EPISODE 1469

[INTRODUCTION]

Whitney Sewell (WS): This is your Daily Real Estate Syndication Show and I'm your host, Whitney Sewell. Today we packed a number of shows together to give you some highlights. I know you're gonna enjoy this show. Thank you for being with us today!

[INTERVIEW 1]

WS: Our guest is Rachel Richards. Thanks for being on the show, Rachel.

Rachel Richards (RR): Yeah. Thanks for having me, Whitney.

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?

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

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.

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.

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?

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.

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?

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.

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.

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.

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?

RR: It's actually closer to $15,000 a month now. I would say in a normal month, not during the 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.

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?

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

WS: No, I have not.

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 the 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 $100,000. My husband and I, 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.

[INTERVIEW 2]

WS: Our guest is Alex Breshears. Thanks for being on the show, Alex.

Alex Breshears (AB): Thank you for having me.

WS: Yeah. Honored to have you on, and I think we met a long time ago, I can't remember exactly where, but we met… It's interesting how we meet people in this business and our paths crossed again, so it's great to have her on the show, but a little about her, she's a private lender, passive investor, Regal plus fund investor, relations manager, and community builder, she hosts daily discussions, weekly educational advance and monthly networking events in her Facebook group, private lending lessons that aim to teach people about private and lending and other forms of passive investing, which we're all interested in passive investing.

That's for sure. I know all our investors are… And how do I do that? How do I do it the best? How do I minimize risk? How do I get the most gains? All those things, right? So Alex, welcome to the show.

AB: Thank you.

WS: Yeah, give us a little about this… your passion now to help other passive investors and how you're doing that, and how you're helping educate them as well.

AB: Absolutely, so it kind of became a merge of two different worlds, and it was just a perfect storm with covid, so I'm a military spouse, which means I'm sitting to my 19th address in 20 years. So geographical freedom was kind of always forced upon us, we had some entity in our life that was gonna give us two weeks for warning we were moving across the country, so building age for additional career, as you might imagine, was not really possible.

My graduate education is in organic chemistry, so I'm a Chemistry professor, my normal kind of W2 job, so that is obviously not very transferable if you're moving to places like Kodiak, Alaska, where there isn't a community college, even on the island. So that kind of led me on a hunt to what can I do to still be empowered financially, because the military actually calls us dependents, which I thoroughly hate, so I wanted to have something where I was contributing to the household financially.

It was keeping me mentally occupied, and then when covid hit, it shut the world down, a lot of the hard money lenders just shut their doors, I said, we're gonna take a beat. We're gonna figure out where the economy is going, and just again, like you mentioned, networking a little bit earlier, I was in a virtual breakout room with some people in a networking event, and somebody mentioned that they were gonna miss out on a deal here in Hampton Roads

because they're a hard money lender, I was closing their doors and said, you're gonna have to find somewhere else to go.

And it just literally worked out that he was the type of borrower I would wanna work with, that he had the property that I would wanna lend on, it was a minor rehab as far as rehabs go. So we could be in and out of it pretty quickly. And I told him, I was like, You know what, if you can give me two weeks to get all the paperwork in a bank account and get everything kind of established, I was like, I'll fund the loan, I'll do the loan. I was looking for something that would allow me to still follow my spouse around the world, should that be needed, but still invest in real estate.

WS: Interesting, you saw an opportunity there, right, and you wanted to figure out a way that you could capitalize on and help us another person also. Tell me about hard money lending versus just investing in this indication, why one or the other, or why… But how did you make that decision?

AB: It actually kinda came about, honestly, kind of by accident, I used to work for a hard money lender way back when, about 20 years ago, back when you had to physically need the borrowers out of the property and they were physically filling out a 10-03 and walking the property, you see the scope of work, Google Streets wasn't a thing back then.

So I kinda got to see the property purchasing investing process from the other side of the table where most people do come into real estate investing, buying their first rental or doing their first fix and flip, I actually came in on the other side doing the funding for those properties, so I kind of knew that we had a couple of rentals, we'd done a couple of fix and flips, we did not enjoy it. We just… that just didn't suit our skill set, it didn't suit our lifestyle.

And I knew at some point when we went back into investing in real estate that lending was the side of the table I wanted to be on, like you mentioned with syndication, you're on the debt side, you're not on the equity side, so you're not getting any of those wonderful tax benefits, if you happen to be a high-income earner, that you do get traditionally in syndication, if your operators doing cost segregation, bonus depreciation, all those things, so we actually kind of marry the two, so we do private lending to be on the debt side, and then we do invest in syndication as an LP for in the equity play in it.

WS: Nice, would you just give us a 30-second example of like a hard money… A hard money lending, like what that is in case the listener is not familiar with that term.

AB: So there are two different things, so there's private money lending, which means that the individual has direct control over the funds, whether it's their money, money from friends and

family, money they've managed to pull together whatever it is. And that hard money traditionally is they are brokering out funds or they have some sort of restrictions on the funds, whether it's a warehouse line of credit from a hedge fund in New York, they're doing white label funding for another company.

So they kind of… It sounds like a minor difference, but what it really boils down to is the level of flexibility, so in private lending, when you're an investor talking to a private lender, you're talking to the process or the underwriter, you're talking to the decision maker, because it's our money that we are putting forth for the closing, when you're talking to a hard money lender, they have the… they have to check all these boxes, you have to have above a 680 credit score, can't go over 65 LTV, they don't allow second liens.

There are all these parameters because they are in essence, borrowing money underneath that framework saying, This is how I will do loans in the future, so that's kind of the big difference between private money and hard money.

WS: The passive investors that are listening right now, should they consider hard money lending?

AB: I would say if they felt it fits their parameters and their goals, so just like every other style of investing, it's got its pros and its cons, tends to be very front and heavy, so you're gonna spend a couple of hours of doing due diligence on the borrower, maybe going driving by the property, if you're local, depending on your risk tolerance, you might not care, but the big thing is really getting an attorney involved very early to have your documents drawn up.

You need to make sure you're staying within usury laws, and then once I've kind of done, a lot of private lenders that I personally know tend to work with the same investors over and over and over again, so over time, the business model tends to be a lot more set it and forget it, but the very beginning is gonna be a lot of learning, it's gonna be like drinking from a fire hose. It's gonna be a lot of learning and just getting out there networking with people, trusting your borrowers, doing some background on your borrowers, and then waiting for your monthly interest-only payment to come in, if that's what you're doing.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell: Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about Real

Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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