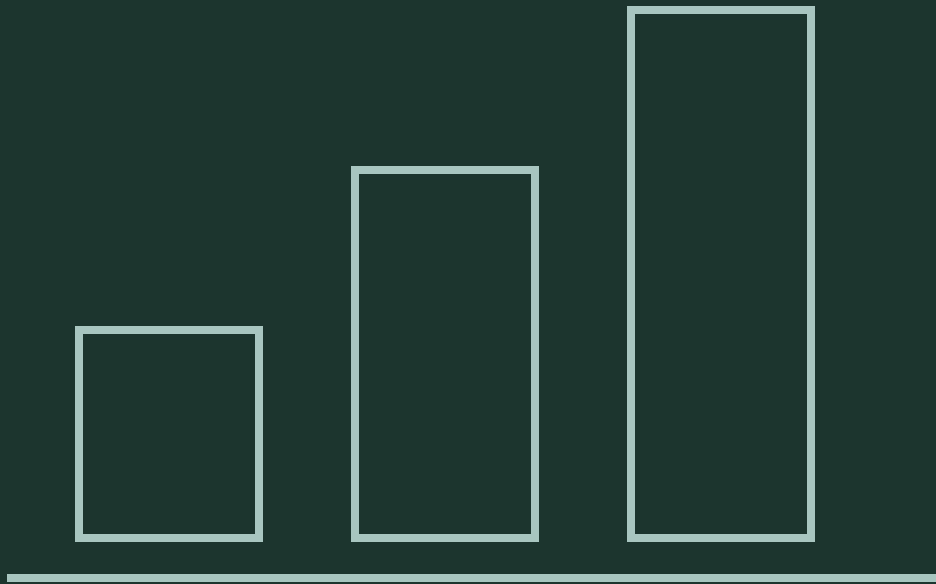




Investing in Colorado property

A practical framework for permitted use, rental economics, operating risk, and an exit that does not depend on perfect conditions.

01 / 08

Choose the strategy before the property

A long-term rental, a small multifamily building, a furnished second home, and a renovation project are different businesses. Define how the property is intended to earn income, how much personal use you want, how long you expect to hold it, and who will do the work. A property that fits one strategy may be unsuitable for another.

Separate lifestyle value from investment performance. A Steamboat home used for family ski trips can be worthwhile to its owner even if rental income does not cover all costs. The problem is not personal use; it is hiding that use inside an optimistic investment forecast. Identify the nights you want for yourself before estimating nights available to rent.

Five Four's investment experience is shared across the team. Tim brings experience as an active investor; Steve and Brynn work with Denver-area property, and other team members help clients evaluate purchases in their Colorado markets. Ask which experience best matches the property type and decision you are considering.

Write an investment thesis in plain language, without a spreadsheet first: who is the likely occupant, why would they choose this property, what work is required, and what would make you decide against it? If the answer relies only on "Colorado always goes up," the plan needs more work.

Name the strategy, the customer, the operating plan, and the main reason the investment could fail.

Five Four editorial guidance. Examples are illustrative.

02 / 08

Prove the intended use at the address

Underwrite only income from a use you can substantiate. Confirm jurisdiction, zoning, legal unit count, permits, association restrictions, and licensing requirements. A listing advertised as a duplex or an Airbnb opportunity is not a permit determination. Ask for documents and written confirmation from the authority or professional responsible for the issue.

Denver's short-term rental application is based on renting a primary residence. Do not assume a separate investment home can operate as an unrestricted vacation rental. Denver also has a residential rental licensing program for longer stays. Verify the category, inspection process, and requirements that apply before treating the property as ready to lease.

Steamboat Springs requires a license before advertising or operating a short-term rental. Its zoning and licensing framework must be checked for the specific property, including the effect of a sale on existing rights. A seller's rental history does not itself establish the permission you will have as a new owner. Ask the city and association separately.

For a proposed Longmont ADU, consult the city's current process and obtain feasibility and construction estimates before entering future rent into the base case. For a property outside city limits, start again with the correct county. Permission, physical feasibility, utility capacity, and construction cost are separate gates.

Get the use question answered before spending time refining revenue assumptions.

Sources: denver, rental, str, adu

03 / 08

Build a file that a manager could verify

Request the current leases, rent roll, deposit records, delinquency information, operating statements, utility bills, maintenance history, and service contracts when applicable. Reconcile claimed income to supporting records. Ask which expenses are paid by occupants, which are paid by the owner, and whether the lease and actual practice agree.

For a vacant property, research comparable rentals by size, condition, location, parking, amenities, and lease terms. An asking rent is a proposal, not proof of a signed lease. Discuss likely turnover time and concessions with a local property manager. For furnished rentals, separate nightly rate from occupancy, seasonality, fees, and owner use.

Study the building as an operating asset. Obtain specialist estimates for material roof, sewer, structural, electrical, heating, or drainage concerns. Compare the useful life of major components with your planned holding period. A recently painted unit can still sit inside a building approaching an expensive replacement cycle.

If an HOA exists, review reserves, insurance, meeting minutes, rental restrictions, and special assessments. Ask how a planned project would be paid for. Before committing, identify which assumptions have independent support, which come only from the seller, and which remain estimates. Price uncertainty explicitly rather than quietly converting it into fact.

The diligence file should support income, expenses, legal use, physical condition, and any lease obligations you will inherit.

Five Four editorial guidance. Examples are illustrative.

04 / 08

Calculate operating income before the mortgage

Start with potential rent, then deduct vacancy and credit loss to estimate collected income. Subtract property taxes, insurance, owner-paid utilities, HOA charges, routine maintenance, management, and other operating costs. Net operating income, or NOI, is measured before debt service and income taxes. State clearly how you treat replacement reserves so two properties are compared on the same basis.

Illustrative long-term rental: scheduled rent is \$36,000 a year. A 5% vacancy allowance removes \$1,800, leaving \$34,200. Suppose taxes are \$4,200, insurance \$2,400, management \$2,736, routine maintenance \$1,800, HOA dues \$1,200, and owner-paid utilities \$600. Operating costs total \$12,936 and NOI is \$21,264. These are teaching assumptions, not local rent or expense estimates.

If annual mortgage payments are \$18,000 and a separate replacement reserve is \$2,400, the remaining pre-tax cash flow is \$864 a year, or \$72 a month. A property described as producing \$3,000 monthly rent therefore may leave very little spendable cash. The reserve is intentionally shown below NOI in this example.

For this example, NOI divided by annual debt service is about 1.18. Lenders may calculate coverage differently and set their own requirements. Cap rate also uses NOI, not cash flow after the mortgage. At a hypothetical \$450,000 acquisition price, this NOI implies roughly 4.73% before financing and the separately shown reserve.

Use one consistent model. Show vacancy, management, and reserves even if you plan to manage the property yourself.

Five Four editorial guidance. Examples are illustrative.

05 / 08

Stress-test the plan, not just the interest rate

A useful downside case changes several assumptions together. Rent can soften while turnover costs rise; an insurance renewal can arrive in the same year as a roof repair. Start with the base case, then model a lower-income case and a major-expense case. Decide how much cash you would need to keep operating without a forced sale.

Using the previous example, reduce scheduled rent by 10% to \$32,400 and use 10% vacancy, leaving \$29,160 collected. If management remains 8% of collected rent, it becomes \$2,332.80. Holding the other listed operating costs at \$10,200 produces NOI of \$16,627.20. After \$18,000 debt service and \$2,400 replacement reserve, cash flow is negative \$3,772.80 for the year. This is a sensitivity example, not a forecast.

Then add a one-time repair separately so it is not hidden inside a small maintenance percentage. Ask whether your reserve could cover that repair and a period without rent. Avoid counting future appreciation, a refinance, or a tax benefit as the source of money for today's operating bills.

Include your time. A home you manage from another city may need paid local support, snow removal, after-hours response, and turnover coordination. Price those services before deciding that self-management makes the deal work. An investment should still make sense when the person doing the work is compensated.

Know the size of a bad year you could absorb, and the assumption that would cause you to walk away.

Five Four editorial guidance. Examples are illustrative.

06 / 08

Price Colorado ownership risks explicitly

Ask for an insurance quote matched to the actual rental use, not a generic homeowner estimate. Consider the deductible in dollars and identify exclusions and valuation terms with the insurer. Colorado hail and wildfire pressures make an old premium especially weak evidence of your future expense.

Review the parcel's taxes and special-district obligations. A metro district can add to the annual tax burden. For new construction, ask whether the historical bill represents the finished property. Do not treat an online estimate or the prior owner's exemptions as a guaranteed future expense.

For mountain property, obtain actual estimates for snow removal, winter access, freeze prevention, and local response. In an association, understand who pays for the roof, exterior, common systems, and master-policy deductible. For rural property, investigate well permissions, service condition, and septic capacity rather than assuming utilities can support additional occupancy.

Distinguish routine upkeep from capital replacement. A maintenance allowance covers recurring small work; a roof, heating system, or major sewer repair can require a separate reserve. Set an initial reserve based on inspection and contractor findings, then replenish it through the operating budget. The same percentage applied to every Colorado property is unlikely to describe their different conditions.

Replace generic expense assumptions with quotes, tax records, association documents, and condition-based estimates.

Sources: insurance, metro, well

07 / 08

Operate a rental as an ongoing responsibility

Before leasing, put the management process in place: marketing, applications, screening, lease preparation, rent collection, maintenance reporting, emergencies, accounting, and move-out. Have a Colorado-qualified professional review the lease and applicable landlord requirements. Local licensing, habitability, fair-housing, deposits, and notices deserve an operating checklist, not improvised responses.

Colorado's radon law includes disclosures to prospective tenants. Obtain professional guidance on the obligations that apply to your property and situation, and retain the relevant testing and mitigation records. Licensing and renewal dates should have an owner, a calendar reminder, and a record of completion.

Track property performance monthly against the budget. Separate recurring operating costs, capital work, financing, and owner contributions. Keep records of personal use for a second home. IRS Publication 527 explains rental-property tax topics, including expenses and depreciation, and the treatment can differ when a property also has personal use. Have a tax professional apply the rules to your facts.

Do not confuse positive bank balance with a profitable asset. A large deposit might include tenant deposits, advance rent, or money needed for a pending bill. Use clear accounts and records so available operating cash, reserves, and amounts held for others are not treated as interchangeable.

An operating plan should still function when a tenant needs help and you are out of town.

Sources: radon, irs

08 / 08

Plan the exit before the purchase

Consider at least three exits: continue holding, sell to another investor, or sell to an owner-occupant where feasible. Ask what each requires in terms of condition, occupancy, lease timing, transaction costs, and available buyers. A strategy that depends on only one narrow exit is more exposed if financing or local conditions change.

Estimate sale proceeds after loan payoff, selling costs, potential repairs, and applicable taxes. Consult a tax professional before relying on a particular tax outcome or exchange strategy. The tax treatment of rental property, depreciation, and personal use can be material; an online appreciation calculation does not address those issues.

For a renovation project, budget the acquisition, work, contingency, carrying costs, and disposition together. A delay affects more than contractor scheduling: it can change financing expense, insurance, utilities, and the market you enter at completion. Have a plan for a slower sale and an independently priced alternative use if one is legally available.

The final decision should rest on a permitted use, supportable income, realistic costs, an adequate reserve, and an exit you understand. Bring that case to the Five Four team. The conversation should make the assumptions clearer and the decision more deliberate, even when the best outcome is deciding not to buy.

Final check: legal use, evidence, base case, downside case, operating capacity, reserves, and exit.

Sources: irs

Keep the source close.

Research notes and next steps

Prepared by Five Four Real Estate. Sources checked October 4, 2026. This guide provides general education; property-specific contract, legal, tax, insurance, and lending questions require the relevant professional. Confirm current rules with the authority for the actual address.

DENVER / City of Denver: short-term rental application guide

RENTAL / City of Denver: residential rental program

STR / City of Steamboat Springs: short-term rentals

ADU / City of Longmont: accessory dwelling units

INSURANCE / Colorado Division of Insurance: homeowners and HOA insurance toolkit

METRO / Town of Erie: understanding metropolitan districts

WELL / Colorado Division of Water Resources: well permitting

RADON / Colorado General Assembly: residential radon disclosure law

IRS / IRS Publication 527: residential rental property

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