THE BRRRR METHOD FOR 100% NET FINANCING

SparkRental

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INTRODUCTION

Deni always laughs when I say "the BRRRR method of real estate leverage" out loud. Apparently I sound like I'm shivering.

The BRRRR strategy is an acronym standing for buy, renovate, rent, refinance, repeat. Some investors refer to it as the BRRR strategy, skipping the "rent" portion as self-explanatory. Whatever; semantics.

The giant, glaring advantage to the BRRRR method? You get your down payment back within a few months, freeing it up to invest in another rental property. It lets you snowball your rental portfolio and passive income quickly, and with little cash.

Here's everything investors need to know about the BRRRR method in real estate, to start rolling your snowball.

HOW DOES THE BRRRR METHOD WORK?

First, you buy a property that needs work. And not just a coat of paint, either – the property needs enough room for improvement for you to significantly raise the value (more on that momentarily).

Typically, this involves getting a purchase-rehab loan: see our Investment Property Loans page for a comparison chart for purchase-rehab loans. The good news is most lenders (including LendingOne and Patch of Land) allow you to borrow 100% of the rehab costs.

Step 2 is the renovation itself. It could involve anything as minor as cosmetic updates up to a complete gut and rehab. Just make sure you don't get in over your head; I did, when I bought my first few properties.

After you finish the renovation work, you screen tenants and lease the property ASAP. Every month that goes by with a vacant property is lost money, after all!

Step 4 is refinancing to pay off your purchase-rehab loan in favor of a long-term mortgage. At this point, you can opt to borrow enough to cover your initial down payment… *if* you created enough equity in the property. As a general rule of thumb, the greater the renovation work, the greater the potential forced equity.

Keep in mind that the refinance loan is based on the current after-repair property value, rather than your initial purchase price. (See the Investment Property Loans page for long-term rental lenders, in addition to short-term purchase-rehab lenders.) That cash-out refinance frees up your original cash for the final step: rinsing and repeating the process, to keep buying more rentals!

ADVANTAGES OF THE BRRRR STRATEGY

The greatest advantage, of course, is you can invest in real estate with a zero-net investment of your own cash. Once you refinance, you have exactly $0 of your own money invested in the property.

Which is not the same as buying a rental property with no money down. You still need cash for the initial down payment, even though you'll get it back a few months later when you refinance through a lender like Visio. Luckily for you, there are plenty of creative ways to come up with a down payment for your next property.

You'll also need cash for the first round of work; while the purchase-rehab lender finances the property renovations, they only reimburse you *after* each round of work is completed.

But because the BRRRR method returns your original cash to you, it removes the restraint of cash. You can recycle your same down payment cash, over and over. All the while, your rental income grows with every property.

And because you're forcing equity by renovating the properties, you don't end up overleveraged with negative cash flow, despite financing 100% of your purchase costs. At least if you calculate your cash flow accurately.

You also get all the real estate investing tax deductions that come with buying, renovating, and holding rental properties. Including mortgage interest and closing costs – without having to itemize your personal deductions, either.

The BRRRR method is precisely how many real estate investors reach financial independence from real estate at a young age, without needing millions of dollars following the 4% Rule for retirement with stocks. More on that shortly.

DISADVANTAGES & RISKS OF THE BRRRR METHOD

Before you go on a buying spree, the BRRRR strategy is not without its downsides.

You incur two rounds of closing costs, each of which costs thousands of dollars. Even if you use the same lender for both the purchase-rehab loan and the refinance to a long-term mortgage (LendingOne offers both), they still require a fresh round of title searches, appraisals, lending fees, and other settlement charges. Don't be surprised to spend $5,000-$10,000 on each settlement in non-refundable, lost-money fees.

As mentioned above, it normally requires significant renovations to create enough equity to pull your original cash back out. That often means months of overseeing contractors and repairs, pulling permits, and the other attendant headaches of renovating real estate.

Then there's the risk of overleveraging. You need to make damn sure the property will cash flow well – use this free rental ROI calculator to forecast the property's eventual cash flow. Remember to build in the extra expenses of the second round of closing costs, in your long-term refinance loan numbers.

Like any property, rental properties bought through the BRRRR method come with risks. Always ask yourself these nine questions before buying any rental property, to evaluate risks accurately.

HOW THE BRRRR METHOD FITS INTO YOUR FINANCIAL INDEPENDENCE & RETIREMENT STRATEGY

The BRRRR strategy is ideal for reaching financial independence and retiring early (FIRE). How's that for an alphabet soup of acronyms?

Most people's instinctive reaction when I ask them how much they need to retire is "Huh? A lot, I guess. Over a million dollars, maybe several million."

When I ask them if they think they'll be able to reach financial independence and optionally retire at a young age, most doubt it. These reactions make sense – if you're following the 20th Century model of retirement. Save up a huge nest egg, retire at 65, then gradually draw it down over the next 20-30 years.

To do that, most people follow the 4% Rule for retirement. In short, it says you need 25 times your annual spending in order to retire, so that you can withdraw 4% a year. Thus, if you want $40,000 in annual income in retirement, you need $1,000,000 saved.

And let's be honest, it's not easy to save up a million dollars.

I love stocks, don't get me wrong. I invest in them for diversification and long-term growth. But the math changes dramatically, when you look at real estate vs. stocks for financial independence and early retirement.

HOW MUCH YOU NEED TO SAVE UP FOR RETIRING WITH RENTALS

The BRRRR strategy throws that old 20th Century model out the window.

Say you have $30,000, and you use it as a down payment to buy, renovate, and refinance a duplex rental property over the course of several months. After refinancing, your new property generates $300/month in net passive income.

You repeat that process twice more that year, for a total acquisition of three properties for the year. Each property generates $300/month in net income.

At the end of the year, you have your original $30,000 back in your pocket, plus $900/month in passive rental income. That's $10,800/year, *and you don't have a dime of your own money tied up in the properties.*

Even if you never saved another cent, and only re-used that same $30,000 to repeat the process, you'd have $43,200 in annual rental income after just three more years. Just imagine if you put that additional income to work buying more properties, or bigger properties that cash flowed better?

And it doesn't just work in theory. This is exactly how the Hoeflers reached financial independence in under five years (see our free masterclass we hosted with Scott Hoefler, breaking down exactly how they did it). Nor are they unique; we've interviewed dozens of people who have reached FIRE with real estate in five years or less. For another example, here's how Leif reached FIRE from real estate by 32.

WHO'S A GOOD FIT FOR THE BRRRR METHOD?

Clearly, the BRRRR strategy works wonders for anyone looking to reach financial independence young.

But it also works well for anyone looking to use real estate leverage to accelerate their passive income and wealth growth. As outlined above, you can compound your wealth and income quickly by funneling your additional rental income right back into fresh investments.

Nothing says you can only buy and renovate one property at a time! As you get more operating capital to work with, and as you build your real estate investing skill set, you can renovate multiple properties simultaneously.

Still, only people comfortable with renovation projects should use the BRRRR method. Investors who love buying "ugly houses" in need of some serious TLC.

Estimating repair costs, managing contractors, keeping renovations in-budget and on-schedule? These aren't trivial skills that you pick up in a day. It takes some time to get comfortable with each of these skills.

If you love buying fixer-uppers, check out our Propstream review, showcasing how to use Propstream to find deals (often on vacant and/or dilapidated properties). For another tool to help you find sellers of run-down homes, check out DealMachine. It brings "driving for dollars" into the 21st Century.

WHO'S NOT A GOOD FIT FOR THE BRRRR STRATEGY?

Not everyone is so comfortable with such aggressive real estate leverage.

If the idea of financing 100% of your property costs would keep you up at night, stick with standard 80% financing.

For that matter, not everyone is comfortable with real estate renovation projects, leveraged or not. You may decide that there's nothing in this world you hate more than managing contractors. I wouldn't blame you; I've had more than my fair share of bad experiences with them, and most require consistent oversight to stay on-schedule and in-budget. I also don't recommend a huge renovation when you buy your first rental property; there are just too many moving parts.

If you'd rather buy turnkey properties that need little or no work, check out Roofstock. You can scour rental properties from all over the US, many of which are already rented to reliable tenants.

Which brings up another challenge with the BRRRR strategy: investing long-distance. It's hard enough to buy properties and oversee renovations when you can visit the property in person. But managing renovations and contractors from 1,500 miles away? Fuhget about it.

Not everyone lives in a market that's conducive to rental investing. If you don't feel confident that you can find good real estate deals within an hour's drive from home, consider turnkey property investing long-distance on Roofstock.

FINAL THOUGHTS

If you want to build a rental property portfolio fast with little cash, and don't mind renovation projects or 100% real estate leverage, the BRRRR method is for you.

Just be careful to calculate your cash flow figures carefully. It's harder when you're forecasting numbers for a post-renovation refinance based on projected costs, so use conservative figures.

And at the risk of sounding like a nag, don't go on a buying spree of multiple properties in quick succession if you're new to rental investing. Most new real estate investors underestimate their expenses in both renovating properties and long-term ownership, and if you buy several properties in quick succession you might find yourself losing money on properties each month. A risk compounded by the 100% real estate leverage used in the BRRRR strategy.

I made that mistake myself. Learn from my mistakes, so you don't have to make them yourself.

But as a fast-track to FIRE, there's no easier path than the BRRRR method.

Have you ever tried the BRRRR strategy? How did it go for you? What's your advice for other investors thinking about this aggressive form of real estate leverage?

ABOUT THE AUTHOR

G. Brian Davis is a landlord, real estate investor, and co-founder of SparkRental. His mission: to help 5,000 people reach financial independence by replacing their 9-5 jobs with rental income. If you want to be one of them, join Brian, Deni, and guest Scott Hoefler for a free masterclass on how Scott ditched his day job in under five years.

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