

## TRG 35 Transcript

Nichole Stohler

What if you could be doing something smarter with your money that creates income right now? If you're an IT professional is wanting to get ahead financially and enjoy greater freedom of choice. And if you wonder who else in tech is creating ways to make their money work for them? You want actionable ideas with honest pros and cons and no fluff. Welcome to The Richer Geek Podcast for helping IT professionals find creative ways to build wealth and financial freedom. I'm your host, Nicole Stohler and in this podcast, you'll hear from others who are already doing these things and learn how you can too.

Hey, everyone, welcome back to The Richer Geek Podcast. This is our second episode focused on accessory dwelling units or ADUs. This week, we're chatting with an engineer in Southern California who sought out a property with an existing structure that he could turn into a long term rental. If you listen to real estate investing podcast or you participate online in the big pockets community. You'll hear a lot of discussion around house hacking. And the concept is brilliant, which is basically buy a small multifamily property like a duplex triplex live in one unit and then rent out the rest, and therefore your mortgage payment is paid for. But what if you live in an area where those types of properties are not an option? Depending on local zoning and rules, you could implement this strategy of building an ADU or repurposing a structure into an ADU with a guest house, it could be a casita, a spare garage, etc. In fact, with the local women's meetup that I was hosting one of the members put an Airstream in her backyard by the pool, and she rented this out as a short term rental. So there's a lot of creative approaches that you could take specific to building an ad you the recurring theme with both episodes is that the process takes longer than expected it can be challenging to navigate the code and difficult Cool to find professional services team members like architects who are experienced in this niche. Having gone through these challenges both of my guests on these episodes share their knowledge with others who are looking to build at us. If you are considering this strategy for your market, check out bigger pockets or local meetups for someone who locally has done this they could help guide you. Today's guest Matt forest is an engineer in the oil and gas industry in Southern California. In 2016, Matt was introduced to a podcast that sparked his interest in all things, real estate investing, and that's grown to a passion for working with ADU development. So welcome to the show, Matt.

Matthew Forrest

Hey, how's it going?

Nichole Stohler

I am thrilled to have you on here because this whole area fascinates me. So as I give that little bit of a background, tell me about any gaps that you want to fill in about yourself.

Matthew Forrest

Yeah, so I think the everything kind of started with you know, going to college and getting your degree and getting a job and I was just going to normal path. I chose my major in school pretty

much solely based on the financial implications of it, I ended up choosing a major that had the highest expected value, you know, high probability of a stable job, came out of school was doing my thing really enjoying working where I was. And then my company like about a year and a half into my job got sold. So I really introduce a lot of turmoil into my regular day to day life. And that kind of forced me into pursuing other avenues for stabilizing my income and forcing me to depend on myself and not others and employers for my for my long term well being. In that search, I initially found stocks fell in love with stocks, options trading, that was great cryptocurrency Of course, and then one day someone introduced me to bigger pockets podcast sounds crazy, like obviously everyone should know about that podcast, but I started with that. A month later had consumed a ton of those podcasts. I was hooked on the real estate game wants to do the house hacking strategies. get my foot in the door, started looking for properties around where I was, and the purchase price was extremely high. So I was looking for ways to supplement my income while living at the property and somehow came across at us. I think I was introduced to it by my realtor, actually, surprisingly, he just threw me the ad code. And I read through and discovered it as a viable option to maximizing the rental income I can get from a property I'm living it.

Nichole Stohler

So he threw you, he just said, Hey, you could probably build an ADU on this property if you buy it.

Matthew Forrest

Yeah, it was actually a really small three bed, one bath house and it had this small Random Space attached to a garage. I mean, realistically, that specific one probably couldn't have been an ADU It was like 100 square feet, and it didn't really fit the bill, but he just trying to sell me the house. Right. But taking that information, and then applying it elsewhere is really where it came down to where it was useful. He don't think he really understood the ad you code at the time. That was back in 2017. It was brand new So I'm sure which was like a hot button issue and he was just trying to use whatever he could.

Nichole Stohler

So then when you went looking for the actual house that you ended up buying, you specifically looked to be able to have that kind of space available.

Matthew Forrest

Yeah, so I, I'm not interested or I wasn't interested in necessarily building a to use in the ground up, I was looking for the highest return on investment kind of ADU. So I was looking for properties that had a main house. And then some other kind of space, whether it be a garage or preferably a hobby room, or some kind of game room that I could convert into a rentable space.

Nichole Stohler

Got it. And I have to had someone else on the podcast who spoke about Colorado and their rules. And so I understand you know, everything varies state by state code by code city by city.

So tell us a little bit about how you got it. Well, I know your realtor through you the code so you and you're an engineer, so you probably read the whole thing and understood it but tell us a little bit about the research that you did once you were looking at his property to even just a cost analysis, those kinds of things.

Matthew Forrest

Yeah, so that that was one thing, it was a really steep learning curve for me. So I did read through all the code and I took the time to understand it reading through stuff like that is very difficult, but I think necessary if you're if you want to get into something like that, but when I was starting off, I really probably made a mistake and tried going it alone. I read the code by myself, I didn't consult architects, I didn't consult a real estate agents or contractors. I kind of did my own internet research and just went at it and I think personally for me, that's the best way for me to learn is just go at things and then find out the hard way. But it would have been very helpful for me had I taken the time to get a better education about the process on the front end, though I'm not necessarily sure that that was available and still is something that I struggled to find out there. I would say accessory dwelling units, especially in California because of the relatively newness of the The legislation, there's not a lot of precedent, and there are many people going for it. And that makes it hard to get the information you need.

Nichole Stohler

That's exactly what I was going to ask is. So first of all it does, you do have to be very specific to location because of the rules. And everything is different. Because I think, you know, when I was talking with the person from Colorado, she talked about it can't be an existing structure, and this was in the Denver area. So that's just their rules. So that would be and it's not like you can go on bigger pockets, because there's not a lot of information out there. So what would you say if you do internet research, but what would you say? How would you advise someone to go find that information in Southern California?

Matthew Forrest

So at this point, I would say the best strategy would be to find a person that's already done it and ask them to help you and walk you through it step by step. Another option would be on bigger pockets. There are some forums now that I've been on with some other people. It's kind of cool seeing like the small little California at you community in there. But going on, there is a good resource. As well as a competent architect who's done it before, that's probably the best person who could has the top down big picture, right? They understand the codes, they understand what's going to be required. They might not know as much from the cost of construction perspective and the execution of the job, but they can tell you what's possible and what's not possible versus you getting halfway through the process and hitting a roadblock.

Nichole Stohler

Great point. Tell us about the process that what was involved because you brought this property you had an existing structure. Did you have to go through permits What did you have to do?

Matthew Forrest

Yeah, so all in all, I thought this was I was going to buy this place. I was going to renovate the front house, take a month to do that and then do this whole add stuff in the back house. I thought that was going to be a total of three months. I thought I was going to August purchase and then October be renting it out. Turns out the front House Renovation did take about a month. But then I started on what ended up being a 12 month journey on the ad process. So I called the the closest architect I could find first guy I hired him, he told me what I could possibly do, and ended up sitting in planchette for about eight months. So I went to the city and went back and forth and back and forth. And we went through several planners, misinterpretations of the code misinterpretations of what was required different planners wanted different things. So that was the most difficult part of the process for me was the was the planning and getting approved plans. And then after the plans were approved, it was pretty straightforward. It was just executing for the plan. And then getting the variety of inspections and getting the different people out here to sign off on everything and ready to go.

Nichole Stohler

So let's back up because you talked about if you were to, to advise someone who's trying to research one, find someone who's done it before, but you also said an architect who has built or worked on at us before, is that eight months Do you think that could have been avoided if I don't know if your architect had done at us or not?

Matthew Forrest

So honestly, I'm not sure if I architected other us or not at this point, from the process, it feels like probably now. But I would say I would attribute that eight months, I would say 2% of was probably or sorry, two months was the city's fault, and probably six months was the architect. And again, a lot of that was not understanding exactly what the city needed, because it takes so long for the city to go over plans, that back and forth is just very time consuming. So it was it's important that whenever you submit plans, you should have relatively good confidence that it's going to go through the first time.

Nichole Stohler

Okay. And now you're at us ready to be rented?

Matthew Forrest

Yeah. We just last week, Wednesday, ready to go.

Nichole Stohler

And what are your plans? Are you planning long term, short term? What are you thinking?

Matthew Forrest

So California, or at least the city that I'm in forced me to sign a covenant that I cannot short term rental, the unit. Plus, I don't really want a short term rental unit. I prefer the long term stability of the income. I don't want to make this a job or any more of a job than already has

been So I'm going to make it a long term rental. I'm going to make the financially safe decision and rent it out versus living in it myself, even though it's very tempting.

Nichole Stohler

Oh, because it's exactly like you wanted it to be.

Matthew Forrest

Exactly. Yeah, I kind of made it my my pristine masterpiece, and I want it but I can't have it. So.

Nichole Stohler

All right, so when you did the numbers and you when you purchase this property, and then you looked at the construction and you looked at the rents and what you can charge for it, what kind of either ROI or payback Do you see? for this?

Matthew Forrest

Oh, luckily for me, I was very conservative on the cost for the whole project. And even even with all my mistakes, I still came in under my initial budget. And in terms of return, I look at it from a return on capital employed standpoint, so return on capital, and I would say the project has a proximately of 45% return after like, all taxes and expenses, including vacancy and stuff like that. So it was pretty much a no brainer once I already had the property.

Nichole Stohler

And I think you, you have a great advantage in that you were able to take an existing structure, because when you just described, so eight months, if you could move that piece away, that's a pretty short timeframe, then at that point, like four months to really get it all ready to go and able to run. And that that is pretty fast versus like a complete new build. Yes. So what would you say have been the negatives on the experience besides some of the delays?

Matthew Forrest

So I guess one of the negatives was that I have assizes always delays You're so hard on me. Those are really tough. Some of the negatives have been the the strictness of the law. I kind of feel like it was created so that people can find affordable housing and then landowners can make better use of their property. I don't think the spirit of the legislation is being an actor necessarily. It's been very difficult to go to the city and get this get this approved. I think it could have been a lot more straightforward. And I think there are a lot of roadblocks out there that need to be taken down. Just from a legislation standpoint.

Nichole Stohler

It always comes down to laws. All right. So tell us how can listeners get in touch with you or learn more because you are now an expert for at least the Southern California area and what needs to happen?

Matthew Forrest

Yeah, you can find out more about me on BiggerPockets. Feel free to direct message me there. I'm quick to message people and then exchange emails and stuff like that. And then also look out for a accessory dwelling unit specified meetup in the Southern California area, probably around Torrance or South LA. That's mainly focused.

Nichole Stohler

Very cool. I'm glad you're going to host a meetup and tell people a little bit about what you learned. That's, that's good. Continue pass it on and make sure other people do not have to go through the pain that you went through. Yeah. Awesome. Well, thank you so much, Matt. It was great to have you on and thank you for talking us. Through your experience and good luck as you rent it out. Thank you.

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