REAL ESTATE INVESTING

BRRRR-ING YOUR WAY TO WEALTH

Sarah Larbi

www.sarahlarbi.com

ABOUT ME

THE REITE CLUB

THE REAL ESTATE INVESTING TRAINING & EDUCATION CLUB

COME GROW WITH US

Investor Since 2013

BRRRR Strategy

Author

Podcast Host

Speaker

Full time job

The main categories to invest in

- Residential (Single Family, Small Multifamily <4 or 5 units, recreational)
- Commercial (Multifamily >5 units, mixed use, offices/storefronts, storage units etc)
- Agricultural (Farms, Raw Land)
- Industrial (warehouses, plants …)
- REITS & Syndications

Most common Strategies Used when investing in Real Estate

- Buy and Hold (Short Term/ Long Term/ Student Rentals, house hacking etc)
- Flipping
- BRRR (Buy, Renovate, Rent, Refinance, Repeat)
- Rent to Own
- Wholesaling
- Development
- Pre construction
- & More

The Best of Buy & Hold

- Long Term Wealth Creation

- More passive income than many other strategies

- Multiple income streams:
  - Cashflow
  - Appreciation
  - Mortgage pay-down (by tenants)

- Leverage using the banks money (80%)

- Hedge against inflation

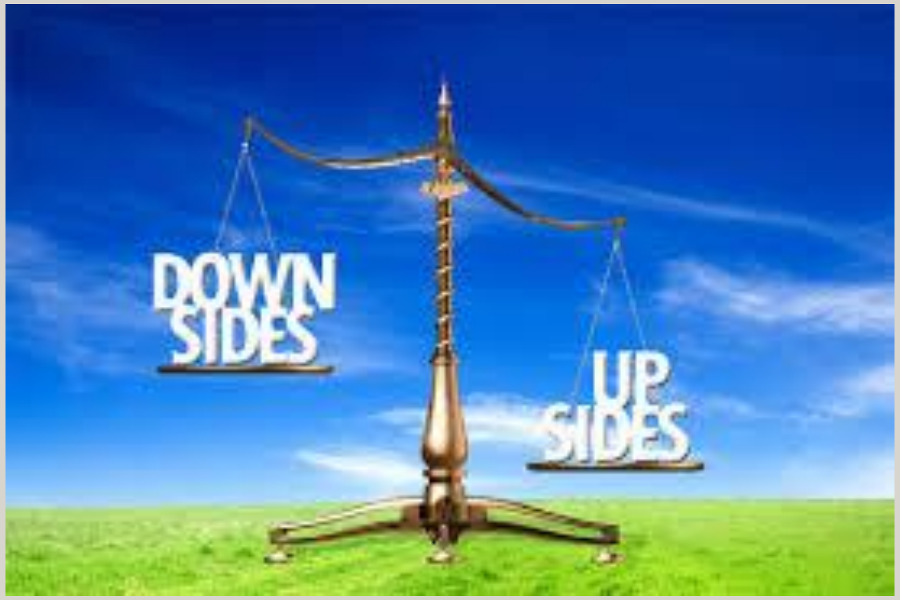
The Downsides of Buy & Hold

- Slow process to wealth can take many years

- Tenants

- Repairs and maintenance issues

- Low Cashflow (sometimes)



The Best of Flipping

- Ability to buy better deals and discounted properties
- Less competition with retail buyers
- Make money faster
- No tenants to deal with
- Renovate to your taste and standards
- Ability to work with private lenders with less hassle than traditional financing

The Downsides of Flipping

- Riskier
- Taxes due on the sale
- Commissions to realtors on the sale
- Easier to make mistakes: Underestimate the time and money it will take and overestimate the sale price
- More hands on
- Dealing with trades and contractors (Babysitting)
- Market downturns will affect you most as a flipper
- Cant Stop: Need to find the next deal to keep making money

THE BRRRR METHOD: THE BEST OF BOTH STRATEGIES

It gives you the ability to create long term wealth and increased cashflow while forcing up appreciation to enable you to take back some or all of your money faster while deferring **taxes** and fees.

BRRR

Pros

- Quick cash and long term wealth creation all in 1
- Higher rents can mean more cashflow
- Recycle your money to reuse in the next deal
- More room allowed for errors than flipping
- No taxes paid upon refinancing
- After the refinance you get the same benefits as a long term hold (Make sure you still cashflow)

Cons

- More time consuming
- Risk of low appraisals
- Risk of less favourable terms upon refinance
- There are still trades to babysit and tenants

What are the BRRRR Steps

- Buy: Find the deal and get it under contract. Ensure your numbers work and that it will cashflow once done. Arrange for closing with proper financing: (Conventional or Private money).

- Renovate: Appropriately for maximum value based on the property type and rent maximum. (Don't overdo it)

- Rent: Screen tenants thoroughly and rent property at highest possible market rent

- Refinance: With a conventional lender to appraise the renovated property and who will loan 80% LTV with a 30 YR AM. Pull out any surplus and equity or get a HELOC for that amount.

- Repeat: Use the money pulled out from the refinance that the conventional lender pays you to buy your next deal

THE FIRST IS ALWAYS THE HARDEST

YOU CAN START BY:

- USING SAVINGS FOR THE DP
- UTILIZING EQUITY IN YOUR PRIMARY RESIDENCE
- WORKING WITH A JV PARTER
- FIND A GREAT DEAL, USE PRIVATE MONEY AND REFINANCE ONCE COMPLETE

Started by saving the 20% for property #1

- Bought in 2013 for $129k
- Refinanced 2x, once at $180 in 2015 and again in 2018 for $265
- Original rent was $850
- Current rent is $1425
- Reno costs $15k
- ROI ∞
- Profit on appreciation alone 121k

EXAMPLE OF 46 SANDERSON ST

ESTATE SALE, PURCHASED DAY 1, NO CONDITIONS PURCHASED IN 2016 FOR $151,000
NON RENOVATED RENT $1295
RENOVATED COMPS IN AREA : $260-270K

Before Renovations

New Kitchen
Paint throughout
Some new Flooring
Opening up a non load bearing wall
Other cosmetic renos

KITCHEN BEFORE

The stove wasn't even in the kitchen!

THE AFTER

This floor was there under the shag carpet

Saved us $ not having to replace it all

THE AFTER

Total Renovation Costs = $30,500

Renovation Timeline: 3 months

Lender: Conventional A lender (Scotia) variable rate

CASH OUT REFINANCE

The Math:

Original Purchase Price $151,000
Money In Deal prior to refinance: D.P. + Reno = $60,700
Original Mortgage: $120,800

Appraisal: $275,000
New Mortgage (80% LTV): $220,000
Cash Out: $220,000- $120,800 = $99,200
Payback downpayment and Reno money of $60,700
Surplus cash in my pocket: $38,500

Profit (ARV- Purchase price- Reno) = $93,500
New Rent: $1545

In this example we were able to payback all the money put into the deal and still make a surplus right away which is not always the case….

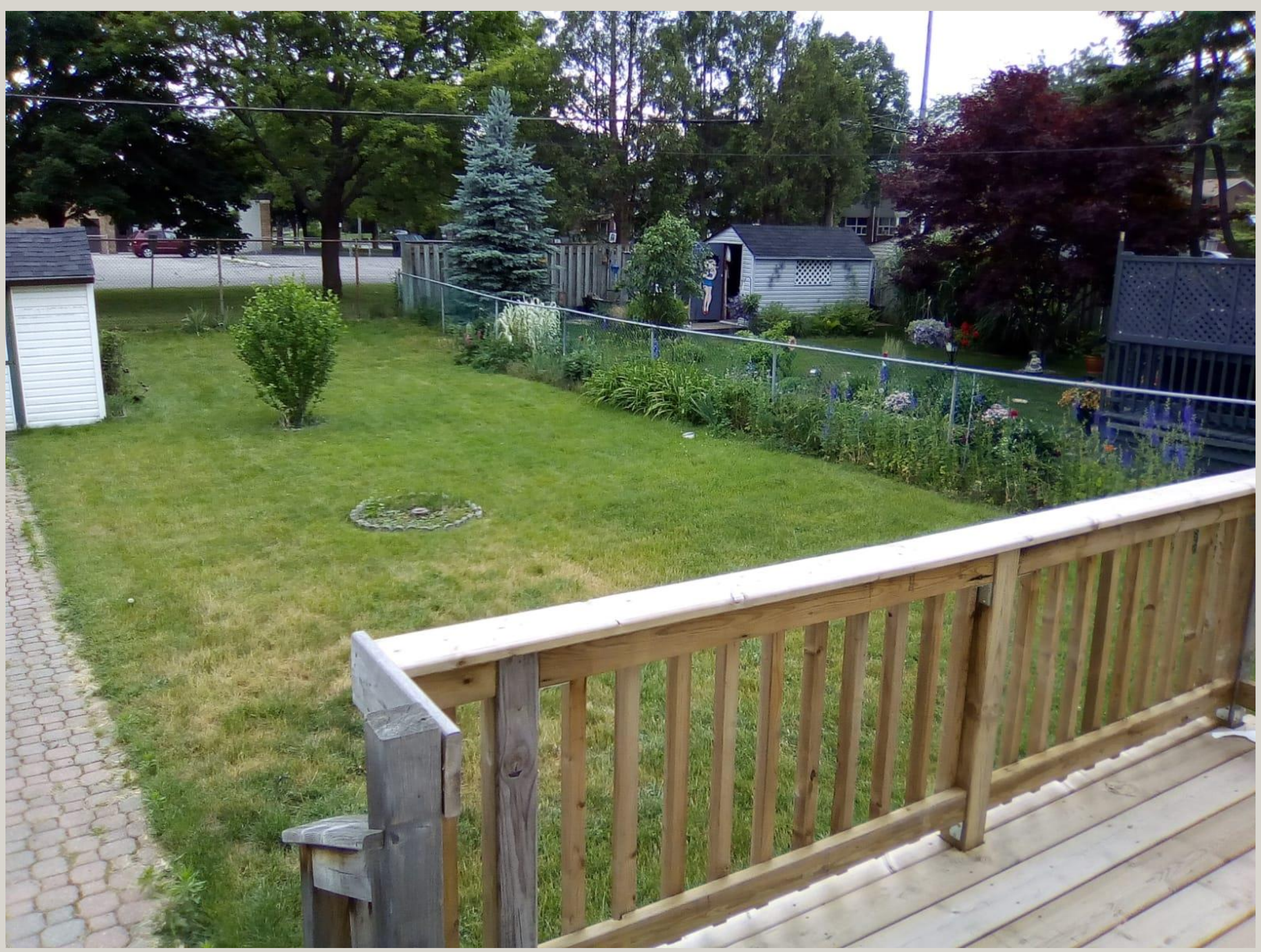
EXAMPLE OF 72 SALISBURY ST

ESTATE SALE, PURCHASED DAY 7, FINANCING CONDITIONS

PURCHASED IN 2018 FOR $220,000

NON RENOVATED RENT $1295

RENOVATED COMPS IN AREA : $280-290K



Before Renovations

During

- New Kitchen
- Opening of walls to create open space
- Removal of all wallpaper & Paint throughout
- New bathroom
- New flooring throughout
- Removal of all wall paneling
- Drywall walls
- Redo ceiling
- Removal of non functional chimney
- Some electrical updates

During

THE AFTER

THE MATH

Original Purchase Price $220,000 (Private money 100% LTV, I paid 2k deposit)
Money In Deal prior to refinance: $50,700 (Reno+holding costs+deposit etc)
Original Mortgage: $218,000

Appraisal: $295,000
New Mortgage (80% LTV): $236,000
My equity 20% remaining in deal: $59,000

Pay out private lender $218,000
Payback portion of Reno money of $18,000
Money still in deal from reno: $32,700

Profit: $26,300 (in 20 DP%) ($59,000- $32,700)
Rent: $1650

In this example we were able to payback the lender who gave 100% LTV
And a part of the reno money I put in the deal

BRRR CALCULATION EXAMPLE
ESTIMATING 20% AS DOWNPAYMENT AND 3.45% RATE

WHAT TO ACCOUNT FOR	AMOUNTS	*ALSO REMEMBER NOT ALL BANKS WILL FINANCE ALL PROPERTIES DEPENDING ON CONDITION YOU MAY NEED TO FIND A PRIVATE LENDER
ARV	$280,000	AFTER REPAIR VALUE SHOULD BE BASED ON COMPS OF WHAT SIMILAR FINISHED PROPERTIES SOLD FOR IN LAST 6 MONTHS (USE THE LOWER COMPS TO BE SAFE)
RENOVATION/ LABOUR COSTS	$30,000	GET 3 QUOTES FOR CONTRACTORS AND FOR CRUNCHING NUMBERS USE THE HIGHEST
HOLDING COSTS	$6,000	ESTIMATE THE TIME THE PROPERTY IS GOING TO SIT EMPTY TO BE RENOVATED ADD ALL COSTS: MORTGAGE, TAXES, UTILITIES
INSURANCE	$1,400	THIS IS ON AVERAGE THE COST OF INSURANCE FOR 3 MONTHS THAT MUST BE PAID ALL UPFRONT
CLOSING COSTS ON FRONT AND BACK	$8,000- $10,000	LAND TRANSFER TAXES ON FRONT END AS WELL AS LEGAL COSTS, APPRAISAL, ETC LEGAL COSTS ON BACK END, APPRAISAL, COST TO REFINANCE ETC
PURCHASE PRICE	**$210,000 (42k DP)**	THE PURCHASE PRICE THEN GETS DETERMINED SO THAT YOU MAKE A PROFIT IF YOU PURCHASED FOR $210K IN THIS CASE YOU WOULD PROFIT $22,600 (MONEY IN THE DEAL 89.4K ALL IN)
ESTIMATED PROFIT		**$22,600**

HOW TO PULL OUT AND REFINANCE A BRRR HERE IS THE EXAMPLE

WHAT TO ACCOUNT FOR	AMOUNTS	NOTES
NEW VALUE	$280,000	NOT ALL APPRAISALS COME IN AT WHAT YOU HOPE FOR. YOU CAN GET A SECOND ONE IF NEEDED OR WAIT 6-12 MONTHS IF NEEDED IF THE MARKET IS SOFTENING
NEW MORTGAGE ON $280,000	$224,000	YOU WILL BE REQUIRED TO STILL LEAVE 20% IN THE DEAL AS THE LENDERS WILL ONLY LEND UP TO 80% OF THE APPRAISED VALUE
ORIGINAL MORTGAGE BASED ON ORIGINAL PURCHASE PRIVE	$168,000	THE DIFFERENCE OF THE 2 IS WHAT YOU CAN PULL OUT AS A FULL CASH OUT REFINANCE OR AS A HELOC
CASH OUT AMOUNT	$56,000	DONT FORGET YOU WILL NEED TO PAY OFF YOUR RENO COSTS ETC. IN THIS EXAMPLE YOU PUT IN $47,400

TOTAL CASH LEFT AFTER PAYING BACK RENO/HOLDING COSTS		**$8,600**

IN THIS EXAMPLE YOU PAID OFF YOUR RENO COSTS AND CAME OUT WITH ANOTHER $8,600 TO PAY DOWN THE ORIGINAL DOWNPAYMENT

Profit and ROI Calculation WITH THE BRRR METHOD

TOTAL NET SPENT TO PURCHASE PROPERTY	$33,400	$42,000 DP - $8,600 LEFT once all Renos are paid back, holding costs etc
TOTAL PROFIT MADE FROM BRRR	$22,600	The difference is part of the 20% left in the deal that you aren't able to pull out
Annual Cashflow (ex: $187 x 12) Rent: $1650/month	$2,244	Cashflow x 12 months (Using same example as B&H)
Mortgage Pay Down year 1	$4,336	How much the tenants have paid down on your mortgage (the principal portion only)

Year 1 Profit	**$29,180**	**(BRRR profits + Total Annual Cashflow + Mortgage Paydown). After BRRR complete**
Year 1 ROI %	**87%**	**Year 1 Profit / Total cash left in deal x100 $29,180/ $33,400 x 100 = 87% ($29,180= $22,600+$2244+$4336)**
Cash on Cash Return	**6.7%**	**(Annual Cashflow / Total Cash Required to Close) x 100**

MANUAL BUY AND HOLD CALCULATION

Example: Single Family Home Purchased for $280,000 with 20% down + 6k for closing

EXPENSES	MONTHLY AMOUNT	MONTHLY RENT
Monthly Rental Income (from all sources)		**$1650**
1st mortgage payment (ex: 3.49% rate, 30 yr AM)	$999.62	
Other financing costs (Ex 2nd mortgage, HELOC etc)	NA	
Property Taxes (monthly) EX: $2200	$183	
Insurance (get a quote or estimate based on other similar properties you own)	$85	
Property Management	NA	
Vacancy Allowance (Use the vacancy rate in your area ex. 2%)	$33	
Maintenance (4% of monthly rent)	$66	
CapEx (Roof, Furnace, Window Fund) (4% of monthly rent)	$66	
Other (Utilities, Water Heater Rental etc)	$30	
Total Rental Expenses	**$1462**	
Estimated Monthly CashFlow	**ESTIMATED MONTHLY RENT LESS ALL EXPENSES = CASHFLOW**	**$187**

Profit and ROI Calculation

Example: Single Family Home Purchased for $280,000 with 20% down + 6k for closing

Total Investment (DP + Closing Costs + any work done prior to tenants move in date)	$62,000	Closing costs: Land Transfer, Appraisal, Home Inspection, Legal Costs, Corporation set up costs etc)
Appreciation @ 4% per year	$11,200	Estimate between 3-5% to stay conservative or use the 10 year appreciation in your area not the 5 year
Annual Cashflow (ex: $187 x 12)	$2,244	Cashflow x 12 months
Mortgage Pay Down year 1	$4,336	How much the tenants have paid down on your mortgage (the principal portion only)
Year 1 Profit	**$17,780**	**(Appreciation + Total Annual Cashflow + Mortgage Paydown)**
Year 1 ROI %	**28.6%**	**Year 1 Profit / Total cash in deal x100 ($17,780 / $62,000 x 100)**
Cash on Cash Return	**3.6%**	**(Annual Cashflow / Total Cash Required to Close) x 100**

The more time you hold on to your deals the more the ROI will increase due to compounding interest and increase in mortgage paydown (more principal less interest over time).
Also tenant turnover allows you to reset rent back to market rates.

4 SEASON COTTAGE
SHORT TERM AIRBNB

Purchased: $485k (March 2018)
Renos/Set up costs etc: 50k
All in: $525k
ARV*: $630k
Forced Appreciation Profits: 95k

Plus short term airbnb
High Season Rent: $500 night
Low Season Rent: $175 night

New Deck
Doors
Outdoor/ Indoor paint
Finished Basement
Inside Paint
New Doors and Lighting
Bathroom reno
+ Furniture

Lower Level

Cottage Main Floor

IF I DECIDED TO REFI THE COTTAGE:

WHAT TO ACCOUNT FOR	AMOUNTS
ARV	$630,000
NEW MORTGAGE 80% LTV	$504,000
ORIGINAL MORTGAGE BASED ON 80% ORIGINAL PURCHASE PRICE	$388,000
CASH OUT AMOUNT (NEW MORTGAGE-OLD MORTGAGE)	$116,000

TOTAL CASH IF REFINANCED OUT		**$116,000**

IN THIS EXAMPLE WE PAID OFF OUR RENO COSTS AND CAME OUT WITH ANOTHER $66,000 TO PAY DOWN THE ORIGINAL DOWNPAYMENT OF 97K (WHICH WAS MONEY FROM A REFI ON A RENTAL)

Profit and ROI Calculation

Total Investment left in deal	31k	WHAT IS LEFT IN DEAL AFTER PAYING BACK THE RENO AND PART OF THE DP
Appreciation @ 4% per year	$19,400	Estimate between 3-5% to stay conservative or use the 10 year appreciation in your area not the 5 year
Annual Cashflow	airbnb	Cashflow x 12 months
Mortgage Pay Down year 1	$9,755	How much the renters have paid down on the mortgage (the principal portion only)

Year 1 Profit	**$38,800 (after refi)**	**(Appreciation + Total Annual Cashflow + Mortgage Paydown)**
Year 1 ROI %	**125%**	**Year 1 Profit / Total cash in deal x100**

Tips/ Strategies

- You can choose to refinance as a HELOC, Cash Out, or a combination of both depending on your strategy

- Ensure your new rent will still allow you to **cashflow**

- You don’t need to do renovations in order to refinance, some properties bought well can be refinanced after a year and provide similar benefits

- Remember you will not get rich doing just 1 deal and you will not get rich tomorrow: c**onsistency and time in the market** will get you to your goals overtime

SARAH LARBI

sarah@sarahlarbi.com

www.sarahlarbi.com

647-964-4571