Scott Tischler

FOUNDER & CHAIRMAN · AIRECOMMEND.AI

REAL ESTATE

The BRRRR Method, Honestly: Where It Works and Where People Get Hurt

By Scott Tischler · July 28, 2026 · 9 min read

The **BRRRR method** — Buy, Rehab, Rent, Refinance, Repeat — got popular for a good reason: done right, it lets you recycle the same chunk of capital into deal after deal. Done wrong, it is one of the fastest ways to over-leverage yourself into a corner right before the market turns.

I bought my first property in 1998, sold my portfolio ahead of the 2008 crash, and re-entered afterward. I have seen this exact strategy make people and break people, usually depending on one thing: whether their numbers were honest. So this is not a hype piece. This is the balanced version — where BRRRR genuinely works, and precisely where people get hurt.

A quick, honest note: this is education from my own experience, not personalized financial or investment advice. Run your own numbers and talk to your own lender, attorney, and CPA before acting.

What BRRRR Actually Is

The strategy is five steps that form a loop:

1. **Buy** a distressed or undervalued property, usually with cash or short-term financing.
2. **Rehab** it to raise both its rentable condition and its appraised value.
3. **Rent** it to a qualified tenant so it produces income.
4. **Refinance** with a long-term loan based on the new, higher value — pulling your cash back out.
5. **Repeat** with the recovered capital.

The magic — and the danger — is in step four. You are betting that after the rehab, the property appraises high enough that a cash-out refinance returns most or all of the money you put in. If it does, your cash-on-cash return approaches infinity, because you have little or no cash left in the deal. If it does not, you are stuck with more capital trapped than you planned, and possibly a loan you cannot comfortably carry.

The Number That Makes or Breaks Everything: ARV

Everything in BRRRR hangs on **After Repair Value (ARV)** — what the property will be worth once the rehab is done. Your entire plan to pull cash back out depends on the refinance appraisal hitting your ARV estimate.

The classic guardrail is the **70% rule**: your all-in cost (purchase + rehab) should stay at or below 70% of ARV. The reasoning is that most lenders will refinance up to about **75% loan-to-value (LTV)**, so buying at 70% leaves a margin. Here is the honest version of that math:

Line item	Optimistic underwriting	Conservative underwriting
Estimated ARV	$200,000	$185,000
Purchase price	$110,000	$110,000
Rehab budget	$30,000	$38,000 (padded 25%)
All-in cost	$140,000	$148,000
Refi at 75% LTV	$150,000	$138,750
Cash left in deal	$0 (cash out $10k)	$9,250 trapped

Same property, two honest-looking spreadsheets. The difference is that the right column assumes the appraisal comes in **7.5% under** your hope and the rehab runs **over** budget. Both of those happen constantly. If your model only works when the ARV is generous and the rehab is exact, you do not have a deal — you have a wish.

Where People Actually Get Hurt

The appraisal comes in low

This is the number-one killer. You expected $200,000; the appraiser says $180,000. At 75% LTV that is a $15,000 difference in what you can pull out — $15,000 of your own cash now stuck in the property instead of freed for the next deal. Do this three or four times and your capital is fully deployed and immobile. The whole "repeat" engine seizes.

Appraisals are subjective, comps-driven, and conservative by nature — especially after a run-up in prices when appraisers get cautious. **Never underwrite to the top of the range.**

Interest rates moved against you

This is what broke a lot of people in the 2022-2023 rate spike. They bought and rehabbed when refinance rates were 4%, planning to refinance into a cheap long-term loan. By the time the rehab and lease-up were done, rates had roughly doubled. A payment that cash-flowed comfortably at 4% was underwater at 7.5%. The property was fine; the **financing assumption** was the failure.

If your deal only works at the refinance rate you can get today, you have no margin for the rate you will actually get in six to nine months. Stress-test every deal at a rate meaningfully higher than current.

The rehab ran over

Rehab budgets are almost always optimistic. You open a wall and find old wiring; the roof needs more than a patch; permits take longer and the holding costs pile up. Every extra week of a hard-money or bridge loan is interest you pay with no rent coming in. I pad rehab budgets and I pad the timeline, because the deal has to survive the version of the project that goes sideways, not just the version in the brochure.

The refinance seasoning trap

Many lenders impose a **seasoning period** — often six months — before they will refinance based on the new appraised value rather than your purchase price. If you did not plan for that gap, your cash is locked up longer than your model assumed, and your short-term rehab financing may come due before the refinance is available.

It rents for less than you hoped

If actual market rent comes in below your pro forma, the property may not meet the lender's **debt service coverage** requirement, which can shrink the loan you qualify for or sink your cash flow. Verify real rents in the specific neighborhood, not the optimistic average for the metro.

How to Run BRRRR Without Over-Leveraging

The strategy is not the problem. **Thin underwriting** is the problem. Here is how I keep it honest.

Underwrite to conservative numbers, then buy on those. Assume the ARV comes in below your estimate, the rehab runs over, and the refinance rate is higher than today's. If the deal still works under all three, you have real margin. If it needs all three to break your way, walk.

Do not chase 100% cash-out. The whole culture of BRRRR celebrates pulling every dollar back out. But leaving some equity in — refinancing at 65-70% LTV instead of maxing at 75% — gives you a cushion against a soft appraisal and keeps your payment comfortably covered. **Leaving $10,000 in a deal that cash-flows safely beats pulling it all out of a deal that is one vacancy from red.**

Respect cash flow over the refinance trick. The refinance is a one-time event; the cash flow is what you live with for years. A property that barely breaks even after you pull your money out is fragile — one busted furnace, one bad tenant, one two-month vacancy and it is bleeding. I want the rented property to cover its debt with real room to spare after all expenses, including vacancy, management, and capital reserves.

Keep dry powder. The investors who got hurt were fully deployed with nothing in reserve when rates jumped or a property sat empty. The ones who came through fine — and this is exactly why I sold ahead of 2008 and re-entered later — kept capital available and were not forced to sell or refinance at the worst possible moment. Leverage is only dangerous when it is combined with no liquidity.

When BRRRR Genuinely Works

I do not want to leave the impression that this is a trap to avoid. It is a powerful tool in the right conditions:

- You are buying **genuinely undervalued** property where the rehab adds real, appraisable value — not lipstick.
- Your rehab estimates come from **actual contractor bids**, not a per-square-foot guess.
- The property **cash-flows on its own** after refinancing at a stress-tested rate, even if you cannot pull every dollar out.
- You have **reserves** to carry the property through vacancy, overruns, and a slow refinance.
- You are treating it as a **long-term hold**, not a quick flip that happens to have a tenant.

Under those conditions, BRRRR does exactly what it promises: it lets you build a rental portfolio while recycling capital, compounding your buying power deal after deal. That is real, and it works.

The Honest Bottom Line

BRRRR is not magic and it is not a scam. It is leverage plus a value-add renovation, and both of those amplify whatever you bring to the table. Bring conservative numbers, real reserves, and a stress-tested refinance assumption, and it compounds your capital. Bring optimistic ARVs, thin rehab budgets, and a plan that only works at today's interest rate, and it will find the crack in your model at the worst possible time.

The investors who last are not the ones with the most aggressive spreadsheets. They are the ones whose deals still work when the appraisal disappoints, the rehab runs long, and rates tick up — because in a long enough career, all three of those will happen to you.

Key takeaways

- BRRRR recycles capital through Buy-Rehab-Rent-Refinance-Repeat, but the entire strategy hinges on the refinance returning your cash.
- After Repair Value (ARV) is the make-or-break number; the 70% rule leaves margin, but only if your ARV and rehab estimates are honest.
- The biggest failures come from low appraisals, rising interest rates between buy and refinance, and rehab budget overruns.
- Stress-test every deal at a higher refinance rate and a lower ARV than you expect — if it only works on best-case assumptions, walk.
- Do not chase a 100% cash-out; leaving some equity in and prioritizing durable cash flow beats over-leveraging.
- Keeping reserves and dry powder is what separates investors who survive rate shocks from those who are forced to sell at the bottom.

Frequently asked questions

What does BRRRR stand for?

BRRRR stands for Buy, Rehab, Rent, Refinance, Repeat. You buy an undervalued property, renovate it to raise its value, rent it to a qualified tenant, refinance to pull your invested cash back out, and repeat the process with the recovered capital. The goal is to build a rental portfolio while recycling the same chunk of money across multiple deals.

What is the 70% rule in BRRRR?

The 70% rule says your total investment — purchase price plus rehab costs — should stay at or below 70% of the property's After Repair Value. Because most lenders refinance up to about 75% loan-to-value, buying at 70% leaves a cushion to pull most of your cash back out. It is a guardrail, not a guarantee, and it only holds if your ARV and rehab estimates are realistic.

What is the biggest risk in the BRRRR method?

The most common failure is a refinance appraisal that comes in below your projected After Repair Value, which traps more of your cash in the deal than planned. Close behind is an interest rate that rises between buying and refinancing, turning a property that cash-flowed on paper into one that loses money. Rehab overruns and rent shortfalls compound both problems.

Why did rising interest rates hurt BRRRR investors?

Many investors bought and renovated when refinance rates were low, then found rates had climbed sharply by the time they were ready to refinance. A payment that cash-flowed comfortably at a low rate could turn negative once rates roughly doubled. The property itself was fine — the failure was underwriting to today's rate with no margin for a higher one at refinance.

What is a seasoning period and why does it matter?

A seasoning period is the minimum time — often around six months — that many lenders require you to own a property before they will refinance based on its new appraised value rather than your purchase price. If you do not plan for it, your cash stays locked up longer than expected, and your short-term rehab loan may come due before the refinance is available. Always confirm your lender's seasoning rules before you buy.

How much cash should I leave in a BRRRR deal?

Chasing a full 100% cash-out maximizes leverage but leaves no cushion if the appraisal disappoints. Refinancing at 65-70% loan-to-value instead of maxing out keeps your payment comfortable and protects you from a soft appraisal. Leaving some equity in a deal that cash-flows safely is far better than pulling everything out of a deal that is one vacancy from losing money.

Is BRRRR still a good strategy in a high-rate environment?

It can be, but the margin for error is thinner. In a high-rate environment you must stress-test the deal at current or higher refinance rates, verify that it still cash-flows without pulling every dollar out, and keep larger reserves. If the deal only works on the assumption that rates will fall, it is a bet on the market, not a sound investment.

How do I avoid over-leveraging with BRRRR?

Underwrite to conservative numbers — a lower ARV, a padded rehab budget, and a higher refinance rate — and only buy if the deal still works under all three. Prioritize durable cash flow over pulling out every dollar, and keep meaningful cash reserves so a vacancy or overrun does not force you to sell. Over-leveraging is dangerous mainly when it is paired with no liquidity.

About the author. Scott Tischler is the Founder & Chairman of AIrecommend.ai and a practitioner-authority on AI search and Answer Engine Optimization. With 20+ years in marketing technology — including American Express, MetLife, and UBS — and executive study at Wharton, Harvard, Yale, and Oxford, he helps businesses become the ones AI recommends.
