



Castle & Cooke
MORTGAGE, LLC



Investors – BRRRR Strategy

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Why are you here today?

- You want to learn how to invest in real estate?
- You already have some real estate investments?
- You want to diversify some other assets in to real estate?
- You want to learn how to buy cash-flowing rental properties?
- You want to put as little cash down as possible?
- You have the skills to renovate a property and you want to use those skills to increase your net worth?

What are the most common ways to purchase investment properties?

1. Purchase a property with cash

1. Pros – Great cash flow – No qualifying – Easy process
2. Cons – Need a LOT of cash – Ties up cash for a long time

2. Purchase the property with new permanent financing

1. Pros – Straight-forward process – Lower cash investment
2. Cons – Have to qualify for a loan – Not as strong cash-flow

3. Purchase the property with hard-money (short-term) financing and refinance to permanent financing

1. Pros – Very low cash down – Great equity gain
2. Cons – Fewer deals available – Two closings – Need more skill – More time consuming

3. Purchase the property with hard-money (short-term) financing and refinance to permanent financing

- **Buy**
- **Rehab**
- **Rent**
- **Refi**
- **Reppeat**

BRRRR Strategy

What are the things that you need for this strategy?

- Property – Below market where you can add value
- Renovation – Do the work yourself or hire a contractor?
- Hard Money Lender – **This step is critical** – Don't be afraid of the costs or the interest rate – Understand that the leverage will help you make more money
- Permanent Lender – **Also critical** – The wrong permanent lender can cost you THOUSANDS
- Property Manager – Or manage the property yourself

BRRRR Process

B
U
Y

- Locate the property
- Get it under contract and prepare repair budget / analytics / inspection / bids / scope of work
- Get Hard Money acquisition loan

REHAB

- Repair property

RENT

- Get a tenant

REFI

- Refinance Hard Money loan

REPEAT

- Hire management company or manage the property yourself

BUY

- Locate the Property
 - Good rental area
 - Under priced – Divorce, Foreclosure, Wholesale, etc.
 - Can you add value? – Improve, Add Sq Ft, Pop Top, etc.
- Get it under contract and analyze in depth
 - Repair budget – How much are you working with?
 - Inspection – Professional and Contractor
 - Contractor Bids – 1 bid? 3 bids?
 - Scope of work – Work with your contractor – Hard Money Lender and Appraiser will need this

BUY – cont.



BUY – cont.

- Get Hard Money Acquisition Loan
 - What is your ARV? – After Repaired Value
 - Appraisal -
 - What LTC and LTV does your Hard Money Lender go to?
 - 70% LTV based on ARV up to 100% LTC – No Money Down
 - 65% LTV based on 90% of ARV – Potentially No Money Down
 - 75% LTV based on ARV up to 90% LTC – 10% Down
 - 90% LTV based on Purchase Price – 10% Down + Rehab out of pocket
 - How do the costs compare to the amount you are borrowing?
 - Can range from 0% - 4% upfront
 - Rates of 9% - 15%
 - Generally the higher LTV and LTC, the higher the rates and fees

Rehab

- Get started IMMEDIATELY – Hard Money costs are due every month – Don't let carrying costs eat all of your profits
- Know EXACTLY how much your loan costs you each day
 - \$300,000 loan x 15% = \$123 per day –
- Manage your contractor (or yourself) and stay on track
- Work with your hard money lender for your draws
- Don't forget miscellaneous carrying costs
 - Insurance
 - Utilities
 - HOA Dues

Rent

- Have a good estimate of what the property will rent for
 - Call other landlords in the area
 - Look at Craigslist listings
 - Zillow.com / Rentometer.com
 - Property Manager / Tenant Placement Advice
- Have a good tenant screening service ready to go
- Find the tenant yourself?
- Work with an independent tenant placement service?
- Work with a property manager?

Refi

- Have a Lender that UNDERSTANDS the BRRRR Strategy
 - Not their first rodeo
 - Worked with your Hard-Money Lender before?
 - Seasoning requirements?
 - Do their underwriters understand the appraisal requirements?
 - Do their appraisers understand the underwriting requirements?
- Up to 75% LTV of the APPRAISED VALUE
 - Appraisal
 - Closing costs included in the loan

Repeat

- Hire a property manager
 - Expected costs of 10% per month
 - 0 active management on your part
 - They deal with all tenant turnovers / evictions / issues, etc.
- Manage the property yourself
 - FREE! = More money for you!
 - Hassles? – Maybe, maybe not
 - You deal with all tenant turnovers / evictions / issues, etc.

Save your profits each month, then go out and do it again... and again... and again...

Sample Property Details

Purchase Price = \$225,000

Hard Money Cost = 4%

Rehab Cost = \$30,000

Hard Money Rate = 15%

ARV = \$380,000
After Repaired Value

Hard Money Payment = \$3,325

Monthly Rent = \$2,700

Hard Money LTV = 70% of ARV

Annual Taxes = \$1,900

Hard Money LTC = 100% LTC

Annual Insurance = \$1,100

*These Properties don't exist anymore...

Annual Vacancy % = 5%

True – Except for the ones that are out there, we'll cover more of this later...

Annual Repair/Maintenance = \$1,800

Sample Property BRRRR

Purchase Price = \$225,000
 + Rehab Costs = \$30,000
 + Closing Costs = \$12,000
 Total Loan Amount = \$266,000
 Down Payment Needed = \$1,000

BUY

Rehab takes 2 months } **REHAB**

After Rehab is Completed – Call Joe Massey at C&C for Refinance

Payoff Existing Loan = \$266,000
 + Closing Costs = \$5,000
 Total New Loan Amount = \$271,000
 Total Cash In Refi = \$0

REFI

Total Investment =
 \$1,000 + \$0 + \$9,975 + \$1,000 = \$11,975

Details:

| | |
|------------------------|-----------------------|
| Price = \$225,000 | Annual T&I = \$3,000 |
| Rehab = \$30,000 | Annual Vac = \$1,800 |
| ARV = \$380,000 | Annual R&M = \$1,800 |
| Monthly Rent = \$2,700 | Hard \$ Pmt = \$3,325 |

Monthly Rent = \$2,700
 - Monthly PITI Payment = \$1,645
 Monthly Cash Flow = \$1,055
 Annual Gross Cash Flow = \$12,660
 - Annual Expenses = \$3,600
 Annual Net Cash Flow = \$9,060

RENT

Cash on Cash Rate of Return

\$9,060 / \$11,975 = 75.6%

REPEAT?

Scenario #2 BRRRR

Purchase Price = \$240,000
 + Rehab Costs = \$40,000
 + Closing Costs = \$12,000
 Total Loan Amount = \$266,000
 Down Payment Needed = \$26,000

BUY

Rehab takes 2 months } **REHAB**

After Rehab is Completed – Call Joe Massey at C&C for Refinance

Payoff Existing Loan = \$266,000
 + Closing Costs = \$5,000
 Total New Loan Amount = \$271,000
 Total Cash In Refi = \$0

REFI

Total Investment =
 \$26,000 + \$0 + \$9,975 + \$1,000 = \$36,975

More Expensive Property and Higher Renovation

| | | |
|-------------------------------|---|------------------------------|
| Price = <u>\$240,000</u> | ↑ | Annual T&I = \$3,000 |
| Rehab = <u>\$40,000</u> | | Annual Vac = \$1,800 |
| ARV = <u>\$380,000</u> | | Annual R&M = \$1,800 |
| Monthly Rent = <u>\$2,700</u> | | Hard \$ Pmt = <u>\$3,325</u> |

Monthly Rent = \$2,700
 - Monthly PITI Payment = \$1,645
 Monthly Cash Flow = \$1,055
 Annual Gross Cash Flow = \$12,660
 - Annual Expenses = \$3,600
 Annual Net Cash Flow = \$9,060

RENT

Cash on Cash Rate of Return
\$9,060 / \$36,975 = 24.5%

REPEAT?

Scenario #3 BRRRR

Purchase Price = \$225,000
 + Rehab Costs = \$30,000
 + Closing Costs = \$6,900
 Total Loan Amount = \$235,700
 Down Payment Needed = \$26,200

BUY

Rehab takes 2 months } **REHAB**

After Rehab is Completed – Call Joe Massey at C&C for Refinance

Payoff Existing Loan = \$235,700
 + Closing Costs = \$5,000
 Total New Loan Amount = \$240,700
 Total Cash In Refi = \$0

REFI

Total Investment =
 \$26,200 + \$0 + \$5,895 + \$1,000 = \$33,095

Cheaper Hard \$ - 2% & 10% - 90% LTC

| | |
|------------------------|------------------------------|
| Price = \$225,000 | Annual T&I = \$3,000 |
| Rehab = \$30,000 | Annual Vac = \$1,800 |
| ARV = \$380,000 | Annual R&M = \$1,800 |
| Monthly Rent = \$2,700 | Hard \$ Pmt = \$1,965 |

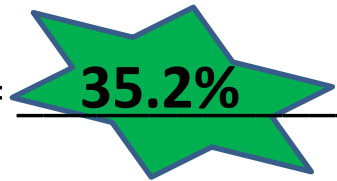


Monthly Rent = \$2,700
 - Monthly PITI Payment = \$1,430
 Monthly Cash Flow = \$1,270
 Annual Gross Cash Flow = \$15,240
 - Annual Expenses = \$3,600
 Annual Net Cash Flow = \$11,640

RENT

Cash on Cash Rate of Return

\$11,640 / \$33,095 = 35.2%



REPEAT?

Scenario #4 BRRRR

Purchase Price = \$225,000
 + Rehab Costs = \$30,000
 + Closing Costs = \$12,000
 Total Loan Amount = \$266,000

Down Payment Needed = \$1,000

Rehab takes 2 months } **REHAB**

After Rehab is Completed – Call Joe Massey at C&C for Refinance

Appraisal comes in at \$350,000

Payoff Existing Loan = \$266,000
 + Closing Costs = \$5,000

Total New Loan Amount = \$262,500

Total Cash In Refi = \$8,500

Total Investment =

\$1,000 + \$8,500 + \$9,975 + \$1,000 = \$20,475

| Details: | |
|------------------------|-----------------------|
| Price = \$225,000 | Annual T&I = \$3,000 |
| Rehab = \$30,000 | Annual Vac = \$1,800 |
| ARV = \$380,000 | Annual R&M = \$1,800 |
| Monthly Rent = \$2,700 | Hard \$ Pmt = \$3,325 |

Monthly Rent = \$2,700

- Monthly PITI Payment = \$1,590

Monthly Cash Flow = \$1,110

Annual Gross Cash Flow = \$13,320

- Annual Expenses = \$3,600

Annual Net Cash Flow = \$9,720

Cash on Cash Rate of Return

\$9,720 / \$20,475 = 47.5%

REPEAT?

Scenario #5 BRRRR – Cash or HELOC

Details: Pay Cash or HELOC for the Property

| | |
|------------------------|----------------------|
| Price = \$225,000 | Annual T&I = \$3,000 |
| Rehab = \$30,000 | Annual Vac = \$1,800 |
| ARV = \$380,000 | Annual R&M = \$1,800 |
| Monthly Rent = \$2,700 | Hard \$ Pmt = \$0 |

BUY

Purchase Price = \$225,000

+ Rehab Costs = \$30,000

+ Closing Costs = \$1,500

Total Loan Amount = \$0

Down Payment Needed = \$256,500

Rehab takes 2 months } **REHAB**

After Rehab is Completed – Wait 4 months for seasoning

Call Joe Massey at C&C for Refinance

REFI

Payoff Existing Loan = \$0

+ Closing Costs = \$5,500

Total New Loan Amount = \$262,000

Total Cash Out Refi = \$256,500

Total Investment =

\$256,500 - \$256,500 + \$5,130 + \$1,000 = \$6,130

RENT

Monthly Rent = \$2,700

- Monthly PITI Payment = \$1,597

Monthly Cash Flow = \$1,103

Annual Gross Cash Flow = \$13,236

- Annual Expenses = \$3,600

Annual Net Cash Flow = \$9,636

Cash on Cash Rate of Return

\$9,636 / \$6,130 = 157%

REPEAT?

Benefits

- Amazing Rate of Return
- Very little cash in to the deal (\$0)
- Ability to purchase more and more properties
- Good cash-flow with very little investment

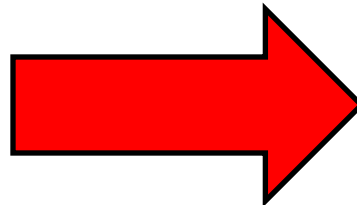
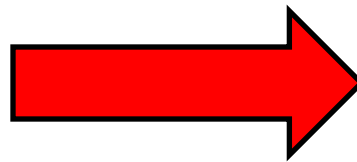
Risks

- Loan qualifying is more difficult
- Less equity in the property and more leverage on the investor
- Vacancies have a much higher impact
- May not have to put cash in to the deal, but still need to have good cash for loan qualifying

These examples are the **BEST-CASE** scenario. **REAL WORLD results can be different.**

There are a number of factors that can affect your results.

BE PREPARED TO PUT CASH IN TO THE TRANSACTION DEPENDING ON YOUR APPRAISAL AND APPROVAL TERMS!



- **Appraisal is the key determining factor on the approval of the loan**
- **Be prepared to bring some money to the closing. You should expect to put 3% - 15% in to the transaction**

What is the biggest feedback that I get in this presentation?

These deals don't exist anymore!

“Whether you think there are deals or you think there are not any deals in this market... either way, you're right.”

– Travis Sperr – 2014

Closed Transaction – Seller’s Market – 2.1 MOI

Purchase Price = \$150,000
+ Rehab Costs = \$20,000
+ Closing Costs = \$11,100
Total Loan Amount = \$163,800
Down Payment Needed = \$17,300

After Rehab was Completed – Called Joe Massey at C&C for Refinance

Payoff Existing Loan = \$163,800
+ Closing Costs = \$3,600
Total New Loan Amount = \$167,400
Two Hard \$ Pmts @ \$1,780 = \$3,560
Total Cash In Deal = \$20,860

SFR
\$150K Price
Montbello
\$234K ARV
4 bed, 2 bath
Wholesale Deal



Monthly Rent = \$1,950
- Monthly PITI Payment = \$997
Monthly Cash Flow = \$953

Annual Gross Cash Flow = \$11,436
- Annual Expenses = \$2,340
Annual Net Cash Flow = \$9,096

Cash on Cash Rate of Return

\$9,096 / \$20,860 = 43.6%

Closed Transaction – Seller’s Market – 1.9 MOI

Purchase Price = \$178,000
+ Rehab Costs = \$48,000
+ Closing Costs = \$12,000
Total Loan Amount = \$238,000
Down Payment Needed = \$0

After Rehab was Completed – Called Joe Massey at C&C for Refinance

Payoff Existing Loan = \$238,000
+ Closing Costs = \$6,000
Total New Loan Amount = \$244,000
Three Hard \$ Pmts @ \$1,983 = \$5,949
Total Cash In Deal = \$5,949

SFR
\$178K Price
Englewood
\$352K ARV
3 bed, 1 bath
Calling NED List



Monthly Rent = \$1,900
- Monthly PITI Payment = \$1,585
Monthly Cash Flow = \$315

Annual Gross Cash Flow = \$3,780
- Annual Expenses = \$1,900
Annual Net Cash Flow = \$1,880

Cash on Cash Rate of Return

\$1,880 / \$5,949 = 31.6%

Closed Transaction – Seller’s Market – 1.8MOI

Purchase Price = \$190,000
+ Rehab Costs = \$25,400
+ Closing Costs = \$7,600
Total Loan Amount = \$223,000
Down Payment Needed = \$0

After Rehab was Completed – Called Joe Massey at C&C for Refinance

Payoff Existing Loan = \$223,000
+ Closing Costs = \$4,250
Total New Loan Amount = \$227,250
Two Hard \$ Pmts @ \$2,150 = \$4,300
Total Cash In Deal = \$4,300

SFR

\$190K Price
Swansea
\$303K ARV
3 bed, 2 bath
On the MLS



Monthly Rent = \$1,900
- Monthly PITI Payment = \$1,305
Monthly Cash Flow = \$595

Annual Gross Cash Flow = \$7,140
- Annual Expenses = \$1,900
Annual Net Cash Flow = \$5,240

Cash on Cash Rate of Return

\$5,240 / \$4,300 = 121.9%

Is the BRRRR Strategy Right for YOU?

Only you can answer that question!

The best option is completely up to you! You should carefully review all of the following areas to make a decision about the strategy that is right for you:

- Personal Financial Situation
- Risk Tolerance
- Loan qualification ability
- Asset position
- Investment goals
- Tax implications
- Property Management Plans
- Exit strategy

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- Refinances
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