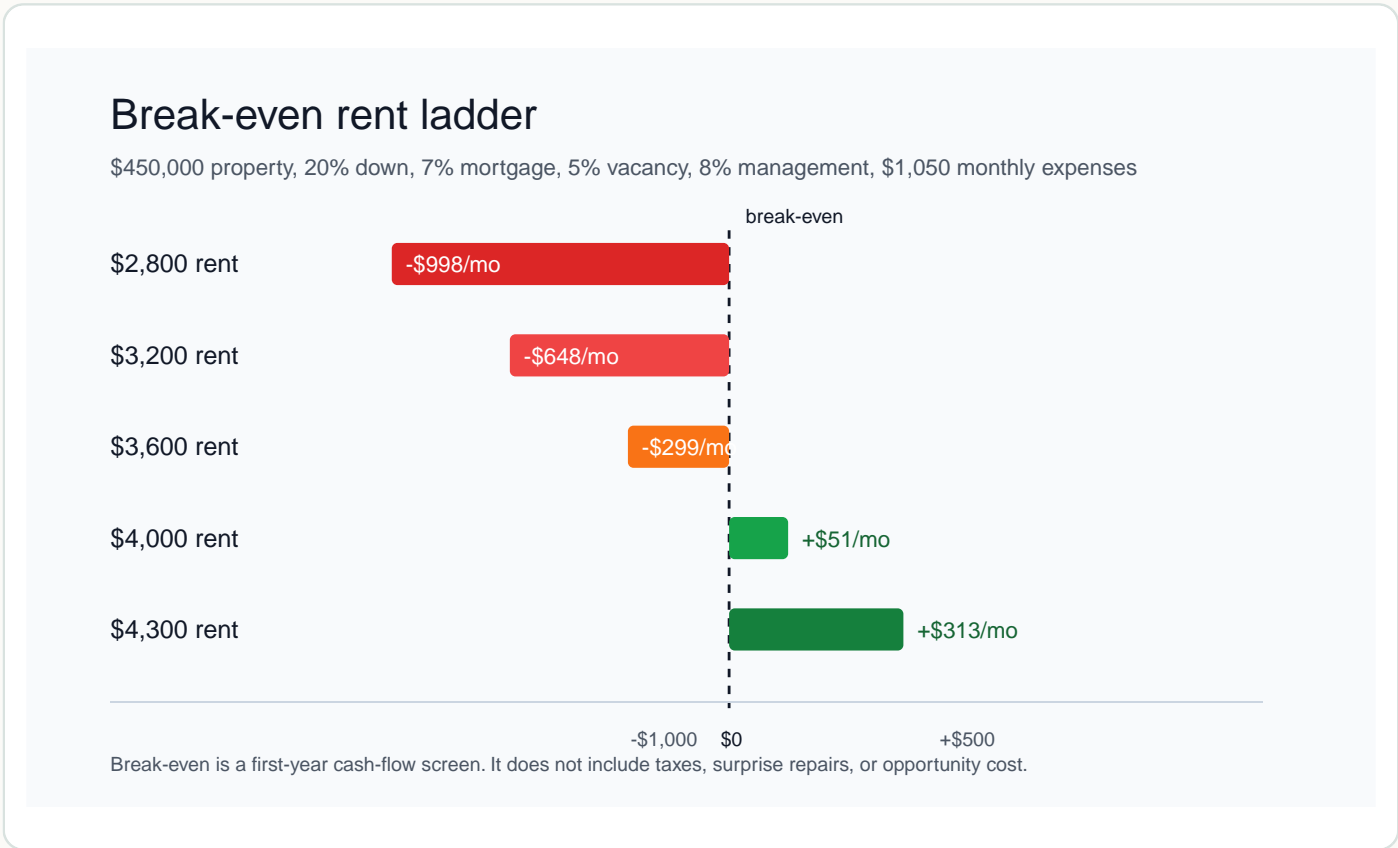
For this property, the fixed monthly cost stack is about:

Cost	Monthly amount
Mortgage principal and interest	\$2,395
Operating expenses	\$1,050
Total before vacancy and management	\$3,445

The break-even rent is not \$3,445 because the property does not keep every rent dollar. With the 87.4% collection rate from vacancy and management:

$\$3,445 / 0.874 = \text{about } \$3,942$

Rounded for real-world screening, this property needs about **\$3,950 per month** to break even in year one.



Step 3: Test A Rent Ladder

Using the same property, mortgage, vacancy, management, and expense assumptions:

Monthly rent	Estimated year-one cash flow	What it means
\$2,800	-\$998/month	The rent is far below break-even. The owner must fund a large shortfall.
\$3,200	-\$648/month	Still meaningfully negative before taxes and surprise repairs.
\$3,600	-\$299/month	Closer, but the property still needs owner cash each month.
\$4,000	+\$51/month	Near break-even. Small changes can flip it negative.
\$4,300	+\$313/month	More cushion, but still needs a total-return test.

This is the practical lesson: a property can be close to break-even and still fragile. If insurance rises, a repair reserve is too low, the rate quote changes, or the unit sits empty longer than expected, a small positive number can disappear.

Break-Even Is Not The Same As A Good Investment

First-year cash-flow break-even answers a narrow question: "Do I expect to add cash each month?"

It does not answer:

- Is the purchase price attractive?
- Is the neighborhood likely to support the rent assumption?
- Are repairs and capital replacements realistic?
- How much could the same \$103,500 earn elsewhere?
- What happens if appreciation is lower than expected?
- What happens if I sell sooner than planned?

In this example, the investor ties up about \$103,500 at purchase. If that same cash compounded at 7% for 10 years, it would grow to about **\$204,000** before taxes and fees. The property has to compete with that alternative, not just avoid a monthly cash drain.

At 3% annual appreciation, the \$450,000 property would be worth about **\$605,000** after 10 years before selling costs. After a 6% selling cost and the remaining mortgage balance, estimated sale proceeds are about **\$260,000**. That looks stronger than the stock-side alternative in this simplified example, but it depends heavily on appreciation, expenses, rent growth, taxes, repairs, and selling costs.

What Changes The Break-Even Rent?

Mortgage Rate

The mortgage payment is usually the largest monthly cost. A higher rate raises the break-even rent even if the property price and rent estimate stay the same. The CFPB guide to [comparing Loan Estimates](#) is useful because loan costs, monthly payment, and five-year borrowing costs all affect the investment-property model.

Vacancy And Turnover

A 5% vacancy assumption is not a law of nature. Some properties and markets need a higher number. Turnover costs can also include cleaning, paint, repairs, concessions, and leasing time.

Property Taxes And Insurance

Taxes and insurance can change after purchase. A pro forma that uses the seller's old insurance premium or an under-assessed tax bill may understate the real break-even rent.

Maintenance And Capital Reserves

Monthly maintenance is not only small repairs. Roofs, HVAC systems, appliances, flooring, and exterior work can arrive unevenly. A property that appears to break even without reserves may be borrowing from the future.

Management Fee

Self-management can lower the cash expense, but it does not make the work free. A manager fee is a cash cost. Self-management is a time and execution cost. The calculator can test both cases.

Common Mistakes

Mistake 1: Using gross rent as usable rent. Gross rent is the top line. Collected rent after vacancy and management is what pays the bills.

Mistake 2: Ignoring closing costs. Closing costs do not change monthly break-even rent directly, but they increase the cash tied up in the deal and raise the opportunity-cost hurdle.

Mistake 3: Treating break-even as safe. A property that is \$50 per month positive has almost no cushion. One repair or one vacant month can erase the year.

Mistake 4: Copying a rule of thumb without checking the loan. The same rent-to-price ratio can work differently at a 5.5% mortgage rate than at a 7.5% mortgage rate.

Try It In The Calculator

Open the [Investment Property Calculator](#) and recreate the scenario:

- Price: \$450,000
- Down payment: 20%
- Mortgage rate: 7%
- Vacancy: 5%

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- Management fee: 8%
 - Operating expenses: \$1,050 per month
 - Rent tests: \$3,200, \$3,600, \$4,000, and \$4,300

Then change one input at a time. Start with mortgage rate, vacancy, and operating expenses. Those are usually enough to show whether the deal has real cushion or only works in the optimistic version.

Related Reading

- [Is a Rental Property a Good Investment?](#)
- [Cap Rate vs Cash-on-Cash Return](#)
- [Investment Property Calculator](#)

This article is for education and planning only. It is not investment, tax, legal, or lending advice.