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**Hosted by: Doug & Andrea Van Soest**

# Episode 10 – Building Cashflow for Financial Freedom

**Andrea**: Shelter never goes out of style.

**Doug**: People always want a roof over their head and a place to live.

**Andrea**: They need it.

**Doug**: And so why not provide that for them?

-- Intro/Music --

**Doug**: Welcome to the Spouses Flipping Houses Podcast. This is episode 10. So excited to be here today and so excited to bring this episode to you. Andrea, my partner in crime across the table, how is it going?

**Andrea**: It's going good. How are you?

**Doug**: I'm doing well. I had the flu all weekend, so I've been a big grump.

**Andrea**: So you're really not doing so well?

**Doug**: I'm getting better now, feeling better today.

**Andrea**: Yes, you're amongst the living. That's good.

**Doug**: I'm amongst the living, and I'm getting stronger everyday. So hopefully by tomorrow I'll be back to 100 percent.

**Andrea**: Well I hope so, because we are headed to a mastermind meeting that I am super excited about, and I need you.

**Doug**: Yes. To be there!

**Andrea**: My introverted self needs you to be there.

**Doug**: Yeah, no we're really excited about it. This Mastermind group is going to be a good thing, and we'll probably have an episode in the future on the importance of Mastermind groups, and just collaborating with like-minded people, and helping do that to move your businesses forward. But today, what are we going to talk about?

**Andrea**: Today, we are talking about one of our favorite subjects, which is rental properties and cash flow.

**Doug**: Yes, very exciting topic for us. *The* reason, really, that we got into real estate investing, so if you'll remember, when Andrea and I were early in our relationship, when we were dating, we read a book called *Rich Dad, Poor Dad*, and in that book the idea was to create cash flow to escape the rat race.

And our whole goal getting into real estate was to buy rental properties as our cash flow to eventually escape the rat race, and we've had that goal and maintained that goal to this day. Now we did discover flipping houses along the way there, and that's been a big part, obviously a big part of this podcast and our business as a whole and what we do.

But, we also buy and manage our rental portfolio, which we are going to talk to you about today. But before we do that, I'm just going to break down what our rental goals are and what they look like today. But before we get into that, let's just talk a little bit about the benefits of a cash flow rental property, okay.

**Andrea**: Yes, lots of benefits.

**Doug**: So, number one: if you were to go buy a stock or buy gold, you know buy gold or silver and then sell it later on, you're hoping that it goes up, and you have to go buy it with cash and just hold it there, hoping that someday it will go up, and you can sell it for more.

Well, if you're going to buy a rental property, number one, you can buy it with cash, but a great benefit is you don't have to buy it all-cash. You can put a down payment and get financing on that property. So, you can get a loan, and it's easily available, especially if you have a normal W-2 job, you can likely qualify for a 20 percent down payment, get financing for the rest, and acquire a piece of property.

The second benefit is that you can rent that property; somebody can pay you to live there. So you own this asset, and they're paying you to live there. Essentially, they are paying the mortgage for you, as long as the numbers work out. So let's say you rent that property for 20-30 years.

That tenant has been paying off that loan the entire time for you, and eventually you own this asset free and clear, which you only paid 20 percent for (because you got financing on it), and likely it has appreciated in value. Who knows? Ten, fifteen, twenty times or a huge amount over what you paid for it.

Maybe it didn't appreciate at all, but in that case it doesn't matter. You still have a free-and-clear asset that's worth something that is paying you cash flow every single month. Plus, there are tax benefits and all kinds of other benefits, but that's just a few of them. That's why we like rental properties so much.

**Andrea**: Yes, as Doug said we have known we wanted to purchase rental properties for a long time now, but we actually started buying rentals in 2008, and that's about the time we started our flipping business as well. And so we had originally heard all of this different education, and we decided that we were going to flip two and keep one. Which is a great goal, in theory.

**Doug**: Sounds good, yeah.

**Andrea**: But the reality is, it just doesn't always work out to do it that way because maybe your third one each time isn't something you want to keep. So, our goal's shifted and changed, and we decided that our end goal would be ten properties. If we can get to ten rental properties, that will be perfect because once those are paid off someday, that's all we will need to live on. It'll be perfect.

**Doug**: Yeah, and that's a great goal by the way. And that is probably more than enough for 95 percent of America.

**Andrea**: Well, we got to the ten properties pretty quickly, and so we decided to up the goal to 25. So, within a couple years, we hit 25. Okay, well let's try 50. Is that crazy? Let's try for 50. So our new goal became 50, and we have surpassed 50. We're actually at 57 right now, 57 doors.

So our new goal is to pay them off. So that was exciting. It's exciting to reach those goals, but it's a lot of hard work. So how did we get there? Well basically, for the first five years that we were flipping properties, our income increased substantially from the flipping business, but we kept our lifestyle very minimal. We did not increase our lifestyle. We put literally every dollar, every spare dollar, towards rental properties.

**Doug**: Yeah, because we knew our ultimate goal was to acquire more rental properties and not just to increase our income.

**Andrea**: Yeah, so it was worth it to skimp, and save, and cut back on things, or not buy a new car or whatever it was to reach these goals. It was worth it to us. So we basically purchased the majority of these 57 properties within five years, between 2008 and 2013.

And people choose to buy rental properties in different ways for different reasons. Some people save up and pay all cash; some people use bank financing; some people have partnerships and whatever they choose to do.

But for us, we knew that California had pretty much bottomed out. It was the bottom of this market cycle, and prices were as low as we had ever seen them, and possibly as low as they may be in our lifetime, and we wanted to get as many as we possibly could during that time frame. So we are self-employed individuals. We knew that qualifying for a bank loan was probably going to be near impossible, and if we did qualify for a bank loan, we were only going to be able to get four to ten.

**Doug**: Yeah, I think four was the max at that time.

**Andrea**: Yeah, and so the method that we used to purchase so many properties was to use hard money loans.

**Doug**: Yeah, there was a local lender that we knew here that we knew about, someone well-respected in our area who was also an investor themselves, this whole company and an educator, one who we learned a lot from.

**Andrea**: Called the Norris Group.

**Doug**: Yeah, their name is the Norris Group if you haven't heard of them, a phenomenal company that I highly, highly recommend. But they have the hard money loan program, actually several programs, and one of them was this "long term rental" program.

**Andrea**: Yeah, so they basically would lend 60-65 percent of the after-repaired value for five to eight years, and their loan program has since changed. I think it's now a three-year term.

**Doug**: Yeah.

**Andrea**: But at that time, that felt really safe for us to be able to pick up these properties for that period of time, and then we had five to eight years to decide what to do to fix that loan, basically.

**Doug**: This was the time when all of the banks had just died and were going under. There was no other financing like this available that we knew of.

**Andrea**: Right. And so the coolest part about this is the fact that because they were willing to lend based on the after-repaired value, 60-65 percent, we could buy these for not a whole lot out of pocket.

So let's say the after-repaired value of one of these properties was $100,000, and we're buying this REO from a bank that the bank had taken back on a foreclosure for, let's say, $55,000, because we did this all day long in 2009. So we're buying it for $55,000; it's worth $100,000. They would give us a $60-$65,000 loan. The property needed $10-$15,000 in repair and then plus our closing cost, so we could be out between $10-$15,000 out-of-pocket. It worked great.

**Doug**: Yeah, rinse and repeat. So we would try to do this as much as possible.

**Andrea**: Yeah, so we are now starting to refinance these into commercial loans that are fully advertised, and we're taking advantage of the great rates that are out today and paying off other properties. And it worked out beautifully for us.

**Doug**: Yeah, the plan is in action and working currently as we speak. We just closed on our first commercial loan on a package of these properties, so really exciting stuff. Now, one of the common mistakes that people make when they're wanting to get into rental property is they'll get a property and say, "Oh House X we'll rent for $1,250 per month, and my mortgage payment is going to be $1,000 per month, so guess what. I'm going to have $250 per month of positive cash flow. Yes! That's great, let's get it!"

Err, wrong. Not going to happen, a very common mistake. In fact, I would be willing to bet you're probably losing $200-$250 per month on that property if those are the numbers. The reality about rental property is that you're probably going to have expenses that total somewhere between 30 and 45 percent right off the top of whatever your rent is, just due to the things that you're not considering like property taxes, insurance, maintenance, vacancies.

All of these things add up. They're not all going to hit in one month's time, but over the time of owning the rental property, those expenses are real. And 30 to 45 percent, in our experience, is an accurate number. Now I go into this in great detail in the free gift that we give on our website when you subscribe.

In fact, there is a three-part video series on analyzing deals, and the entire third segment of that video series is dedicated to analyzing rental property, and I go into detail on the expenses, and what they are, and what to expect with that. So just know that going into it.

When we were initially buying these rental properties, we were really looking for anything that was cheap enough that we thought we could get our hands on that we could buy in 2009-2010, because the prices were so low. They'd been cut in half, and we knew they would go up.

But what we look for now has kind of changed, so depending on what market you're in currently, where you live, things are going to be different and are going to vary market-to-market if you're looking to buy a rental property now. So I'll touch on it real quickly: there are three components to rental property that you want to consider when looking for a property.

Number one is the property itself. What type of property is it? Is it a new house? Is it an old house? Is it a condo? Is it a mobile home? Does it have two bedrooms? Does it have four bedrooms? One bathroom, two bathrooms, a garage? All of these factors are pretty important because those are features of the home that a potential tenant will look for, and it's going to affect what the property will rent for. And also where is it located? Is it a desirable area? It is a good area or not a good area?

**Andrea**: Some things you might want to consider also is the school district that it is in. There is a particular neighborhood in Rancho Cucamonga where literally on the same street— is it the school district or is it the zip code that changes? On this one street, it changes the value by almost $100,000.

**Doug**: Yeah, literally across the street is one awesome school district, and then if you go across the street it's another school district that is not as good and not as desirable, and the values change by about $100,000 we discovered.

**Andrea**: It really boils down to knowing your market, and your cities, and the different details about them.

**Doug**: So anyway, number two is the financing available. If we didn't have the Norris Group loan available to us that we used to acquire a lot of these rental properties, our strategy may have been a little different. If you have an endless amount of financing by some other means, that's going to maybe affect what you buy, and how many you can purchase, and these kinds of things, and what type of loan you can get (if you're going to be using a loan) on these properties.

So that's a big component when you're considering rental property: the financing. And of course the third would be the tenant. And this is one that people just don't even think about until after they get a property usually, but it's something you want to think about before. What quality of tenant, if you will, do you think you can get with this property?

And you may think, well it doesn't matter if the rent is for $1,000 or for $2,000. What difference does it make as long as you know what the rent is? That's not necessarily the case because with a lot of types of properties in certain areas, you're going to have certain challenges, and higher turnover, and things like that that are going to cost you money essentially.

**Andrea**: For example, one of our highest cash flowing properties is our biggest management headache. So is it really worth that cash flow some months? No.

**Doug**: Absolutely. A lot of months no, so definitely something you want to consider. Now, what's our recommendation? I mean, today we don't necessarily go for the cheapest price for the highest rent. That's not necessarily what we look for. You want to consider all things.

So what we're looking for is a good, desirable house in a decent neighborhood with maybe some upside potential for appreciation. That's going to be hopefully a good school district, and at the end of the day if you have financing on it or whatever, you're going to be cash flow positive after all of the expenses, at least around $200 per month out of the gate.

So that way you're not counting on appreciation or anything like that. It works from day one. That's a very general description, but for the most part that's kind of what we look for in a rental property.

**Andrea**: So we highly recommend that you consider adding rental properties to your investing strategy, because it is basically creating long-term wealth. Whether you decide, "Okay, we're going to set aside this much money per month, and every year we're going to try to buy one rental property, or every two years we're going to buy one, or every five years."

Someday when you go to retire, you're going to be so thankful. It's something you can even pass onto your kids or your grandkids, and for us it just feels like the simplest and safest way to build long-term wealth. The stock market these days rises and falls constantly, and the latest investing trends are here today and gone tomorrow, but as Mike Cantu actually says, "shelter never goes out of style."

**Doug**: People always want a roof over their head and a place to live.

**Andrea**: They need it.

**Doug**: And so why not provide that for them?

**Andrea**: After talking about Mike Cantu so often we really need to bring him on.

**Doug**: We will.

**Andrea**: He's the greatest.

**Doug**: We'll have him on here eventually. So that was rental property in a nutshell, very much a nutshell. Again, I go into much more detail on analyzing these rental properties in the free gift. Please head over to our website and get that, but we're headed out to the Mastermind meeting, and we really look forward to that, and we'll report back how that went. Other than that, anything else?

**Andrea**: Nope. Our website is spousesflippinghouses.com, so you can just go enter your email address, and that three-part video series will be emailed right to you.

**Doug:** Alright, so go check it out, and we will talk to you soon.