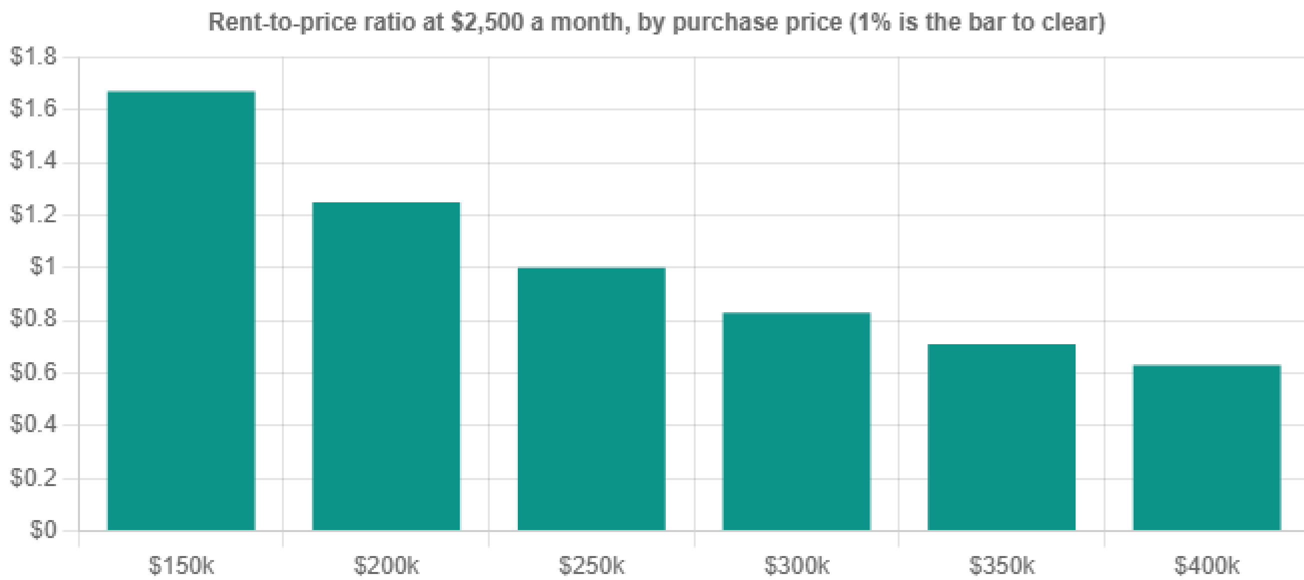
Rent-to-Price Across the Market

> The 1 percent rule is the fastest screen in rental investing. This chart shows which prices clear the bar for a given rent, and how fast it slips away.

The 1 percent rule is the quickest way to screen a rental. It says the monthly rent should be at least 1 percent of the price. This chart holds the rent fixed and sweeps the price, so you can see exactly where a deal clears the bar and where it falls short.



Purchase price	Rent-to-price	Meets 1% rule
$150,000	1.7%	Yes
$200,000	1.3%	Yes
$250,000	1%	Yes
$300,000	0.8%	No
$350,000	0.7%	No
$400,000	0.6%	No

Reading the chart

Each bar is the rent-to-price ratio at that purchase price, for the monthly rent you set. At 2,500 dollars a month, a 250,000 dollar property lands right at 1 percent, a 200,000 dollar property beats it at 1.25 percent, and a 300,000 dollar property falls to 0.83 percent.

Notice how fast the ratio slips as the price climbs. The same rent buys a worse and worse screen, which is why properties in expensive markets so rarely pass. Slide the rent up or down to see the whole set of bars shift with it.

What the rule does and does not tell you

A property that clears 1 percent is worth a closer look, and one that falls well short will usually struggle to cash flow once the mortgage and expenses are in. But the rule ignores everything below the rent line, so it is a filter, not a verdict.

Use it to sort a long list of listings quickly, then run the survivors through the Rental Property ROI and Cash Flow calculators to see whether they actually pay. The Real Estate Investing Guide walks through the full analysis.

Key takeaway. For a fixed rent, the 1 percent rule gets harder to clear as the price rises. It is a fast first filter, never the final word on a deal.

Assumptions

- Rent-to-price is monthly rent divided by the purchase price. A property clears the 1 percent rule at 1 percent or more.
- This is a screen, not a full analysis. It ignores the mortgage, taxes, and every other expense, so a pass still needs a real cash-flow check.

Sources

- Consumer Financial Protection Bureau, mortgages