How To Live for Free

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Outside of taxes, most family's top expenses are for shelter. About 40% of the U.S. population pays rent to a landlord. Most homeowners in the country pay a mortgage payment and they all pay taxes and insurance.

First of all, let me give my definition for "Live For Free." It is you and your family living in a home where you do not have to pay any rent, mortgage payment, taxes or insurance for your residence. These expenses are paid with passive income from assets that you own.

There are three ways that you can apply to Live for Free. My wife and I applied all three in the late 1990s and early 2000s. I am also going to share some ideas to help make your life a lot easier. It's a way to take tremendous financial pressure off you and your family.

METHOD A
BUY A RENTAL PROPERTY AND LIVE IN IT.

Personally, I think that the best property to start with is a fourplex. You will have 3 units that will generate rent for you to pay your expenses. Of course, this would work even better with more units but the financing on an owner-occupied fourplex is a lot better than that of a 5+ unit with a commercial loan.

In 1997, I purchased a nice fourplex in a good area of Bakersfield within walking distance of an elementary school. The purchase price for the fourplex was $167,500. There was a 3 bedroom 2 bath master unit with a fireplace, and two car garage, and about 1300 sq ft.. The other 3 units were 2 bedrooms, 1 bath, with 900 sq. ft and garages. I bought the property with an owner-occupied FHA loan and my down payment was about $8000. My loan amount was $159,000 and the payment was $1201, principle and interest. My taxes and insurance were included in my payment. Taxes were $203 per month and insurance was $92 for a total payment of $1496 per month PITI (principle, interest, taxes and insurance). I rented the other 3 units and my total income was $1485 which almost covered my payment.

Now you may say what about water, trash, gardening, maintenance, etc. Well, remember that 3/4ths of the property is considered rental property and I could depreciate them for a loss. In this case my depreciation for a year was $4353. My tax saving paid for these additional expenses!

Now that I was living for free and had some extra discretionary income, what do you think I did with it? From 1998 to 2000, I purchased an additional 55 rental units.

THE SMART INVESTOR'S METHOD TO PAY FOR A LIABILITY

I love the mountains. Bakersfield is hot and the air is dirty. When I went to the beach I got bored within a couple of hours. But the mountains were great. I loved to hike, fish, and ski. I love the smell and the ability to look up at the ski at night and see thousands of stars.

In 1983, things were going well for me, both from my real estate commissions and from my rental properties. I decided to purchase a home in Mammoth Lakes, California,(a big liability). It was a beautiful property with 5 levels, a pool table, a loft area, and nicely furnished. It was one of my big dreams come true. My family would go up during holidays and for most of the summer. Then in 1986, everything fell apart. I went from owning 100 rental units to owning 5. I had to sell the Mammoth house or lose it to foreclosure. Luckily, I found a buyer. But I always dreamed of having my home in the mountains.

In 1998, I took my new wife, Vicky, and our two boys and we rented a condo in Mammoth for a few days. I wasn't sure how Vicky would like the mountains and the snow because she is from Guadalajara, Mexico, and they don't see snow down there. We made one more visit to Mammoth and then I asked Vicky which would she prefer, purchase a home in Bakersfield and move out of the fourplex or purchase a property in Mammoth and stay in the fourplex. Well, my loving wife gave me the answer I wanted, she voted for Mammoth.

We found a very nice condo with two bed rooms and a lot that we liked and so we purchased it. Now here was the difference between 1983 and 1998. The condo had professional management that allowed us to put our unit in a rental program and generate some income. This covered some, but not all of the costs of ownership. But I had plenty of extra cash flow from my rental property, so in fact, my tenants paid for the expenses of having my condo. It was a “Live for Free” situation also.
Robert Kiyosaki gives an example in one of his books. He wanted to buy a fancy new car and he had the cash to do it. But his wife, Kim, who is also financially intelligent, encouraged him to go buy an asset with the cash, and use the cash flow from the asset to make payments on the car. When Robert decided to get rid of the car, he would still have the asset.

Now, I am not encouraging you to use your cash flow from your first few investments to run out and buy a liability. You need to have self-discipline and delayed gratification. If you have the patience to keep rolling your cash flow into more and more properties, you can Win the Game of Money with enough residual income to pay your ordinary expenses plus have a lot left over to spend on liabilities and doodads.

METHOD B
PURCHASE ENOUGH RENTAL PROPERTIES SO THAT THE CASH FLOW PAYS YOUR MORTGAGE PAYMENT.

Another way to “Live for Free” is to purchase a home to live in and also purchase additional rental units that will provide enough cash flow to make the payment on your home.

After living in our fourplex for three years, my wife asked me if we could purchase a home to live in. During those three years we had purchased an additional 55 rental units.

We found a very nice 4 bedroom home with a swimming pool on Bridlewood Lane, got a new loan and closed escrow. We rented our old unit in the fourplex for $650. We had more than enough cash flow from the rents from our properties that our tenants paid us to allow us to live for free plus have lots of extra income for a very nice lifestyle.

METHOD C
BUILD UP ENOUGH EQUITY IN YOUR PORTFOLIO THAT YOU CAN SELL SOME PROPERTY AND PAY OFF THE LOAN ON YOUR HOME.

So far I have explained two methods that I used to “live for free” by purchasing an apartment complex and living in one of the units and also purchasing enough cash flow properties that the tenants paid my mortgage on my home.

The third method I want to explain can be applied usually only after owning some property for a period of time. As you build equity by loan pay down and appreciation, you might be in a position to sell one or more of your investment properties for cash and then pay off the loan on your personal residence or even purchase a new home with your proceeds.

In 2003, I sold a 10-unit complex on K Street and paid off my home on Bridlewood.

In 2004, because of the extraordinary increase in values, I saw an opportunity to sell some of my properties for a large profit. I decided that it was time for me and my family to move up to our dream house in the mountains. We had a nice condo in Mammoth Lakes, California but there was not much of a town there and it was not close to a large metropolitan area. We started looking at property in both Incline Village and South Lake Tahoe. We decided that we liked South Lake Tahoe better and so we found a real estate agent who started showing us some of the homes for sale. (Even though I was a licensed real estate broker, I had no knowledge of the Tahoe market, and the different disclosures that are needed so I was willing to let another agent receive the commission instead of trying to do it all myself.) At the same time I put up four of my investment properties for sale. One of the properties was my condo in Mammoth. Another was the fourplex that Vicky and I had purchased to live in when we were first married. I also sold a little bread and butter six-unit and two houses on one lot. I had purchased all of these properties between 1997 and 2002. My net proceeds were over $1,000,000. With these funds I paid cash for my home in Lake Tahoe. At the time, I still owned my home in Bakersfield which was free and clear.

Below is an article that was written about me when I applied the LIVE FOR FREE method for my family.

DAN OCAMPO / THE CALIFORNIAN

Bob and Vickie Ritchey, with 1-year-old Michael, stand in front of their four-unit apartment building.

Unit $weet Unit

Real estate broker devises a plan to 'live for free' by buying a small apartment complex and living in one of the units

By JAMES BURGER
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Bob Ritchey has been paying off his debts and saving more cash for retirement since he stopped writing a $750 rent check every month.

In place of rent, he picked up a $1,496 payment for mortgage, insurance and taxes on a four-unit apartment complex. He's been in a better financial situation ever since.

Ritchey, a commercial real estate broker, has developed a sales program designed to help other people duplicate his experiences.

He calls it "Living for Free."

It's a simple idea that Ritchey is sure has been around for decades. Other agents offer similar commercial income properties.

All Ritchey is doing is marketing the idea a little bit more aggressively.

There are three steps to "Living for Free":

- Buy a small apartment complex — Ritchey says four-unit complexes (or fourplexes) work best because they take minimum management for maximum income.
- Move into one unit.
- Rent out the other three units.

As an example of how this would work, Ritchey presents himself.

He has lived in the three-bedroom, two-bathroom master unit of his fourplex on North Laurelglen Boulevard for almost two years.

Ritchey pays $1,496 for the fourplex each month and collects $1,485 in rent from the tenants in his three other units.

Net monthly cost to buy the fourplex — $11.

Of course, that doesn't include all of his utility and maintenance costs or protect Ritchey if one of his tenants doesn't pay rent.

But, when things work right, Ritchey lives in his home nearly free of charge.

While the Living for Free concept is simple, Ritchey said the plan has complications.

"When you are buying a rental property, you're buying a business and you need to treat it like a business," he said.

It's important for property owners to be aware of how insurance issues impact their property, what taxes they are responsible for, tax breaks available to them and how tenant problems can impact their profitability, he said.

But several tax issues can make it easier to live for free in a fourplex or other residential income property, Ritchey said.

On all units the owner does not occupy, expenses like water, electricity, maintenance and landscape services can be used as tax write-offs.

That includes depreciation on the property, an equation that zeros the value of property improvements (i.e. buildings) over the course of 27½ years.

Depreciation is a paper loss that is deducted directly from the owner's income on the property — which lowers the amount of money the

Please turn to APARTMENT / C4

APARTMENT: Owner gets tax write-offs

Continued from C1

owner pays taxes on.

But the live-for-free concept is not for everybody.

David Nicholas, a certified public accountant with Daniells, Phillips, Vaughan and Bock in Bakersfield said investors considering the purchase of any residential income property should look hard at the bottom line of the deal.

"It can be made to work, but you've got to run the numbers," he said.

He advises people to find an experienced real estate agent to help them locate the right property and contact their accountant to find out the exact tax impact.

Then make sure the property will turn a profit, he said.

Ritchey said he is motivated by the profit he makes on his property.

"I'm doing this to get out of debt and build my retirement income," he said.

But the apartment Ritchey shares with his wife and infant son will not be the family's permanent home.

An investor can buy the nicest complex on the market, he said, "but you still won't find all the amenities of a stand alone (home)."

Investors need to think seriously before diving into the deal.

"They have to make a decision that this is not going to be their dream property," he said.

And, he added, investors also have to be willing to take on the responsibility of advertising, interviewing and managing tenants for the property.

Oscar Rudnick, president of the Kern County Apartment Association, said tenant screening is critical to keeping rental property profitable.

Rudnick, who manages 150 units with City Wide Property Management, advised new landlords to research the employment history, credit history, rental history of prospective tenants.

He even suggested stopping by the applicant's current home to get an idea of how they maintain property.

But, Rudnick said, instinct also plays a part in a landlord's decision about who they will rent property to.

In an interview, an experienced landlord can get a feel for the kind of renter an applicant will be.

Rudnick said those instincts can often be trusted, unless the landlord hasn't had much experience with evaluating other people.

Once the tenant is in the property, Rudnick said, things sometimes go wrong.

The landlord should document complaints from other tenants, record damage to the property and then give the problem tenants a chance to change their ways by talking with them.

Follow up with a formal letter, he said, and if problems continue, give a three- or 30-day notice to move the offending tenant out of your property.

Issues like these are what investors should seriously consider before becoming rental property owners, Ritchey said.

In the last year, Ritchey has had a handful of clients consider his Living for Free program and decide to go for it.

He says now is the perfect time for investors to pick up residential income property.

Property prices in Bakersfield are low, but there are a number of good properties on the market.

Richard Gill is one of the people Ritchey has introduced to residential income properties.

"So far it's worked pretty good for me," he said. "I would recommend it to other people."

Gill lives in one of the units of his fourplex on La Costa but his railroad job runs out of Oakland.

Since he is constantly on the move around the state, the fourplex gives Gill the chance to maintain a home base in Bakersfield, where the cost of living is low.

Gill made a $9,500 down payment on his $180,000 property and pays $1,547 each month in principal, interest, taxes and insurance.

Each month he also collects $1,550 in rent payments.

That profit stream from the property keeps the overhead on his home base low. He has a cheap place to stay for the three or four nights every week that he is in Bakersfield.

"The rent from the units are paying my payments, insurance and taxes," he said.

He pays a little money to have a gardener maintain the landscaping and has hired a property management firm to handle the administration of the property.

But Gill is nearly living for free.