How to Make $100,000 PER YEAR with Fixer-Upper Rental Properties

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THE GROUNDBREAKING GUIDE FROM THE PEOPLE BEHIND THE BIGGERPOCKETS PODCAST

Some people work so hard to make money in real estate. They flip dozens of homes, deal with hundreds of tenants, and are always trying to put out a fire somewhere.

Sounds exhausting, doesn't it?

But what if I told you that you that within five years you could be making $100,000 annually from just two real estate transactions per year? Sound too good to be true?

Today I want to teach you about the BRRRR strategy and the power it can have in your real estate investing. I'll also be walking you through a step by step plan for making $100,000 per year using this powerful investing plan.

What is BRRRR?

BRRRR is an acronym for a popular investment strategy that, until now, hasn't been given a name. So, I decided to name it! BRRRR stands for:

- Buy
- Rehab
- Rent
- Refinance
- Repeat

In other words, it's the strategy that involves buying fixer-upper rental properties, repairing them, leasing them out to great tenants, refinancing to get your money back and then repeating the process over again and again. This can be a powerful strategy because of the ability to acquire numerous properties without you running out of capital to invest — and at the same time, combining the benefits of house flipping with the wealth building characteristics of rentals.

Let’s break down the strategy for you and look at each step.

1. Buy

The first step in the process is to buy a great deal. Not just any deal… a GREAT one. Great location, great neighborhood, but a fixer-upper house.

BRRRR investing is very similar to house flipping; in fact, it IS house flipping, but rather than selling the house, you are going to rent it out after fixing it up. But the same principles that go into house flipping are needed here.

For example, a popular rule of thumb used by many house flippers is the 70% rule. This rule states that the most a flipper should pay for a property is 70% of the After Repair Value (what it’s worth when fixed up), less rehab costs. So a house that has an ARV of $150,000 and needs $30,000 worth of rehab could be bought for $75,000 because:

$150,000 x .7 = $105,000.

$105,000 – $30,000 = $75,000.

Think that's impossible to achieve? Just ask most successful house flippers, and they'll tell you that their entire business model is built on margins similar to this. So stop saying, "*I can't do this,*" and start asking "*How can I do this?*"

It may require direct mail. It may require Craigslist. It may require driving for dollars. It's going to take some hustle. But if house flippers can do it, so can you.

To finance this first purchase, it's unlikely you'll be able to use a traditional lender. Most lenders are unwilling to loan money on a fixer upper. This means you are probably looking at options such as hard money, private money, cash, home equity, and the other strategies that I outline in *The Book on Investing in Real Estate with No (And Low) Money Down*. So if you haven't read that yet, start there. It'll change your life.

2. Rehab

The next phase in the BRRRR strategy is to fix the property up. However, unlike in house flipping, this property will be rented out for a period of time, so the materials you use should reflect that reality.

For example, I'm working on a BRRRR property right now. (I just purchased it last week and am in the middle of the rehab part now.) When my crew tore up the carpet, we discovered beautiful hardwood floors underneath. While this seems great… I'm actually not going to refinish them, yet. To refinish them would cost me around $3 per square foot, or $3,000 total. Then, someday when I go to sell the property, I'll probably have to refinish them again because of the heavy tenant usage. And that's IF I can refinish them *again (you can only refinish floors so many times before they are sanded too deep.) Therefore, I'm going to use laminate wood floor throughout the entire home. This will protect the floors, for around $2 per square foot, and will look amazing. Then, before I sell it someday, I'll just remove the laminate and finish the floors then, to sell for top dollar.*

The key to rehabbing a BRRRR property is to make the property as "tenant proof" as possible, using materials that will last a long time and won't need to be redone later. Also, it's important to rehab with the goal of getting the highest ARV and rent possible. For example, if you can turn a two-bedroom home into a three-bedroom home, do it! This can add hundreds of dollars per month in cash flow and thousands in equity.

Of course, you could do all the work yourself if you wanted, or you could hire it out. That's up to you and dependent upon your skills, availability and desire. DIY can save you a lot of money, increasing the odds you'll find a deal that has numbers that work. But it will also take a lot of weekends and evenings.

3. Rent

Next, it's time to rent the property out to GREAT tenants. Luckily, you just bought a property located in a great location and rehabbed it to look brand-new. It shouldn't be hard to find incredible tenants to rent the house.

Furthermore, because the property was rehabbed at the start, your repairs and capital expenditures (roof, siding, paint, etc.) should be fairly low for the next few years.

Everything has already been fixed! Of course, you'll still need to budget for repairs and maintenance, but it should be much less than you thought.

Then, it's time to rent the property out. You might choose to hire a property manager, but because you already rehabbed the property and because you are renting to high-class, great tenants, managing a BRRRR deal shouldn't be too hard. I would save the money and do it yourself!

Now, to say something a little controversial: The goal of the BRRRR strategy is NOT to make a ton of cash flow. I know, I know — that goes against almost everything I've ever preached before. And I'm not saying to buy something that won't cash flow. I won't accept long term negative cash flow. Ever. BUT if I'm only making a little bit of cash flow, that might be okay with the BRRRR strategy because the power of the BRRR strategy is in the long "flip" — the equity built. I'll explain this more in a bit. But first, let's talk about the next "R" in the process.

4. Refinance

Earlier I talked a little about how you were going to finance the property and mentioned that it's tough to get a conventional mortgage on a fixer upper. However, conventional mortgages are REALLY nice. Low interest, long term, easy. So the fourth step in the BRRRR strategy is to refinance into a nice conventional mortgage after the property has been fixed up. And even better, by refinancing, there is the possibility of getting all your money BACK.

Of course, you don't NEED to refinance the property to get your money back. Perhaps you make great income from a job and can afford to let your down payment/rehab money stay in the property. This will likely help you get better cash flow, and maybe you'll get a better ROI than you'd get elsewhere. However, if you are like me, you probably want your money back so you can do it again and again. So let's talk about how to do that.

In other words, let's go back to those numbers we used earlier. We found a property that had an ARV of $150,000. We purchased it for $75,000 and put $30,000 into the rehab. At this point, we have $105,000 into the purchase.

Most lenders will allow you to refinance a property for 70% of the ARV (in other words, they will do a 70% Loan to Value [LTV] loan on the property). Well, it just so happens that 70% of $150,000 is $105,000… so we could theoretically get back 100% of our invested capital.

That's right — we're going to refinance this property with a low-interest, 30-year fixed mortgage for $105,000. This will pay back whatever source of funds we used on the original purchase and rehab. In this example, the only money out of pocket will be the closing costs.

After the refi, you should have a completely stabilized rental property that shoots off a little bit of cash flow and has roughly 30% equity just sitting there. Plus, you'll have all your money back, so it's time to…

5. Repeat

The final “R” in the BRRRR strategy is to repeat the process. I mean, it worked once, and we got all our money back, so why not do it again? And again? And again?

Sure, at some point the bank will stop refinancing the properties for you. And maybe you’ll need to find another solution, like a portfolio lender or a partnership. But it CAN be done.

Each deal you repeat, you are gaining 30% equity at the end of the day and getting your cash back in your pocket.

How to Make $100,000 Per Year with BRRRR

Now that we’ve covered the five steps of the BRRRR strategy, let’s look at an example of how someone could make $100,000 per year using this process.

Historically, prices of real estate have climbed around 3% per year when averaged out. Yes, some years are better and some worse, but over time, this has been true. But let’s be a bit more conservative and say 2% per year.

Therefore, say we bought a property today with an ARV of $150,000, but paid just $75,000 for it. Then we rehabbed it with $30,000 and refinanced it for $105,000. Then we rent the property out. At a 2% increase per year, this property could be worth

$165,000 five years from now. At the same time, the loan during those five year would have been paid down so the balance would be just $96,000.

In other words, after five years, we would have $69,000 in equity. Of course, if we went to sell the property, it would likely need another coat of paint and maybe some other minor fixes. Plus, we'd have to pay the real estate agents about $10,000 as commission. And then we'd pay a few thousand in closing costs. So that $69,000 in equity would look a lot more like $50,000 in profit at the end of the day.

Therefore, to make $100,000 per year using the BRRR strategy, you simply need to buy two deals each year, and starting in year five, begin selling two each year.

As long as these numbers work, you'll never have more than ten properties, and after five short years, you'll be making six figures by just doing two purchases and two sales per year. Now, that could truly be a "four hour workweek."

Of course, if you want to take that $100,000 per year and quit your job, you could. You could buy an airplane. You could go to Tahiti. Or…. you could recycle that money and turn that $100,000 into millions. But for more on that, you'll need to read my post "How to Make $1,000,000 Through Real Estate Investing."

The Biggest Drawback of the BRRRR Strategy

At this point you are probably thinking, *"This sounds great… so what's the catch?"* As with all investments, there are a few drawbacks to be aware of. There is a looming one that you may have already wondered about: what if you can't refinance?

If you are unable to refinance the property to get your money back out, you are kind of stopped in your tracks.

Therefore, I recommend visiting a few local banks and making sure you are a good enough borrower before you ever purchase the first deal. Of course, if after the rehab you are unable to refinance the property, you could always wait until the first-year lease is over with the tenants, kick them out, and sell the property.

Having multiple exit strategies is always a great thing and one of the perks of the BRRRR strategy.

Other drawbacks include: What if the tenant destroys the house? What if you can't find a good enough deal? What if you can't finance the original purchase?

These are legit questions, but the cool thing is — there are answers! These are the kind of questions asked every day in the BiggerPockets Forums, so if you are not engaging there, you are missing out on one of the most powerful tools you have at your disposal.

Conclusion

The BRRR strategy has a lot of moving parts, but if you work it right, it can be a powerful ally in helping you build some serious wealth.

Following this strategy can help you combine the equity growth of flipping with the tax benefits, cash flow, and appreciation of rental properties, maximizing your profit at the end of the day.