

GOLD NUGGETS OF LEVERAGING CO-LIVING PROP-TECH AND CREATIVE REAL ESTATE MODELS TO BUILD HIGH-YIELD CASH FLOW AND EXPAND AFFORDABLE HOUSING

Interviewee: Jacob Ross

Interview: BTS 22

Topic Summary

Leveraging Co-Living Prop-Tech and Creative Real Estate Models to Build High-Yield Cash Flow and Expand Affordable Housing

Profile of the Interviewee

Jacob Ross is an Account Executive at PadSplit.com—a prop-tech co-living marketplace—who specializes in helping real estate investors evaluate, acquire, and convert single-family homes into high-yield, room-by-room affordable housing. His background spans across multiple sectors of the real estate ecosystem, beginning in new-home sales at Pulte Homes and land acquisition, transitioning into distressed assets as an REO agent closing roughly 500 foreclosures during the 2008 housing crisis, serving as a Sacramento City firefighter while active as an investor, and subsequently leading investor disposition at prop-tech startup Sunday before joining PadSplit.

Core Investment & Strategy Lessons

- **Hold Productive Cash-Flowing Assets:** Selling cash-flowing real estate to harvest a short-term equity gain (even at 3 × appreciation) often sacrifices far larger future cash flow, loan paydown, and long-term equity growth.
- **Spot Market Opportunities Early:** Sustainable real estate wealth comes from recognizing shifting market cycles, alternative housing models, and creative financing structures before they become mainstream.

- **Utilize Subject-To Creative Financing:** Buying properties subject to existing financing allows investors to acquire low-rate mortgages without triggering bank loan callouts, provided payments remain consistent.
- **Capitalize on the "Ignored Property" Segment:** Co-living economics make a distinct third category of homes cash-flow viable: properties lacking high equity for flipping or low mortgages for standard rentals, which face minimal investor competition.
- **Reframe Portfolio Diversification:** Splitting a single-family home's income into 5–6 separate room leases reduces tenant default exposure, making operations in tenant-friendly, high-appreciation states significantly safer.

Co-Living Model & Unit Economics

- **Unlock Private Capital for Public Problems:** Private single-family housing inventory can be redirected to solve the working-class housing crisis profitably without relying on government subsidies or red tape.
- **Target Misfit & "Choppy" Floor Plans:** Older, non-open floor plans (from the 1940s–1960s) with compartmentalized layouts sit on the market longer and offer the highest conversion potential for room-by-room housing.
- **Maximize NOI via Space Conversion:** Converting underutilized common spaces (living and dining rooms) into code-compliant bedrooms increases property Net Operating Income by 2 × to 3 × compared to traditional single-family rentals.
- **Know the Break-Even Threshold:** Four bedrooms typically represent the operational break-even mark for co-living assets; additional converted bedrooms generate pure profit upside.

- **Underwrite Conservatively:** Always model pro formas to an 85% occupancy rate after deducting platform fees, vacancy, rent concessions, utilities, internet, and CapEx reserves.

Operational Execution & Friction Removal

- **Eliminate Living Room Friction:** Removing shared living rooms reduces roommate disputes over guests or TV usage, increasing member satisfaction and lengthening national average tenure to ~8 months.
- **Align Due Dates with Member Paydays:** Matching rent collection schedules directly to tenant paychecks (weekly, bi-weekly, or monthly) yields a 97.5% rent collection rate and keeps evictions at 1.3%.
- **Address Access Barriers, Not Just Price:** Over 14 million working-class Americans earning under \$35,000/year are excluded by traditional 650+ credit checks; using income verification and background screening unlocks this underserved demographic.
- **Implement Micro-Amenities for Rent Premiums:** Adding simple in-room additions like mini-fridges, coffee makers, or air fryers increases room rent potential (~\$10/week per room) and reduces kitchen clutter.
- **Mitigate Neighborhood Externalities:** Long-term community tolerance depends on managing four key factors: parking, landscaping, property condition, and noise levels.
- **Map Hyper-Local Municipal Codes:** Occupancy rules, unrelated-tenant limits, and boarding house designations vary dramatically between neighboring cities and counties, requiring thorough local due diligence.

Problem & Solution Overview

- **The Working-Class Housing Shortage**

- *Problem:* Standard rentals require \$43,000+ income checks and high credit scores, locking out 14 million workers earning under \$35,000/year.
- *Solution:* Room-by-room co-living offers flexible, all-inclusive housing tailored to actual income without rigid credit score barriers.

- **Tenant Default Risk in Single-Family Rentals**

- *Problem:* A single non-paying tenant completely halts a property's cash flow during lengthy eviction proceedings.
- *Solution:* Multiplexing revenue across 5 to 6 sub-tenants ensures remaining residents maintain mortgage coverage during isolated evictions.

- **Regulatory Risk and Code Violations**

- *Problem:* Changing municipal policies or occupancy disputes threaten host operations with potential fines.
- *Solution:* Specialized protection programs (like HomeGuard) cover legal fees for occupancy-related code disputes and evictions.