

REBWB CLIFF NOTES

Real Estate Without Bullshit

By Frank Bannerman-Menson

The Three Truths of Real Estate Investing

Truth #1: Cash flow is oxygen.

Without positive cash flow, your investment is a liability disguised as an asset. Never buy a property that can't breathe on its own.

Truth #2: You make money when you buy, not when you sell.

The purchase price determines your returns. Overpay, and no amount of appreciation will save you.

Truth #3: Real estate is a business, not a lottery ticket.

Treat every property like a small business. Track expenses, manage tenants professionally, and run the numbers honestly.

The Kill Switch Framework

Before committing to any deal, ask yourself:

- 1. Can I walk away?** If emotions are driving the decision, stop.
- 2. What's the worst case?** Calculate your maximum loss scenario.
- 3. Do the numbers work without assumptions?** Remove appreciation hopes and test with current reality.
- 4. Is there a clear exit?** Know how you'll get out before you get in.
- 5. Am I solving a problem or creating one?** Good deals solve problems. Bad deals create them.

The 5 Disqualification Criteria

Reject any deal that fails these tests:

| Criteria | Threshold |
|---------------------|-----------------------------------|
| Cash-on-Cash Return | < 8% = Walk |
| Cap Rate | < 6% in your market = Investigate |

| Criteria | Threshold |
|-----------------------|--|
| Debt Service Coverage | < 1.25 = Too risky |
| Vacancy Assumption | < 8% = Unrealistic |
| Reserve Fund | < 6 months expenses = Undercapitalized |

The Numbers That Matter

Cash Flow Calculation

Gross Rent

- Vacancy (8%)
- Property Management (10%)
- Maintenance Reserve (5%)
- Property Taxes
- Insurance
- HOA (if applicable)
- = Net Operating Income (NOI)

NOI - Mortgage Payment = Cash Flow

Key Metrics

- **Cash-on-Cash Return** = Annual Cash Flow \div Total Cash Invested
- **Cap Rate** = NOI \div Purchase Price
- **1% Rule** = Monthly Rent $\geq 1\%$ of Purchase Price (quick filter only)
- **50% Rule** = Assume 50% of rent goes to expenses (rough estimate)

Red Flags That Kill Deals

- Seller won't provide rent rolls or expense history
- "Pro forma" numbers that assume everything improves
- Deferred maintenance hiding in cosmetic updates
- Foundation, roof, or HVAC issues discovered in inspection
- Neighborhood decline indicators (vacancy rates, crime trends)
- Unrealistic rent increase projections
- Seller financing with balloon payments

The Operator's Mindset

1. **Discipline over enthusiasm** – Say no more than you say yes
2. **Systems over hustle** – Build processes that scale
3. **Data over intuition** – Trust the spreadsheet, not the feeling
4. **Long-term over quick wins** – Wealth builds slowly
5. **Walking away is a win** – Every bad deal avoided is money saved

Quick Reference: Due Diligence Checklist

- [] Property inspection completed
- [] Rent rolls verified (12+ months)
- [] Expense history reviewed (24+ months)
- [] Title search clear
- [] Insurance quotes obtained
- [] Property tax assessment reviewed
- [] Zoning and permits verified
- [] Environmental concerns checked
- [] Neighborhood comparable rents confirmed
- [] Exit strategy defined

The Bottom Line

Real estate investing isn't about finding the "perfect deal." It's about having the discipline to reject the bad ones and the patience to wait for the good ones.

The best investors aren't the most aggressive. They're the most disciplined.

REBWB - Real Estate Without Bullshit
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