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Nadeska Alexis:

Awesome.

Keelan Sears:

Yeah, I think we were surprised by how expensive it was just with things breaking on the road. You're definitely saving money by paying off a much smaller loan, month-to-month, but there's definitely a lot of stuff that breaks on the road.

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Keelan Sears:

Yeah, we used our real estate agent, Jason, and he was super helpful here. Jason's just a super nice guy and he was really helpful through the whole process. Our criteria going in was like, okay, let's get a place that we could rent a bedroom, at least one bedroom on Airbnb.

So in an emergency situation, if it turns out we can't cover the mortgage or there's, I don't know, a surprise expense with a roof or something like that, we can basically make some extra income. And I think that that was, at the time, our only priority. And I think that naturally turned into, okay. Location is everything if you want to rent something, so let's focus on location.

Nadeska Alexis:

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Is it a learn-as-you-go situation or have you still been able to work with that realtor? Do you have any support here?

Keelan Sears:

After we decided we wanted to do the ADU, we started looking for a design agency that specifically did ADUs. And so we found a firm here in Denver, a design firm, and basically pitched them

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Keelan Sears

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It could certainly take three years if people are taking their time, which a lot of people do because it's not a small endeavor and people need to somehow... Imagine this. You come to me and you say, "I want to build an ADU in my backyard."

And I say, "Nadeska, do you have enough capital to do this? Do you have \$300,000?"

And you're like, "No."

And I say, "Okay. Well, you're going to need to get a construction loan. In order to get a construction loan, you need to prove that you have more income, which means that you have to change the way you're doing your bookkeeping and accounting for a period of two tax years so that you can show enough reportable income to generate enough income to show that your debt to income ratio will be adequate for a bank to give you a construction loan."

And then at that point, then you can consider starting the process of doing the ADU. So that could take easily two years just to get the financing worked out such that you can begin the process, because you don't want to start this process unless you actually have the money to execute on it.

As you can imagine, this is an expensive endeavor. You don't want to start down the road, build a foundation, and realize you don't have the capital to finish it out.

Nadeska Alexis:

Absolutely. So if you're looking at this as a source of additional income, you have to factor in the money and the time it will take.

And so you mentioned construction loans. Is that the only way that you can finance this type of renovation? Are there any housing grants available, for example?

Kol Peterson:

Housing grants available. In fact, construction loans only represent about two to 5% of how people are building ADUs. Most people are using a variety of different... A mix of what I call, there's five different buckets of funding that people access that is cash in one way or another.

Loans from family or friends, like personal loans. There's credit card debt, there's home equity lines of credit, and cash at refinancing, which is a big bucket. That's where if you have accrued equity on the property on which you live, you can dip into that additional evaluation, the increased valuation of your property, and access that money in order to build ADU.

Then you can get non-secure lines of credit, that is personal loans from banks that are secured against your personal wealth, so to speak, if you have stocks that you can lend against. And then there's also construction loans which are more difficult, and those are typically local banks and credit unions that do that work. But that's kind of the least popular approach because there's some red tape

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generate the same amount of rental income roughly for a less expensive project. So therefore the timeline would be less.

So if you did a conversion of an existing structure like a basement or a garage that was viable, that is to say it was structurally viable. It didn't have leaks, mildew, mold, rot. It could be legally converted from a zoning perspective. Then you can get a pretty good return on investment, maybe two to five years depending on how you look at the increased....

If you're looking at

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and the difference between the Airbnb or short-term rental and a long-term rental is if you rent it out for 30 days or less, it's a short-term rental. If you rent it out for 30 days or more, it

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Kol Peterson:

You're welcome.

Nadeska Alexis:

So, on this episode, we learned that investing in an ADU is not so simple as our homeowner, Keelan, found out. But I hope that at this point, his biggest worry is where to store his canoe, and that now his return on the investment for his ADU is starting to pay off.

Maybe you're at the point in your home ownership journey where you have some financial flexibility to consider owning an investment property. So next time, I'm going to ask Alexis Hart McDowell about how to plan for that. Until then, you can learn more by visiting beginnertobuyer.com and consider revisiting the first season of the show as a review.

Beginner to Buyer was created by Magnet Media and Chase Home Lending. Our executive producers are Ashley Bobo and Akash Vaswani. Our lead producer is Pamela Lawrence and our