Brittany: Hey, hey, Brittany Lynch here. Today, I have Paula Pant on the line with me and Paula runs a really amazing blog called AffordAnything.com which helps readers reach financial independence. While a lot of personal finance blogs focus primarily on creating passive income from investments, AffordAnything.com is a little bit different and that's one of the reasons I was so excited about interviewing Paula today.

There are many, many different ways to developing and reaching passive income. Paula has focused on developing it through real estate investments. She now has, I believe, at least five rental properties, maybe even six, that provide her with a stable income stream that allow her to pay for her lifestyle. Today, I'm really looking forward to learning a little bit more about investing in real estate and how Paula uses this approach to develop passive income with you or her lifestyle. With that said, Paula, thank you so much for being here.

Paula: Thank you. Thank you for having me. I'm happy to be here.

Brittany: Yeah, no problem at all. We really appreciate it. Let's dive right in and the first question I want to ask you is how would you define financial independence and what does that mean to you?

What is financial independence?

Paula: I define it as the ability to cover your basic expenses, your cost of living, through some form of passive income such as investment income, or in my case, real estate income.

Brittany: Okay, great. When did you reach financial independence? Has this been a little while since you have reached it?

Paula: I think I was 32 now. I mean, it's always a little bit of a moving target. I would say that as your expenses increase, you need to create more passive income in order to meet those increased
expenses, but I would say that probably about two years ago, so when I was around 30. I reached it at 29 or 30. I reached to the point where my real estate income could cover all of my living costs.

**How did you reach financial independence?**

Brittany: That's a pretty good age to be reaching financial independence. We definitely are interested in hearing about how you hit it. What was your main approach reaching financial independence? Was it primarily focusing on creating passive income through real estate?

Paula: Yes. 100% of the approach was that. I do still max out my 401(k) contributions and contribute to an IRA and all of that. To me, that's just what you're supposed to do. It's not part of my passive income financial independent strategy.

Brittany: Okay. Yeah, and for anyone who's listening right now, we did a great interview with Justin from RootofGood.com and talked a lot about how he reached financial independence through investments and maxing out your 401(k) or in Canada, your RRSPs. Why did you choose real estate as a vessel to develop passive income? What is your background with real estate and how did you first get involved?

**Why real estate?**

Paula: Real estate appealed to me because it's a cash flow driven investment. With traditional stocks or index funds or mutual funds, you're more or less looking at those for the sake of appreciation. Yes, there are dividend stocks, but for the most part, people enter into them hoping that the value of the asset will grow over time. With rental properties on the other hand, you approach those purely for cash flow. When you're doing
your initial calculations, appreciation doesn't even factor into the picture.

If the house happens to up in value, that's great, that's icing on the cake, but conversely, if the house goes down in value, it doesn't really matter, because what you're concerned with is how much rental income are you collecting, what are your monthly expenses, and what's left over. From a passive income perspective, it seemed ideal.

Brittany: Yeah, absolutely. That's really the ideal situation for developing passive income. In this case, it seems like you're referring to developing passive income specifically within real estate through rental properties. I know on your blog you talk about many different types of niches within real estate. What are the different types of niches in real estate investing and which niche do you primarily focus on?

What are the different types of niches in real estate investing?

Paula: That's a fantastic question. I'll answer this in two parts. There are niches around what type of property you're purchasing and there are niches ... I'm sorry, I've got to say niches. I was trying to mirror you, but I couldn't.

Brittany: That's all right.

Paula: There are niches around the strategy that you take, the money making strategy that you take. I'll talk a little bit about both of those. You could invest in residential real estate which is single family homes or duplexes, triplexes, or fourplexes. In the US, the definition of something that's considered residential property is a building with four or fewer units. You could invest in mobile
home parks. You could invest in warehouses, commercial space such as office buildings, retail space.

There are all those different types of real estate out there. A lot of people think immediately about single family homes because that's what they're most used to seeing, but all of those very viable strategies. There are people who have made a lot of money and created financial independence in each of those. I have a good friend who's done very well in mobile home park investing.

That is one kind of niche that you can pursue, just deciding which of those you want to specialize in. The other one is deciding what money-making strategy you want to pursue. In the world of real estate, you could invest in tax liens for example. Which means that you're buying an asset that... Like if somebody doesn't pay their property tax bill, you can buy into making a claim on that if that property tax bill goes unpaid for a given period of time.

That's one example. You could flip houses in which you buy them, fix them up, and sell them at a higher price. You could wholesale houses which means that you put the property under contract and then before closing, you flip that to a different seller, a different buyer. Or you could do what I do which is buy and hold, in which I buy a property and hold on to it ideally forever, or at least as long as it makes sense.

Brittany:  Your primary focus has been buying and holding. Purchasing a property and then holding on to it and the passive income comes from someone being in that unit and paying you rent.

Paula:   Exactly.
Brittany: Is there a particular strategy that you would recommend for someone who is new to real estate investing or is it really just finding what appeals to you and going from there?

Real Estate Investment Strategies

Paula: I would say, first of all, decide whether or not you want real estate investing to be a job. Here's what I mean by that. Let's say that your goal is to quit your job. There are two ways that you could go about that. You could either quit your job to work full time in real estate, or you could quit your job to do something else entirely like hang out with your kids or go travel the world or become a professional tap dancer, whatever it is that you want to do. Just have real estate kind of quietly humming in the background to support you.

Flipping Properties

(Full Time Real Estate Investment)

I would start by deciding which one of those two is your goal, because your approach is going to be very different. If you want to focus on your real estate investments full time, flipping houses might be a fantastic strategy for you. Flipping is a lot of work. You flip a house and then at the end of it, yeah, you've got a payout but it's time to go do it again. There's no recurring income that's coming in.

That being said, you can take the same initial investment and re-deploy it into house after house after house after house. By the way, when I say house, what I'm really referring to is property. Not necessarily single family home. If you wanted to work full time in real estate, that would influence what niche and what strategy you pursued.
Residential Buy and Hold

(Part-Time/Passive Real Estate Investment)

For me, I don't want to be a full time real estate investor. I want real estate to produce income for me, passive income for me, so that I can spend my time doing other things. That was the reason that I decided to pursue residential buy and hold, because in the residential class, financing is the easiest. There's a larger pool of tenants that you can choose from so that vacancies aren't as long as what they might be for a retail development.

That being said, you have more turnover too, so it's not that one is better or worse than the other. It's just that you have to figure out what your personal goal is and then look at the pros and cons of all of these different types of options and then pick one. Not that it's better or worse, but just that it fits you the best.

Brittany: That's a really good distinction and I'm glad you mentioned it. It is identifying what your goal is and kind of working backward from there. In this case, as you mentioned, you weren't looking to replace one job with another. You wanted to develop truly passive income and that eliminated a number of other real estate investment opportunities like flipping homes and a number of other ones you listed.

With that said and with that view in mind, let's talk a little bit more about residential buying and holding of properties. I’d really like to break this down step-by-step as we possibly can in the next 45 minutes or so. Before I actually get into the nitty gritty of maybe how to identify a good real estate investment opportunity, I want to step back on something that you just talked about, which is what sort of baseline requirements does a person need to be in order to even invest in real estate in the
first place? For example, credit, financing, savings, business entity structure that kind of like pre-stuck before getting involved in real estate as a viable option for you.

**Before Investing in Real Estate**

Paula: Sure. Number one, and this is ... Unfortunately, this is something that a lot of the late night TV real estate gurus don't tell you, but it's something that I very strongly believe in is first and foremost, I believe that you should not start down this path if you currently have credit card debt. You should pay off your credit cards first, make that your top priority. For anyone who's listening to this who is in credit card debt and thinking, "Wow, maybe..." Just stay focused on the goal, pay off the credit cards. Call it a day.

I don't feel as strongly about low interest loans. If you have a student loan at a 3% interest rate, that's not really a concern because that interest rate is about the level of inflation, so I'm not as worried about that. If you have any of that high interest debt, that double digit debt, just get rid of that. That's number one. Number two, make sure that you have an emergency fund for yourself and your family, so that way, if your roof starts leaking, if your car breaks down, if you have medical emergency, if you lose your job, if all four of those things happen in the same week, you'll still have something to pull from and that's goal number two.

Make sure you have both of those things. Then make sure, number three, that you are contributing something, some reasonable amount to your retirement accounts, your 401(k) or whatever it is that you have. I don't think, and this actually is another stance that I have that makes me different from a lot of the real estate gurus out there. A lot of those other gurus will...
say, "No, put everything into real estate. You can make better returns."

I'm not a believer in that. I think that you should focus on the fundamentals first, and once you have those nailed, if beyond that, you then have some additional money to invest. All right, then let's talk about going into rental properties.

Brittany: Rental properties is a great way for additional diversification, is that kind of how you look at it?

Paula: Yes, except for me, rental properties was my path to financial independence. As I see it, my 401(k) contributions and my IRA contributions are my security blanket. If, for some reason, everything were to implode, I would still have that. I know that the fundamentals are being taken care of. Obviously, if my whole business were to implode, I'd be very sad. I'd be devastated, but I would at least know that I haven't missed out on a decade's worth of making retirement contributions.

That's not to say that you should... [00:14:00] Again, I say reasonable amount. Should you necessarily max out the full $18,000 that you can to a 401(k)? Not necessarily, but make sure that you're contributing at least something to it so that... Just so that you have that. Again, I feel like that's just a core personal finance value, a core tenant that I'm just not willing to stray from. I wouldn't suggest that anybody else do that either.

Brittany: It's interesting. For everyone who's listening to this interview right now, you'll notice if you listen to other interviews, a lot of commonalities amongst those who have reached financial independence. Paula, your approach is maybe much different than some of the other people we've interviewed, the initial advice that they give is paying off that high interest debt if you
have credit cards. Also setting aside a little bit of savings for emergencies.

When you're listening to these interviews, pay attention to the commonalities, because often, if several people are doing it, not always, but often in these cases of people who have achieved something you're looking to achieve, it is good advice. With that said, with the buy and hold strategy, what would be the high level steps for our listeners to follow if they wanted to look into investing real estate in this residential buy and hold strategy?

**Steps for Residential Buying and Holding**

**Learn as Much as You Can**

Paula: First and foremost, dedicate some time to learning as much about it as you can. Unfortunately, there are a lot of people who want to feel busy. They want to feel as they have accomplished something. They will run out there and buy a property because it's emotionally gratifying to say, "Hey, look at me. I just bought a property. I'm doing something." It's very visible, it's very tangible.

Take the time to learn before you act, because even though that's not as visible or is tangible or is measurable and you can't go to a cocktail party and brag like, "Hey, I just read a book and took a course and did a whatever, whatever." You'll get that knowledge that will inform your ability to make better choices quite honestly. 90% of the game is just picking the right property. If you pick the right property, then you can make mistakes along the way. You can over improve a house or you can have a terrible property manager that you ultimately need to fire.
You can make those mistakes and still be okay because you bought what is fundamentally a good property. Conversely, if you bought a [dog 00:16:58] of a property, even if you manage it beautifully, it's still not going to be great. Take that time upfront to make sure that you're buying right.

Brittany: You mentioned two things there that I want to elaborate on. The first one is getting educated before you actually dive in. I couldn't agree more and that goes for whatever path you ultimately choose to developing passive income. It's just spend some time getting educated. When you're first getting involved in real estate and particularly the buy and hold strategy that you now use, what were some of the books or resources or websites that you look to to get educated on this topic?

Paula : My favorite book is called “From 0 to 130 Properties in 3.5 Years.” I will give two disclaimers here. First of all, the guy who wrote it is... He's Australian and he lives and invests in Australia. Unless you are also in Australia, disregard every specific thing that he says about laws and taxes, because those only apply to the Australian market. That's my first disclaimer. Read it more for the high level concepts rather than the specifics.

My second disclaimer is that while 0 to 130 properties may sound impressive, I wouldn't advocate that people try to grow that quickly. I went on a pace of averaging one property per year and that did very well for me, because there were things I learned the hard way and by virtue of adding effectively dollar cost averaging into the housing market by buying one property a year. I had a year in between every purchase to place a tenant and make sure the property is performing well before I move on to the next one.
Brittany: I imagine to learn on the job as well every property. You probably learned a lot.

Paula: Exactly. The first couple ones had the biggest learning curve.

Brittany: That's great. The book was called “From 0 to 135 Properties in 3.5 Years.”

Paula: 0 to 130 Properties, yeah.

Pick the Right Property

The 1% Rule

Brittany: Okay, perfect. That's a really good piece of advice. Moving on, the second thing that you mentioned, which was... I thought this was interesting. 90% is about... Excuse me. 90% is about picking the right property. Can you talk to me a little bit more about that? If choosing the property is so important, what are some of the criteria that you have and that you need a property meet in order for you to move forward with it?

Paula: My first pass is whether or not a property meets what's known as the 1% rule of thumb. When I say first pass, what I mean by that is that I'm not going to buy every property that meets this metric. I am merely going to eliminate the properties that don't meet this metric. What the 1% metric is... does the monthly rent come to at least 1% of the total acquisition price.

For every $100,000 worth of house, that unit needs to rent for at least $1,000 a month. If it's a $200,000 property, it needs to rent for $2,000 a month. If it's a $300,000 property, it's got to rent for $3,000 a month. A couple of things that go into this. Number one is when I talk about the cost of the property, I'm referring to both the purchase price and the initial cost that's needed to get it rent ready. You might buy a property for
$50,000 but have to put $200,000 into it in order to make it habitable.

You have to look at the total amount that you spend before you ever get a renter in there when you're considering the cost of the property. The second thing is that whenever I talk about the 1% rule of thumb, people immediately freak out because everybody is like, "There's no such thing as a property that meets that. Are you crazy?" I hear that all the time.

The thing is, the problem is that people think immediately about their own residence and they think, "Well, my residence doesn't meet this, therefore, there's nothing in my city or my state that meets this." That is just a ridiculous assumption, to be frank. First of all, have you looked at multi-unit residences? A single family house in your area may or may not meet that criteria, but what about a fourplex? With a fourplex, you're competing against not a pool of owner occupants but rather a pool of investors. Investors buy properties using math rather than using emotion which means that you're likely to find better properties there.

Look at multi-unit properties, look at properties where you could create that kind of an income. For example, a property that's currently a two bedroom, which you can easily convert into a three bedroom for an investment of maybe $10,000, and then rent according to its three bedroom price. Look for areas where you can add value. Look at areas in every major city that you go to. Where did the janitors live, where did the Starbucks baristas live, where do TFA officials and baggage handlers and retail store employees, servers... Where do these communities live?

A lot of people fall into this middle class or upper middle class mentality and that prevents them from being able to look at
areas where the price-to-rent ratios are a little bit more favorable. Also take a look at some rural communities. If you can't find something within a given city, all right, what about the more rural areas outside of that city, what's available there.

There are a lot of different options, so I don't want people to panic the minute they hear the 1% rule which seems to be the knee jerk reaction unfortunately. That is a shame because a lot of people miss out on opportunities because they're not looking hard enough for it.

Brittany: Yeah, absolutely. Just to give some perspective, I am from Toronto and in Toronto, rental prices are... Sorry, to purchase a property, it's absolutely insane. I know that you now live in Vegas, but a lot of your properties are in Atlanta, right?

Paula: Yes, all of my properties are in Atlanta.

Brittany: That's a really great example of looking outside of where you are. I know you used to live in that area, so it's not a direct comparison. It's definitely important thing to keep in mind. One of the things you mentioned is price to rent. For our listeners who aren't familiar with that concept, can you elaborate on what that is?

**Price-to-Rent**

Paula: Sure. Yeah, the price-to-rent ratio is a measure of the annual income that you would derive from a rental property relative to the price of that property. It is quite literally price divided by annual rent. If you can get a property that has a... My personal selection criteria is that I look for properties where the PR ratio is at least 8.3 or lower.
Brittany: When the PR ratio is at least 8.3. When you started talking about how you evaluate your properties, you looked at... You mentioned you've got a layered approach. On your first pass, you look at the 1% rule. As you mentioned, it's not that you invest in every property that meets that criteria, it's that you eliminate properties that don't meet that criteria. Would your second pass be looking at the price to rent ratio or most properties that meet the 1% rule usually meeting your PR rule as well?

**Capitalization Rate**

Paula: My second pass is to then look at what's called the cap rate which is short for capitalization rate. That is a more direct measure of the return on your investment. The reason that both PR ratio and the 1% rule are very crude metrics is because the both of those look exclusively at what is the property cost and what does it rent for. By definition, they don't take into account what does it cost to maintain and operate this property. That is an incredibly important piece of data that you wanted analyze.

My second pass is to then figure out what its cap rate is. The way that you would calculate cap rate is by looking at the annual net operating income of the property divided by the price that you paid for it. I'm going to break down what that means because I know that sounds like a lot of jargon.

**Effective Gross Rent & Gross Operating Income**

All right, let's say you have a property that can rent for $1,200 a month, so that's $14,400 per year. Let's say it's got a 5% vacancy rate. At the end of the day, the rent that you're actually going to collect from it after vacancies is like $13,680. That is your annual... That's what's known as your effective gross rent.
That's that starting number that you're going to look at. That's the effective gross rent.

Then add in any other income that you might make from it. If you charge non-refundable pet fees or if you have a coin operated laundry facility that's on-site, add in all... Or if you charge for parking, add in all of those supplemental fees. The effective gross rent, plus any additional income equals this measure that's called a gross operating income.

Operating Overhead

Let's say that you've got $13,680 is your effective gross rent. You make another $500 bucks a year from laundromat fees, your on-site laundry machines. Now you've got gross operating income of $14,180. I'm not doing this in my head by the way, this all right now. Now, the next thing that you want to do is subtract out what's known as the operating overhead. The operating overhead is... It's exactly what it sounds like. This is the cost of operating that business. It is not the cost of servicing your debt to buy the business, it's the cost of operating your business.

A lot of people get really confused at this point, so I'm just going to pause here and try to explain this. You want to evaluate whether or not a property is worth buying. If it is, then you want to look at your financing options. You do not want to conflate the two. To use an analogy, if you are going... Let's say that somebody were to give you a loan with which you could buy stocks, would you look at a stock and be like, "Well, the interest rate on the loan is really low, so I guess I'll buy it."

No, of course not. You would evaluate the stock itself and if that stock was worth buying, then you may or may not use a loan to pay for it. I never would, but some people might. Or if you were
to buy a business. Let's say that you were going to buy a bakery. You would look first at the bakery and figure out whether or not that bakery is worth buying, and if it is, then you would start going to banks and figuring out what your financing would be.

**50% Rule of Thumb**

Same thing in real estate. I don't know why so many people want to conflate their mortgage with the actual property itself. Those are two totally separate issues. Your operating overhead is the cost of running your business, not counting the cost of financing which is just a different topic. There's a very crude measure, it's called the 50% rule of thumb. Again, it's just a rule of thumb, but it basically states... It states that your operating overhead will come to about 50% of your rent.

That's over the long term. Every year, it might not literally come to 50%. In a given year, it might be less, but over the long run, because you have what are called capital expenditures like your roof, your gutters, your windows, your siding, your heating, your air conditioning, your foundational repairs, you need to fix the cracks in the driveway. It's not stuff that happens every year, but once every 20 years you have to rebuild the deck. Over the long run, this is going to come to about 50% of your rent.

Let's say your gross operating income is $14,180 per year and then just for the sake of doing a round number, let's say $6,180 is your operating overhead. Your net operating income at this point is $8,000, nice round number, right?

Brittany: Perfect.
Paula: This is your net operating income, it's $8,000, so it's all your rent after vacancies, minus all of your overhead. That's what you're left with. Now, you divide that number by the cost of the home. The cost of both buying it and repairing it to get it rent ready. Let's say that your house cost $200,000, so $8,000 divided by $200,000 is 0.04 which is 4%. At that point, we know that this is what would be known as a four cap property. A property that gives you about a 4% return. If I saw that, I would walk away because I don't want a 4% return.

Brittany: That makes a lot of sense. I'll make sure to break that formula down in written form as well for everyone who's listening, but it was really good that you walked through that in so much detail so that you can really understand how to evaluate a property. In this example that you just broke down, the return was 4% and as you mentioned, you walked away from that. That's maybe just a bit over inflation and you can probably get greater than 4% returns from other areas. At what point do you say, "Oh, this is a good return. Now, I'm more interested?"

Risk Tolerance

Paula: That's an excellent question because this plays totally into risk tolerance. You know how in the general stock market, the thing that you always hear is your reward is related to your risk?

Brittany: Yeah, absolutely.

Paula: The same is true in rental properties. Generally speaking, the more stable properties, newer, more stable properties where you have a higher likelihood of getting better quality tenants are the properties that are going to produce the lowest returns, but also the least amount of risk, the least headache, the least management. These are generally known as class A properties.
Moving further down that spectrum, class B properties will produce slightly greater returns but also slightly more risk. Class C properties produce, on paper at least... If things are going well, they produce beautiful returns, but they also have a lot more risk. In the same way that in the stock market you would want to know what's your risk tolerance. Do you want to go into small cap stocks or do you want to go into an S&P 500 Index fund, what your risk tolerance within the market. Same is true for rental properties. You just need to make that decision.

Brittany: That was really good way of putting it because it benchmarks it towards something that people are a little more familiar with. Risk tolerance. For a class A property, what would be a reasonable sort of return that an investor would be happy with?

Paula: It's up to the investor, but for me personally, I look for at least a six to a seven cap on a class A property. Six would be the absolute lowest I would go. That would only be if it was a true class A. I was confident that this is just going to be a property that prints money with minimal hassle.

Brittany: Class A, that would be somewhere in a great neighborhood, maybe upper middle class, great schools around there, tenants that has steady jobs.

Paula: Yeah. My first property, it was more or less a class A property and some of my... One of my tenants was a pharmacist. Most of my tenants were more highly educated than I was. There are people who've they've just finished their master's degrees and they need a place to live while they're working a medical rotation or doing the residency. They don't want to buy because they've maybe just finished their single and they don't want to buy something right away because they might move in a couple of years.
Maybe they're in the city for a temporary job assignment, but they're thinking about transferring. There are a lot of reasons why very high quality tenants would rent and those... For that particular property, that was my target market.

Brittany: Okay, that's really helpful. To really lay the foundation of the different... Not only the different niches that are out there for real estate investing, but even within that one niche, there's a lot of different opportunities for an investor and depending on your risk tolerance. One property might be appealing to you but it might not be appealing to me or vice versa.

Paula: Exactly.

Brittany: That was really helpful. Before we move on to the next question, one thing I just want to clarify that I believe will be helpful to our listeners is when you're going over the cap rate formula, there were a number of numbers you used. For example, an assumed 5% vacancy rate, prices on monthly rent. If someone has never had a property before in that market, where do you get these numbers from? What sort of tools do you use for competitor, research or where do you collect this data?

Paula: Some of the data is publicly available like the property tax bill for example. You can get that information by just looking at the county records. The water bill, you'll... Again, this depends on whether or not you're buying... If you're buying a single family home, the process is different than it would be if you are buying a multi-unit. If you're buying a multi-unit, then that property was owned by an investor, so you can ask that person for their profit and loss statements. Then boom, right there, you'll see the past several years worth of actual real data.
You can ask investors for their tax records or a copy of their tax records. If the purchase is investor to investor, a lot of sellers will give you that information, because they want to make the sale, so they're incentivized to do so. Now, if it's a single family home, it's a little bit different, because there's a high likelihood that you're buying from an owner occupant. Owner occupants do not treat their homes like a business because a home is not a business and personal home is not an investment. It's a place to live, and so they're not going to have profit and loss statements. That's where you're going to have to do much more digging.

Property taxes, you can look that up in the county records. Water bills, you'll know... You can find from the county or from the municipal water provider, whoever is that source in that area. You can find what they charge for water and then look at typical water use for the residents. You just have to go through line by line the tax bill... I'm sorry, the trash bill. It's probably going to be the same thing for every single family home on the block.

You can just call the trash pick up servicer and get a quote from them. Insurance. Call your insurance agent. Call a broker and get a quote for that property. You'll have to do that digging, but it will take you like an afternoon. It doesn't really take that much time.

**Passive Income vs. Active Income**

Brittany: One of the posts that I really liked on your blog, you're talking about... I believe it was passive income versus active income. To get to a place where passive income is passive income, then it doesn't mean that there's often going to be work [inaudible 00:39:05] initially. This is all part of setting up the
system to eventually reach passive income. You do have to do some work to get to that place.

Paula: A ton of work. That's the one thing is a lot of... I'm sorry to interrupt, but I encounter so many people who seem to think that passive income is a euphemism for free money. It is not. Passive income is the act of front loading your workload. It is working really hard in the moment so that you can enjoy recurring revenue down the road.

Brittany: I really like that phrase, front loading your workload. That is absolutely true. I know in my business where we have a lot of digital products, it's the same thing. Work is absolutely involved on the front end and then in the long run, you can get that recurring income but it does take work initially. It's good to hear from your perspective particularly within real estate investing where that front loading of that work is and how to approach it.

Another thing I want to talk about in terms of transitioning from this kind of active front loaded work area and transitioning into passive income is developing a team. You recently moved to Vegas and your rental properties are in a different state. How do you actually manage the properties from a different location, ensure that your passive income really does stay passive?

**Building a “Team” and Forming Working Relationships**

Paula: I have an excellent team in place. My contractor, my head contractor there, my generalist is someone who... We worked with him for years. He does good quality work at a reasonable price. Is he the cheapest possible option? No, because I believe that you should find quality people and pay them what they're worth. I know that he's going to do a good job and I'm not going to sit around beating him up on price because quality work deserves quality pay.
Anyway, sorry, that was a bit of a tangent, but we've got a great contractor. We also, in terms of the special feature aids, we have the same electrician who we've used for years. The same plumber who we've used for years. In terms of materials like if I need carpet, I know exactly where I'm going to go. If I need professional carpet cleaning, I know exactly where I'm going to go. If I need to replace any windows, I know exactly who to turn to. Yeah, all of that is... You find really good people who do a good job and you keep them around.

Brittany: I think one of the things that kind of occurred to me while we were talking was you have multiple properties now. Are they all in the same area? You don't have two electricians going to two different... Servicing two different areas. Do that plan to your strategy of having your five rental properties on this one city or this one area?

Paula: Yeah, absolutely. I have seven units in total and they're all in the Metro Atlanta area. They're not all within the same neighborhood in Atlanta. The distance between... I think the maximum driving distance from furthest property to furthest property would probably be about 45 minutes between the two. It's not that they're all in the same neighborhood or anything like that, but if you're an electrician and you've got a job that's going to take all day, you'll drive 45 minutes to get to the job site.

Brittany: Yeah, absolutely. I think that that is something that listeners should keep in mind. It sounds to me, and correct me if I'm wrong, that your first property, when you're first diving into this buy and hold niche for real estate, there's a lot of different footwork you have to... There's a learning curve. Part of that is setting up your team to help run things smoothly. Once you have that team setup, and I'm sure team members change from time to time, has a second and the third and the fourth and so
on, have those properties been a little bit easier as a result of this?

Paula: Yes. Definitely, the most recent property that I bought was by far the easiest, because at that point... That was for a few reasons. Number one, I knew what I was doing much better than I did on the first one. Number two, I already had that team in place. When I bought the property and I needed to renovate it, because I had to renovate it to get it rent ready, I didn't have to spend a whole bunch of time wondering, "Well, where are the kitchen cabinets going to come from?" Because I already knew. I knew the answer to that and at that point, I had such close relationship with my contractor, but then I could literally just send him a text message and say, "Hey, go to Mead's, buy the cheapest cabinets that are not oak."

Brittany: You tell people.

Paula: Yeah, exactly. Then he would just go and do it. Yeah, definitely, at that point, your first house, you can't just randomly send a text message to somebody. You have to call them and form a relationship with them and that all takes time and it takes work. You'll go through a few people who are not good. You'll find somebody who you think is great and they'll perform really well for a month or two and then they'll just stop showing up one day. That happens unfortunately. You'll go through that and then eventually over time, you'll build a good reliable team.

Brittany: This has all been really good advice and insight into how to [debunk 00:45:11] passive income through real estate and within your particular niche of buying and holding residential units. Before we kind of come to an end, I have a question that I'm really curious about in terms of possibly maximizing your return from these properties or future properties. That is corporate rentals or executive rentals. Have you ever considered or do
you know anyone who has real estate that they don't rent out to a professor but they rent out to a company at maybe a higher rated furnish and have some extra luxuries in them?

Paula: I know other people who do that. I myself do not. Again, there are so many different ways to make money in this market. That's a totally viable strategy. If you were to want to do that, you would start by just forming those relationships. Go to local investor meetups. Talk to other people in the area who are doing that and see if they have any connections that they can introduce you to. Just lay that groundwork and try to make those... Form the relationships that would allow you to do that.

Actually, I know somebody ... Believe it or not, there's a pretty big film industry in Atlanta. I know somebody who exclusively rents their unit out to the film industry. As people come in to Atlanta to film movies, there are all of these people who work for the movie who need a place, a temporary place to live. They sign a one year lease. It's not like an Airbnb thing. They sign a one year lease, but it's to the film company. That would be an example of that.

For them to set that up, they first had to take the time to form a relationship with a representative from the film company and then learn how to negotiate a contract there. If that's something that you wanted to pursue, then by all means, go ahead and do it. Particularly if you have class A property.

Brittany: Yeah. That was good to know. That was insightful in terms of developing the relationships. I think it really just ties back to what you talked about at the beginning of the interview which is identifying your goals and figuring out what situation is right for you and working from there. Thank you so much for being here. I really appreciate it. Is there any sort of last advice that you have that you would give to someone who is considering
starting out in buying and hold residential property or real estate investment in general?

Paula: I would say just take the time to learn the formulas, learn the equations. Understand cap rate. Understand cash on cash return. Understand how to calculate net operating income and go through all a lot of exercises like that. Look at a lot of properties. It's totally normal to look online at hundreds of properties and then physically go tour 20 of them and make offers on five. Maybe have like one offer accepted out of those five. Or make offers on 10 and have a one offer accepted out of this 10.

Be ready for that because that... I don't mean to scare you off, but by doing that work upfront, you can then position yourself to be making residual income for the rest of your life. On my blog, on Afford Anything, I publicly post my income reports. Not only do I show the income, but I also show the amount of time that I spend every month on it.

Every month, I show, "Hey, this is exactly how much I brought in gross. This is exactly how much I spent this month. This is the net that landed in my pocket and this is exactly the amount of time that I spent." This is what I did during that time.

Brittany: Yeah. With that setup... Actually, one of my favorite things about your blog are those income reports. Definitely, for anyone who's listing, check out AffordAnything.com. Paula has a fantastic blog. It's not just income reports and that transparency which is extremely helpful when you're trying to evaluate if this is the right passive income stream for you to pursue. There's just a lot of great information on there in terms of reaching financial independence.
I mentioned this before we started recording Paula, but your posts are very, very well written and they're very genuine and relatable. On top of that, you are probably the most well spoken guest that I've had. I appreciate you very much being here and sharing your information and wisdom in this niche.

Paula : Thank you.

Brittany: All right guys. Make sure to check out AffordAnything.com and thank you so much for being here Paula and thank you to all of our listeners.