Lane Kawaoka of SimplePassiveCashflow.com

[00:00:04.77] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:23.73] Hello, this is Hall Martin with Investor Connect, they were here withLane Kawaoka, creator of simple passive cash flow Dotcom Lane's passion project. Simple passive cash flow dot com is a top 50 investing podcast and free resource for passive real estate investing. Working as a high paid professional in corporate America and frustrated by the traditional wealth building dogma, he was compelled to inspire mentor other working professionals on how to do real estate investing and build their own portfolios. Lane urges other working professionals just getting started by utilizing their highest and best use time to save downpayment money to acquire a single family home rentals. The simple, passive cash flow method is to only buy investments with a healthy cash flow buffer that can withstand a market downturn and has gotten so much appreciation for his work via these kind words from his audience. Elaine, thank you for joining us today.

[00:01:07.53] Thanks for having me. Hello, everybody.

[00:01:10.17] Great, great. So tell us more about how you got into your current investing in appreciation markets.

[00:01:16.83] Yeah, so I kind of had a linear path of I grew up pretty frugal. My parents taught me to go to school, get a good job and work at that job for 40, 50 years, and also live in all that traditional wealth building stuff that I don't necessarily agree with. And what I kind of help educate people to live how the wealthy do. So my kind of story, I became an engineer, graduated, started working for a couple of years, saved up to buy a house. But because I was never home and I was working on the road all the time, I just decided to rent it out. So for a young 20 something year old kid, the rents that I made, well, exceeded the mortgage payment. And that was a lot bigger money to me at the time. But then I quickly realized that I just kept doing this. I'll be able to escape the rat race. And that's what I kind of set forth to do shortly thereafter.

[00:02:06.54] Great. And so you have a set of counterintuitive wealth rules, you know, the ones the rich people follow. Can you walk us through that and tell us more about that?

[00:02:14.16] Yeah. So first one is like a house to live in, right? I stay right here in Hawaii and a lot of your money is going to go further, investing in assets or rental properties. And I think for most people, I would say it would probably be good to buy a house because buying a house is kind of like a forced savings account. But for a lot of us that are kind of improving ourselves, listening to podcasts, I have a hunch that you guys are pretty good with your money and it's probably better to invest it in the long run.

[00:02:43.74] And so you say don't buy mutual funds or other Wall Street products. Why is that?

[00:02:47.88] Well, I think in other retail products. Right. I mean, you can invest in a wreath that happens to invest in real estate. But a lot of these products, there's just so many middlemen. The financial planner, they get paid when they sell you commission related products. And even though the expense ratio might be very low, there's a lot of hidden fees. I mean, I think that's why a lot of your folks will invest directly with response sponsor or operator doing the same thing with us. Either we're doing it ourselves, buying our own rental properties, or investing in syndications of private placements directly with the operator.

[00:03:21.00] And so what's your take on U.S. retirement accounts?

[00:03:24.45] Yeah. So in our world, we try not to use retirement accounts for investing. I mean, for big reasons why no. One I mean, a lot of people do end us can get financially free in 10 years. Therefore, you don't want to wait to be sixty five, seven years old age where you can take out the money.

[00:03:40.47] Right. I mean, if I was doing this maybe for a dozen years before I put my engineering job in.

[00:03:46.23] So yeah, that's point number one. But number two is look at your tax bracket. You know, most financial advice is predicated on you're going to retire your income and a lower tax bracket. But I don't know about you all, but I anticipate my taxes, my amount of money I'm going to make in the future to go well, therefore, my tax bracket is going to go away. So pay taxes today, get it out today before it goes up. And then just where is all these government entitlement programs? The four trillion dollars is getting companies to stop.

[00:04:18.60] How else is the government going to pay for that than raising tax brackets in the future? But something that passive investor, real estate investor is going to know about this. A lot of these deals, you get a lot of depreciation, paper losses or passive activity losses to also potentially offset your ordinary W-2 income. Now, you don't get any of that if you're investing within a retirement account. This is why a lot of time to advocate for just cash so you can use those losses to kind of manipulate how much taxes you pay.

[00:04:49.27] So so how does one get started? If you're a working professional, how do you get involved in, say, passive investing? What would you do to build that up?

[00:04:57.36] Yes, two ways of doing this, right. I mean, I think when most people think of real estate investing, they think of house flipping. If they see an HDTV, all that stuff is a job. And I had a good paying job and a lot of my clients do. A lot of them are doctors, lawyers, engineers. And once they get going, they're highest and best use at their jobs. They want to invest passively as little time as possible. But to do that, you need some money. Symbolistic besty, so kind of the two big populations I work with are the lower network guys under a quarter million dollars and you don't really have access to bigger deals.

[00:05:35.06] So you got to do what I did when I got started. Just buy rental properties for cash flow, a better one percent rent. They show a higher. But if you're an accredited investor, just like investing in startups, find a bunch of sponsors, build your network within the real estate community and invest in deals as a passive.

[00:05:53.57] And so how long does it take to build up a portfolio? What kind of timeframe does it take to get sizable gains on it?

[00:05:59.99] I mean, a lot of the good thing about real estate is it's backed by hard assets, not like a bunch of digital assets.

[00:06:06.38] And at the end of the day, you're investing in something that America has a demand for and a growing need for population. And especially we invest in workforce style housing. So our rents are typically around seven hundred dollars to twelve hundred dollar range. Not the luxury stuff, not the low end stuff right in the middle. And I think this country needs more of it and I think they appreciate a good value that they're getting. Now, when you invest in that type of stuff, your kind of investing in the bell curve where the population is now, how long does it take to get set up? I mean, it could be as quick as you want to. How much money can you gamble in Vegas? Right. If you want to go real big, then you can you can blow your money real fast. But I guess what I suggest is people not really investing in any one deal with more than five percent or so. Most times people will invest 50, 100 grand if their net worth is over a million dollars to diversify over a few dozen deals. So they'll space out these opportunities.

[00:07:07.97] And a lot of these deals, or at least the ones that we go into, they're stabilized assets. They're cash flowing already, 90 percent occupied. So they're good businesses, but there's some kind of value add. So we'll go in there. We have the units maybe put four to six thousand dollars or we happen to be two units deploying new appliances, but not really get into the big stuff. Just lipstick on a pig, essentially. But with that, we're able to pump the rents up a hundred bucks and get great returns for appreciation. So a lot of that is not taking tenants out. We're just as a natural turnover happens, we go up there, we have the units as we balance cash flow. We don't want to kick out tenants because we want to keep our cash flow high in term. So that will probably take a couple years to three years kind of cycle through most of the units. So it's kind of like a slow flip. But the nice thing is if the economy takes a stumble here, there are still cash, multiple exit strategies.

[00:08:03.32] What's it like to manage these properties once you have them up and running and you have tenants in there? How do you manage this, all this activity?

[00:08:11.57] Yeah, I mean, when I had eleven rentals and kind of did it myself, I had all these property managers to do it. And if you're buying a single family home rental and you're not a broke guy, that's an I would suggest you pay these guys around 10 percent of the income and they manage it professionally for you.

[00:08:28.37] And you don't have to worry about tenants, termites and toilets. Now, today, we buy apartments. So we have we work with commercial property operators. We pay them on salary. We have better metrics and KPIs for them to keep for us. But we kind of play the role of asset managers. So passive investors don't do anything other than read a few reports on a monthly basis here. They're just trying to keep up if they're interested.

[00:08:52.94] If they're not, they don't need to read it. But yeah, I mean, that's that those are kind of the two ends of the spectrum as far as passive investing.

[00:09:00.12] All right. So even your own podcast, can you tell us more about it?

[00:09:03.29] Yeah. So my podcast is simple, passive cash flow. I started back in twenty sixteen and at the time I was still buying turnkey remote rentals and all my buddies were asking me, how do you do this? Because you've been doing this for almost a decade now. And of course I think all of us investors will agree that we tell our friends and our family what we're doing, but very little people do it and it's frustration there. And so I was frustrated and I would waste my time explaining this stuff over lunch. Don't ever do it. So I just recorded the damn thing. So a lot of the first dozen podcasts were all about buying single family home remote rentals. I was buying in Birmingham, Atlanta, Annapolis, and yeah, I wasn't visiting these things. And there's ways to get around it and build a team so that you don't really have to visit the properties investor. But at that time I was becoming more of an accredited investor and I started to discover these private placements in syndications, investing in larger, more robust deals. And throughout the years, twenty, seventeen, eighteen, you can kind of see the genesis as it became more of an investor. So my podcast is kind of a follow my journey to today and beyond.

[00:10:11.90] Ok, so what have you learned from the speakers on that podcast? I'm sure they have lots of great ideas.

[00:10:17.87] Yeah, I mean, a lot of it has come from joining different mastermind's and. Getting around other high net worth investors as far as like a lot of the tax stuff, I mean, I don't pay any taxes today because I'm smart. I use my passive activity losses to drive down my ordinary income in passive income. And that's I like I think that's how you first got connected to startups. Is Kurumi right? It's investing directly with the operator, cutting out all the middlemen. But the real stuff can get a little boring. The returns. I mean, maybe at best you're doubling your money every three to five years and it takes a while. And with all the taxes I save, there's more money to invest. I think that's the appeal to the startups. It's a lot quicker rebound rate, too. But I think where real estate has advantage is the tax efficiency and the ability to pay less taxes. If you're still working your day job and in this world, you start to discover and you start to interact with a lot of other people and you start to learn about other tech strategies like land conservation easements, solar deals, oil and gas fields. And then a lot of it has to do with building your own revokable. Trust, trust system. What are the high net worth families doing the guys?

[00:11:36.41] One hundred million dollar. And above all, I'll tell you that they're not doing anything that tricky.

[00:11:41.15] But it is very counterintuitive to what the average person certainly what my parents thought I would do, infinite banking where we use a whole like product, but we over fund it so we can kind of bank from ourselves, things like that.

[00:11:55.19] So what have you learned not to do in this from this group of people?

[00:11:58.25] Yeah, so sophisticated investors, they don't worry about interest rate or amount of debt. They care about what their cash flow is so they can hold on to the asset in case of hard times.

[00:12:09.98] And they care about what their network this happening or what I call it, return on equity. But you always need to keep your money working for you. And a good case in point on that is don't keep money in your house as equity. It's not doing anything for you. It's debt, equity. And from a litigation or asset protection standpoint, I'm not giving any legal advice, but having money. All the equity in your house is probably the dumbest place to keep it because it's a sitting duck. Everybody knows how much you have fact. I mean, sometimes debt is your best deterrent from a lawsuit in covering yourself with that debt. And then why would you not want it and cover yourself with debt? Because that's what the government does. That's why the government has so much debt, because they know that as inflation, Thomas, their debts kind of get smaller by relation. So very different concepts than what your parents taught us. But you don't believe you run the numbers yourself. The numbers don't lie.

[00:13:04.85] So so how do you get a syndication deal or a private placement as a limited partner? How do you know it's a good deal or a bad deal?

[00:13:11.57] Yeah, so I mean, me personally, I'm able to underwrite the deal and using the roles and the profit and loss statements.

[00:13:18.89] And I mean, I'm able to put into my model and kind of see if it's a big deal, run it myself and kind of do some analysis on other assets, what they're looking for. But most passive investors, quite frankly, don't know how to do that. And I think if you and I have discussed, like most startup investors, they, quite frankly, don't really know that particular business is niche and they're not the technical expert on it. I think real estate's a little bit easier to do diligence because it's all right there in the numbers. And it's pretty basic, right? Everybody's rented an apartment or a house or owns a house. We all kind of get it. And it's something understandable. But all that aside, right, a lot of time, a lot of it is just getting your sponsor, you know. But in my opinion, the best way to do that is to build your network of other casts of accredited investors. And that's what I've kind of created. And that we do a pipeline club is kind of my group. And I also have a mastermind behind closed doors of high net worth investors and sharing best practices for financial tactics and to work with right where the shysters out there who are the people to stay away from Celui and so passive cash flow investing in Galley's passive streams of income and not doing it the traditional way.

[00:14:32.00] But what do you think is the next step here for someone that wants to get involved with it?

[00:14:36.98] Yeah, I would say just like anything, you try it out. When I was investing in Seattle and I heard about these remote rental turnkey properties, that cash mob in Birmingham, I bought one, tried it out and I jumped in. I deployed more funds. Same thing in this case, right? Like learn about it, learn about syndications, beat a few people, but eventually going to have to jump in, put some skin in the game. You know, I'm kind of doing that with Bitcoin, even though I just think of it as more of a fun thing. But unless I put money in it, I, quite frankly, don't really put too much effort into learning. But I think at that point you sit and wait and you see if the operator performs before you deploy a more serious amount of funds.

[00:15:16.73] What's the max, five percent networth rule? What does that mean?

[00:15:19.79] Yeah, so like, you know, as an investor you want. Versification, I believe so when you're investing in syndications in private placements, you do give up control to your operators and what's happening. And for some people, that's a good thing because, you know, you might be the worst person to operate this asset, but you want to be diversified with different partners, different geographic locations, different asset classes. I kind of specialize in multifamily apartments, but you might like mobile home, park, self-storage, assisted living, triple net commercial leases. There's a wide breadth within just in the world of real estate. I'm trying to diversify outside of real estate first thing, and I think that's how we got connected. But any one deal, I try to stay below five percent of my network.

[00:16:05.13] That's important point. So a lot of people want to use it for a one k how do they do that for getting involved with passive casual investing.

[00:16:13.22] Yeah, I mean before we start to rate our four one KS, which is sort of an irreversible thing, when I start to do a consult with the client, we're looking at other sources of liquidity first, such as do they have liquidity in their bank accounts? Most people, if they're good investors, they don't have too much cash sitting around naked. Jack, right. Then at that point, we start to look at, all right, do you have any equity in your house or any rental properties that you may want to sell right after that point? Yeah, we got to go look at your retirement funds and when you take money out of your one, when you haven't paid taxes on it yet, so you've got it when you take the money out, you're going to have to keep in mind that you're going to pay the taxes. If it's a Roth, you could take out the the contributions tax free and you can take out the money out of that because you've already paid the taxes. So that's another thing to keep in mind. But like to take a situation where you have for one guy, if they're in a lower tax bracket like they're making under three hundred thirty thousand dollars high or adjusted gross income will kind of take it up to that magic number three hundred thirty thousand dollars is that blend between that twenty four percent to thirty two percent.

[00:17:22.01] There's quite a bit of a jump right there. So that's kind of like that magic water. Like if you're under there, what we try and take just as much out of that for one to get you up to that point. So good example would be a guy making two hundred grand a year, AGI married, filing jointly. They've got several hundred thousand dollars in their four one K, so we might make a plan for them to maybe take out one hundred thirty thousand dollars or leak it out slowly so their AGI doesn't blow up on them over that three hundred thirty thousand dollars if it does no big deal. Right, because we have a progressive tax system where they're only taxed at that higher rate for that overflow. Another example and this might resonate with your folks is I have a lot of doctor clients that might make six hundred thousand dollars a year. At that point, they're going to get beat up as they take money out of the retirement account so that we may elect to do a solo for one K for them so they can sell off their assets into real estate. Or some guys are just like, screw the stock market. I'm over that. I want hard assets that I can control that I understand. So at that point, you may look at some exotic options such as land conservation easements to mitigate that greed.

[00:18:29.64] What a great idea is there in the last minutes that we have, what else should we cover that we haven't?

[00:18:34.16] Yeah, I mean, I think there's definitely a prescription out there for high net worth investors, and it's really not that hard. There's definitely the basics on taxes and investing. A lot of stuff out there is on my website for free. I would suggest taking a listen to my podcast. And if anybody has any questions, email us. Lonette simple classic cash flow dotcom.

[00:18:56.66] Great. Thank you for joining us today and hope to have you back for a follow up soon.

[00:19:00.74] Yeah, thanks, everybody. Investor Connect helps investors interested in startup funding in this podcast series Experience, investors share their experience and advice. You can learn more at Investor Connect, Doug.

[00:19:17.26] Paul Martin is the director of investor Canek, which is a 523 non-profit dedicated to the education of investors for early stage funding. All opinions expressed by Hall and podcast