How to Avoid Over-Improving Properties (& Make Bigger Profits!)

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Beginners almost always over-improve their first properties. This leaves you with a very nice asset to look at, but it leaves profitability on the table.

I’m going to discuss how to know if you’re over-improving your properties when [utilizing the BRRRR strategy](https://www.biggerpockets.com/guides/brrrr-method). I want to explain it in a holistic manner, so that there is less chance to get caught up in the details of the improvements and lose sight of the overall strategy. I’ll describe how to go through the BRRRR flow so efficiently that the rehab portion becomes extremely simple. Focus on the big problems, and small problems take care of themselves.

Think Backward When BRRRR-ing

Most people think about the process as you move forward through it, but adjust that train of thought. Instead, start at the end and work backward.

The BRRRR method is buy, rehab, [rent](https://www.biggerpockets.com/blog/2013/01/04/how-to-rent-your-house/), refinance, and repeat. That’s how you go through the process in real life, sure. But it shouldn’t be how you design your strategy. In fact, if you plan things from a linear start to finish you, you might get yourself in trouble.

What I recommend instead is for you to reverse engineer the whole process. Before you even purchase the house, ensure you have strategically solved all the obstacles you may run into—like over-improving. Addressing them up front will reduce risks, increase your mental grip on the deal, and boost your confidence moving through it.

Start With the Refi

Plan the exit (refi) portion of your process *first.* That means making sure you’ve spoken to a lender before you purchase or bid on anything to make 100 percent certain that your refinance strategy is concrete. The number one hurdle people encounter is buying a house with the assumption they can refi, but after the rehab is done and the tenant is placed, they find out something isn’t lining up. Rookie mistake!

Talk to some lenders. Find one you like that can offer the type of product that allows you to complete your project. Then, have them look through your financials and credit to make absolutely sure that you’ll be able to refinance out the cash you put in based on an example house.

The lender will tell you which hurdles you may need to overcome, and they may tell you where your strategy is lacking. Maybe the house size is too small for the loans they offer. Maybe the house is too big to finance because of your debt-to-income ratio. Maybe you wrote too much off on your taxes last year. *Don’t assume you know what the lender will do*. Ask them at the start of your process so you can be certain!

Know Your ARV

I cannot stress this enough: You must know what a house will be worth when it’s done to a good degree of accuracy. If you get the ARV wrong, you very well may over-improve the asset. It throws your refinance off, as well.

I ask my Realtor to provide me comps. I then run it against fellow investors in the area who have houses nearby. (This is why you should always be networking with people who invest near you.) When I find out what their houses are worth, then I come up with the most reasonable—albeit conservative—figure. If you only ask one Realtor, you have a single point of failure. Do you really want to rely on this one person who *just so happens* to make money on this deal, even if you don’t? I’m not saying you *should not* trust your agent. I’m saying you *don’t have to* trust them. Cast a wider net to gather multiple opinions.

Once I have an ARV, then I can add in my rehab costs. My contractor will tell me what these costs will be, but as is the point of this article, we want to know what kind of rehab to perform for the most efficient use of capital. That’s the key: spending as much as you have to but not a cent more to get the property up and running.

Over-improving is a waste of resources and under-improving makes you a cheapskate, which will be [reflected in the type of tenants you get](https://www.biggerpockets.com/blog/2013/01/27/tenant-screening/). So, how do you find the right quality of rehab to deploy?

Improve to Market Rents

This is actually quite easy. I think most people get in trouble just from overthinking it—especially new investors who get excited about their shiny new asset and the emotional rush of the process. For long distance investors, you may have the urge to make your new property look like the properties where you currently live. Let’s avoid that, as well.

Before you purchase, you should know what the houses in the area rent for. Just like finding the ARV, you’ll check comps—and get pictures of them. Then, aim to make yours look like theirs. Ask your contractor for the budget to get there.

What I sometimes do is pull nearby rentals off Zillow or Craigslist, show the pictures to my contractor, and say, “Make it look like this.”

Does the house next door have tile? Does it have formica countertops? Does it have hardwood or laminate? Does it come with nice appliances?

Whatever the rental house next door has is what mine should have. Your contractor will give you the cost to get your house to proper market conditions.

There are obviously outliers to this. Sometimes I’ll find a 3/1.5 that I can make into a 3/2, or I can add a full bedroom from what was once a great room. If you’re doing bigger rehabs or changing layout, you still want to know what the end result market rent will be. That’s the final piece of the puzzle finding the market rent.

Find market rents the same as ARV—through your Realtor first, then use the internet. You’ll hopefully have investor friends to give you some insight, as well. Then, ask the person who is going to be collecting these market rents what they think the property will rent for post-rehab (that person being the property manager).

It’s so important to discuss the actual rent rates with whoever is going to be collecting them *before*you purchase. What if you get said property completed and the PM you lined up doesn’t think they can get that amount? What if the manager is just not confident about asking for top dollar on the deal? That fear alone can cost you! Line it up before the purchase.

So, before we have even bid on a house, we have completed the whole process, and we’ve designed it in a way in which the market tells us what to do instead of what most people do—which is*guess* and then hope the market will reward them anyway. By this point:

1. You’ve talked to your lender to make sure you have a clear strategy to refinance.
2. You’ve talked to your agent and found a solid number for ARV.
3. The property manager has explained what rent level you can expect.
4. And your contractor has told you how much that type of improvement will cost.

You have all the information *before*you’ve made the purchase. Your team has been involved in the deal from the start, so there is no way you can surprise them later with a lousy deal. They won’t have to figure out how to make a crappy deal work. Doing it backwards leaves little chance for you to over-improve this unit. How could it be easier?

Buy a House, Not a Home

The thing to keep in mind is to always buy a house—never buy a home. Here’s what I mean by that.

Part of the reason people over-improve rentals is because they get emotionally attached. It usually happens most on the first one, because every well-intentioned landlord wants to provide a nice building for their tenants. It’s when you choose to buy granite instead of formica, or when you put nice ceiling fans in, or when you paint accent walls in a cheap house. These are just examples, but the point is to make sure you don’t get attached.

Try to improve the property to the same level as the next closest neighbor—and no more than that. It’s one thing to provide a nice space for your guests, but you wouldn’t build a mansion in a trailer park right?

Extreme example aside, the principle is sound. If you own a mobile home park, stick mobile homes in there for people to rent.

The American dream teaches every kid that they are supposed to buy a nice home as they get older. They should buy the nicest one they can afford. If you’re reading this, you may not necessarily believe that, but it is part of our underlying cultural strata. People do act on that. People love to get attached to their homes, even when they are rental properties. But emotion makes for terrible financial decisions.

New landlords often over-improve their rentals because they want to be proud of them. I get it! But strive to be proud of your asset *and* proud of your income statement. Considering having a *home* as achieving the American dream is perfectly fine, but it’s a lousy investment strategy. If you want to buy profitable rentals, then don’t buy a home to love, just buy some houses and fix them up to make some cash money.