How Much Debt Is Too Much When It Comes To Real Estate?

[Brandon Turner](https://www.biggerpockets.com/blog/contributors/brandonturner), Kiplinger.com

Recently, a question came in from a BiggerPockets Podcast listener asking, "I'm still unclear how the [BRRRR](https://www.biggerpockets.com/guides/brrrr_method?itm_source=ibl&itm_medium=auto&itm_campaign=guide) strategy would work, given that every property increases your debt load. Why would anyone keep giving you new loans as your debt balance keeps building?"

How Loans Work for Real Estate Investors

Well, let’s talk about that. First of all, some banks will stop you after four or after 10. There are limits. They were six for a while, then it was 10. Those are residential, single-family house loans. You typically can only have 10 of them, roughly.

Now, does that mean you can’t invest in more than that? Of course not. You can still find ways to do it. You can go portfolio loans, you can go private loans, blah blah blah.

However, the real core of the question besides the technical, what we’re getting at here is this: By buying more and more real estate, isn’t that just adding more and more debt to your life? Isn’t that getting dangerous?

Well, not if every property makes you way more money than it costs you. I have a friend who owns a Domino's Pizza. So they have a [loan](https://www.biggerpockets.com/home-loans) on their building. Their building costs them $2,000 or $3,000 a month they have to pay. And they have employees. That costs tens of thousands of dollars every month for employees.

But their business brings in around $50,000 a month in income and revenue. Guess what? They don’t own one Domino’s—they own 30 Domino’s. And they can keep buying Domino’s because every restaurant just makes them way more money than what they spend.

That said, the bank doesn’t go, “Nope, too many loans!”

No, they’re like, “Great, we’ll give you another one.”

The banks are begging them to buy more Domino’s. Why? Because they’re buying businesses.

That’s what rental properties are. They’re little businesses that produce extra money, profit, cash flow—that is, if you buy them right.

So, if you have a bunch of properties and you buy them all right, you just make more and more money. The bank thinks, “Oh, yeah, I like this person.”

How to Get Around Loan Limits

Now, what most people do to get around that 10 limit thing is they just get into [multifamily](https://www.biggerpockets.com/blog/2013-04-09-how-to-buy-a-small-multifamily-property?itm_source=ibl&itm_medium=auto&itm_campaign=opt). See, once you get above four units, you get into five-, 10-, 20-unit properties, well, then banks don't care at all.

Now there are still some requirements on the bigger deals, like they want you to have more and more liquid money, which means money just in savings. They also want you to have a higher [net worth](https://www.biggerpockets.com/rei/glossary/net-worth?itm_source=ibl&itm_medium=auto&itm_campaign=glossary). So at that point, you just start bringing in outside investors who have higher net worths.

We call them key principals. In Open Door Capital, my real estate fund, I have a key principal. His name’s Brian Murray. He’s also my asset manager. Brian has a way bigger net worth than I do. He has more liquid assets than I do. So, he’s able to help us get these big $5 million, $10 million loans. And so there’s always ways around it.

eople think that you’re just stuck, you hit a brick wall, but they’re never brick walls. It’s just a turn. It’s like you’re in a maze and you hit one wall, so you turn and you go this way. And then you hit another wall, and you go that way. There are always answers to these questions.

Now, if you’re buying a bunch of tennis shoes on credit cards and every credit card is costing you $200 a month, then yeah, that’s stupid, because that is a liability. It’s costing you money. And the more you have, the more and more money you’re losing. Just like if you bought 10 houses and every house makes you lose $500 a month, you can only do that so much until you’re broke.

But if your properties are making money, then you just keep making money more and more.