3 Ways to Turn a House into a Cash Flowing Machine

Single family homes are not known for enormous cash flowing production but in this training, you'll discover three ways to transform a house into a cash flowing machine.

Using some creativity and intelligent marketing, you can turbo charge a single family house into a high performance money maker. You may have heard of one or even all of these techniques, but you may not realize just how powerful they can be to a real estate investor.

Highest and Best Use of a Single Family Home

The highest and best use of a single family home is as a primary residence for someone to live in.

The 2 best ways to typically turn them into cash flowing opportunities are:

(1) To build from the ground up and then sell to a owner occupant (this is what builders do)

(2) Find a great deal on an existing house and wholesale or purchase, renovate, and resell.

It's typically a lot more difficult to profit significantly from a single family home if you rent it out, because that's not its highest and best use. By contrast, a multi-family duplex, triplex, quad or greater, were designed for renting out so renting is their highest and best use.

Problems with Turning Single Family Homes into Rental Investment Property

There are several problems with renting out single family homes:

* 1. Single Unit Occupancy: When (not "if") a tenant of a single unit rental property doesn't pay their rent, the costs of that vacancy can be enormous. Rentals have lots of expenses like property taxes, insurance, maintenance, perhaps even a mortgage payment, so adding in the legal costs to evict a non-paying tenant can eat up all the positive cash flow that could be earned in a few years. The first major issue with turning a house into an investment property is that when the tenant stops paying, it can remove all the positive financial rewards for years.
* 2. Low [CAP Rate](https://en.wikipedia.org/wiki/Capitalization_rate): As rental properties, single family homes often have low Capitalization(CAP) rates. This is a commercial real estate term that compares the price of the property to the amount of money it earns. To calculate the cap rate, you divide the Net Operating Income (NOI) by the price of the property.

Net Operating Income is calculated by subtracting all the expenses (except for the mortgage payment) from the gross rent. For example, on a $1,000 a month gross rental payment, there may be upwards of $350 in expenses, from taxes to insurance to maintenance to management fees. So the NOI would be $650 per month, or $7,800 per year. The average house that rents for $1,000 usually costs around $150,000, so the cap rate would be $7,800 divided by $150,000, which comes out to about 5.2%, or what is called a 5 CAP. That is very low considering that most individual investors shoot for at least a 10 CAP.

NOT Changing the Structure

Since the highest and best use of a single family home is not as an investment property, and there are two major issues with turning a single family home into a rental, you have to find a way to overcome these hurdles. Some investors overcome these problems by remodeling the property into a duplex, bed and breakfast, assisted living facility, or special needs home; but for this discussion, changing the floor plan is NOT an option. Single family homes have some enormous benefits that would be lost if the property was changed from a true-blue single family home.

* Liquidity: Single family homes are the most liquid (easiest to sell) properties in real estate. By keeping the home in its most liquid form, you create much more safety in your investment portfolio because if disaster struck, you could get out much faster with the property remaining a single family home.

* Appreciation: Houses tend to appreciate faster than other real estate asset classes because their values are tied to owner-occupant supply and demand as opposed to NOI. Net operating income typically doesn't increase as fast as the market demand of home buyers wanting to own their dream home.

It's very important to not change anything about the property itself. Keep it as a single-family home so that it is ready for someone to move in and purchase the property as their primary residence.

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Instead of changing the property itself, you can solve this problem by being creative.  Here are three creative ways to overcome the major issues with turning a single family home into a rental property while not changing it from a single family home:

1. Student Housing:

If the property is in proximity to a college, you can rent to college students and not only remove the concern of vacancy issues, but also potentially increase the rent above market rate. This doesn't just work with big universities, either, it works for any small college too.

If you look closely, you'll be pleasantly surprised by how many colleges may be close to you. You can get the parents to co-sign so it is virtually guaranteed that you will collect the rent each month and if the tenants trash the place, you will have someone to sue to recoup the costs of the damages.

To increase the rents above market, you would advertise by the room (although you may have just one lease for all the occupants), and perhaps furnish the house and provide free WIFI. If a four bedroom house rents for $1,000 normally, you could advertise it as $500 per room and make $2,000 a month instead of only $1,000. There would be a cost for the furniture, but you could go to [Goodwill](http://www.goodwill.org/) to get it as opposed to [Rooms to Go](http://www.roomstogo.com/). And the WIFI wouldn't be free either, but the costs wouldn't be outrageous and it could become the "cool" off campus house that gets passed down year to year, securing positive cash flow for years to come.  A typical 5 CAP could turn into a 10 CAP as a student housing property.

2. Vacation Rental:

If the property is located in a vacation destination location it can be a huge cash flowing oppurtunity. To learn more on this topic, watch [How to Buy and Manage a Vacation Rental Home](https://www.freedommentor.com/vacation-rental/). Vacation rentals are typically rented by the night or by the week. Over the course of a month, the total rental income can really add up. This very same 4 bedroom we have been using for our example, could easily bring in $4,000 per month gross rental income. However, there would be several more expenses to pay including: utilities (water, electric, gas, cable TV, internet) and if not already furnished, some nice furniture and household items.

Even with the extra costs, the huge increase in cash flowing income far offsets the extra costs and what would normally be a 5 CAP could become a 15 CAP as a vacation rental. Another huge bonus of a vacation rental is that evictions are not an issue. Your guests are on vacation and most will have to go home because they have jobs, lives and responsibilities. You won't have to force renters to leave; they will move out on their own.

3. Rent to Own:

Since many houses are not in a vacation destination or near a college, another great way to increase NOI and reduce vacancy is by offering the house as a Rent to Own. First, you're going to get an upfront non-refundable auction payment. This is a payment you receive when your renters first move in sign a lease with you. The first document is the lease agreement and the second document is an auction to purchase the property at the agreed upon price. In order to receive this option, the renter must pay you an upfront non-refundable auction payment that can be $5,000 or more. Yes you can settle for $2,000 if you want to but if you're good at marketing you can get a whole lot more than that.

Many people have what is called, "mattress money", so they have that $5,000. Tax refund season is also a huge time of year for rent to owns. The next thing you do is push all maintenance on the tenants, because they are becoming the owner. If something goes wrong, they're becoming the owner of the house, so it is all them.

* Laws

Keep in mind that there are certain landlord and tenant laws that can supersede this. An example is when the air conditioning system goes out,  the landlord and tenant act can say that even though they signed an agreement that said they'd fix it, the landlord still has to fix it. That can happen, but for the most part you can push all of the maintenance off on the tenants. This will save you at least $100 a month in management, and another $100 a month in repairs. You're saving money with a rent-to-own because when there's no maintenance issues, the tenant handles it, so you are no longer receiving property management calls.

* Lower Rent

On top of the upfront money and no maintenance, you can also earn a higher rental amount. I will explain this further because it's not a higher rental amount normally, unless you structure your rent to own intelligently. When you do a rent to own, people are typically going to expect to pay at or below rental rate.  But what you can do is offer what's called rent credits. Not every state allows this, an example would be Texas and a few others, but you can offer rent credits almost everywhere.

* Rent Credits

Rent credits allow you to raise the rental rate, so if the normal rate is $1,000 a month you can bump it up to $1,200 a month and then give them a rent credit of say $300 a month. You might be thinking that this is not a great deal because you are giving them a larger credit, then the amount you are raising the rent. The big secret is that over 90% of the people that will do a rent to own will never exercise their option to purchase. Almost all rent-to-own tenants never purchase the property, because it is simply the way people are.

People typically don't have a better financial situation tomorrow than they did today. Those that aren't watching videos like this are not trying to improve their financial life, so the optimism they have when they move in is crushed by every day life. They assume that within a few years they will get a raise or a better job which will improve their credit and allow them to qualify for a loan to buy the rent to own, but that does not always happen.

A year goes by and none of these things have happened, in fact, often financial emergencies happen, and issues occur, that leave them in a worse financial position then when they signed the rent-to-own lease. Even if you try to help them by finding credit repair services and mortgage brokers, they will still be unable to qualify to buy the house. This is a fact of life and the rent-to-own investment business.  
With a rent to own, you can take the gamble of raising the rental rate in exchange for a big rent credit, because you know that 90% of rent-to-own tenants will not exercise the option to buy. If they never exercise the option to buy the extra $200 you make a month is positive cash flow. You have no maintenance, plus you raised the cash flow. All of a sudden the cap rate is approaching a 10.  
This is a great way to turn a single family home into a cash flowing machine anywhere. Every single family home will not be suitable as a vacation rental, or student housing, but a rent to own is always an option.

The worst case scenario with a rent to own would be that the tenants buy, but if you price it right, you will still end up cash flowing a lot.   It's a win-win no matter what. If only one out of ten of your rent to own properties ends up selling, you can take the money you earn and buy another property. I love the fact that I get money upfront that can help if their is a problem with the tenant, and I end up having to evict. It gives you the money you need to pay the attorneys, repair any damages, and get the person out of the home. The rent to own is also super exciting  
because so few people do it.

* Advertise

Put up a handwritten sign that says, "Rent to own," in big letters on the top. Put, "No banks needed," at the bottom, and then you can put your phone number and house information in the middle. If you put signs like this up around town, you will receive hundreds of phonecalls. You will actually have to set up a different phone, because it will ring off the hook. This works in rural areas and urban areas because there's a huge population of people that want to rent to own their own home and almost no one offers it.

When you put up these signs expect a lot of phonecalls and the majority of the people calling won't even have the job or money to be able to do a rent-to-own. You will have to filter through potentially hundreds of phone calls. I actually let these calls go to voicemail, where the message clearly states that you have to have at least $5,000 to put down, and $1,000 a month to qualify.

* Find the Right Match

You're going to have to filter through these people because you're going to get hundreds of phone calls. But the exciting thing is you won't have an issue with potential people, because there's no concern over the dearth of people that want to do a rent to own. This technique alone could greatly improve your cash flowing situation moving forward for every single family home investment. I think every creative real estate investor should offer rent to owns, because they will build you all kinds of wealth,  because when people move out you can easily move somebody else in.