INVESTOR FIELD GUIDES / BOOK 05

The Conservative BRRRR Playbook

Plan the purchase, renovation, rental and refinance before you make the offer

Real Estate Nate

Free Investor Academy

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Every property and number in this guide is hypothetical. They teach a process; they are not Nate's transaction history or a promise of results.

Before you buy, know what happens if you cannot refinance

BRRRR stands for buy, rehab, rent, refinance and repeat. That sequence can help explain a strategy, but it should not become a promise that every dollar will come back out. I want to know what the property costs, what it may rent for, how it performs with debt, and what happens if the appraisal, rate, timing or lender requirements are different from what I hoped.

The safest point to ask those questions is before the purchase. Once you own the property, a delayed refinance is not a theoretical problem: your original loan, carrying costs, contractor payments and available cash are real obligations.

1. Build a complete project budget

Imagine a house offered for $100,000. You estimate $30,000 in repairs, $5,000 in repair contingency, $5,000 in purchase and closing costs, and $6,000 in financing and holding costs through stabilization. The preliminary project total is $146,000. These are assumptions to verify; financing, insurance, utilities, permits, taxes, interest and other actual costs may be different or require separate line items.

Do not add the contingency twice. If the contractor's $30,000 bid already includes a $5,000 contingency, identify that in the scope instead of silently counting another $5,000. Conversely, do not call an item a contingency and then spend it on a known upgrade without revising the budget. A separate reserve for property ownership after the work is complete is a

cash requirement, not automatically an additional project expense.

Now determine the sources and timing of the money. If a short-term loan pays $80,000 at purchase and you pay the rest, that does not necessarily mean the lender will fund the renovation. Ask about draws, interest, points, holdbacks, inspection fees, maturity and what happens if work runs late. Put every cash outflow on a timeline, including costs that may be reimbursed later. Keep a personal reserve and a property reserve outside the project cash you need to close and finish.

2. Connect the scope to the finished value

The appraisal and rent assumptions must fit the work you can actually fund. If your budget covers basic repairs, do not assume a buyer or appraiser will value the house as a premium renovation. Review comparable sales by location, size, condition and date. Write a supported range and investigate why the low and high examples differ.

Rent needs its own evidence. Compare similar homes currently competing for residents and, where available, verified leases. Identify who pays utilities and whether the property can legally be used in the intended way. An occupied property at an assumed rent still needs allowances for vacancy, management, maintenance, replacements, taxes, insurance and other owner costs.

3. Estimate refinance proceeds, not just the new loan

Suppose the finished property appraises at $180,000 and a hypothetical lender offers a loan equal to 75% of that value. The gross new loan would be $135,000. Assume the amount needed to pay off the original loan is $82,000 and refinance closing costs are $5,000. Simplified cash proceeds are $48,000: $135,000 minus $82,000 minus $5,000.

If the entire $146,000 project had been funded with an $80,000 original loan and $66,000 of your cash, receiving $48,000 would leave approximately $18,000 of that original cash in the deal. This example assumes the $82,000 payoff includes all amounts due; if it does not, add the missing costs. It also assumes all project expenses were already included and no other funds were distributed. Track the actual ledger rather than treating a loan amount as cash returned.

An appraisal is not guaranteed, the lender may impose a different loan-to-value limit, and the payoff changes with interest, fees and time. Seasoning, title, condition, credit, lease and reserve requirements may affect whether or when a loan is available. Ask the lender about the actual property and structure before you rely on refinance proceeds.

4. Re-underwrite the property with the new loan

The refinance changes the debt. Do not carry the original payment forward when analyzing the new loan. Obtain the proposed principal and interest payment and verify taxes, insurance, association dues and other expenses. Deduct vacancy, management, maintenance and replacement allowances from supported rent, along with other owner costs; compare the remaining amount with principal and interest.

I want positive estimated cash flow and at least 1.30 expense-adjusted coverage. A lender's rent-to-PITIA ratio can use different inputs and does not replace this owner-focused test. If the new loan produces the proceeds you want but leaves the property unable to support its costs, you have not solved the problem-you have moved it into the monthly payment.

5. Three refinance outcomes

Base case: Appraisal $180,000; 75% loan-to-value; gross loan $135,000; payoff $82,000; refinance costs $5,000; proceeds $48,000. Verify the payment and reserves before treating this as a viable exit.

Lower appraisal: At $165,000 and the same assumed 75%, the gross loan is $123,750. Subtract the same illustrative $82,000 payoff and $5,000 closing costs and proceeds fall to $36,750. With the same $66,000 initial cash in the simplified example, about $29,250 remains invested. Actual terms, costs and loan eligibility can change with the appraisal.

Delay: If refinance takes three additional months, list the actual interest, taxes, insurance, utilities, management and other carrying costs for those months. Do not automatically

count a full month's rent as loss if the home is occupied, and do not assume rent is collected if it is not. Confirm the original loan's maturity and extension terms. If you cannot meet the obligations without the refinance, your plan needs more liquidity or a different deal.

6. The decision I would make

A deal does not automatically fail because some cash remains in it. It fails my approach if the cash required strains reserves, the property does not cash flow, the expense-adjusted coverage is below my target, or the downside depends on financing that has not been established. The right price is the price that respects the whole plan, including the possibility that the refinance takes longer or produces less cash.

Before offering, write down your purchase ceiling, total project cost, peak cash required, planned reserves, evidence for finished value and rent, refinance assumptions, and expected payment under both the original and proposed loans. Identify the facts that would make you renegotiate or pass. Use the academy's deal worksheet, financing course and rental tools to work through your own numbers.

Follow the cash, not just the project total

Consider the earlier $146,000 hypothetical project. The investor brings $66,000 and borrows $80,000 at purchase. That comparison is useful only if it reflects the actual timing of the loan and every planned payment. Suppose the lender funds the purchase but reimburses approved renovation expenses after each draw inspection. The investor may need enough liquid cash to pay a contractor before the lender releases a draw. A budget that shows adequate total funding can still fail if the money arrives after the invoice is due.

Build a week-by-week cash schedule with starting cash, purchase and closing payments, each contractor milestone, anticipated draw requests and receipts, interest, taxes, insurance and utilities. Show the property reserve separately. Use the actual draw agreement and ask how long inspections and disbursements normally take. Then test a delayed draw. If the only way to pay the contractor is to spend the reserve needed for the rest of the project, you have found a financing gap before it becomes a crisis.

A cash-out number that does not guarantee a good hold

Suppose the new loan produces $48,000 after payoff and closing costs, as in our earlier example. That amount tells you about proceeds; it does not tell you whether the resulting rental is a sound hold. Imagine the new principal-and-interest payment is $1,000 monthly. If supported rent less vacancy, management, maintenance, replacements, taxes, insurance and other owner costs leaves $1,150 for principal and interest, the expense-adjusted coverage is 1.15 and projected cash flow is $150 before income taxes and omitted expenses.

The cash flow is positive, but the ratio is below my 1.30 target. A smaller refinance loan might improve the payment while leaving more cash invested. At $1,150 available before principal and interest, the maximum payment supported by a 1.30 target is about $885. Ask the lender what loan balance produces that payment at the actual rate and amortization, and recalculate proceeds, fees and cash remaining in the property. I would not claim the refinance works merely because it returns cash.

When the valuation and the budget both change

Imagine the lender values the finished home at $165,000 instead of the $180,000 base assumption. Separately, assume a verified repair change adds $8,000 to the original project total. At a hypothetical 75% loan-to-value, the gross loan is $123,750. With the same illustrative $82,000 payoff and $5,000 refinance costs, proceeds would be $36,750. If the investor paid the extra $8,000 in cash and all other prior assumptions hold, original cash invested rises from $66,000 to $74,000, leaving $37,250 after the illustrated proceeds.

In practice, the payoff, closing costs, eligibility and interest can also change; use the actual figures. This scenario shows why a lower appraisal and a cost overrun can compound. Before you buy, ask whether your plan can absorb both without exhausting reserves. If not, negotiate the purchase, find verified alternative funding or pass. A hoped-for future appraisal is not a substitute for the ability to finish the work.

Practice the refinancing conversation

Ask the proposed lender: 'What property condition, documentation, rental history, appraisal, reserves and holding period do you require for this type of refinance? How do you calculate the maximum loan, and what payment would the terms produce?' Record the response as preliminary unless the lender actually approves the loan. Ask your original lender what the payoff, maturity and extension provisions say. Your closing professional and financial advisors can help you understand the documents; the obligation to verify that the plan fits your cash remains yours.

Set a deadline for the second financing decision

At purchase, write down the date your first loan actually matures and work backward from there. Allow time for repairs, any required inspections, leasing, the appraisal and underwriting. Confirm the assumptions with the actual lenders. In one hypothetical schedule, a month-eight refinance sounds comfortable against a month-twelve maturity. If the project slips to month ten, a sixty-day review could consume the entire cushion. Decide in advance when you will pursue a documented extension or another viable exit, and what each costs. I want that decision on the calendar before a late draw or a delayed lease makes it urgent.

Field exercise: A lease delay and a draw delay happen together

The facts you have

You plan to use a $15,000 lender draw to restore your project cash after a contractor milestone. The draw comes three weeks late. The unit also sits vacant for one extra month. The incremental carrying outlay is $1,250, and you expected $1,500 rent in that month.

How I would work it

Separate timing from permanent cost. The delayed draw creates a temporary funding need up to the amount you must front; it is not an extra $15,000 expense if it is later paid in full. The additional carry is an expense. The lost rent is a missing inflow against plan. Compare the actual monthly cash balances and keep the eventual draw visible rather than counting it as new profit.

Work the next decision

If you had only $9,000 above reserves before the $15,000 advance was required, what is the immediate funding gap before other bills? $6,000. Identify how you would verify an alternative source and its actual cost before starting the work.

Start with the hold you would buy without the acronym

I hear people start the conversation with, “How much can I pull back out?” I start one question earlier: “Would I own this house after the work is done if the lender gives me less than I expect?” If the answer is no, a favorable refinance projection has not turned the deal into a good rental. It has told me how many assumptions have to line up for me to get away with it.

A BRRRR project has two different underwriting moments. At purchase I am deciding whether my cash can get me through the work. After stabilization I am deciding what debt the completed property can actually support. Those decisions are connected, but the test is not the same. A great purchase price cannot cure a weak leasing market. Excellent rent cannot repair a cash shortage halfway through a renovation. I want both decisions to work before I make the first commitment, with a fresh look when the real information arrives.

Start by writing a plain description of the finished property. Tell me the number of legal bedrooms and baths, the actual parking, who pays utilities, the expected condition at handoff, and what a qualified manager thinks a tenant will pay. I would rather defend a normal rent with three comparable properties than point to a premium asking price from a different kind of unit. If your best comp has a garage, second bath, and finished basement that yours will never have, it is not evidence that your house will earn its rent. Conversely, the

cheapest listing in the neighborhood may reflect a material condition problem that you do not have. The work is to explain the differences, not just pick a number in the middle.

Write down what still has to be verified: the rent shown on signed leases versus advertised, the written scope, the insurance quote for the actual use and condition, the tax estimate after transfer, and the lender terms. Give each item an owner and a deadline. When an assumption goes from estimated to documented, update the calculation that uses it. I do not keep the old rent or payment in a spreadsheet just because it produced the answer I wanted at the start.

The refinance waterfall: run all three ceilings

Suppose you buy a hypothetical house for $95,000 and spend $29,000 on the approved work, $5,000 on acquisition costs, and $7,000 on interest and carrying costs through lease-up. For this simplified example the $136,000 total is funded with $78,000 from the acquisition loan and $58,000 of your own cash. At refinance the amount owed to that lender is $78,000. Assume you already paid all accrued interest included in the project budget and there is no added payoff penalty. The new loan costs $5,000 at closing. If the lender lends $120,000, estimated cash to you is $37,000: $120,000 less $78,000 and $5,000. Your own money still in the deal is $21,000. The $120,000 is the debt, not the cash you get.

That result is only one possible closing. The new loan might be constrained by the valuation, the lender's other conditions, or the payment I am willing to carry. Assume an appraisal of $165,000 and a hypothetical 75% valuation-based limit: that ceiling would be $123,750. Suppose the lender independently sets a maximum of $120,000 for this transaction. That is a tighter ceiling. If my stabilized operating income available for

principal and interest is $1,040 monthly, my 1.30 target caps principal and interest at $800. For a purely illustrative loan quote of $7.60 in monthly principal and interest per $1,000 borrowed, that payment supports about $105,263. Ask for an actual payment quote and applicable terms. The factor here is for teaching, not a market rate or financing promise.

The lowest of the three ceilings is about $105,263 under these assumptions. With $5,000 of costs held fixed, it would leave about $22,263 in cash proceeds and $35,737 of your original money in the deal. Choosing $120,000 with the assumed payment factor gives $912 in monthly principal and interest. You would have $128 left each month, but coverage would be about 1.14. That is why I do not treat the highest dollar amount a lender will advance as the right debt for the property. In the example the stronger coverage choice leaves more cash invested. That is a tradeoff to accept in advance, not a disappointment to discover at closing.

The bookkeeping matters. If the payoff includes accrued interest, look at whether you included that same amount in cash already paid. If fees are financed, use the actual funds available at closing and the actual loan balance; do not subtract the fee twice. If you put $4,000 into a reserve account and still own and control that cash, track it separately from a contractor payment that is already gone. The capital I have at risk, the cash I must keep available, and the debt recorded against the property answer three different questions.

Write it as a lender conversation

Instead of asking only “What rate can I get?” I would ask the lender to lay out the proposed principal and interest, the amortization, the initial term, the adjustment or renewal provisions if any, the timing before the loan can close, and the documents that will be required. Then I would ask which assumptions are verified now and which are conditional. I want to know the estimated closing costs, the proposed maximum loan, the basis for that amount, and what would change it if the appraisal or rent came in lower. I also want the acquisition lender's actual payoff statement for the planned closing date and a separate plan if the new lender does not close by then.

Write the answers alongside the original acquisition model. A preliminary estimate is useful for comparing options, but the deal should not require it to come true. A follow-up can be as simple as, “At the payment I can support, what loan size would this quote produce, and what would I have to bring or receive at closing?” Then take the actual response and compare it with your ceiling rather than letting the conversation drift back to the biggest possible loan.

Renovate for the renter and for the cash you can carry

Suppose two nearby rentals with the same beds and baths are similar in location and access. The more polished one rents for $100 more each month, and your contractor quotes $6,000 of extra finish work to match it. It is tempting to say it pays back in five years because $100 times 60 is $6,000. That simple comparison assumes every dollar is collected, no added cost comes with earning it, no delay changes the schedule, and the stronger rent comes from the finishes alone. Check what the comparison is really telling you. A premium unit might be newer, quieter, more efficient, or have better outdoor space. If the finish difference isn't what moves the rent, don't add it to the scope to chase a number.

If the manager supports $100 more in gross rent and estimates $85 more after the associated operating effects, simple payback on $6,000 is about 71 months before financing costs or extra vacancy during construction. That can still be a reasonable investment in a particular property, especially if a more durable installation changes future maintenance, but the case for it needs to be documented. If the existing flooring is unsafe or cannot be made serviceable, that is a scope requirement, not a premium finish comparison. Budget what the house needs first; consider the discretionary upgrade second.

I set up the scope in groups that can actually be checked: repairs required before occupancy, work that restores function and reduces repeat calls, and elective improvements that need a return case. For each line I want the amount, the evidence, the planned sequence, and the person who will sign off on completion. Then I want to know which payments must be made before lender draws or before rent. A scope is more

useful if it helps me make a cash decision on Tuesday, not just if it looks complete in a file on Friday.

The finish line has dates, not just checkboxes

A contractor might call a unit complete while the manager is still waiting on keys, a cleaning, utility transfer, or a documented correction. I plan the handoff in advance. Who is authorized to accept the work? What evidence do they want? Who has the keys? What does the manager need before showings or leasing? Does any remaining work affect safe occupancy? For any legal or permit question, confirm the actual requirements with the appropriate professional and authority rather than assuming the contractor and manager are using the same definition of “ready.”

Treat the move-in date as an estimate until you have the evidence to call it firmer. Refinance underwriting may rely on different documentation than the manager uses to project rent. Ask the lender which rent evidence it needs and when. Keep the signed lease, deposit and actual collections distinct so you can see whether the stabilized projection is becoming an operating result. A vacancy fill is useful; it does not prove the long-term forecast.

When the calendar fights your capital

Imagine you can devote $45,000 to a project after setting aside separate minimum reserves. At acquisition, $24,000 goes to down payment and fees. Before the first verified lender draw, the contractor needs $14,000, and the property has $3,500 of carrying costs. That leaves $3,500 before the draw, even if the lender has approved a total renovation line far above $14,000. Now suppose the first inspection requires a recheck and the draw is delayed until after another $5,000 milestone. The timing turns a $3,500 cushion into a $1,500 gap even though none of your headline loan amounts changed.

I would make a monthly, then weekly, cash schedule for the busy part of the work. Start each period with the money actually available. Deduct amounts due in that period. Add a draw only on its documented or conservatively expected date, and show an alternate version where it arrives late. Keep the reserve target as a line you can see without opening another tab. If you dip below it, solve the timing problem with documented sources or revised milestones before the contract puts you in that position. You do not get extra points for needing to improvise in the middle of a project.

The same schedule helps when you have more than one project. Suppose the first property is expected to return $25,000 of refinance proceeds in August, and you plan to use $20,000 for a second purchase in September. If August slips, you have not lost $25,000 merely because the money came later; you may still be unable to close the second deal. I do not commit the same projected cash twice. The “repeat” stage starts after the first property's new payment, actual cash and reserve position can be verified. If a future refinance is what makes next month's acquisition possible, the underwriting of the two properties has quietly become one combined risk.

One more exercise: compare the quiet month with the ugly month

Assume a project begins a month with $10,000 available above reserves. It has $2,000 of interest and carry due early, $8,000 due to a contractor before an inspection, and an $8,000 draw expected on the last day. In the plan the month ends with $8,000 above reserves. What is the lowest balance before the draw? Zero. Now assume the lender requests a second inspection and a $1,300 utility correction is due before proceeds arrive. The cash schedule falls $1,300 below the reserve floor before the draw; the month can still end positive if the funds arrive afterward. A monthly summary alone would have hidden the problem. The practical response is to settle the funding or milestone timing, not declare that the ending balance makes the interim shortfall harmless.

Re-underwrite the lease before choosing the takeout

The borrower in this scenario expected $1,600 rent. The best supported lease at completion is $1,500, and the new annual insurance premium is $720 higher than expected. Use an illustrative operating model with 8% management and a combined 10% vacancy and routine-repair allowance against gross rent, plus a $100 replacement allowance, $250 taxes and original insurance, and no additional items solely to keep the math visible. At $1,600, management and the combined allowance total $288. After the $100 and $250, there is $962 available for principal and interest. At $1,500 and with $60 more monthly insurance, available income falls to $820. The revised operating figure is down $142: $100 less gross rent, $18 lower percentage allowances, and $60 more insurance.

At an $820 payment the original forecast would have produced $142 of modeled cash flow and roughly 1.17 of

coverage; the actual forecast at that payment produces no modeled cash flow and 1.00 coverage. Neither meets my 1.30 target. The earlier expense-adjusted number would have supported $740 in principal and interest at 1.30, and the revised one supports about $631. If the investor priced the deal off a loan quote they had not tested at purchase, the revised rent and insurance simply make the weakness easier to see.

When I see a model like this, I want the person underwriting to put the previous inputs next to the new ones. Tell me why each moved. Then tell me whether the new size of debt leaves enough money for other obligations. Reducing the loan may make the hold sensible without restoring the desired proceeds. Selling may be a reasonable alternative if the net proceeds and timing are supported, but it is not a backstop just because someone can name a retail price. The right comparison is net dollars and timing under both paths.

Choose an exit before it chooses you

A planned refinance can become unavailable even when you did a reasonable job. Maybe the lender needs more lease history than you had planned. Maybe a major component repair puts the property behind schedule. Maybe the appraisal is credible but lower than the value you forecast. Separate a problem you can fix from one that changes the investment. A missing document may need a week. A value gap can change the loan size for the foreseeable future. A cash shortage that reaches loan maturity is not solved by hoping for a slower calendar.

Compare real options against dates and obligations. If you can keep the acquisition loan longer under written terms, what are the carrying cost and payment, and can you meet them? If you can refinance at a smaller balance, will you bring cash or

receive cash at closing, and can you still operate? If a sale is possible, what is the likely net after acquisition debt, work remaining, selling costs, and carry through closing? Who will verify the numbers? In a hypothetical sale at $162,000 with $11,000 of costs to close and sell, an $82,000 payoff and $4,000 of additional carry, there would be $65,000 available before any other items. That is $65,000 back at closing, not $65,000 in profit. Compare it with the actual cash invested and remaining obligations.

I want a trigger date on the calendar to make the backup decision. If the loan matures at the end of November and an alternative refinance may take sixty days after a complete application, starting to ask questions in November is not the same as having an option. Work back from the lender's documented timeline and build room for uncertain steps. Verify payoff and extension terms with the actual documents and professionals, because a planning model does not grant an extension.

Practice: a decision memo the next investor can audit

Use these facts for a hypothetical completed rental: $1,750 supported monthly gross rent, $140 management, $175 combined vacancy and routine repairs, $125 replacement allowance, $285 taxes and insurance, and $35 owner-paid utility costs. The new loan option would require $845 monthly principal and interest and leave $32,000 of your original cash in the project. A second option requires $750 per month and leaves $44,000 invested. You can carry either amount of invested cash without using your operating reserve. The original debt has a documented deadline. The less expensive payment option will close later but is currently scheduled before the deadline; verify the actual margin rather than assuming the date is secure.

First compute the monthly income available for principal and interest. Then compare the ratios and modeled cash flow. Finally write one sentence saying what must be confirmed before you would prefer one option. Do the arithmetic independently before reading the answer.

The operating figure is $990: $1,750 less $140, $175, $125, $285 and $35. The first option leaves $145 and coverage of about 1.17. The second leaves $240 and about 1.32. Under my 1.30 target, the maximum payment would be about $762, so only the second passes on these inputs. The $12,000 difference in capital left in the project matters, but the first payment cannot be justified under the stated benchmark just because it frees more cash. Before relying on the second, I would verify the payment, fees, schedule and reserve position. If the later closing leaves no room for a missed date, I would secure a workable backup or revise the decision.

Now assume a new verified cost of $40 per month. Income available to pay debt falls to $950. At $750 the ratio is about 1.27 and monthly cash flow is $200. You should be able to explain what moved and why without suggesting that positive cash flow and satisfactory coverage mean the same thing. The supported payment at 1.30 is now about $731. That is the starting point for a revised discussion about loan size and the money that remains invested.

Bring it back to your own deal

Write down the supported purchase price, current scope, expected cash timing, real source of each assumption, and reserve floor. Before buying, add the completed rental's plausible rent and cost assumptions, at least two takeout options, and the date on which the backup has to become actionable. After the work, replace assumptions with invoices and records instead of saying the original model was “close enough.” Once the new loan closes, reconcile proceeds, payoff, fees, actual debt and cash still invested. Then watch the operating result, not just the refinance result.

If the next opportunity looks good, compare your written buy box with what this project taught you. Was the original rehab budget useful? Did the rent take longer to reach? Did you understand the lending conditions at the start? Which expense did you only learn because you owned the house? I want that information in the next acquisition memo. The result of a good BRRRR process is a property worth owning and a clearer basis for the next decision. If you have to tell the story in a way that hides the cash you still have at risk, it is time to go back to the numbers.

Optional case: When a promising deal stops working

Suppose the same house needs $38,000 of known repairs after inspection. In this refinance illustration you have $49,000 of your own cash in the project before refinancing, a $108,000 payoff and $4,000 of refinance costs. At a $180,000 appraisal and 75% loan-to-value, the new loan is $135,000. Net cash returned is $23,000, leaving $26,000 of your original cash in the deal.

At a $165,000 appraisal the loan drops to $123,750. Net cash returned is $11,750 and cash left in rises to $37,250. Add $2,400 in out-of-pocket carry from a delay, assuming it is not already in the payoff or the $49,000 cash figure, and the cash left in becomes $39,650. I would ask whether I could carry the current loan without the expected refinance and still want this rental at the actual payment and reserves. If I cannot, a promising appraisal estimate is not enough to proceed.

Where I'd draw the line

I'd draw the line before closing. If a delayed refinance would force me to spend the reserve I need to carry the house, I'd lower my offer or walk. I can live with cash left in a good rental if I planned for it. I don't want a deal that only works if I get my cash back on a date I can't control. Before your next offer, price the delay and write down how you would fund it.

See how the full deal played out in the optional case in Is This Really a Good Real Estate Deal?.