

The Book on

RENTAL PROPERTY INVESTING

*How to Create Wealth with Intelligent
Buy & Hold Real Estate Investing*

BRANDON TURNER

Host of the World's #1 Real Estate Podcast

THE BIGGERPOCKETS PODCAST

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Praise for Brandon Turner's Books

“An insider’s perspective, full of encouragement and resources for newcomers... Interested readers will find the book substantially useful as a starting point.”

—**Kirkus Review on *How to Invest in Real Estate***

“I only wish this book had been written in 2005 when I was starting my real estate investing journey!”

—**Ken Corsini, Real estate investor
and star of HGTV’s *Flip or Flop Atlanta***

“I think this should be required reading for anyone considering real estate investing... Countless hours, months, and—frankly—years this book would have saved me!”

—**Ben Leybovich, Real estate investor,
syndicator, and founder of JustAskBenWhy.com**

“There are very few books that provide a detailed, step-by-step framework for accomplishing real estate success. Brandon Turner’s *The Book on Rental Property Investing* does that, and does it in a way that puts financial freedom through real estate within reach of anyone who wants it.”

—**J Scott, Bestselling author of
*The Book on Flipping Houses***

“I have not read a more comprehensive discussion in my 20 years of investing. This is a great reference for beginners and experienced rental owners!”

—**Al Williamson, LeadingLandlord.com**

“This book is an A-to-Z guide for the real estate investor—not just buying and selling, but also strategic planning, which is all too often forgotten. The real-world examples really drive it home.”

—**Brian Burke, CEO of Praxis Capital and bestselling author of *The Hands-Off Investor***

“*The Book on Rental Property Investing* fuses passion with a system-driven, business-mindedness that provides a very big resource to help establish and achieve your personal investment goals.”

—**Bill Syrios, Owner of Stewardship Properties**

“I wish I had *The Book on Managing Rental Properties* before I made all of my expensive property management mistakes! Brandon and Heather Turner have covered the biggest challenges for landlords and solved each one with step-by-step systems. I literally gave the information in Chapter 6 on tenant pre-screening to my own team and said, ‘Use this! It’s that good.’”

—**Chad Carson, Bestselling author of *Retire Early with Real Estate***

“It’s practical, real, and comes across very open and unbiased... This is great for beginners as well as anyone who is in another field of real estate investing looking to cross over.”

—**Lisa Phillips, AffordableRealEstateInvestments.com**

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The Book on Rental Property Investing

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PROLOGUE

What if I told you that you could make millions of dollars in real estate, doing nothing but sitting on a beach?

Piña coladas, little white umbrellas, endless sand—sounds pretty great, right?

Well, that is not going to happen, at least not anytime soon. If you were looking for an easy path to riches, rental properties are probably not the right avenue for you. I know I've probably just lost half of those who picked up this book, and that's okay. I know that millions more are willing to do what is necessary to find success, even if that path is more difficult than the late-night television infomercials would have you believe.

Obviously, people flock to real estate for a reason. In my opinion, real estate can provide the best, safest, fastest path to financial freedom compared with any other method used to build wealth. I've seen it in my own life, which I'll explain in a moment. But first, let's talk about what this book will *not* teach you.

If you were looking for a book written by the latest guru, you are going to be disappointed. You are not going to learn some secret strategy that I discovered and that no one else knows. After all, I'm not anything special. In fact, I'm just like you. I may be further along on my real estate journey than you are, or I may be years behind you—in which case, I hope to learn from you as well. The truth is that we're on the same journey together, playing the greatest game ever invented. In writing this book, I hope to

share with you the lessons I've learned so far, both the successes *and* the mistakes. I believe these lessons will help you achieve a greater life than you have ever imagined.

Moreover, you should never learn from just one person, I believe, and anyone who says otherwise is probably trying to sell you something. The best education comes from experience, and by learning from the collective experiences of others, you can supercharge your real estate ambitions to find greater success, faster and with less drama.

Therefore, in the pages of this book I've incorporated the lessons and stories of real estate investors from the BiggerPockets community in an effort to help you gain the greatest perspective. Together, as a community, let's help each other find financial freedom through real estate investing.

What Do You Want?

Let me ask you a very basic question: What do you want?

Go ahead, say it out loud. Money? A new house? To fire your boss, quit your job, and work for yourself? How about a better retirement? More wealth for your kids? A summer in Europe? Longer sleep? Whatever it is, yell it out! (Unless you are sitting in a Starbucks right now, in which case, you probably shouldn't yell. But I'd like a tall extra-hot peppermint hot chocolate, please.)

Let me share with you one of my all-time favorite quotes. Michael Jordan (yes, *that* Michael Jordan) once said, "Some people want it to happen. Some wish it would happen. Others make it happen."

Which kind of person are you?

Now, there is nothing wrong with wanting things in life. Don't feel silly about identifying material things you want when you answer that question. Having goals is great—but it's not enough. You need action, too. You will need to get off your butt and change your world yourself, because no one else will do it for you. My goal in writing this book is to not only give you theory and hope but to also give you the tools and knowledge you need to reach your goals. You already know that real estate can change your life. Now it's time to learn how to make that happen. It's time to take action.

- Are you committed to taking action?
- Are you committed to dedicating your spare time?
- Are you committed to replacing daydreams with strategies?
- Are you committed to investing your money?

I hope you answered “yes” to all of these questions. And don’t worry if you don’t actually have the money, the spare time, or the knowledge just yet. If you are committed to giving this a try, I’ll help you get there. Remember, you are not doing this for me; you are doing it for *you*.

As you work through this book, I encourage you to not only read but also internalize every concept. Don’t simply pass your eyes over the words without understanding the concepts being explained. Reread sections if you need to. Ask other experienced investors about the topics. Share the lessons you’re learning with your significant other as you digest them. Question everything I say, and do whatever is necessary to have it make sense in your own mind. Take your time.

About Me

“If you do this, Brandon, you’re going to go broke, be homeless, and ruin your life. Please reconsider.”

This was not the response I was hoping for when I finally told my parents I wasn’t going to go to law school, despite months of studying and a strong score on the law school entrance exam. Instead, I had set my sights on becoming a real estate investor.

I had been raised in a “go to school, get a great job with a great company, and be responsible” household. I can’t fault my parents for this mentality—after all, this was how they themselves had been raised. My parents are incredible people who simply wanted the best for me, but I needed to do things differently. The path I had in mind was neither better nor worse—just different.

My entrepreneurial itch led me to the fascinating world of real estate investing, and specifically to rental properties. The idea of using my creativity in place of cash to build passive income exhilarated me. However, my ambitions hit an almost immediate roadblock with my parents’ warning of catastrophic failure. My tenants wouldn’t pay, they feared. I would have to deal with evictions. I would lose all my money, lose my properties, end up on the street, start dealing meth, and, for good measure, probably end up killing someone in a bar fight.

All because I wanted to be a real estate investor.

At that point, I was forced to face my future head-on. Do I abandon my newly discovered dreams and come back to earth? Should I suck it up, stop complaining, and go to law school? After all, my parents had a

point. A good law education pretty much guaranteed a good job. A good job meant stability. Real estate, on the other hand, didn't seem very stable. *What if* my tenants wouldn't pay? *What if* I had to deal with evictions? How could I survive?

Before giving up and accepting what seemed to be my fate, I turned to the only source I knew at the time to ask: Google, which brought me to this brand-new website called BiggerPockets. Suddenly, a switch flipped in my brain. There on the screen were other aspiring (and practicing) investors with the same questions and concerns.

More importantly, there were answers.

My entrepreneurial ambitions didn't necessarily mean I would end up a meth dealer wanted for murder. My quest for knowledge brought me to www.BiggerPockets.com, for which I now blog, design, write, teach, network, and have grown into the role of VP of Creative Content.

In short, I had discovered that all my questions had *answers*. There was hope. "Financial freedom" was not just a buzzword late-night charlatans used to sell their programs. Financial freedom was a real thing, enjoyed by millions of people around the world. And I wanted it with every ounce of my being!

So I quit my job, walked away from my law school applications, and jumped into full-time real estate investing, acquiring dozens of rental units over the next decade, moved to Maui where I have done a couple of house flips, and established a real estate investment fund called Open Door Capital that invests in large mobile home parks across the U.S.

And, now I am financially free. Because of my real estate investments, I'm able to live the kind of life *I* choose, not one given to me. As I continue to earn more money, I can pour that extra income into additional investments. My current investments are allowing me to buy more investments, a concept known as "exponential growth"—and it's awesome! Thanks to my rental properties, I am creating a fulfilling and rewarding future for myself, my wife, and our future children.

Most real estate authors and gurus tend to be reluctant about sharing information about their personal investments, but I say screw that! As of this writing, I have around 600 units, spread out over a dozen or so properties (including single family, multifamily, and now a growing collection of mobile home parks). In the beginning, I worked hard to acquire small deals, and now I try to pick up a few new big ones each year. My wife and I hire property managers to take care of our units so we don't have to

deal with the day-to-day stress of landlording, making our investments a lot more passive.

To help us keep our life sane and manageable, we collaborate with some invaluable individuals, including an assistant/finance manager, numerous contractors, and other professionals. We travel a lot, but in a modest way. We buy nice stuff, but we don't overdo it. We hang out with our friends and family every chance we can. And we absolutely enjoy life to the fullest. Real estate has been a major contributor to our lifestyle design. Furthermore, I am not done with my journey. I am not writing this book from the position of "back in the day, this is how it was done." I am writing it in real time, as I live the very life I'm describing. As I said before, this is a journey you and I are on together, and I still have more to learn. I'll make mistakes, screw up, get frustrated, and feel discouraged. I don't yet have it all together.

I hope that this book will be different than others on the market *because of this*.

I can't tell you how many books I've read by has-been investors who no longer invest and are teaching tactics that no longer work because the game has changed. I'm happy for them that they achieved financial freedom and were able to retire, but that's not me.

I only want to teach what I actually *do*.



ABOUT THIS BOOK

This book will likely ruin your life, as great books tend to do.

It will challenge the way you look at life, finances, and real estate. It will lead you to envision a different life for yourself, one not suggested by your parents, society, your alma mater, or the media. It will encourage you to step out and create a whole new path for yourself, one that *you* construct out of thin air. It will introduce you to numerous ideas, paths, strategies, and concepts for achieving financial freedom through rental properties. It will give you answers to questions you never knew to ask, and likely leave you with a few more questions I didn't think to answer (but don't worry, that's not a bad thing).

My goal with this book is to create the single greatest guide on rental property investing ever written. Trust me, I've read hundreds! In each chapter, I will explore one specific step in rental property investing, explaining it in depth and helping you understand how to navigate every stage of the process.

Whether you are just getting started or already own hundreds of units, I hope this book will help you make more income, retire sooner, unlock more free time, amass more units, or achieve whatever other goals you might have. Yes, this is an ambitious undertaking, but I am up for the challenge. Are you?

Finally, I believe one pass through this book will not be enough. I include so many lessons, tips, stories, and details that you'll likely

remember only 20 percent of what you read. Do you want to be only 20 percent prepared to take on your first (or next) rental property investment? I didn't think so! I therefore encourage you to read this entire book not just once but multiple times. You'll never look back at your life and say, "I sure wish I hadn't spent so much time preparing for my future." As good ole Abe Lincoln reportedly remarked, "Give me six hours to chop down a tree, and I will spend the first four sharpening the axe."

It's time to sharpen your axe. I'll see you in Chapter 1.

Your friend,

A handwritten signature in black ink that reads "Brandon Turner". The signature is written in a cursive, flowing style with a long, sweeping underline that extends to the right.

Brandon Turner



Chapter One

WHY I LOVE RENTAL PROPERTIES

“My mission in life is not merely to survive, but to thrive; and to do so with some passion, some compassion, some humor, and some style.”

—MAYA ANGELOU

My eyes were glued to the nine simple words I held between my shaking fingers in that dark all-you-can-eat Chinese buffet restaurant.

Surely it was a coincidence; it had to be, right?

Or perhaps someone was playing an extremely elaborate prank on us. No, that would be impossible. This *really* just happened.

It was a hot summer afternoon, several days after my high school graduation. My best friend Matt and I had decided to venture down to our favorite restaurant, a hole-in-the-wall Chinese buffet restaurant on the outskirts of Minneapolis, to grab an early dinner. We talked about life, girls, our college plans, our crazy friends, the latest small-town gossip, and all the other pressing issues that two 18-year-old guys in the Midwest typically discuss over sweet and sour chicken, fried rice, wontons, Jell-O, and unlimited soda refills.

As our conversation began to wind down, the tall, middle-aged waitress came to collect the dirty plates and drop off our check. Neither of us reached for the bill, though; instead, we reached for the two fortune cookies that lay atop the overturned invoice on the table.

“Brandon,” Matt asked, “as we grow up, do you want to live an ordinary life or an extraordinary one?”

As I held my fortune cookie, still in its wrapper, I thought about his question for a moment. I was an ordinary kid in an ordinary town, with ordinary grades, an ordinary job, and an ordinary outlook on life. Things seemed pretty good to me, so as I peeled the clear plastic wrapper off my fortune cookie, I looked Matt in the eye and replied, “I’ll take an ordinary life. I’m happy with that.”

In reality, I didn’t believe I could ever achieve something more than ordinary, so why kid myself? I could handle ordinary. I deserved ordinary. I was destined for ordinary.

I cracked my fortune cookie in half and carefully retrieved the white strip of paper nestled inside. Printed in red ink were nine words I will never forget: “*There is no such thing as an ordinary life.*”

Why Do I Love Rental Properties So Much?

It’s no secret that I love rental properties.

Sure, flipping and wholesaling properties might be fun. Notes and tax liens might have fewer tenants. The stock market might be more popular. But rental properties are my true business love.

Let me explain why.

Ability to Purchase with Leverage

Rental properties are great because you can borrow the bank’s or someone else’s money to increase the potential return. This is known as leverage. In other words, you don’t need to have 100 percent of a property’s purchase price on hand to be able to buy it. I’ll explain this more in depth later in this chapter, but for now, I’ll say this: Rental properties allow me to buy large properties for far less cash than I might need to purchase stocks or other investments.

Ability to Hustle for Greater Returns

Not only can I leverage my cash, but I can also leverage my time and

abilities to make magic happen in this game—something difficult to do with other investments. In other words: I can hustle. If I want to do the work needed to rehab a property, I can do that. If I want to leverage my networking skills to raise money, I can do that instead. If I want to leverage my knowledge and time to find better deals that provide an even greater return, I can do that. Rental property investing gives me the ability to hustle for my future.

Ability to Manage My Investment Directly

I'll fully admit I'm a bit of a control freak, and that drives me toward rental properties in a powerful way. With a rental property, I am directly responsible for the outcome of my investment. It is up to me to analyze a property before I buy it; it's up to me to ensure the property is in good condition to rent; it's up to me to ensure the property is running at peak performance. I don't have to depend on some board of directors in New York City for my life's direction. I can manage my investments directly and personally.

People Always Need a Place to Live

The real estate market will go up and down, but the beauty of rental properties is that demand will never end. People always need a place to live, so unlike investing in the latest tech trend or in your brother's start-up, real estate is an investment that will last. Furthermore, because increasing student loans are making qualifying for a mortgage more difficult, and our culture increasingly values mobility, the demand for rental properties will only grow over time.

It's Worked for Millions of People Before Me

Perhaps one of the greatest benefits to rental property investing is the proof of concept handed down by millions of successful investors before us. Since the dawn of human civilization, landlords have built wealth by owning and leasing out residential property. Today is no different. According to a joint survey produced by BiggerPockets and Memphis Invest in 2012, "One out of eight, or 28.1 million Americans, either consider themselves to be residential real estate investors or own residential investment properties today."¹

¹ <http://www.biggerpockets.com/news/pr/BP-MI-NewsRelease9-20-12.pdf>

Fairly Stable and Predictable

Yes, events such as the market collapse in 2007 do happen, but rental property owners who were investing for long-term gains did not suffer like those who were trying to be “fancy.” (Or as my good friend and fellow landlord Jordan says, “punk drunk on greed.”) Furthermore, I would argue that the 2007 real estate crash *was* predictable for those who were paying attention, because one of the defining characteristics of the real estate market is the boom-and-bust cycle that never goes away. Once an investor learns to identify this cycle, the old adage of “buy low, sell high” becomes much easier to achieve.

Incredible Variety

Rental properties also offer an incredible amount of variety within the asset class. I can invest in single-family houses, small multifamily properties, large multifamily apartments, office buildings, high end, low end, Section 8, transient, and any of a number of other options. Then, within each of those classes, I can find larger properties, smaller properties, ones that are newer, older, taller, shorter, ugly, beautiful, and so on. The possibilities are endless. As President Donald Trump once said, “It’s tangible, it’s solid, it’s beautiful. It’s artistic, from my standpoint, and I just love real estate.”

Simple and Straightforward

Although I’ll never claim that working with rental properties is easy, I do maintain that investing in rental property is fairly simple and straightforward. Sure, it involves more than just buying a piece of property and placing renters in it, but the strategies for success are not overly difficult to learn or master. To help, a tremendous amount has been written on the topic by those who have mastered it. Books (such as this one), podcasts, videos, blogs, forums, networking groups, mentorships, and more can be found to help you learn nearly everything you will ever need to know.

In addition, knowledgeable people are available to help. Several months ago, I ran into a situation I didn’t know how to handle (a tenant that smokes accidentally lit part of the outside of her house on fire yet claimed she hadn’t). I reached out to other investors on the BiggerPockets Forums and received some excellent advice on how to proceed—and it didn’t cost me a thing.

I Can Buy Below Market Value

I was raised by a “garage sale mom” who taught me the value of always haggling for the best deal. As a result, one of my favorite reasons for investing in rental properties is my ability to find properties that I can buy below market value. In other words, I can shop for a great deal! Finding properties that are worth \$100,000 that I can buy for \$80,000 truly excites me and is an integral part of how I’ve been able to build wealth so quickly over the past eight years. And I will definitely cover this strategy in more depth later in this book.

Insider Trading Is Legal

In the Wall Street world, there is a concept known as “insider trading,” which is when an investor makes a profit on a stock because he or she had access to some secret bit of information that helped him or her buy or sell at the right time. This practice is not just discouraged in the stock market, it is also illegal and can even land you in jail (just ask Martha Stewart). However, as a rental property investor, I can leverage any secret knowledge I can find to benefit my investments. If I know that a new light rail is moving into a neighborhood, I can jump in and swoop up properties before word gets out. If I hear that a major industry is leaving an area, I can get out of that area before the market declines. And unlike in the stock market, this is 100 percent legal and encouraged in the rental property realm.

Multiple Ways to Profit

One of the greatest benefits of rental property investing, especially compared with other real estate niches and strategies, is the opportunity to capitalize on all four of real estate’s major profit sources. This point is so important that I believe it deserves its own section, which follows next.

Not Having to Be Present to Make Money

Finally, I love the idea that I can make money without physically needing to be present. That’s called a “JOB,” and I want to avoid that. However, understand that real estate is not generally a 100 percent passive activity, but over time the systems you create can help you outsource most of the landlording process. The dollars will roll in whether you get out of bed in the morning or not.

The Four Wealth Generators

When I first decided to become a real estate investor, my inclination was to become a full-time house flipper. I love the idea of taking a property in disrepair and making it shine. However, I quickly realized that when I was flipping houses, I was building a job rather than an investment. Although I could make good money when I sold a property, I was capitalizing on only *one* source of wealth generation, and when I stopped working, the money stopped flowing. Then I discovered another investing niche that took advantage of not just one but of *four* different sources of wealth generation: rental properties. Those four sources are appreciation, cash flow, tax savings, and loan paydown. Let me explain each one in more detail.

1. Appreciation

When I was in high school, my dad bought himself a gorgeous 1969 Chevy Camaro with a convertible top, leather interior, and roaring engine. Lucky for me, he is a generous guy and had no problem letting his 17-year-old son drive the car around on special occasions, including a couple of proms. He held on to that car for about five years and sold it soon after I graduated, for roughly \$5,000 more than he paid for it. In other words, unlike the cars most of us drive every day, this car actually went *up* in value, as classic cars tend to do. In a way, my dad enjoyed the use of a classic American muscle car for free for five years, thanks to appreciation.

Now, by appreciation, I don't mean *enjoying* the car (though, yes, we did appreciate it that way, too). I'm talking about appreciation in the sense of positive financial investment. By its simplest definition, appreciation is an increase in the value of an asset over time.

- A muscle car worth \$15,000 in 1999 might be worth \$20,000 in 2004.
- A nice wine might be worth \$45 the day it was bottled but \$455 a few years later.
- A house worth \$100,000 in 1990 might be worth \$500,000 today because of appreciation.

There are actually two kinds of appreciation in real estate: natural and forced.

- **Natural appreciation** is the natural tendency for prices to rise over time. This kind of appreciation is tied to several factors, including inflation, scarcity, and good ole American greed. When the house your

parents purchased in 1955 could be sold 40 years later for ten times its original value, this is natural appreciation.

- **Forced appreciation** is also mentioned often in the investment space, and it's the concept of improving a property so the property's value becomes greater. For example, turning a two-bedroom home into a three-bedroom home can increase its value immediately. Adding a second bathroom can likewise increase its value immediately. Increasing the amount of profit a property can earn, especially a large multifamily property, can increase its value immediately. Each of these tactics involve forced appreciation.

As I mentioned earlier, when I flip a house, I capitalize on only *one* kind of wealth generation, which is appreciation (primarily forced appreciation). Rental properties capitalize on all four.

Great wealth *has* been built through appreciation, of course. I know numerous homeowners who bought a simple home in California 20 years ago and are now millionaires because of that one purchase. Appreciation is a powerful tool and something investors should seriously consider.

However, as great a generator as appreciation may be, it does have a dark side. In the early 2000s, the real estate market across the country was “appreciating” like crazy. People bought terrible properties and made a killing just on the appreciation. They began losing sight of the math behind an investment and simply bought whatever they could because they could always sell it for more later. “Who cares if the property loses money every month?” they thought. “I’ll just sell it in a few years and make so much more!”

This “greater fool theory” of investing eventually caught America with its pants down.

Prices stopped climbing, unemployment grew, and individuals suddenly realized that they were no longer holding on to investments but rather playing in the world's largest game of legalized gambling—and they had just lost. This plunged the world into the greatest recession most of us had ever seen and caused more than four million completed foreclosures.²

There's no denying the incredible role appreciation has played in investors' lives, but there's also no denying the risk involved in relying

² <https://www.corelogic.com/research/foreclosure-report/national-foreclosure-report-10-year.pdf>