The Step-by-Step Guide
To Creating a 6-Figure Passive Income
Through Real Estate Investing
In 2009 I bought my first property while working two part time jobs, barely above minimum wage. I was 24 and around $60,000 in debt.

I was in a Ph.D. program for Economics and I was set up for a super cushy future as a researcher or professor. Between 2009 and 2011 something changed... I dropped from the program to pursue real estate full time. I’ll get into why in a moment.

By 2015, I had achieve “financial independence” and retired from the work force.
In order to get from there to where I am today, I had to create and follow a system. That’s what I’m going to share with you, but real quick, here are the basic 3 pillars of the system:

1. **Adopting the right mindset**
   
   Start thinking like an investor and get rid of the “working” mentality. I’ll talk a little bit about my journey toward developing the right mentality.

2. **Creating a solid plan**
   
   Don’t dive right in. Educate yourself and create a proper business plan.

   I’ll go over the 5 step system I created as the foundation of my education and business plan.

3. **Implementing great business systems**
   
   Start systematizing your business before you ever purchase your first deal.

   I’ll cover some of the core systems you’ll need to implement in order to be successful.
In 2009, I wanted to buy a house. I had saved up a lot of money and I thought it was cheaper to own than to rent. So, I started shopping around for houses.

Eventually we realized that we didn’t qualify for very much. We were both students and all we had was a lot of debt and motivation. Unfortunately, banks don’t care for either.

One lender made a promise to me – he promised I would never qualify for a loan.

That sort of negative thinking would discourage most people, and I must admit that I was discouraged for a few days. I’ve never accepted defeat before so I decided to prove him wrong!

I realized that I could use the rent from an additional unit to count toward my income. If I had 2 extra units then I had even more income. So the wheels started grinding...

I discovered that you don’t really need a good job to qualify, you just need other people to pay your mortgage for you. If you could do that then you could buy property.

It was game on! It wasn’t long until I was the proud owner of a triplex.
Step 1: Changing My Mindset

Even though I was a landlord, I still had no intention of being an investor. The plan was to get my Ph.D., sell my property, and move to a home in the suburbs.

Then something happened... I was sitting at home watching TV one night when I heard a knock at the door.

It was a tenant there to pay the rent.

I wrote the receipt, took the cash, and sat back down... and the wheels in my head started grinding and turning.

"I didn’t want to chase money. I wanted money to come chase me."

Most people never experience a paradigm shift in their way of thinking, but those who do will always remember the day. I can honestly say, that instant my entire life began to change.

The growth required to change mindsets is a long process that took years, but that day I realized something fundamental – that I didn’t want to chase money. I wanted money to come chase me.
Growing My Mindset

I wanted to dive right into real estate, but I had another life-changing event - I deployed to Afghanistan in 2010-11. Even though I was forced to take a pause for a year, I didn’t sit idle. It turned out to be a blessing in disguise.

I spent a year reading everything there is about rental property, flips, apartment buildings, etc.... You name it, I read it. The education was key and I’ll get back to that point later.

I also discovered Robert Kiyosaki and “Rich Dad Poor Dad” some time in 2011. I won’t go into a ton of detail, but I’ll highlight the top 4 things I took away from it:

1. The rich don’t work for money
2. The rich create their own money
3. Pay yourself first
4. Cashflow negative assets act more like liabilities than assets

With the change in mindset now complete, I was able to move on to the next step.
I always say that you can make money in any niche of real estate, just not all of them.

This is one of the biggest reasons why people give up or never get started as an investor. Everything sounds good but they are never able to get far enough along to actually make any money. People start chasing so many different things that they never get good at one thing.

Once my mindset changed, I wanted to dive right in to real estate. I know now that this would have been a disaster. Luckily, my deployment forced me to learn and plan.

Ultimately, I created a plan where I could find under valued small multifamily properties, do some work and create value, then refinance the properties and get most or all of my money out of the deal so I could do it again.

I did struggle through my first deal or two as I was learning the ropes and truly honing the plan. But, because I had spent so long thinking about the plan, my deals were pretty good and worked out well.

In the next few pages I’ll summarize the basic plan.
PASER Method

Procure Great Deals

Add Value to Those Deals (Rehab, Management, etc.)

Stabilize Occupancy (Fill The Units With Great Tenants)

Expand NOI (increase current / add new revenue streams, reduce costs)

Refinance and Recover Most or All of the Invested Capital
Procuring

**Procurement** deals with the sourcing activities, negotiation and strategic selection of goods and services that are usually of importance to an organization.

**Buying** is the process of how goods and services are ordered.

As you can tell, I’ve very specifically chosen the word “procure” over the word purchase or buy.

Its connotation includes the methods of finding, choosing, and negotiating a deal. Though the actual purchase is complicated and important, the emphasis should be on procurement.

Your business plan needs to get into extreme detail on the exact methods and criteria for finding and choosing deals. You should also touch upon how you will actually purchase the deal (equity raise, debt sources etc.), but the core of this section is on establishing criteria and finding deals.
Adding Value

There are literally dozens of ways to add value to a multifamily property.

You should become an expert in one or two core strategies and write them into your business plan. Here are a few that just brush the surface.

**Major repositioning** – Taking vacant, condemned, or damaged properties and doing major renovations to make them habitable again. This is a very risky strategy but also comes with the most upside potential.

**Interior Upgrades & Amenities** – On the other side of the spectrum is taking a stabilized and decent property and adding value through light interior upgrades, adding amenities to the grounds, and bringing all rents up to market rates + a premium for the quality. This method is far less risky, but it’s also much harder to find great deals with a lot of upside potential.

**Management & Tenants** – Sometimes a property starts to spiral out of control due to bad management. Removing bad management, evicting bad tenants, and bringing the quality of the residents back up may be all it takes to add a ton of value.

**Market Reposition** – This is taking a C class property and doing work and adding amenities to match the B class properties in the area (or going from B to A). By doing this, you can bring the rents in line with a better quality asset, thus increasing value.
Stabilizing Occupancy

The most important thing a bank looks at is occupancy.

Occupancy tells so many stories about a property. If occupancy is dropping, it signals problems with the management or property. If occupancy is too high, it signals low rents or low tenant selection criteria.

Also, if you reposition a property, you can expect occupancy to take a major hit in the first year. You will need to remove the bad residents and fill those units with good people. In the long run rents and occupancy will be much higher, but you will take a short term hit.

The key is to get units turned over and rented out as quickly as possible after a resident moves or is kicked out and to bring vacant or down units back online as quickly as possible.

Once rents are trending up and occupancy is up over 90%, you should be ready for the next step.

Your business plan needs to go into painstaking detail on how you plan to market and fill your properties in order to stabilize them.
Expanding NOI

There are 3 ways to grow your NOI. Determine how you will grow it and work it into your plan.

**Increase Current Sources of Revenue**

This can be from increasing rents, increasing current fees etc.

**Create New Streams of Revenue**

Find ways to charge the residents for miscellaneous expenses such as pest control, garbage, utilities, and more. You can also charge for reserved parking spots, laundry, and more.

**Reduce Expenses**

An often overlooked way is to reduce some operating costs. This could be through water conservation, energy efficiency, and renegotiating insurance or other contracts.
Refinance

Use commercial lending – banks focus on the property and less on you.

That’s not to say that anyone can get a loan. Banks will require you to be financially secure, have liquidity to cover several months of loan payments, and a net worth to cover at least half of the loan.

Banks also like to see around 2 years of experience. This can be rehab experience, landlord experience, or even experience as a realtor if you can convince the bank.

Most banks require 6+ months of “seasoning” before they will finance it. This means the property has been stable, fixed, and rented for around that period of time. Basically, they need you to justify a higher value with time and work.

Banks lend 75-80% of appraised value on this sort of deal.

If you get into large loans over $1m then you may be able to get non-recourse financing which is an entirely different game.
Step 3: Creating Great Systems

Now that you’ve created the framework where you will find and own properties, it’s time to implement the proper systems BEFORE purchasing.

Here are a few important systems you should consider before closing on your first deal:

**Tenant Applications** – What will qualify tenants? How will you check their information for accuracy? Do you have a specific list of qualifications to provide to a tenant?

**Work Orders** – A lot of people just take calls and schedule the work. It’s easy for work to slip through the cracks. Implement a system where requests are tracked and given to the proper maintenance person.

**Evictions** – When do you provide the eviction notices? When do you work with a tenant for payment and when do you go forward with kicking them out? Who’s your attorney and who tracks the progress?

**Bookkeeping** – Do you track everything in spreadsheets or are you using professional accounting software? What about using property management software?

**Inspections** – Have formal inspections on a quarterly and yearly schedule as well as during move in and move out.
The First Million is the Hardest Million

I’m not sure where I heard this and I can’t claim to have invented it. But, I believe that “the first million is the hardest” and everything tends to get easier after that.

They were originally talking about net-worth and becoming an accredited investor, but I think it applies to the foundation of the pyramid. **The hardest part is adopting the right mindset.**

The fact is there are a lot of people out there who earn tons of money but they are still slaves to their jobs. Professional sports, doctors, lawyers, singers, etc. are all beholden to their paycheck.

No matter how much money you earn, without the right mindset that cash will just buy more fancy doodads. Adopting a mindset of financial independence will let you achieve your early retirement goals decades ahead of schedule.

Unfortunately, this mindset is so rare in society. That’s why it’s so hard to adopt!
Are You Ready to Start Building an Empire?

There is a lot to it and it’s too much to cover in a 20 page pdf. On IdealREI.com there are over 100 pages

When it’s available in the next few weeks, I’ll be sure to email you and let you know about it!

Thanks For Reading!

I hope this PDF gave you some new thoughts and helps you on the path toward financial independence. Feel free to reach out to me at Eric@IdealREI.com.

I look forward to getting to know you and building our relationship!

Best Regards,

Eric Bowlin