EPISODE 643

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today our guest is Rachel Richards. Thanks for being on the show, Rachel.

[00:00:33] RR: Yeah. Thanks for having me, Whitney.

[00:00:35] WS: Rachel retired at age 27 with over $10,000 per month in passive income and we're going to learn today how she did that and just what passive income is. She's the author of two best-selling books on financial literacy, a real estate investor with almost 40 rental units.

Rachel, thank you again for your time being on the show with us today. I'm really looking forward to hearing your story. I love stories like this, especially at 27. I mean, that's what everybody dreams about, right?

[00:01:05] RR: Yeah, it's crazy. I never imagined I would retire this young, but here we are.

[00:01:10] WS: Give us a little more about that story, or I know we want to jump into it, but let's go back a little bit. Is real estate always been a dream of yours? Was it something that somebody – you saw somebody else do when you were a teenager? Get us started a little bit.

[00:01:26] RR: Yeah. I mean, even since a young age, I've been a total finance nerd and really interested in how to create a lot of money. I was an avid reader all throughout middle school, high school, college. I'd learned a lot about real estate investing. It's something I always wanted to do. To me, real estate investing is one of the best tools for building long-term wealth. 2017 is when my journey of creating passive income started. At the beginning of that year, my husband and I had zero dollars in passive income. That year, we invested in our first rental property. We purchased our first duplex. Then later that year, I wrote and published my first best-selling book, *Money Honey*.

We had these two passive income streams; rental income and royalty income. We focused on growing those as much as we possibly could over the next few years. Fast forward to today, we now have almost 40 units. Last year, I just launched my second book. My book royalty income has increased significantly and that is how I was able to quit my job and retire last year at the age of 27.

[00:02:30] WS: Wow. Okay. How did you educate yourself and what pushed you into real estate at that time? I mean, most people are pursuing some type of career, or corporate career, some other type of avenue. What was it for you?

[00:02:43] RR: Yeah. I've had a pretty varied background. I started as a financial advisor. Even before then, I was reading tons of books. That's primarily how I learn anything. Then I was licensed in my series 7, series 66 license to help people invest. Then I actually took a job in a real estate position, where I was working for somebody who was flipping properties. I took the job because I knew I wanted to do it myself, so I figured this is going to be a great learning experience for me. I ended up getting my own real estate license just for the sake of me purchasing my own investment properties. That's how I really got into real estate investing.

[00:03:21] WS: Okay. Now you've got the bug. You're like, "Okay. We're going to do this." You're educating yourself. I guess, first though, give us a couple key things that helped to educate you and even – yeah, let's start there. What were you reading? What was educating you to make you take action like that?

[00:03:36] RR: I think one of the first books I read about real estate investing was *Rich Dad Poor Dad*, because he talks about it. Then I was like, "This sounds really cool." Then from there, I have read all sorts of books. One of my favorite books about rental property investing specifically is called *Hold* by Steve Chader and the McKissacks. It's so, so good. I still use some of their templates to do analysis. Those are some great resources.

Then, one of the things you have to be really good at from the get-go is doing your projections and doing your financial analysis. It's important to have a really great spreadsheet, or calculator, or some type of resource where you can project out, “Okay, here's how much I think I’m going to be able to rent the property for, here's the vacancy, here's all the expenses.” Then being able to look – The two metrics I look at are the cash-on-cash ROI and the capitalization rate. I focus on those two things, and the cash flow.

Other investors focus on a lot of other metrics, but in my opinion those are the three main metrics to focus on. I just think having a good understanding of those, what those are and being able to accurately project out your rental income and expenses, that's really important.

[00:04:46] WS: Okay. Yeah, and projecting things like that. Any other tips for projecting those items? Maybe you could list those again, what you said were most important to you.

[00:04:55] RR: Yeah, the rent revenue, you have to project. The way I do that is I basically look on Craigslist and Zillow to see what are the other active rentals to come up with a pretty good estimate. Then I always make it conservative. If everything else out there that's similar to my property is renting for 800 a month, I’ll just be a little conservative and maybe I’ll estimate, okay, I can get 775 a month for this unit. You have to take into account the vacancy rate as well, because it's not going to be rented 365 days a year. You're going to have some turnover, so you really need to account for that.

Most investors use an 8% vacancy rate, which means that the property would be vacant for one month out of the year. Now, I think that's very conservative. I’m hoping my properties are never going to be vacant for a month, but I always estimate it that way that just because it's better to be conservative.

Then you have all of your expenses. This is where a lot of first-time investors make mistakes is where they estimate their expenses, because it's easy to think, “Oh, my rental income minus my mortgage payment and then that's my profit.”

In reality, there are a lot of other expenses out there that you need to think about. For example, utilities and lawn care. Are you going to pay for that, or is the tenant going to pay for that? Also, think about things like HOA fees, maintenance and repair, capital expenditures. I always tell people, you have to budget in an expense for a property manager, because most likely, most of us don't want to quit our jobs to become full-time landlords. To make rental income truly passive, you have to have a property manager in place.

Even if you're not going to hire one from the get-go, just budget that in to make sure the numbers will still work. That's what I start with to estimate my net cash flow. Then from there, I like to look at the cash-on-cash ROI, which basically takes your annual profit divided by your initial investment. That is an important metric for me, because I want to at least be able to beat the stock market. To me, it's what's the point of investing if I'm not going to get a higher return than what I could get in the stock market? I've always aimed for a minimum of a 12% cash-on-cash ROI.

[00:07:08] WS: Okay. I was going to ask you what that would be, or what that figure would be. The $10,000 a month in passive income, is that all from rentals, or mostly rentals?

[00:07:17] RR: It's actually closer to $15,000 a month now. I would say in a normal month, not during coronavirus, but in a normal month, we are profiting anywhere from $7,000 to $12,000 per month from the rentals. Then my book royalties make up the other big chunks. In February, I just had my first $7,000 month in book royalties.

[00:07:39] WS: Congratulations to you. That's awesome. What about getting to that point though on the rental side, how did you – a lot of people have trouble, especially buying the first one, right? Then the second, or the third, or the fourth, how did you make that happen? Did you all have the capital, say to put down? Did you have investors? What did that look like?

[00:07:59] RR: Yeah, so that's a great question. I'll rewind back to college. Have you heard of Cutco Cutlery? Cutco knives?

[00:08:06] WS: No, I have not.

[00:08:07] RR: Okay. They are knives made in America and it's a direct sales company. I was selling Cutco knives all throughout college to pay for school, because I knew I was going to pay for it on my own. I was able to graduate without debt because of that. Then my husband is a Navy veteran. He used his military benefits to pay for his college. We both graduated and didn't have any debt. That was really important to get us started in terms of being able to save a lot of money.

Now, I haven't received an inheritance. I've never made six figures, so it's not about making a ton of money necessarily. It's just about living frugally. Even when I was making $32,000 after college, after I graduated, I was still finding a way to save 50% of my income. I was able to save money pretty quickly just by being frugal. It didn't take long for my husband and I to amass a certain amount of money to buy our first property.

The other thing we had going for us is that we were investing in Louisville, Kentucky. That's a great place to invest. Anywhere in the mid-west, housing prices are cheap. It's a low cost of living. Our first duplex only cost a $100,000. My husband and I, we both put 10 grand each in so that was our $20,000 down payment.

Then the third thing going for us and this is really how we were able to scale and get to almost 40 units in a period of two or three years is that I had my real estate license. I only had it for my own purposes, to represent myself as my own buyer's agent. The great thing about that is that every time we purchased a property, I would then get a really large commission check back from being my own agent. After the duplex, I got a check for several thousand dollars, then we continued to save the way we were already saving and we had the additional cash flow. It didn't take long once we started going to gain momentum and be able to buy properties quickly and more quickly after that.

[00:10:07] WS: The commission that you would receive from buying your own properties, ultimately would help you to have a down payment for the next property?

[00:10:14] RR: Yeah. I mean, we would deplete our savings to buy the property. Then I would get this commission check back and that would begin the process of savings again. It just gave us a lot of momentum to purchase the next one pretty fast.

[00:10:28] WS: Are there any specific details about the properties you were looking for for them to be able to cash flow that quickly as well?

[00:10:35] RR: Yeah. I mean, I was just – I mean, the first thing you always look for is location and there were certain locations that I thought were appreciating and growing really good opportunities to invest in Louisville, so I narrowed it down to that first. Then it was just all about the numbers. Whatever worked within my guidelines, I would be willing to make an offer on.

Again, my cash-on-cash ROI requirement was at least 12%. We were able to get I think a 15% ROI on our first property. As we've continued to grow and scale and purchase larger properties, our requirements have gone up a little bit, because it's been easier as we've scaled up. Then the other requirement that I wanted was at least $200 in cash flow per door, like in profit per door per month.

Again, these numbers are great. I’m investing in Louisville, Kentucky. You can't get these numbers everywhere across the country, but it's great to invest in the Midwest. The first duplex we purchased, we were cash flowing right off the bat $500 per month, so 250 per door. We did a renovation and everything. Just a couple years later now, it is cash flowing closer to $800 or $900 per month. It's really been a great investment for us.

[00:11:46] WS: Good for you.

[00:11:47] RR: Thanks.

[00:11:49] WS: You mentioned earlier, living frugally. A lot of people say that, but could you give some examples, because people don't realize maybe the struggle, or some sacrifices that a lot of people make to ultimately reach success and having that long-term picture in mind and people think it's going to happen tomorrow. My wife and I, we've experienced the same thing. I just wonder from your standpoint what that looked like for you and your husband and maybe some other sacrifices, or struggles that you all had to make or work through to make this happen.

[00:12:22] RR: Yeah, it was a lot of sacrifice. Before I met my husband and I was still single, I was living off – so I was making $32,000 and saving 50% of that. I was living probably as cheaply as you could. One of the things I did is I went on some of these room finding websites and I found somebody who was just renting out a room and a bathroom. I rented from them directly.

I think I was paying $400 or $450 per month flat for my housing and utilities, so that was super, super cheap. Yes, I don't have all my own space, but it was perfect to do early on. I also didn't have a gym membership, so I was just working out on my own, running outside, doing push-ups and squats and all those things inside. In terms of eating out, I pretty much never was going out to restaurants. If I did, I mean, sometimes I was that crazy person out with my co-workers, or friends and I would just drink water and I wouldn't eat or drink anything.

I know that sounds bizarre and I know not everyone's going to be willing to go that extreme, but at certain times in my life, I was willing to be that extreme and I just didn't care what people thought. I'm glad I did that then, because now I can enjoy a much higher quality of life now. Then later on when Andrew and I met, my husband and I met, the sacrifice was less on the finance side and more on the time side, because we were both working full-time, we were looking for rental properties and managing our rental properties on the weekends and I was writing my books in the evenings.

For probably a period of two years, we were both working 80-hour weeks, that was to me a much bigger sacrifice because it meant not as much time with our family and friends, not as much quality time together. In some ways, it could have been better, I think, if we'd slow down a little bit, but now that we're financially independent and enjoying this lifestyle now it's hard not to say that it wasn't worth it, because we have a lot of freedom now and that's been great.

[00:14:23] WS: I can relate to that 100%. I'm glad you brought that up, just the sacrifice on the time side and I think that's financially is the sacrifice that most people first think of, right? You don't think of the time commitment and working that 80 hours a week and really committing to that. Are you willing to do that and thinking through ahead of time? Let's jump in a little bit to the – I know you mentioned importance of income diversification and what passive income really is. I'd love for you to elaborate a little bit on that.

[00:14:54] RR: Yeah, for sure. Passive income, the way I define it is that it's money that is earned with little to no ongoing effort. It's no get rich quick scheme. As we both already said, it does take time or money to create. Once you have your passive income in place, then it becomes a lot more hands-off. I had this epiphany several years ago that once your passive income exceeds your living expenses, you're retired. You're financially independent. That's what we started working towards.

I think that there is a common piece of advice, or just statement that's said to young people that I don't agree with. That is that having a full-time salaried position equates to job stability and income security. I don't agree with that, because if you are 100% dependent on a single source of income, that's not secure. What happens when you lose your job when your hours get reduced? We're seeing this happen now in the middle of this coronavirus crisis. That's where I talk about the concept of income diversification. This just means having multiple sources of income. That way, when one of your income streams is impacted, you still have other things to fall back on.

I'm the perfect living example of this right now, because my rental income has been significantly impacted from coronavirus. In a normal month, I think I said we make anywhere from 7 to 12 grand a month in profit from our rentals. On April, we only made $1,000. Now there's a lot of landlords –

[00:16:23] WS: That's significant.

[00:16:24] RR: A significant loss, yeah. There's a lot of landlords that are worse off than that. There's a lot of landlords that are doing better than that. The way I saw it at the time is hey, if I just break even for a few months and that's my worst case scenario, I'm totally fine with that. Since April, our incomes jumped way back up. The thing is I wasn't in a total panic in April that I had lost all that income, because I had three other passive income streams keeping me afloat. I just think that's a perfect lesson of why income diversification is so important. You never want to be operating out of a place of panic, or desperation. Just try to do what you can do now to get other income streams in place.

[00:17:03] WS: No. That's such good advice, such good advice. Yeah. I still couldn't agree with you more about just people thinking that their job is secure. There's security in that. I was raised that way, to think that you have a good education, you get a good career, go up the corporate path and that way it's secure. But like you said, I think a lot of people have learned just over the last few months that job is not as secure as you may think.

Some big mistakes; you mentioned some big mistakes potentially that you've made over the last few years. Maybe you can highlight a few of those before we have to move to some final questions.

[00:17:41] RR: Yeah. I mean, they're pretty funny. It's hard not to be hard on yourself and after the fact, because I look back and I'm like, "What was I thinking?" I mean, that seemed so obvious. My biggest mistake was hiring my property managers. I learned that this is not a place to be cheap and to skimp. We had this couple that was working for us for our rentals. They were doing cleaning, some of the maintenance, just some oddball jobs for us. They were the hardest working people I have literally ever met. They always went above and beyond, always had great attitudes and everything.

The very first property manager we hired, she just didn't work out because she wasn't doing a good enough job and that's fine. Then we decided, well, let's try to hire this couple. We weren't going to do the property management company thing, because we figured we can hire a real estate agent, or hire a couple people as employees, be a little bit more hands-on with them that way and be able to pay less money than a property management company would cost.

We hired this couple. They were really excited about the opportunity. Everything started off great, of course. Then fast forward six months later and my husband went to the lock boxes to collect rent one Saturday morning and he noticed there was a lot of rent missing. It wasn't just the normal, "Oh, this tenant is late type thing," there was a lot of rent missing. Of course, we called them, we called them. They totally just disappeared.

It was about $6,000 of rent that was stolen that they stole and they left that weekend. Then we found out that they had been squatting in vacant rooms on our property for at least an entire year and stole our master key. We had to get every door in every property re-keyed. The total damages were 20 grand and there's a warrant out for their arrest of course.

I'll tell you this, I can laugh about it now genuinely, because it's almost funny. At the time, it definitely was not fun at all. It was a big learning lesson for me, because there are places where yes, try to be cheap, try to be frugal, but then there are places where it's absolutely worth it to spend more money. I learned that property management is one of them, because here's the thing, if we had hired a property management company and they were licensed and bonded and insured and one of their employees did that to us, they would have been on the line, not us. Instead, we're out that money.

I bring that up now, because it's a little bit embarrassing, but it's always good to say it for other people that are new to investing to just learn from my mistakes. Don't make the same mistakes, please.

[00:20:11] WS: Wow. I appreciate you sharing that. I was going to ask you how you keep that from happening now, but do you all hire a professional management company now moving forward?

[00:20:20] RR: Yeah. We're in the process of interviewing them. In the meantime, I have a family member back home that I trust completely. Anything that we need them on site for, like signing a lease, they're going to go do that until we can get a company in place.

[00:20:34] WS: Okay. Wow. Yeah, that's hard. It's hard lesson. No doubt about it.

[00:20:39] RR: It is. The way I see it is wow, I paid a lot of money to learn this lesson and that's great. That was my investment in my education.

[00:20:46] WS: Yeah. Yeah. I meant to ask you too earlier, working 80 hours a week is not easy, especially after you all are married and e you're doing all this and you're both hustling as hard as you can go. How did you stay motivated? How did you both stay onboard moving forward with this?

[00:21:06] RR: Oh, gosh. I'm really glad you asked, because there were some really, really hard times with this. I think any entrepreneur, or business owner can relate to that feeling of burnout, because the thing is once I quit my full-time job, I was like, "Oh, this is going to be great. I'm going to have so much time." Then the opposite of that happened and I was working even more, because when you're going into a job, you go in at 8 and you leave the office at 5 and you go home. There's these clear boundaries of when your work day starts and ends.

When you're working for yourself or you're an investor or business owner, you don't have those boundaries anymore. It becomes a lot more difficult to have start and end times to your work day. Not only that, but with my book Business Specifically, it's my passion and it's what I love to do.

After I quit my job and I was spending my time doing that, I was like, "Wow, I can do this 12 hours a day and be totally happy. This is great." I've had to be a lot more protective of my time. There definitely were times throughout that journey that I suffered from anxiety and burnout. I really had to get clear on prioritizing my mental health over anything else.

One resource that really helped me through that dark time that was pretty hard is the book *The Miracle Morning* by Hal Elrod. I'm a huge Hal Elrod fan. I actually feature him in my book *Passive Income Aggressive Retirement*. Hal talks about the importance of a morning routine and how starting your day intentionally and with positivity can impact your day over and over again. When you have great days over and over again, that can change your life. I started doing some of those things; meditation, affirmations, journaling and that's really helped me stay centered and be able to prioritize what's the most important.

[00:22:51] WS: Any other things as far as prioritizing your mental health that you could help us with?

[00:22:57] RR: Yeah. I mean, one experiment that I do on a regular basis is I track my time. Have you ever done this?

[00:23:04] WS: No. Please explain. I mean, I track my time a little bit, but probably not the way you're going to say it.

[00:23:09] RR: It's horrifying. It's eye-opening. When I was dealing with anxiety, I decided – I had actually gone to a conference, I saw Hal Elrod speak. He's been really public about his struggles with anxiety as well. He said, I had to learn to put my values, which for him and for me both, were health, family and freedom. He was like, “I had to learn to put that above anything else.”

One thing he said was when his kid's school schedules came out the following year, he started canceling speaking contracts and cancelling engagements, something he had never done before. He was like, “I have to commit to living 100% in alignment with my values.” To hear him have the courage to do that, that was really monumental for me. I finally felt I had the permission to say that I’m in complete control of my time.

Coming out of that, I did this exercise where I tracked my time in 15-minute intervals and I looked at all the different things I was spending my time on. Then I looked at my values which were my health, my family and freedom. I looked to see which one of those activities was meeting all those values, and which activity was not meeting any of the values. That was extremely interesting to see the results on this page that I had written up.

For example, meditation was something that added to every single value. Watching TV did not have anything to do with my values. My husband and I decided to do an experiment, where we stopped watching TV for 30 days. Just that one thing had more of an impact on our well-being and our marriage than anything else, because we replaced that time with quality time, or doing actual meaningful things, or just resting and recharging. Yeah, that's been a huge activity. I recommend every entrepreneur do that a quarterly exercise.

[00:24:56] WS: What do you use to track your time? Do you use an app, or do you just write it down?

[00:25:00] RR: I just write it down. I'm old fashioned. I just write it down on a piece of paper, or in my bullet journal which is my favorite resource.

[00:25:09] WS: Great advice, Rachel. I think we lose so much time don't we, just messing around or doing other things? You don't realize it if you don't write it down or track it in some way. Just a few final questions. What's a way that you've recently improved your business other than property management that we could apply to ours?

[00:25:26] RR: I would just say, you have to really discern between what's an actual emergency and what's not when dealing with tenants. Oftentimes, tenants will come to us with problems. Here's the biggest thing that you can say to your tenants that will just totally change things, especially if you're managing your own properties. You can ask them, "What do you want me to do about it?" I don't mean that in a mean way. I mean, that in a genuine way like, "Hey, so and so, what do you want me to do? How can I help?"

Because once they actually think through that, a lot of the times they'll be like, "Yeah. Actually, I don't I don't know if there's anything you can do." We'll be like, "Okay." Because a lot of the times, tenants will call you just to vent, or complain about another person in the building. If you can just say, "Hey, yeah. What can I do? How can I help?" Then a lot of times they'll be like, "Oh. I don't really know if there's anything you can do." That solves 80% of our problems, just that one question. I would say ask that and just really understand what's an emergency and what's not and protect your time.

[00:26:23] WS: What's the number one thing that's contributed to your success?

[00:26:27] RR: Knowing when to help – turn to people for help, or to pay money for help, because as a perfectionist, I'm a control freak. I'm a type A person. I tend to want to do everything myself and that has really held me back in certain areas in my life. I've had to overcome some of these limiting beliefs and these mental obstacles and also be okay with spending money, because you have to spend money for help and to outsource things. Knowing that if you do that, you're opening up your time for bigger and better things and that's ultimately a really, really great investment. I think that's been the biggest thing.

[00:27:04] WS: How do you like to give back?

[00:27:07] RR: There's a charity that I donate to called Front Row Foundation and I love it. It's like Make-A-Wish. Make-A-Wish is for giving children experiences if they're near end of life and Front Row Foundation does the same thing but with people of all ages so it's a really great charity.

[00:27:24] WS: Rachel, I'm grateful for your time. Pleasure to have met you. It's been great to hear your story. I love these stories of just people who have made it happen. Even if it took 80 hours a week and not downplaying it. I mean, telling us exactly just how difficult that was and some sacrifices you all had to make, even up to how you prioritize your mental health and which I agree is so important. Tell the listeners how they can get in touch with you, learn more about you and also learn more about your books.

[00:27:52] RR: Yeah. Thanks, Whitney. Both of my books are available on Amazon and Audible. *Money Honey* and *Passive Income Aggressive Retirement*. They're in eBook, paperback and audio. Then I will give your listeners my passive income starter kit for free. If they want to sign up for that, you can go to moneyhoneyrachel.com/bonus.

[END OF INTERVIEW]

[00:28:13] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes.

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[OUTRO]

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