THE PASSIVE INCOME PLAYBOOK

Leverage Build-To-Rent Real Estate To Buy Back Your Time & Create A Legendary Family Life

JIM SHEILS

with

JAMIE SHEILS

CONTENTS

INTRODUCTION

A few years ago, we loaded our family into an RV the size of a small school bus and hit the open road.

For a family of seven, we've seen a lot of adventure. Thanks to the success of our approach to passive income, we've been able to travel the world, homeschool our kids, live in the tropics, and remain incredibly connected as our children grow into adulthood.

Still, this trip felt special. We were headed north from our home in Florida toward Canada, but we'd planned a special stop along the way. I'm an east coast kid—I grew up in New Jersey. Traveling by RV would let us revisit my roots, spending time with one of my oldest friends, who had also been the best man at our wedding. This wasn't just a vacation but a chance to connect on multiple levels.

"HOW THE HELL..."

We pulled our rolling family sideshow into New Jersey just in time for Fourth of July celebrations. It was a beautiful weekend of barbecues, slow summer days, and great friends.

One afternoon, I struck up a conversation with a new acquaintance about my age. I'll call him Alex.

We stood together, two dads having a beer, watching kids scream and run in twenty different directions across the lawn. I pointed out ours (four of them at the time, now five). He pointed out his.

Then he pointed past the mayhem toward our RV in the distance.

"That yours?" Alex asked.

"We drove up from Florida," I said.

"Nice way to spend a week," he replied.

I opened my mouth—and then I closed it again.

The truth was we weren't out for a week. We'd *already* spent a week in the Outer Banks. From here, we were headed north into Maine, then on to Nova Scotia for another *month*. All told, we'd be gone for a good chunk of the summer.

I realized he was waiting for me to speak.

"This is week two of six," I admitted.

This time, he was the one who opened his mouth—and then closed it again. I could tell he was surprised, but in the beautiful chaos of a family picnic, we never finished our conversation.

I had forgotten the moment until I overheard Alex talking to my childhood friend the next day.

"What does that guy *do*?" Alex sounded incredulous. "How the hell can he take a six-*week* RV trip with his family?"

A wave of emotion moved through me. We had dedicated ourselves to building what we had come to call a *legendary family life.* His question validated so much of our approach, and I felt both grateful and proud.

But what I felt most was curiosity. Alex sounded almost *resentful*. But why? He was successful—a trip like ours wasn't financially out of reach. Yet here he was, asking *how do you do it all?*

That question would follow me from New Jersey north to Canada and then all the way back home again.

Eventually, it would lead to this book.

WHEN WINNING BECOMES LOSING

In our years of helping families build lasting bonds, we've met a lot of people like Alex. They share a set of characteristics:

- Through good luck and hard work, they've reached a level of financial comfort and professional success.
- The more success they find, however, the harder it seems to be to make time for the most important things in life—in particular, family relationships.
- Their efforts to change that, often through real estate or other seemingly passive investments, have failed to deliver or turned out to be second jobs.
- They've woken up to realize that life is *passing*. Their time with their kids—what we call *the 18 Summers*—is disappearing faster than they ever thought possible.

All of that is one scary combination—the stuff that wakes you up in the middle of the night, wondering *why does all this winning feel like losing*? It's a paradox that plagues almost everyone at a certain point.

At the heart of this winning/losing paradox is a sense that time and money are connected like a see-saw—more of one leaves less of the other.

- Make a great living for your family? *Sure. But you won't have time for them.*
- Make time for family adventure? *Sure. But you'll be broke.*

Alex, like so many people, was feeling that dilemma. Time and money in his world were inversely related. Our life, for him, didn't add up.

At some point during that RV trip, I realized that while I was incredibly proud of how we gave people the tools and strategies to put family first, we'd never *really* answered Alex's question.

How *did* we do it all?

This book is the answer.

WALKING THE TALK

My wife Jamie and I are best known as the authors of *The Family Board Meeting*. When the book landed at #1 on the Wall Street Journal bestseller list, it confirmed what we had heard for years: *successful entrepreneurs and busy professionals need a way to connect deeply with family before time runs out.*

That book and our equally powerful way for spouses to connect (*Date Night With a Question)* form the core of what we call a *legendary family life*—a process and a set of values to deeply and permanently connect families. Some 300,000 people now use our simple tools and systems to create their own legendary family lives.

More important, I like to think we walk our talk. In just the last few years, I've:

- Taken several 4-6 week family adventures to places around the world.
- Donated a kidney to my father and provided the financial resources to help make it happen
- Helped retire my parents and provided a monthly stipend to support their lifestyle.
- Helped start an alternative middle school for my sons to attend, including buying the building to house it.
- Done service work in three countries and supported several charities.
- Wrote a bestselling book & created a family education company.
- Helped hundreds of thousands of entrepreneur families worldwide through our retreats and workshops.
- Fostered two young children through the pandemic.
- Lived in Costa Rica for four months annually.
- Had a date night with my wife almost every week for many years.
- Hit the beach almost every morning. (I'm still surfing!)

What we've never done, however, is share how we *pay* for all of this.

THE THREE CHALLENGES YOU'RE FACING

This book is for one very specific group of people: those who want the time and financial freedom to lead legendary family lives.

If that's you, then my guess is you're facing these three challenges:

1. **You want to buy back your time.** The most common sentiment I've heard from the many thousands of people we've spoken to is that *time has become more scarce than money.* You likely still see the value in your professional life, but your goals are changing. *You don't want to stop working. You want to stop missing out.*
2. **You don't want *more* work.** You need to disconnect time and money in your life in a way that doesn't feel like you're making things worse. *You don't want a second job. You want a second chance.*
3. **You're interested in real estate but don't want to get burned (again).** Anyone seeking passive income usually finds their way to real estate. But they often find their way to heartache, too. The reality television shows make it look easy, but it almost never is. *You don't need a reality show. You need a real solution.*

If those challenges resonate, then you've come to the right book.

THE ROAD AHEAD: HOW VS. HOW MUCH

I've never forgotten my conversation with Alex. It led to this book, but it also finally drove home for me the idea that our approach to financial and time abundance *works*. It really *is* possible to create wealth and remain deeply connected. It's possible to lead a legendary family life—one in which winning financially doesn't come at the cost of your health, happiness, and relationships.

But I also know that it takes *intention* and it takes a *plan.*

Our goal is to give you both of those.

We've learned (the hard way, as you'll see) that the secret to living a rich, connected life isn't what most people think it is.

Legendary family lives are built on *how* money is generated, not on how *much*.

If you feel like you've made a living for your family, but you're not quite sure if you're done making a *life*…then this book is for you.

To your legendary family life,

- Jim & Jamie

Part One

THE POWER OF PASSIVE

1

THE FIRST 2 LAWS OF PASSIVE INCOME

(Why There Never Seems to Be Enough Time)

When I was a kid growing up in New Jersey, my mother kept a greeting card on the corner of her dresser. On the front, an attractive couple dressed in white walked the sand of a beautiful beach in the Virgin Islands.

My dad gave that card to my mom. Inside, he had written:

This will be us someday.
We'll travel to these places and spend time together as a family.

The world, however, had other plans.

My dad worked hard. He was always the salesman. But he never seemed to catch a break. He sold electric typewriters—just as computers were on the rise. He worked commission sales—just as the recession hit. He started a business—just as the products went out of style.

Through it all, he struggled with money.

Over time, the card on my mom's dresser faded, and the dream did, too. We never took that trip to the Virgin Islands, spending most of the long winters in New Jersey instead. My parents never dressed in white linen or walked that beach.

It wasn't for lack of desire. My dad was a kind man, and I know he meant those words. I respected him deeply. What held him back was the lack of freedom and financial resources to bring the words to life.

I watched my father miss out, but I was determined to live the way that he only dreamed of. If we only get one shot at this life, I was going to live "someday" *today*.

But how?

My dad had always encouraged me to run my own business. To go my own way. But I'd watched him fail trying to do just that.

How was I going to avoid following in his footsteps?

THE 5 WAYS REAL ESTATE MAKES MONEY

The more I read, the more people I spoke to, the more often real estate seemed to come up.

I had heard that 90% of millionaires made their money in real estate, and it seemed to solve the riddle I was trying to crack. It was a way to run your own business like my dad always said, but it also offered a way to live the life my parents never could.

Real estate, I was learning, made money in a lot of ways. Five of them, by my count:

1. **Appreciation.** Real estate was an asset that rose in value over time.
2. **Leverage.** Unlike most other assets, like stocks, you could buy a lot of real estate for very little money.
3. **Debt paydown.** Over time, someone else (a tenant) could pay off that real estate.
4. **Tax benefits.** Depreciation, interest deduction on debt, exchanges—there were a lot of tax advantages that were specific to real estate.
5. **Cash flow.** Real estate could put money in your pocket every month!

The previous year, I'd made about $24,000, and every dollar felt like a grind. The idea of more money—no matter how it arrived—seemed like a win to me. Five ways of making money just had to be better than one.

That's when the seeds of my real estate dream were planted. *If I could just buy one property,* I thought, *wouldn't that be something?*

Later that year, I found my opportunity. It was a triplex not far from where I lived. I knew the area well, but I was sweating buckets when I put in the offer. It was almost seven times my salary! I'd never seen that much money, never mind *spent* it. When the offer was accepted, I had a small moment of panic, then I dove in.

Almost right away, it was a huge success. And just like that, I was making money in real estate!

Naturally, my dream began to grow. What if I could buy *three* properties next year?

Three, of course, was a lot for a guy with no money. I began to look at foreclosures, which were a lot cheaper and the sellers more motivated.

I found someone to help finance the deals with just 10% down. I'd ask the seller to pay the closing costs and roll it all into the price and mortgage. That meant we'd only need to come up with a few thousand dollars to buy a house. We could buy a property, flip it, and make ten thousand dollars.

We bought three that year, just as I'd hoped.

I started to think, *what if I could buy one every month?*

And so on.

FLIP...FLOP

At that point, it was clear I was starting to make money. In the back of my mind was that greeting card on my mother's dresser. That unrealized dream. *I'm going to do it differently,* I thought.

And I was. But I was also working hard. Flipping was a grind. Over and over, I'd hustle to buy and sell a property. Then, I'd watch the new owner put tenants in the house and start collecting rent every month.

Wait a minute, I thought. All those flips I had done—where was that money? What did I have to show for it?

I looked back at the five ways real estate makes money. That's when it hit me: they only worked if you *held* the properties.

1. **Appreciation.** We weren't holding long enough for the market to rise. Any appreciation I got was from all the effort that went into the flip.
2. **Leverage.** We were leveraged, but flipping was uncertain. We were never sure if I'd gotten it right until we sold. Every ounce of leverage meant more stress.
3. **Debt paydown.** There was no tenant paying our mortgage—we were paying it out of pocket until we could get the property sold.
4. **Tax benefits.** Most tax advantages really only stacked up in the long run.
5. **Cash flow.** All of our properties were under renovation from day one. We had negative cash flow, and then we sold them for a one-time payout.

I couldn't believe it. Not only was I missing out on almost all the benefits of real estate, but every time I sold a house, I was starting over!

THE ACTIVE INCOME TRAP

Work, flip, repeat. I was making more money, yes, but I was grinding. I wasn't walking the beach any time soon.

Rehabbing and flipping houses, I was learning, was *active* income. It was another way to trade time for money. If I stopped hustling, stopped renovating, stopped looking for deals—the money stopped, too. All the money was coming from what was, in effect, a second job.

That moment was more than a lightbulb coming on. It was like a bucket of cold water. *This is why my dad never reached his dreams.* Even when he tried to make his own way, my father had been stuck in an active income *trap*. To make more money, he always needed more *time*.

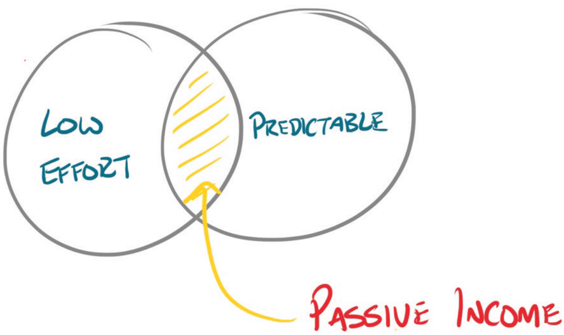
And to make enough money to live out the dream on the card he'd given my mother? That would always take more time than he had.

If I followed my dad's path, there would *never* be enough time.

THE TWO LAWS OF PASSIVE INCOME

Instead of active income, I realized I needed *passive* income. Passive income offered freedom through two key characteristics:

1. **It takes very little effort.** If you have to show up to get paid, it's not passive. If income requires ongoing work on your part, it's active income, not passive. Real estate typically generates passive income in the form of rental income.
2. **It's predictable.** Passive income is also *stable* income. If an income source varies wildly from month to month, two things happen. First, you start to worry about it. Second, you begin to work to maintain it. Worry and work are for *active* income, not passive. Real estate is an excellent way to build predictable cash flow.



Passive income must meet two key criteria

As long as it didn't break those rules, income became *passive,* giving it a near-magical ability to disconnect time from money. It was a way to break out of the cycle my dad had always been stuck in.

Finally, I understood why every mentor had been telling me to *hold* real estate. Holding properties instead of selling them unlocked the full range of real estate benefits. It would give me income each month that was less effort *and* more predictable than flipping.

I, of course, was doing the opposite.

My current real estate strategy took a lot of effort, *and* it was unpredictable. It was worse than a second job. If I changed my approach, I could not only replace the income from my job, but I could *count* on that money. It would come in whether I showed up at work or not.

That was the turning point. That was how I would live the way my dad had dreamed of. It was how I would get the beach, and the freedom, and the family time. True passive income was my ticket to a legendary family life.

THE 100-HOUSE MISSION

I now had a new mission. I was staying in real estate, but I was going to change my approach. Instead of flipping, we'd *hold* properties.

The first task was to learn how to be an investor, not a flipper. I was always keen to learn, and I loved to study how other people had become successful. I kept hearing about something called "The 100 House Club." *If you could get 100 properties*, the idea went, *you were set for life*. The passive income would pay your way, and over time you'd become wealthy.

I became fixated on the idea. *Just get 100 houses. Just get 100 houses.* That was my mantra.

The trick, however, was that the market was becoming competitive. Buyers were showing up in my part of California from San Francisco and LA and bidding homes up to well over value. They were closing with no conditions. The high prices meant there was no cash flow. No cash flow meant no passive income.

At that rate, I'd either never get 100 houses, or they'd bankrupt me, so I started looking out of state.

Someone suggested northeast Florida. I'd always liked the east coast. I grew up there, and we'd gone to Disney as a kid. I decided to check it out.

It was much better than California. Houses were cheap. To my 100-house mind, it was the promised land.

I got to work. One hundred houses, and I'd have all the passive income I needed. I'd bring my family to that beach, just like my dad had always promised. I was going to have a *legendary family life*.

What I didn't have was *context*.

No one told me that passive income was more complicated than it sounded in the books. And certainly no one told me, "Hey, passive income can also destroy your life."

So I kept going. I was chasing those 100 houses. No matter what.

Then, the context arrived.

KEY POINTS

Chapter 1

- Real estate makes money in five ways: *appreciation, leverage, debt paydown, tax benefits,* and *cash flow*.
- To access all those benefits, you need to *hold* properties, not flip them.
- Otherwise, real estate is *active* income, not *passive*. It's a second job.
- Passive income has two key characteristics: it takes *little effort,* and is *predictable*.
- True passive income is what opens the door to a legendary family life.

2

THE THIRD LAW OF PASSIVE INCOME

(How Passive Stays Passive)

BY 2007, I had well surpassed my 100-house goal.

I had left California feeling successful, but I arrived in Florida feeling like I'd found the land of real estate plenty! Here was a place with low prices, friendly tax and real estate laws, and effortless financing. My 100-house mission felt almost…easy.

Too easy, I now realize. The arrival of the subprime mortgage crisis made the flaw in my plan abundantly clear.

As the market tightened, money dried up, the economy began to buckle, and things began to fray. Property values were declining. People stopped paying rent because incomes were dropping. Refinancing became harder and harder. It was getting more and more difficult to maintain the business I'd built.

To stay afloat, I began selling some of the properties I still had in California. But values were dropping up to 60%. Rents were going down by 30%. I went from expecting checks every month to *writing* checks. I was paying money just to sell things!

Everything began to unravel. I was slowly, inexorably, losing it all.

By 2008, I was over three million dollars in debt. My net worth was deeply negative. I moved back in with my parents. That year, I paid myself $4000. For the *year*. That's how broke I was.

Later that same year, I wrote an entry in my journal: *Down to $78.04*. Either something was going to change, or I was going bankrupt.

BACK TO THE GRIND

That was one of the hardest periods of my life. What made it harder was a single idea growing inside me: somehow, my drive to accumulate properties had *caused* this.

My 100-house dream had gone from being a boat surfing a rising tide to an anchor dragging me under. I knew that hard times are when the best lessons are learned, but I still didn't understand where I'd gone wrong. And I was too concerned with survival to figure it out.

The next five years were a lot of pain.

I knew that the only way to stay alive was to keep doing deals. I had to *grow* my way out. While we held on for dear life to our properties and protected our investors, I started hustling.

The foreclosure market in Florida was growing in the wake of the subprime crisis, and I began buying foreclosed properties. Again.

Soon, I was buying 10-12 foreclosures a month in partnership with brokers and private money. We'd close in a week for cash and renovate the homes.

This time, however, I'd learned my lesson. Instead of selling *all* the homes, we'd sell half of them and keep the other half to rent for passive income.

Even as I write this, I can see how it might sound great on paper. Buying a dozen remarkably cheap properties a month with 100% financing—who doesn't want that?

Anyone who wants to have a happy and stable life, that's who.

THE THIRD LAW OF PASSIVE INCOME

Buying all those inexpensive properties might sound sexy, but it was *hard*. I was dealing with problematic contractors. Unexpected costs. Difficult tenants. High turnover.

Eventually, I stabilized our financial life, but I realized I was heading right back down the "100 doors at any cost" road. My passive income was starting to feel very *active*. My phone rang almost constantly. There was a never-ending stream of issues to resolve. This didn't feel like the legendary family life I'd imagined.

I was still certain that real estate was the path to the life I wanted, but I knew something was wrong. There had to be a better way.

The problem, I realized, wasn't as simple as a mortgage crisis or a recession. The economy would always be out of my control. Somehow this wasn't working.

To truly understand where things went wrong, I had to go back to the basics. Like *all* the way back.

I remembered the two laws that define passive income:

1. It takes little effort. (That's the *passive* part.)
2. It's predictable. (That's the *income* part.)

Break either of those rules, and passive income stops being passive. It either becomes active income, or it stops being income, *period.*

With that in mind, I went back and looked at all the hard parts of the crash through the passive income lens:

1. Why did my properties start taking so much effort?
2. Why did the income become unpredictable?

Problem by problem, house by house, I dug for answers. And problem by problem, house by house, the answers were always the same: *my properties sucked*.

It wasn't the most elegant discovery. And I didn't like the way it felt in my gut. But it was true.

I had bought a lot of bad properties in bad areas. I didn't realize it, but they were. When things started to get tough, those properties kicked off a cascade of problems:

- As the economy shut down, people stopped paying rent, and vacancies began to rise.
- Mortgages didn't care about the economy—there were still payments to make.

- Meanwhile, my cheap properties kept aging and needed more and more repairs.
- With less rent coming in, there was less money to cover those costs.
- As cash flow tightened, I had to do more and more work myself. Juggling all the demands of many properties became an ever-increasing part of my day.

In other words, my passive income fell apart. Eventually, what I had was *a second job that paid very poorly.* And I had only been making it worse by buying more foreclosures.

Not *all* my properties were bad ones, mind you, and those told a different story. The few high-quality properties I had in good areas performed entirely differently:

- The tenants were less susceptible to sudden economic change. They continued to pay rent, and there were fewer vacancies.
- The properties were in better condition and needed less maintenance.
- The expenses I did have were more predictable. I knew exactly when the HVAC would need repairs or a roof would need replacing.
- The end result was that the income required less effort and remained more predictable.

Even in a recession, my higher-quality properties maintained their passive income and much of their value.

The real insight, I realized, was this:

The key to passive real estate income is *quality*.

Passive income, I realized, stopped being passive when it wasn't combined with *quality*. Passive income and quality were like conjoined twins. They need each other to survive and thrive. In all my education and study, no one had ever told me that **without quality, I would eventually break the first two laws of passive income.**

No quality meant:

- **Low-quality passive income eventually becomes *active* income.** Low-level buildings, tenants, and neighborhoods require high-level maintenance. They take more time, more money, and more peace of mind. Low-quality income is *active income*. And active income is another way of saying *job*. If you're like most successful people I know, another job is not what you're looking for.
- **Low-quality passive income eventually becomes unpredictable.** The low quality of the structures, tenants, and neighborhoods makes them less resilient to changes in the economy, changes in regulation, changes in climate, changes in *everything*. Every hiccup threatens the cash flow or increases expenses. At some point, low-quality income destabilizes and simply stops being income.

That's when I understood. *Quality was what unlocked passive income.*

The problem wasn't that I was in real estate.

It was that I was in the wrong *kind* of real estate.

THE THREE QUALITY ELEMENTS

I had learned that quality is what keeps passive income *passive.* How, I wondered, could I improve the quality of my properties and income?

I began to break down the problems I was having and realized they fell into three quality areas:

1. **Property.** The age and build quality of the homes themselves.
2. **Area.** The appeal and quality of the neighborhood the home was in.
3. **Tenant.** The stability and reliability of the people renting the home.

Every problem I had was related to one or more of those quality elements.

Those cheap properties meant my turnover and vacancy rates were higher. Rent payments were less predictable. There were more issues with property damage and complaints. Maintenance costs and hassles were higher.

My first thought was, "I can fix this." Surely, I could improve the homes or screen my tenants more diligently.

But the more I thought about those three problems, the more I realized they were *connected*.

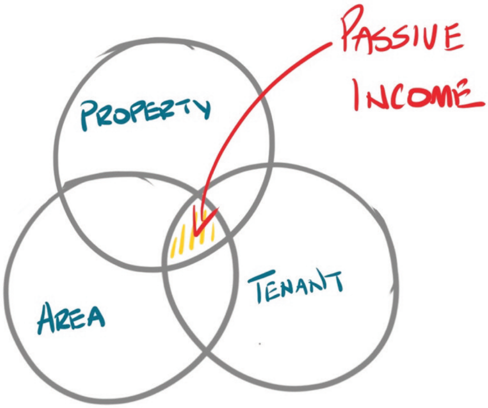
On my quest for 100 houses, I had bought the cheapest homes I could afford.

- Cheap houses cost more to run.
- Cheap houses were often in less desirable neighborhoods.
- Cheap houses in bad areas attracted difficult tenants.

As long as I owned an 80-year-old home, it was going to cost me more, no matter how much I worked on it. And I couldn't really change the neighborhoods. And that meant I couldn't attract different tenants.

Those three quality elements, I realized, formed a three-legged stool. As long as all three were present, a project could stand on its own three legs and deliver low-maintenance and reliable passive income.

But take away any single element, and passive income would falter.



High quality passive income happens when all three elements meet.

There was no way to solve just one problem. I needed to solve *all* the problems.

AN IDEA!

That was the lightbulb moment.

If I wanted true *passive* income—income that was both low-effort *and* stable—I needed to attach it to quality. That was how I'd build an income that gave me both the time *and* the financial resources to lead a legendary family life.

But if I truly wanted *quality*—in property, area, and tenant—then I couldn't keep focusing on old fixer-uppers. I needed something better.

From that moment on, when I wasn't living the nightmare of terrible properties in terrible areas, I was dreaming of better ones. I imagined having a *new* property. No surprises. Predictable maintenance. High-quality tenants who stayed for years. Modern materials and modern building standards. Energy efficiency. The list went on.

The more I lived out the drama of owning old homes, the more I began to dream of new ones.

Imagine, I thought, *building something specifically for renting*. Not buying some old home and converting it, but *starting the way we* *intended to finish.* Purpose-built. High quality. Appealing homes in appealing areas.

I had a building partner that we'd been working on and off with for a few years—we'd sold them a few properties or vice versa. But we'd never really built anything together. One day, he came to me with an idea.

What if we built our own?

KEY POINTS

Chapter 2

- Passive income only stays passive if it's connected to *quality*.
- Quality in real estate has three elements: *property*, *area,* and *tenant.*
- The highest quality passive income is generated where all three elements meet.
- The best way to guarantee all three elements is in new construction.

3

THE POWER OF NEW

Real Estate 2.0 and the Build-To-Rent Revolution

It's not as if I had never thought of building something new.

Trust me, when you own lousy properties, you dream of shiny new buildings with perfect plumbing, flawless wiring, and roofs that don't leak. You fantasize about unpluggable toilets and rooms where the walls actually meet at right angles.

Until now, however, that had been nothing more than fantasy. Buying cheap properties was what I knew. Price was my big motivation.

Now, I felt like I was seeing things through a new lens. Instead of simply seeing quality as "better buildings," I began to see new construction as a better *investment*. New construction, I realized, could solve the quality issue at all three levels.

- We could build new with materials and skills we trusted.
- We could choose the neighborhoods we built in.
- We could attract great tenants who wanted a long-term relationship.

That, in turn, solved the real problem: creating *true* passive income. Income that was both low effort *and* reliable.

That would let me create the legendary family life that my father had wanted but never found.

REAL ESTATE 2.0

I was also starting to suspect that new construction might solve another challenge.

By 2015, most of the foreclosure inventory—all the homes that had been lost in the 2008 crash—had been bought. We still wanted to keep growing, but we were struggling to find properties. When I spoke to other investors, the story was the same. Deals were getting harder to come by. Each dollar was buying less house and less rental income.

But I felt there was something deeper at work. For a long time, real estate was a way of investing reserved for the risk-takers and the wealthy. It had always been a powerful tool, but like stocks, it hadn't always been popular. When I started out, there were no TV shows and influencers teaching the world to buy rental homes.

Now, it seemed like everyone wanted to be a flipper or a landlord. Things were simply more competitive. What had, at first, felt like an economic problem was starting to seem like more of a seismic shift.

I began to think of this as a new playing field. It was "Real Estate 2.0," and it was defined by a new set of rules:

- **More capital than properties.** There was a lot of money and buyers chasing fewer homes. That was driving prices up.
- **Smaller cash flows.** Paying more for properties meant margins were down. Returns were lower.
- **Unpredictable conditions.** Housing legislation, economic shifts, and interest rates were all unknown factors. Uncertainty wasn't new in real estate, but with smaller margins and higher prices, those risks were harder to manage.

When I looked at those changes, I started to see how building new properties could help. Building from scratch meant we were creating our *own* supply and would not be as subject to supply issues. We could also pick states that were landlord-friendly and areas that were attractive to great tenants. We could create well-built homes with predictable costs.

We could, I realized, even control interest rates to an extent by developing in-house financing with rates up to 2% lower than most mortgage companies.

In Real Estate 2.0, we could control *quality* in at every level. And that meant we could control passive income.

YEAH, BUT…

Despite *all* those reasons to try things differently, I was skeptical.

Actually, I was more than skeptical—I was completely against the idea! It seems crazy in hindsight, but at the time, I thought it was just too expensive to build. I was still in the "get it cheap" mindset.

Development fees, for example—charges by a municipality for new construction—felt like throwing away money. "Why would we do that?" I argued. "Let's get a place that someone else has already paid those fees on. Plus, do you know how expensive new materials are?"

I was using the same philosophy you might use to buy a car: find a used one that someone has already taken the hit on.

But that was the wrong philosophy. When you're trying to build a *fleet* of cars, you don't want a whole pile of crappy old sedans—you want quality you can build a business on. When you're trying to build passive real estate income, you don't want crappy old properties—you want quality you can build a *life* on.

I should have realized that sooner. Instead, I just saw new construction as too expensive.

Fortunately, I was dead wrong.

TIME TO BUILD

Eventually, I agreed that we should build one rental property from scratch. The allure of a shiny new, well-built home was too attractive not to try.

So we did it.

And—it didn't go that well.

The costs, of course, ran higher than expected. We were used to patching up fixer-uppers with glue and string, not building a quality duplex from scratch. We also made some bad choices with tenants. We were used to renting older homes to less-than-ideal customers, not choosing long-term relationships carefully.

Still, we could see this build-from-scratch thing had legs.

I knew if we could scale—do more—we could get good at all the parts beyond just building. We could create systems for tenants and maintenance and rent and all the other details of property management.

Moreover, I thought we could fix the numbers. If we were building a *lot* of homes, we could buy windows by the thousands instead of by the dozen. We'd save a pile of money on material costs. If we built houses the same, we'd be able to do more, faster, less expensively, and get the same or better quality.

Doing all of that, of course, meant building a lot more homes. And building a lot more meant we needed cash. We decided to start selling off the painful, low-quality properties and using the proceeds to fund new construction.

THE BUILD-TO-RENT REVOLUION

We didn't invent the idea of building new rental units, of course. People have always built apartment buildings and other multi-family properties.

But we weren't the only people noticing the Real Estate 2.0 shift.

After the Great Recession, investors started to buy foreclosed single-family homes in large numbers. The houses, in turn, would become rental properties, not owner-occupied like they were before the crash.

As the supply of homes tightened, large investors went through the same process as us, eventually realizing that rather than picking over old properties that needed work, they could *build* properties. Some chose to build entire *communities* of build-to-rent homes and get the benefit of scale.

Soon, a new category was born, Build to Rent (BTR), defined loosely by:

- Choosing mainly single-family homes, duplexes, or other designs that were largely not "stackable."
- Designing smaller, median-sized homes to fill a growing need in the market.
- Building homes in carefully-selected communities to create a healthy balance of owners and renters .
- Constructing at scale when possible, buying numerous infill lots in great communities, or even building entire developments.

Within a few years, build-to-rent had become a whole category of its own.

THE BENEFITS OF A TARGETED BTR APPROACH

- **Stable valuations.** We build median-sized properties—typically 1400 sq ft or less. That not only fills an enormous demand in the market, but meidan properties tend to hold their value better during market changes. We used to protect ourselves by buying cheap properties on sale. For years, I thought I was building a moat of safety. Instead, it almost sank me. Now, our safety moat is high-quality construction around the median.
- **More predictable expenses.** In tough times, the maintenance costs on older properties killed our cash flow. It always seemed like those properties were cash cows at first. But when the market is going sideways, and you're paying out of pocket or taking on debt to replace a roof, etc., things can go badly very quickly. Building and buying quality stabilizes cash flows more predictably. You get fewer surprises in tough times. You can prepare for future maintenance with a high level of confidence.

- **More stable income.** Median places of high-quality support stable tenants that pay rent consistently. Lower quality has high turnover, and tenants are less likely to pay rent in tough times. Higher-end properties are often short-term rentals or vacation properties—they're optional, and vacancies skyrocket during market cycles.
- **More appreciation in the good times.** Median properties are also known for appreciating well when the market is strong. That means you build even *more* safety during the good times, which gives you more cushion in a downturn.
- **Fewer headaches.** Quality construction, great tenants, and excellent locations make property management a dream. There are fewer surprises. People are happier. Everyone involved—from the tenants to the investors to the management team—sleeps a lot better at night.

What do you get when you combine all those benefits? *True passive income.* Income that takes little effort *and* is predictable.

That lets us focus on the *why* behind the passive income—building a legendary family life.

BURNING BRIDGES AND BUILD-TO-RENT

When we decided to try our first build-to-rent experiment, we owned about 180 properties. I had blown past my 100-house goal and was all in on real estate.

Most of those properties were low quality, and that cost me dearly—in time, money, and peace of mind. It nearly sank us.

Since then, my entire real estate philosophy has shifted. The year after that first experimental BTR, we did 60 brand-new properties built specifically to rent—mostly smaller, single-family homes, the odd duplex, or quad.

The following year, we did 260.

And everything has changed.

Our new approach not only fits a new Real Estate 2.0 world, but it also fits *us*. It lets us focus on our family and our values. For us, that's what matters most.

The philosophy is as simple as it is powerful:

Own less real estate of higher quality.

We now:

- Choose quality over quantity.
- Own fewer homes but in better areas.
- Choose more life, less leverage.

It's a philosophy that fits us. But it's also a philosophy that I can, with an open heart and clear conscience, recommend to anyone, from a stranger at a party to my own family.

Since that first BTR house, we now own 80% *fewer* properties. And we have more equity and more cash flow than ever.

That cash flow is *passive* in the true sense of the word. By focusing on quality at every level, the income is both low-effort and very reliable.

It's that income that powers our family and allows us to live in alignment with our values. I feel like I'm finally living the life my dad dreamed of.

We have now "burned our bridges" in terms of older, lower-quality properties. We only do new construction. Good areas. Great tenants. Excellent homes. We are known as the BTR people, building quality houses that great families can afford to rent.

And we couldn't be happier.

After 20 years, I've come to a place where I know *there's a new way to do things*. A better way. But that journey has also taught me there's a *wrong* way to do things, too.

In Part II, we're going to look at both—the keys to success in BTR, but also the pitfalls.

KEY POINTS

Chapter 3

- Real estate as an investment has become more popular and more competitive
- The new real estate playing field is defined by higher prices, lower returns, and higher risk.
- Build-to-rent helps in this new environment by offering more stable valuations, predictable expenses, steady income, greater appreciation in uncertain times, and fewer headaches.