

TRG 36 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 who 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, Nichole 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. Before we jump into today's episode, I wanted to note that if you have a question or you're looking for help on your journey, there's a form on my website, therichergeek.com under Contact, and you can submit your question there. I had someone reach out this week who was looking to start his own property management company. And he wanted to know if I had any recommendations for courses or training. I've never really talked about starting your own property management company. I love that he basically is managing his own units and thought we might be able to do this and help others. And I'm happy to help provide those connections. And those questions also help provide content for these shows. So I gave him a few recommendations. And I do have a couple of property management shows coming up now as well. You can also connect with me via LinkedIn, message me there as well. And I'm happy to help answer questions and again, provide those connections if appropriate, or ideas for resources, continuing on our series of at us. Today's guests lives in Seattle. And it sounds like this area of the country might have some of the most flexible rules around at us. My original intention for this series was to provide ideas for house hacking, if you are interested in that strategy and you Can't find existing multifamily properties that makes sense. For example, some areas of the country those properties are way too expensive. And in some areas, they're just not conveniently located. I learned that in Seattle, actually, you can take a single family property, and you can add multiple units, not just one. And you can leverage those units as both short term and long term rentals. So already off the bat, there's more flexibility than what I've heard for some of the other areas of the country. The restrictions requiring owner occupancy have also been lifted. Now this makes it very interesting to look at single family properties and run the numbers for adding more units as a real estate investor. So you're not living there. Maybe you are buying for single family home properties, and then you're adding at us and let's say max to I don't actually know what the restriction is, but to PR so you have three units per single family. You can see how that scales or it could be interesting. You'd have to run the numbers also makes me curious about what other areas of the country are doing, where housing supply is constrained. We've been very West Coast focused, and I would be interested in curious. So if you're in one of those areas reached out to me, our guest today is Ben Anderson. He's a software engineer and he enjoys personal finance. So he recently purchased his first house hack, a single family home with an ADU in Seattle, Washington. Ben, welcome to the show.

Ben Anderson

Thanks, Nichole. Happy to be here.

Nichole Stohler

Let's jump in with having you tell us a little bit about yourself.

Ben Anderson

Yeah, so I'm a software engineer in the Seattle area. I moved here about a year and a half ago to work for Facebook. And you know, software engineering is definitely my full time job. And I've always been very interested in personal finance and kind of got interested in real estate as a way to you know, Turn my living situation into something that can like advanced financial goals.

Nichole Stohler

That's a great background. I am also a personal finance I think you said a personal finance geek or very interested in all things personal finance me to tell us a little bit about how you got started or Where did you get the idea that you would want to have an ad you on your property?

Ben Anderson

Yeah, so I was originally kind of looking at things like tiny houses. Um, you know, like people say your biggest expense is like probably housing and taxes, and I can't really do much about taxes. So I was looking at ways of reducing my housing expense. And tiny houses appealed to me because you know, that could, you know, buy and build one out right or something like that and not have a mortgage. But the laws in Seattle aren't super attractive to that, but I'm in that space. There is a lot of people who are doing things like building backyard cottages, which I found like a very interesting thing to do. At the same time, I was kind of learning about house hacking and decided that that probably made the most sense for me. So at the time I was doing this research was probably like March or April of 2019. So this year, and the state of the ad regulations in Seattle basically said that you could have them but there is an owner occupancy requirement, which means that you actually have to live in it, if you want to, like rent out the at you or the main property, and then when you sell the house, like the buyer would sign an owner occupancy covenant and stuff like that. So it really kind of restricted the flexibility and the value of it because you know, the average time someone stays at a company is like, two, three years intact, and, you know, I've moved around a bunch, and I didn't want to be like, you know, restricted in terms of my selling options. So I spent probably a couple months looking at more traditional multifamily stuff, but I found that it didn't really make sense. And then in July, the Seattle City Council actually passed some regulations that remove the owner occupancy requirement and added some other kind of things that we can talk about later. And at that point, I really started Looking at either you know single family with existing at us or things with garages and basements that I'd be able to convert.

Nichole Stohler

Okay, and you said that multifamily didn't make sense why why did it not make sense?

Ben Anderson

Yeah just the pricing I was just kind of like running the numbers and you know you were selling like, I was seeing like one bed one bath like a duplex with like two one bed one bath units selling for like 800 grand. And like the cheapest, like duplex I could find is probably like, you know, 700,000 for one bed, one bath with an upstairs like tiny little Airbnb suite, not in a great neighborhood and stuff like that. So I think that it's just a lot of investors were interested in that people were like 1031 exchanging into these things, and weren't as concerned necessarily about like, you know, immediate cash flow where they were like bringing a lot of money and like they're really their goal is to save on taxes and stuff like that. Um, so it's just people who are in you know, different situations were buying them and there's just not a lot of them on market in this area.

Nichole Stohler

It's very interesting, and multifamily is so hot in the Phoenix market and has been for several years that the people are paying crazy prices. And then it is a challenge to actually make a profit from those properties. So it sounds like that is happening in Seattle market as well. Definitely. Okay, so when the laws change, so that was in July, tell us a little bit about some of those significant changes that made it more appealing to look in your location for any of you.

Ben Anderson

Yeah, so the biggest one, for sure, was the removal of the owner occupancy requirement. So now you know, I bought this house with that I'm that I'm in right now with a conventional owner occupied alone, but I can move out in a year and I can rent out both units, whereas before, I wouldn't be able to do that. Additionally, they increased like the minimum space for new construction to 1000 square feet, I believe it was like 800 before or six or 800 depending on the type of structure. They removed the requirement to have like parking, which, you know, changed. You know, if you had a lot that like adding parking to would be like expensive or just logistically not feasible, not could be an issue. And then they really big thing that I like is that they added the ability to build a second at you. So now a property can have up to two, like at us. And one of them are just needs to meet Green Building Standards.

Nichole Stohler

There's so many interesting things about that. So first of all, you can really build your own little multifamily, essentially, through some of those reduction and restrictions. And then it sounds like Seattle's just embracing I don't know, is it a result also of housing affordability? Is that the reason?

Ben Anderson

Yeah, exactly. Affordable Housing is like the big push, because you have these like 1000 square foot like you can have like a nice two or even three bedroom like thing. I'm in nicer neighborhoods where like you might be able to run a single family home for like the upper few thousands that might rent for like, you know, 20 503,000, something like that. So it's a lot more affordable, you can have them in nicer neighborhoods, and then there's a The other kind of like social benefits of like multi generational living and things that that enables.

Nichole Stohler

A great point there on the multi generational. All right, so last change you started looking at tell us a little bit about that process?

Ben Anderson

Um, yeah, so I was working with an agent, like I reached out to them, and we were started looking mostly at the multifamily and stuff like that, and then kind of shifted to looking at single family with, you know, either at us or at potential. And we probably looked at 20 or 30 properties in person. And we were like originally under contract for one that had, like, pretty significant Foundation, as you saw was able to back out of that before going under contract on this particular property. There's a lot of little little gotchas here in there. So people have been doing this kind of thing in Seattle for a while and you know, it's not permitted or stuff like that. And building codes have changed a lot here. So there is a lot of things with like basements with very low ceilings that had like existing dwelling units. And if you wanted to get the legalized you'd have to like raise up the entire house essentially. But you know another kind of nice thing about having the existing units is So mine is 970 square feet which is bigger than the old one it was but because it was like part of the original house, those things can be like kind of grandfathered in. So I was kind of biasing towards that kind of thing with with the existing properties because I was generally looking for, you know, an ADU with more than just one bedroom.

Nichole Stohler

And did you have construction then once you purchase the house with it or purchase the property?

Ben Anderson

Yeah, so I did some fairly involved renovations. Basically, upstairs I did a kitchen and a bathroom remodel downstairs. I did a bathroom remodel a new floors downstairs, and like small floor plan change downstairs and I added a like a bedroom upstairs. So all in like it was probably like 70 to 80,000 in terms of like renovation costs. But the big thing is that was already permitted downstairs.

Nichole Stohler

If you've done any research on a new build, and I don't know, if you have what would a new build be like from scratch?

Ben Anderson

Um, it depends on the size of what you want to like build. And it also depends a little bit on the utility connection stuff. But like building the actual structure itself isn't that expensive, you can kind of use roughly normal like, estimate. So something like \$200 a square foot, you might be able to get done in a little less in Seattle. So for my particular property, my estimate is probably like 150 to \$225,000 to build like a two story, two or three bedroom ddu, which is something

that I'm considering. But right now my inclination is more to buy another property and just kind of sit on that option until it makes sense or doesn't.

Nichole Stohler

You know what, and that's you just brought up something that's a good point. Because when we connected you said da de you and I said I am not familiar with that term. So detached accessory dwelling unit. I think when I'm talking with folks in all different areas of the country, we're just saying accessory dwelling unit, but a lot of times it could be detached. But when you're talking about an ad, you yours is attached.

Ben Anderson

Yeah, so mine is basically it's a basement on it has the exact same square footage is upstairs. And there's kind of like a, it's kind of like a split level type of deal. But yeah, you can have like that you could also have something that would still be considered an ad you that could like share a wall. So you could have like a side by side type of deal. And then you can have the detached at us which you might think of like more of the backyard cottage or the thing that's on top of her garage, those things are getting pretty popular as well. Whereas what I'm in is like more like a mother in law suite or like basement apartment type deal. Now you talked about the rules changing and permitting process that folks would have to go through. How do you recommend How would you recommend people get that information and how did you go about getting that that information Yeah, so I mean, Google was a good starting point just to kind of figure out what the things are. But then I went down to like my local, like government building. And they had their building apartments there. And like, there were news articles that like this thing had passed on. But it was really helpful to like, go there and like ask them about specific properties get the like, relevant codes before they were like published online because it was like it was passed, but it wasn't effective yet. So like the information on the actually like, like building and permitting site wasn't as up to date. So you know, kind of kind of Google to figure out who the relative relevant players are. But I think just going down in person to the like, Building and Construction permit offices is a really good thing to do just to make sure that like, all your boxes are checked and you can ask questions about like your specific property that you might like owner be interested in buying.

Nichole Stohler

Okay, and how long for you from the time that you started looking to renovations to now? How long was that whole process to have your ad you fully ready? To go,

Ben Anderson

Yeah, so when I started looking for like at us specifically in about July, and I closed on this property, beginning of August, or actually no, so I went under contract for any of August and I closed September 3, the renovations were largely complete by the end of October, I moved in at the end of October, and there is just kind of a few small standing stuff that they were able to do once I'd already moved in. So it was nice to not live in a construction zone. So you know, I was very fortunate in finding a good contractor and they work very hard and were able to, like do so during you know, you there wasn't restrictions with like me being there. So they were

they were able to, like work longer hours and not necessarily need to like section things off as much.

Nichole Stohler

And have you rented out the other side of it?

Ben Anderson

Yeah, so um, I wasn't able to get that listing up until like around Thanksgiving. I currently have some applicants. So I'm anticipating Having it rented in, like the first or second week of January.

Nichole Stohler

Very nice. Okay, through that whole experience, what would you do differently?

Ben Anderson

Um, so I think the biggest thing that I would do differently is I think I would engage on someone with like more design experience just in terms of like selecting materials and stuff like that I got, you know, definitely some decision paralysis and just like, I think I was more hands on with the renovation than I think I would be in the future. Like that was a valuable learning experience, but I think that's something that I suspected of myself. And then I think the other thing is just like I probably took a little longer than I should have been just in terms of like being able to get the unit like listed and rented. And I think that you know, being more aggressive with that would benefit me in the future that said like there's was enough meat on the bone that even with like longer, like carrying costs, and I was looking at, it's not a huge deal, and I was a thing that I think I did Well was making sure that I was like looking at this from a position to financial strength so that if, you know when not if things came up that I'd be able to, you know, handle it.

Nichole Stohler

Okay, those are some very good tips. And, you know, the rental market is interesting in again, different areas of the country. And I, I know what you're saying about you, maybe you could more aggressively have marketed the property earlier. But also at the same time, you might have been a difficult situation where you didn't really have it ready and they were ready. And so there is a little bit of a chicken and egg there.

Ben Anderson

Yeah. And I think also just better understanding that the Thanksgiving to like, Christmas time of the year is probably like the worst time to lose something that said, You know, I still have some interest and should have it rented.

Nichole Stohler

Fantastic. All right. Where can listeners get in touch with you or learn more?

Ben Anderson

Yeah, so I'm Twitter. I am at the underscore be Anderson nospace. is between being Anderson and for learning about EDS and things like that. I think just googling your local laws is really important. There's a lot of regional variation, things like owner occupancy requirements, size, parking requirements, and all of that are things that you really want to be researching.

Nichole Stohler

Fantastic. Thank you so much for joining us today.

Ben Anderson

Yeah, thank you.

Nichole Stohler

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