www.RealEstateInvestingMastery.com

Real Estate Investing Podcast
Why You Should Refi Til You Die

Hosted by: Joe McCall

Special Guest: Jason Hartman

Joe:	Welcome, this is the Real Estate Investing Mastery Podcast. Hey everybody welcome this is the Real Estate Investing Mastery Podcast. I'm excited about this interview, we have a very special guest, a fellow Podcast host who has done probably, I don't know, a thousand more Podcasts than we have. He's been doing it forever his name is Jason Hartman. He'll be on in just a second here, but Alex, how are you my man?
Alex:	I am okay. I'm a little sad today as it is October 15th, the day of decision for those who filed extensions on April 15th.
Joe:	I'm not going to ask you how much you paid-
Alex:	No, we're not going to disclose that amount, but-
Joe:	It was a lot.
Alex:	Let's just say if you were offered a job of this amount, you would be placed in the, I don't know, what is it, the top five percent of income earners?
Joe:	Yeah, well you know what's funny, Jason who's on our show today, he's got a lot of advice I'm sure about taxes.
Alex:	Oh, I'm all ears.
Joe:	Because there's a lot of … I just love listening to Jason's Podcasts. I've been trying forever to get him on and he's finally agreed to come on, but yeah, we're probably going

to talk about that. Anyway, guys I just wanted to let you know go to realestateinvestingmastery.com, check out our fast cash survival kit.

We talk about how Alex and I, how we wholesale deals and how we run our businesses. We outsource a lot of it, we travel a lot. We've got a lot of kids, so we have a lot in common. We run very successful wholesaling businesses and Alex is now doing more rehabbing and fixing and flipping, so you get more information about that-

Alex: New construction actually.

Joe: New construction, that's right. You know what, I need to … There's a guy Steve Cook that we need to talk to on our Podcast about new construction. He's doing a lot of that up right now in Baraboo, Wisconsin.

Alex: Sounds like a happening place.

Joe: Yeah, so anything else that we need to talk about before we interv- … Oh yeah, reviews, I want to thank everybody we've gotten like twenty or thirty reviews in the last week or two.

Alex: Awesome.

Joe: Because we've just been emailing people, "Hey, if you like the show, leave us a review and we'll give you some cool free bonuses." So there's a post on our website realestateinvestingmastery.com from when this-, by the time this Podcast is published it will be a few weeks back. I think it's called … Well it's the Podcast in between 76 and 77.

It's called, "Leave a review, get cool stuff", free stuff, on there if you leave us a review and you send an email saying, "Hey I left you a review." Whether it's negative or positive doesn't matter, we'll send you some free stuff. We've got a couple books that we'll send you for free, the PDF version of the books, and we'll send you some videos and stuff like that. Please leave us a review; we would appreciate it even though our friend Jason Hartman who's on our show today has literally like a thousand more Podcasts than we do. We do have more reviews than Jason does.

Jason: Yeah.

Alex: Wow.

Jason: I'm not good at that.

Joe: Anyway, you'll see in the rankings by the way, if you go into iTunes and do a search for real estate investing, Jason Hartman is always at the top with his Creating Wealth Podcast. He's been doing … Jason how long have you been doing this?

Jason: Seven years my friend, seven years, long time.

Joe: You're kind of like the Godfather of Podcasting?

Jason: I was Podcasting in the day when nobody knew what a Podcast was. It was funny, I would do a live event a seminar, and I would ask people, "How many in the room had heard of a Podcast?" In my room it was more and more, because they were usually coming to the live event because of the Podcast, but boy in the beginning I would ask people, they're like, "What's that? Does it have to do … I don't have an iPod." They'd say.

Joe: Yeah. How many different Podcasts do you have Jason?

Jason: Well, it kind of depends how you count because some have accompanying video Podcasts and we're really working on getting those accompanying video Podcasts going for more and more of the shows, just to pick up some extra listeners in different mediums, but 18 would be the fundamental number of shows, I guess the foundational number.

Joe: That's amazing.

Jason: Eighteen different shows, about sixteen hundred episodes I believe, somewhere around there. I just love it because I get to talk to such interesting people all day. Even if they're interviewing me or I'm interviewing them. It's a fascinating business; you just learn so much. Like you guys I just always want to be a lifelong learner.

Joe: Well, you know if you were go to iTunes and look up real estate investing, you'll see Jason Hartman's show, The Creating Wealth Show, that's you're number on Podcast right?

Jason: Yeah, that's the big on that I started with a long time ago.

Joe: You have 400 and 21 episodes in there. You do them about, I'm going to say, two to three episodes a week?

Jason: Yeah, three-, we're doing three a week now. Every Monday, Wednesday, Friday, one of the big mistakes I've made over the years is I haven't always been totally consistent about my publishing schedule. It's not that you have to publish so often, it's just that you have to publish consistently.

That's really one of the keys, and the other thing is as you noted very well, I never ask for reviews. Literally on the last episode, I think, no two episodes ago, was the first time I really ask anyone to write a review. I'm going to do that more and more, I think a little bit of a gift for a review is a good idea, I've never done that and I've got to get on it. I agree I've only got like a hundred and seven reviews or something.

Joe: I didn't mean that in a bad way, I was-

Jason: Oh you … Hey listen you're right, I'm happy to take constructive criticism, you're right.

Joe: But here's the cool thing, if you go into iTunes and you go to your show and you scroll all the way to the bottom you see the section called listeners also subscribed to, and we're number one. You're listeners are subscribing to our Podcast more than any other Podcast.

Jason: Then I guess there listening now aren't they? Hello listeners.

Joe: It just goes to show what good listeners we have.

Jason: Yes, it does.

Joe: I'm excited about talking with you Jason because I've been listening to your Podcast for a long time. You cover so many different topics that all relate to creating wealth and real estate in general. You interview some fantastic guests; you talk about things really going on in the economy, and how macro and microeconomics really do affect what-, our business.

They affect what we're doing every day. I just wanted to say I appreciate that, because you're putting out a ton of work. It's not easy putting out these Podcasts and you've been doing this for a really long time.

Jason: Yeah, well thank you I appreciate it and I just love doing it. I'm glad to be here talking to you on your show and sharing any real estate advice to the people who aren't already listening to my show.

Joe: Well cool, and … Oh never mind, I was going to say something else, but Jason could you give us a little background maybe on you. How did you get involved in real estate investing?

Jason: Well, good question, back when I was the ripe old age of 16 years old I saw an infomercial for a real estate guru that was promoting his book and his methodology and I grew up rather poor. Didn't have much money at all growing up, by about ninth grade I realized this money thing kind of matters. I didn't pay too much attention to it before I guess.

The reason I knew it mattered is because all the best looking girls in junior high school were hanging around the other kids who had money, and nice clothes, and all this stuff, and soon to have nice cars, and you know, so I saw this infomercial when I was 16 and I went out and I got the book of the guru on the infomercial. I read three chapters of it, I put it down, but my mom picked it up and read the rest.

I was only 16; you never follow through with anything too much when you're that age. I put it down, and then two years later I'm 18 years old, I'm about to graduate from high school and my mom says to me, she says, "Hey, Jason you know you're the one that got me interested in this whole real estate topic and I've been following it for the last two years going to seminars and so forth and now there's this big event in Anaheim, and why don't you go? It's near Disneyland."

That was far from where I lived and so I went. I rounded up nine of my buddies from high school and I said, "Hey, we got to go to this seminar, blah-blah-blah." All of them came Friday night, Saturday morning only one was left; everybody else went to the beach. By Sunday afternoon I was the only one that went through the whole weekend. I just-, when I heard those speakers talking at the seminar, I didn't know what they were talking about.

I remember I was a big fan, I had discovered Earl Nightingale, and Zig Ziglar, and Jim Rohn, and Dennis Waitley when I was 17 years old. Earl Nightingale told me, he said, "You know, just do the basics first for anything. If you want to get rich in real estate learn the business first."

So I enrolled in Century 21 real estate school for a whopping $99, even back then that wasn't much money. I got my real estate license my first year of college, I started selling real estate and I worked with a lot of investors. That really was the beginning, I got my license two weeks before my 20th birthday and I was going to college and I just started selling real estate part-time. My first full month in the real estate business, which was October, my birthday month, I made $43,000 and I started working when I was 14 years old and I only made minimum wage my whole life before that and I thought, "This in incredible."

Alex: What year was this?

Jason: That was the start of the sales business, so check this out.

Joe: Jason, I'm sorry, what year was that Jason?

Jason: Oh this was-

Alex: Yeah, what year was that?

Jason: … in the '80s. '80s.

Alex: And you made $43,000 dollars?

Jason: Yeah, you're adjusting for inflation I guess right?

Alex: Yeah, I mean that's a lot of money.

Jason: You guys are investors yeah. So, check this out, one of my clients, his name was Jim, he bought a property from me in Huntington Beach, California, on Coventry Lane. He didn’t like this property, it was a little one bedroom condo, and about six months later he says to me, “I want to list this property; I want to sell it, why don’t you sell it for me?”

I was an agent, so I thought, “Well maybe I should take this listing and sell it for him?” But then I thought, “Why don't I just buy it from him and this will be my first investment property?” I was 20 years old, and I bought my first property from a client and that really started my investing career.

Joe: Wow. You know Jason you still look like you're 20 years old.

Jason: Yeah, you know I got the lucky genes club, that's the way my whole family is.

Joe: Good for you.

Jason: I'm not 20 anymore.

Joe: You've been investing since the ‘80s, that's crazy. You've seen the market go up and down, and do nothing and be flat. Talk a little bit about how the market has changed over the years and how you've stayed consistent and successful through all of the ups and downs like that.

Jason: Well, good question, it's definitely … The market has definitely become more sophisticated there are a lot of tools out there, software, I mean back in that day we didn’t even have the internet. Of course, the industry has massively changed as every industry has, but the principles of investing haven't changed too much.

There are some new tweaks, and some new distinction, but the basic idea is that income property is still, by far, the most historically proven asset class in America. There's simply no other way to do this and to create real long-term wealth with-, starting with very little money than with income property.

Think about it, you look at the Wall Street Crew where are all the stories? There are none, basically right? Where are all the stories of the guy starting with 5 or $10,000 or by today's dollars maybe $20,000, and getting rich buying mutual funds? Or stocks or anything Wall Street sells? There aren't any stories like that, you know?

Joe: Right.

Jason: I don't know any, I've never heard one. You just look at income property, it just works. It's a pretty simple thing; you can do it at any scale. You can do it at a giant institutional scale; you can do it at a small personal scale. I would just encourage: own and control assets that the entire would needs. The whole human race needs three basic things: food, clothing and shelter; let them rent that shelter from you.

Joe: You know Jason, I think I heard on your show one time, a long time ago, I don't remember when or where, but if you look at the population growth projections in the United States it's insane. They predict the population of the United States will double and I think this is … Correct me if I'm wrong, maybe I don't even know what I'm talking about, but will double by I think the year 2050, two zero, five zero.

Jason: Yeah, I think the prediction is 2050 we're going to have 400 million people in the country. We've got 310 million now.

Alex: Okay.

Jason: That is a giant increase; it is epic. Around the world we're going to have, I believe by then, we're going to have about nine and a half billion people they say, if I've got my numbers right here. As the population increases more and more demand for housing and all the ingredients of housing, all the raw materials of housing, so be on the wave of that, and you can profit very nicely from it.

Alex: I imagine you're always bullish on real estate, is that a good way to put it?

Jason: It depends, maybe, I'm not always bullish on all real estate. I think that long-term there is a reason to be bullish, during the depths of the financial crisis it was hard to be bullish but obviously that turned around and it always does. People made a lot of money investing in real estate during that time, being contrarian investors and having the faith and the courage in the asset class during that time when nobody else did.

That was very true, but long-term, yeah I'm definitely bullish. You've got to structure your deals properly you've got to do them in the right markets and there's always a way to make money with real estate.

Alex: Excuse me; you're obviously putting your money where your mouth is because you own a lot of real estate yourself. Can you talk a little bit about … By the way, I'm looking forward to talking with you too about, you do travel a lot, I'd like to talk about how you manage your business while you're traveling, but you own real estate in a bunch of different markets, not just the United States. Talk a little bit about what you owe, would you mind?

Jason: Yeah, sure. My-, the most diversification I've done, which by the way I'm going to say was a bit of a mistake. This is one of my many mistakes I've made over the years. That is I've had properties in seventeen cities and eleven states. What I've been doing lately is trying to un-diversify my portfolio a bit and pare that down to fewer markets, just for ease of management.

What I think that investors should do, depending on how big their portfolio is, is they should be in three to five cities. You want to be diversified because that can really, really reduce your risk and play out well, but you don't want to be over diversified. One of the mistakes I made was over diversifying a little too much.

Joe: Interesting, one of the things I know that you helped people do, is you helped people buy solid investment properties in multiple different markets. You do property tours and you partner with people. I think you've actually partnered with people in my own backyard here in Saint Louis. I've heard you mention this on the Podcast before; there are a lot of challenges with some of the properties here.

Jason: It's not the properties there particularly or the market, we've just had some challenges with our provider there in not finishing the properties quickly enough. That's been a bit of a … Most of that's worked its way through the system, the vast majority by now.

Joe: I got to mention that presents its own challenges too when you're looking at properties in different markets, you're looking at the economy in that area, you look at jobs, you look at the industries that are there, the demand for housing, the return on investments.

Can you talk a little bit maybe about, what are the fundamentals of real estate that you would teach your clients to look at when they're deciding on which income property to buy?

Jason: The most fundamental thing is cash flow. I used to be a Californian type of investor, and I would be investing for speculative reasons and appreciation, but that is just too risky. I've gotten much more conservative over the years.

One of my Ten Commandments of successful investing in number five is, “Thou shalt not gamble.” You've got to buy properties that make sense the day you buy them. What do I mean by making sense? I mean cash flow that is the fundamental determinant of whether or not an investment actually works.

You've got to have good cash flow; you've got to have good rent to value ratios, or RV Ratios the day you buy the property. If you're investing for appreciation you might have a few wins, but trust me, you're eventually going to get in trouble with that mentality.

Alex: When you're looking for a new market to invest in properties can you maybe talk about what are some of the markets you like right now? And why do you like those markets?

Jason: Yeah, good question. Right now … One of the things I do want to say when I answer this question is that, there are markets, I freely admit that there are markets that I like that we're not in. One of the reasons is that we just don’t have a good team in these markets. We have what we call local Market Specialists, our boots on the ground team that acquires properties, rehabs, or fixes properties up, rents the properties and manages the properties and provides ongoing maintenance management and monitoring of the clients portfolio in these markets.

I always like to say, “I would rather invest in a B market with an A team, than I would in an A market, with a B team.” Because the team and the support network you have is far more important than the marketplace itself.

Alex: That's really good.

Jason: Now, all of the markets I'll mention I think are A markets, they're great markets in which to invest, but there are some other markets I really like that we're not in. One of them is Charlotte, North Carolina, I think that's a good place to invest but we're not in it because we don't have a good team there right now.

We've done hundreds of transactions in there over the years, and just at the moment we're not recommending it because we're just not crazy about the teams we have. Right now, what I like, I'd say my top seven markets would be Little Rock, Arkansas. Arkansas is the most landlord friendly state in the country-

Alex: Interesting.

Jason: … by far. That's good; you may have heard me talk about that on the Podcast. I like Memphis a lot; Memphis is like this blue collar town where you've got a whole bunch of people making forty grand a year and they make good tenants, so Memphis I like a lot. Atlanta, Georgia, has been a fantastic market, done lots and lots of business there over the years, same with Houston, Texas.

Houston you've got big medical, big energy and oil interests and a somewhat transient population in a good way. Transient where people move there for two years and then they move out, so they don't buy a lot of times. They'll just rent and that's great, and Indianapolis, Kansas City, Birmingham-Alabama, all great markets.

Alex: Interesting and you look at … Talk about some of the, what do you call them? Metrics that you look at, do you look at job growth; do you look at-, average the median price versus the rents, the average rents and things like that?

Jason: Yeah, we look at … We certainly want to look at job creation, that's a huge factor. We want to look at what we call "in migration" versus "out migration". Are people moving into the city, or are they moving out? We want to look at the income versus the median price and the rents for a house in that market, and we want to have properties that rent for somewhere in the neighborhood …

By the way I should mention this is not as good as it used to be and it's getting worse as prices increase because rents follow in a much slower fashion than prices. We want to look at RV or Rent to Value Ratios of somewhere in the neighborhood of 1% ideally. Those are diminishing; they're not as good as they used to be, so those are some of the things.

Joe: Jason, you host a lot of workshops around the country teaching people these kinds of fundamentals to real estate and you talk about different markets, you also teach them a lot of … You mentioned the Ten Commandments and I'm wonder if maybe … Do you have something on those Ten Commandments of Real Estate Investing that we can share with our audience? Would that be all right?

Jason: Yeah, absolutely.

Joe: Okay, so guys if you want to get the list of the Ten Commandments that Jason's put together, if you go to realestateinvestingmastery , you go to the show notes in there, we'll have a link for that file so you can get that and look at it. Will you talk … When you're teaching a group Jason of-

Jason: You know what else I want to give you for your listeners, I know you wanted to ask me about the Refi Till You Die plan, and because there's a lot of numbers in that plan, I want to provide you with some PDF on that as well, okay?

Joe: Good. Good, yeah.

Jason: Because I think that will really, really help your listeners. We might go over the numbers on the show, and if someone's driving their car, or at the gym working out, or walking their dog, these numbers may not really resonate so I'll provide something for you there too.

Joe: Good because that-

Alex: Awesome.

Joe: That leads into my next question because you train people what to look for when buying a property, can you kind of highlight some of the points that you make on what to look for, the mistakes to avoid, things like that. Then we'll talk about the Refi Till You Die.

Jason: You know I guess the most common mistakes would be the reverse of my Ten Commandments. I really now have Twenty Commandments, there's an addendum.

Joe: Oh.

Alex: Okay, all right.

Jason: But Moses only got 10 from God, and I got 20. The first one is become educated so the mistake would be not being educated. Let me give you a caveat on that, don't become educated in the sense that you, you know, don't think … There's a lot of great information out there like your Podcast nowadays, you do not have to spend a fortune on education.

We've had people come to us that have spent, I kid you not, 62,000 dollars on coaching programs from big real estate gurus. They come to my Creating Wealth seminar and I've got my next one coming up in Birmingham, Alabama, combined with a market tour. They come to the seminar and at the first morning break, or at least by lunch, whether it be 10:30am, or 12:00 noon, they will invariably come up to me, being very distraught saying, "You know, I just spent tens of thousands of dollars on a coaching program, and I have learned less than you already told me in the first couple of hours." I said, "You know I'm sorry that happened to you, you could've purchased a couple of properties."

I think education is vitally important, no one would say it's not, but you don't need to overspend. There's a lot of great information that's either free or really inexpensive. Try and reserve your capital for actual investing rather than being a seminar junkie, or an info-product junkie. I like info-products I think coaching is a great idea, I'm just saying, "Don't break the bank to do it, prudent education, a lot of great stuff out there for free or low cost."

Joe: There's also no better education than experience.

Jason: That's for sure.

Joe: Definitely … Because I meet so many people too that spent a lot of money on education and have no money left for marketing.

Alex: That's a problem.

Joe: Yeah, you've got to have something … That's something that we talk a lot about on this show, Jason, is how to do marketing, how to find the deals yourself. Anyway, talk about the Refi Till You Die. What does that mean? That raises red flags to I think to a lot of people, it did to me when I first heard it.

Jason: Tell me about your red flag, I'm curious, why would it raise a red flag? I had one guy say he thought it was a pyramid scheme.

Alex: Well this is my thought, usually when you do rentals; a lot of people shoot for paid off cash flowing rentals where you don't have to worry about, "Okay now the tenant leaves, oh crap I need to pay the rent." If you have ten tenants that leave and, "Crap you got to pay the rent." You could put yourself in a little bit of a pickle.

A debt free investing is something that I think a lot of people think about. Myself as well, I'm like, "Well, I'd rather pay off one good rental that's going to make me fifteen hundred dollars a month instead of having ten rentals financed that will make me fifteen hundred dollars a month." Does that make sense?

Jason: Yeah, I totally get it but-

Joe: Here we go.

Jason: … with the ten rentals in that example you're going to be controlling a lot more real estate, so when you do have appreciation you're going to do a lot better, you're going to have a lot more, you're going to have 10 times the tax write-off. It's just … You're going to be 10 times as diversified, so I would much rather have those properties leveraged.

Leveraged, obviously people can get themselves into trouble with leverage, no one will deny that, but it's counter intuitive. People think that the risky position is having the debt, one of the things we have to remember as real estate investors is that we think we're in debt, but the reality is your properties are in debt. We have these beautiful dynamics because income property is a multidimensional asset class. We don't pay our own debts with real estate, we outsource our debts to a third party; we call them tenants.

They pay our debts. That property, that asset will pay the debt for you, that's the idea. Look, I don't have any personal debt; I don't like personal debt at all, or consumer debt. I think people are crazy for getting into debt over what I call, "The appearances of wealth." Rather than the things that create real wealth for them, when you acquire debt, acquire debt that controls assets that have universal need. Everybody in the world needs housing.

You're in much better position when you leverage you're properties, as long as you have sensible Rent to Value Ratios, so Commandment number 5, "Thou shalt not gamble." Property must make sense the day you buy it, and you're diversified, and you have a-, you structured your deals properly is the basic idea. The debt is really an asset. Income property is the most debt-friendly asset in America.

Joe: Certainly a lot of people agree with that, I think there's a good debate and I don't want to get into all of that. Personally for me as well, I'm kind of with Alex. I'd rather own a smaller portfolio of free and clear properties than a large portfolio. I had-, at one time I had 16 rental properties, and they all cash flowed a $100, $200 a month. I made the fundamental mistakes, I broke probably all of your Commandments Jason, this was back in 2000-

Jason: I've broken some of my own myself, just so you know.

Joe: I was over leveraged, I was counting on appreciation and I wasn't setting aside cash flow. I wasn't setting aside my cash flow for unforeseen expenses, like vacancies and repairs, which happen all the time. Talk a little bit about, for somebody who wants to take on a lot of leverage. How do they protect themselves when things go bad, because they do?

Jason: They buy properties that make sense the day they buy them. My question is, "Where were you're properties?"

Joe: They were in Saint Louis; they were all in Saint Louis.

Jason: Mm hm. (affirmative) You bought them at the peak of the market though?

Joe: Yeah, and I didn't have much equity in them, and they only cash flowed $100, two hundred dollars a month.

Jason: Yeah, so certainly there is an element of market timing to this, no question about it, but if you buy properties that make sense from day one you'll find that the cash flow is pretty reliable.

Joe: What I mean, I should clarify too that was gross cash flow. That wasn't cash flow after setting aside money for vacancies, repairs, maintenance, things like that.

Jason: Yeah, you always need to include a vacancy rate in your performa and all of ours include an 8% vacancy rate, or one month per year. We want to see you performa that vacancy rate.

Joe: Do you also take out money for repairs and maintenance?

Jason: Oh, of course, yeah. It depends on the age of the property, but we will performa anywhere from 3%-8% for repairs and maintenance. Remember when our clients buy these properties, they're freshly rehabbed, or they're brand new, occasionally they're brand new and so they're fixed up already.

Joe: These are properties in good areas, they're already fixed up, and you take into account all of these things that you set aside for maintenance, repairs, and vacancies, and stuff. And you have a property manager that manages the properties? Ideally in a good world that all goes well, if there is a vacancy you have some reserves to pay for that, but can you talk about the Refi Till You Die, how do you make money if you keep on Refi-ing these properties, and you're only … Every time you refi you're shrinking your cash flow? Does that make sense?

Jason: Ah, young grasshopper, what a good question.

Alex: That's similar to Carlton Sheets I remember seeing a commercial, way, way, way, way back when this guy on the infomercial would be like, "I treat my properties like money gardens. Every time they appreciate I go back and I pull out the equity and I move on."

I just keep waiting for that to happen. Obviously that was back in the early '90s and there was a lot of appreciation going on back then but, you know.

Jason: Right. That this … I love that money garden metaphor though, that's great. That really is true, look at … Folks, the choice you have, if you want to pay you're properties off, hey go ahead, it's against my advice, but you can have the money in the property, or you can have the money in the bank or another investment and have control of it. When it's in the property you don't have nearly as much control as you will if the money is stripped away from the property. Why should the property be your savings account?

Real estate is the best investment, but it's kind of a lousy bank. It's not the best bank. I'd rather have my money in the bank than in the property. Then at least I have choices and I have control. Remember something else, you never own a property free and clear. It's impossible and I'll tell you why. If you think, "Oh, I paid the mortgage off, it's free and clear, it's debt free." No it's not; you have a perpetual lien on your property call property taxes. It never goes away, and you may well, as so many properties do nowadays, have a Homeowners Association which represents another perpetual lien.

If you ever get into trouble with that property, if you have a bunch of equity in it, it makes it a target for foreclosure. Remember lenders, property tax lien investors, Homeowners Associations, they can become predatory. Where they look at the properties with the most equity and they think, "Gosh if I've got a hundred non-performing loans in my portfolio as a lender, and three of those properties have a ton of equity in them, what am I going to foreclose on first? Of course the ones with the biggest amount of equity."

Alex: Right.

Jason: Equity makes you a target; it doesn't make you safer; it puts you more at risk.

Alex: It makes you a target if you don't pay your HOA's or your taxes right?

Jason: Yeah, which you can easily not do by mistake. People make mistakes like that all the time. That can be a problem, or what about litigation? Everybody gets sued nowadays; we live in this litigation crazy world. Your property is a target if it has equity, it's really easy to do a title search and find out what you own, and find out how much equity the property has. Even if you own it in an entity they can find it.

Joe: Jason, how does refinancing build your wealth? From your perspective, how does that work?

Jason: Let me take you through this. Enough about the philosophy, here's the actual. Here's an example that I present in my live seminars. It's an example of someone purchasing a $1 million portfolio. These would probably be 10 single family homes, in three different markets, so you have 3.3 properties, really you have 4 in 1, and 3 properties in two.

That's ten properties, in three different cities that make sense. That's a $1 million value, you put 20% down on the portfolio, that's $200,000, and then you're closing costs are about 3.5 percent, so that's another $35,000. Closing costs of course vary by area, type of loan you get, et cetera. Then you have reserves, you must have reserves for every property. The minimum reserve requirement in my opinion is 4%.

You can certainly have more, and I wouldn't discourage you from having more, but the minimum is four percent of the portfolio value. In this case we've got a million dollar portfolio, we've got to have $40,000 in the bank just set aside or emergencies, repairs, vacancies, whatever.

Joe: By the way Jason that is one thing I did not have that got me into trouble.

Jason: Mm, yeah.

Joe: I had zero-

Jason: Money in the bank.

Joe: … reserves. Yeah. But go ahead.

Jason: You got to have some money in the bank as reserves, definitely important. See in your case I wish you would've purchased one less property and just kept that extra money in the bank for that one property you didn’t buy. Then you would've been able to cover problems on the other properties. Because income property is a game of attrition; it's a staying power game. We know from history, and everybody listening I'm sure knows examples of this, of people who went through tough times, and then those times turned around just as they have in the past three years for all of us, right?

Alex: Mm hm. (affirmative)

Jason: Then they made a fortune, and people made a fortune in the past three years, right?

Joe: Oh yeah.

Jason: You got to be able to stay in the game, never be forced to sell a property at an inopportune time.

Alex: So-

Joe: Okay, so you have … I'm sorry Alex, go ahead.

Alex: Yeah, so basically just to understand this right, we're talking about buying a million dollar portfolio of properties, is that what you're talking about-

Jason: Yes, yeah, yeah.

Alex: … putting $200,000 down-

Jason: Mm hm. (affirmative) 10 properties, in three markets, two hundred thousand down. Mm hm. (affirmative)

Alex: These portfolios like this all together in one shot are, I'm assuming, when we talk about your clients and stuff like that, you build these portfolios like this and sell them off?

Jason: Well, no no, we don’t build the portfolio per se; we just help people build their own portfolio. We're not a seller, we're a referral network.

Alex: Okay, so you're not assuming that somebody’s going to come in with $200,000 on a million dollar portfolio in one shot? This is maybe over time they accumulate this?

Jason: Oh, it could be over time, but a lot of people do it immediately in one swoop. A lot of people do a lot more than that in one swoop. I'm just using this as an example because the numbers are nice and round.

Alex: Yeah, I got you.

Jason: Yeah, okay so we've got 10 properties and the total needed to buy these ten properties in three diverse markets is $275,000 with reserves. There's a lot of numbers here, so again I'm going to give you a printed version of this that you can put on your website at that link. What was that link again that you wanted people to go to?

Joe: Realestateinvestingmastery.com and go to the show notes for this, yeah we'll have that on there.

Jason: Okay, good. Good stuff, so all these numbers will be there, but I'll just take you through them. Everybody's probably heard of The Rule of 72s, and the Rule of 72s says that at 6% appreciation, which is arguably the historical average, some-, depending on what exact time frame you're looking at and what cities.

There's a lot of ways to slice and dice this, but most real estate experts will agree that real estate appreciates at a rate of about 6% nationally, over time. At 6% appreciation your portfolio will double in value every twelve years. Now, you know no one's going to get particularly excited about this, until you really drill down and see how it works. Let's take an example of someone who's 40 years old, or I should say 40 years young, because age ain't what it used to be.

Joe: Amen.

Jason: One of the big problems a lot of people will be facing nowadays is too much life left at the end of the money, and we want to help people solve that problem. 40 is the new 25, 60 is the new 40, and 80 is the new 55 or 60. It's just a tremendous difference how health … Not just life span increasing, but more importantly health span has increased.

My mother is in her 70s and she runs around like more energy than anybody you ever met, more than me. It's amazing. People are living longer, healthier, more active lives which is great, so you're only 40 years young at the start of this plan. You do this million dollar portfolio, and by the time you're 52 years young, your portfolio is now doubled in value from one million to two million. At that point here's how the Refi Till You Die plan starts.

All this time, over those 12 years, hopefully you had positive cash flow, you had nice tax benefits and now your property is worth two million dollars. You go back to the bank, and you say, "Hey, I've got this portfolio of these 10 properties in diverse markets I'd like you to refinance them for 90% loan-to-value. The bank says, "Sure, so we'll give you loans for 1.6 million dollars, your equity started out when you were 40 at $200,000, now it's $400,000, and so your equity position has doubled and your proceeds from this loan is $800,000 after you pay off all the other loans.

Of course you could structure these as second loans, or home equity loans, you don't have to necessarily refi the first loans. I don't exactly know how you might want to structure this, I would just have to look twelve years into the future and decide at that time what is best. The concept remains the same. You've got double the equity, your loans are now 1.6 million, your equity is four hundred thousand and you have $800,000 in cash. In cash, you take this $800, you don't invest it, and you stick it under your mattress.

Not really, but I'm not imputing an investment return on it, I'm just saying you earn nothing on the $800,000, all you do is divide it by 12 for the next twelve years and you have basically $67,000 in tax free income to spend over the next twelve years. Because there's no tax on borrowed money, so what we're trying to do is make our wealth creation plan tax efficient, and this is the most tax efficient way to extract wealth from your real estate portfolio.

Watch what happens now … Questions? Well, stop me with questions, go ahead.

Joe: I was going to say, if you take that 800 grand, divided by 12, that's $67,000 a year in tax free income-

Jason: Yep.

Joe: … that you now have? Okay.

Jason: You could be, and hopefully you will be investing that and you'll earn an actual return on it. I'm doing super simple math here. I'm assuming you won't earn a return on it, since you built your real estate portfolio twelve years ago, you got really dumb and you don't know how to invest anymore. Say it goes backwards, right?

Joe: Okay, all right.

Jason: So, no return on the investment, you just divide by 12, spend $67,000a year tax free. Which, you know, that would be equivalent to maybe a hundred and $10,000 in taxable. That's a decent job for sure; keep in mind the average household income in the United States is something like $52,000 a year.

Here you're more than double what that is. Okay, so now you're fifty-two, you go another 12 years, you're 64 years young; your portfolio has doubled again. The $1 million portfolio that was worth $2 million 12 years ago is now worth $4 million dollars. You've got a $3 million gain on that portfolio.

You go to the bank, and you say, "I'd like to refinance eighty percent loan-to-value." They'll give you loans for 3.2 million dollars; your equity has now doubled again as well. You've got eight hundred thousand dollars equity on the portfolio, and the bank is going to give you cash out proceeds of 1.6 million dollars. Now you're going to take and divide 1.6 million by twelve and you're going to have one hundred and thirty-three thousand tax free dollars to spend for each of the next twelve years. This beats the heck out of Social Security and remember-

Alex: This is counting on appreciation though, right?

Jason: Moderate, this is nothing special's happening here. This is just historical appreciation numbers of only six percent.

Alex: 6%?

Jason: 6%.

Alex: 6% in the course of? How many years?

Jason: Each year for 12 years.

Alex: Okay.

Jason: That's the Refi Till You Die cycle. Now we're at the twenty-fourth year. As we know, as we get older, twenty-four years will pass in the blink of an eye. I can tell you how to do this a little faster too, I've got another version I call the Seven Year Itch of Refi Till You Die. You can do it in seven years too, there's another cycle that I'll give you for your website.

Think about how exciting this is, all this time we've had positive cash flows in the properties of maybe, you know, each property generates maybe two or three hundred dollars a month positive cash flow. That's two or three thousand dollars per month on ten properties. We've got tremendous tax benefits, because income property is the most tax favored asset in America. Now, let's do one more cycle, we've got our 1.6 million, we're spending one hundred and thirty-three thousand tax free dollars every year to live on. One more cycle, let's go twelve more years, now how old are we now? We're-

Joe: 76.

Jason: … 76. Okay, 76 years young. Which by the time anyone listening is 76; 76 will be younger than it is today. We're at huge breakthroughs in longevity sciences, or we're on the verge of them.

Now the portfolio has doubled again, it went from four million to eight million dollars. You've got a seven million dollar gain, you go to the bank and say, "Hey, I'd like to borrow 80% loan-to-value." They give you loans for 6.4 million dollars, your equity has now doubled again to 1.6 million dollars, and you have cash out of 3.2 million dollars. Three million, $250,000, divide by 12; you have $250,000 per year, tax free income.

Unbelievable, this is the get rich slow plan; this is not what you're going to see, this is just not sexy. It's boring, you're not going to see this on a late night infomercial, I so wish I had testimonials of people saying, "Oh yeah, I followed Jason Hartman's system and I made a hundred thousand dollars in my first week." It's not like that.

Joe: I'm writing all this down, that's really good-, helpful to look at those numbers like that. I've got a couple questions, that cash flow that comes in; do you encourage your students to set that aside for capital improvements? Because that's twenty/thirty years of holding the same property, it's going to need a new roof, it's going to need new appliances, it's going to need extensive updating over that twenty/thirty years.

Jason: Yeah, good point. I wouldn't hold all of that cash flow; you're not going to need that much. A new roof is going to cost you what? Twenty-five hundred, three thousand dollars, I mean it depends on what kind of roof you put on of course and how big the property is, and what type of roof it is.

Yes, you're properties will need maintenance, but we've got maintenance in the performa, anywhere between 2% and 8% of the income is already performa-ed for maintenance. We've got vacancy in there.

Joe: Okay.

Jason: The reality is the vacancies a lot of time are lower than the performa; I've had a tenant stay in one of my properties for nine years. My mom has a tenant who's been in one of her properties … You may have heard her on my Podcast, on the Creating Wealth Show, and that tenant's been in her property since 1989.

She just raises the rent every year and the guy never moves. It may work out a lot better than you think. Maybe appreciation will happen faster, heck, you know if we have a lot of inflation this appreciation is going to happen a lot quicker than this.

Joe: Now what happens though, you're 76 years old, and you owe six and a half million dollars?

Jason: Now you don't, your properties owe that money.

Joe: Okay, well what happens, do you keep on refinancing that?

Jason: Yes, yes absolutely. Refi Till You Die, that's why it's called that-

Alex: Let's say you die, now what?

Joe: Yeah?

Jason: Then oh, that's even better.

Joe: Okay, how, why?

Jason: Dying is not good, but it's going to happen to all of us. None of us will get out alive, right?

Alex: Right, so I've got four children now, and let's say they're oh, what I'm eighty ...

Joe: 76.

Jason: You die-

Alex: Oh, okay.

Jason: But you're going to live a lot longer than 76 I hope. By the time you're there the life expectancy will increase quite a bit I'm sure. I'm starting a new show on this, I've been recording a lot of interviews it's called the Longevity Show. I've been really fascinated by longevity science because I think it has broad ranging implications for the economy, for our social life, and just everything. It's quite fascinating what's going on in the world of longevity sciences now.

Joe: That is interesting, so what happens when you die?

Jason: Well, under current law, and I do have to say that I'm not a tax advisor, and I'm not an attorney. So tax and legal advice, seek out the appropriate professionals, but my understanding under current law basis steps up to market value you can exchange these properties all your life, and do 1031 tax deferred exchanges. But under current law, you pass away the properties step up in value the basis steps up to current market value, your heirs can sell them and they will not pay capital gains. So it's-

Joe: Interesting.

Jason: ... pretty awesome. It's the most tax-favored asset in America.

Joe: Interesting.

Jason: If you owned a business, that would not happen that way, your heirs would be forced probably to sell that business just to pay the taxes. That happens all the time.

Joe: You know what's interesting, I was listening to somebody talk about … Because being entrepreneurs you always think about building a business to last, building a business the you can sell, and he brought up a really interesting point, because a lot of people work really hard they work 50, 60, 70 hours a week to build this great business so that they can sell it someday and live very, very comfortably, after they sell their business.

You've got to put in your dues now; you've got to work real hard now. The guy was saying, "We need to rethink that, go backwards a little bit, and let's develop a business that is really simple, that only requires a small staff. You take the profits and put them into income producing assets and over time, by the time you want to retire, now you have built up these income producing assets to give you the same comfort and retirement that you would've had if you were working 60, 70 hours a week with a huge business and lots of employees to sell a business. Does that make sense?

Alex: Mmm hmm. (affirmative)

Joe: It's about living comfortably, living the life that you want now, and not having to work so hard to get to that same level that you can have in the future. These are really deep, deep concepts Jason, and you've definitely put a lot more thought into this than most other people have.

I think if people want to get more information about all of this, they should definitely go to your Podcast, your website, Creating Wealth. What's a good way … I know you got to go here Jason, what's a good way for people to get a hold of you?

Jason: Yeah, so the website is just my name jasonhartman.com, that's J-A-S-O-N-H-A-R-T-M-A-N dot com, jasonhartman.com. I'm on Twitter @jasonhartmanroi, as in "return on investment", and the Podcast is on iTunes, Stitcher, all the usual places and it is called The Creating Wealth Show.

Joe: Creating Wealth Show, it's a really good show you interview some fascinating people on there and you talk a lot more about these specific topics. You guys are going to like the show, if you've not heard of Jason already for some reason; you're going to like what he has to say here. He makes you think, you're a real deep thinker, you think big picture Jason, that's one thing I love about your show.

Jason: Yeah, thank you very much, I appreciate it. I try to stay on topic with some of the more tactical real estate stuff; I don't do a great job of that, admittedly. I like these big macro concepts about economics and investing a lot, but I try to make it a good balance between the two.

Joe: That's good. Alex? Do you- … I wanted to ask you more questions about traveling because you travel a lot.

Jason: Sure, yeah.

Joe: But I know you got to go here, maybe that's-

Jason: Yeah go-, I got a few minutes go for it.

Joe: Okay and Alex please interrupt; I know you might have another question or two.

Alex: Sure.

Joe: You travel quite a bit Jason, how do you run your business while you're traveling like you do?

Jason: Well, it's nowadays we're all connected so easily and with technology, it just makes it pretty easy to do that, but traveling is harder. When I travel I've noticed that in the seventy-three countries I visited and some I visited multiple times, but seventy-three different countries. When I travel, business is more in maintenance mode, and being proactive, I think it kind of does require you to be settled a little bit at a desk and collect your thoughts.

Jumping around from hotel to coffee shop to use the Wi-Fi, that's not super efficient. It is great that we can do it at all, so you can maintain your business and take care of reactive things pretty easy, but being proactive it's a little harder when you travel because of course you're distracted. I do love to travel and I've looked at real estate in many, many, many of the places that I've traveled to, and I got to tell you I would love to be talking about, investing in, and promoting international investments but the United States is a really special place when it comes to income property investing.

I just can't find anything that works, I have looked all over Central America, South America, Europe, even in Asia looking at real estate deals, and the U.S. is pretty special in this way. I think the best invests are right here in the good 'ole US of A, but we've got to remember that there's no such thing as a national housing market, there are really … In a country as large and diverse as the United States there are really about 400 different, distinct real estate markets here.

When we hear these idiots talking on CNBC, or you read their stuff in the news media and they say, "Oh the housing market is doing this." Or, "The housing market is doing that." There-, you can't talk that way in a country as large as the U.S., there are too many markets here.

Joe: Yeah, that's true. Why do you travel so much Jason, to just hang out with your family, to travel, to see the world, or do you do it to look for opportunities?

Jason: All of the above, I think that travel is really important to broaden one's perspective and just curiosity. I just love to see things. I have this morbid curiosity about communism and dictatorships and things. I've been to Cuba, where the average Cuban worker makes like $10 a month, and if people think the healthcare is better in Cuba, they're probably crazy.

I'd love to go to North Korea; I did a show on that recently with a guy, Jordan Harbinger, who you may have heard of. He's got the Art of Charm Podcast, and he actually does tours into North Korea-

Joe: Really?

Jason: … which I couldn't believe, I didn't know that about him-

Joe: Wow.

Jason: … so I had him on my travel show, The Jetsetter Show. I think it's just really good, it broadens our thinking, right?

Joe: Yeah, and you can do a Podcast from anywhere in the world. Have you ever looked in your stats to see how many people all over the world listen to your Podcast?

Jason: Yeah, it's amazing. We've got listeners in a hundred and sixty-four countries. Some of them, there's just like one listener in Kenya, for example.

Joe: Yeah, it's amazing, I think last time I looked we had a hundred and twenty-something different countries. From Africa, from-, it told me Korea I didn't know if that was South or North Korea but-

Jason: It's probably South Korea.

Joe: Yeah, but that's incredible. That's amazing, so guys we should get-, we should end this show here but if you go to realestateinvestingmastery and go to the show notes, Jason's going to give us the Ten Commandments To Real Estate Investing, and also give us some more numbers so you guys can study and analyze just make a decision for yourself if this is something that you feel like you want to do.

On how to Refi Till You Die, it's something that I know a lot of people are obviously interested in because that is one good thing about real estate is that you can … It is the best way to create wealth. How you go about that, is obviously a personal decision that everybody needs to make, but it's something to think about obviously. Jason you definitely have made me think about that.

Jason: Oh good-

Alex: This is definitely some-

Jason: … I'm glad to hear it.

Alex: … advanced stuff right here.

Joe: Oh yeah. I think you're the most advanced host we've ever had Jason.

Alex: This is not-

Jason: Well thank you.

Alex: … "Yeah, well sign a contract and get $5,000 bucks." This is a-

Joe: Exactly.

Alex: … you know.

Jason: Exactly. This is long-term investing but you know what, next time we talk I'd love to come on your show and explain what I call my risk evaluator, which is a great way to dramatically limit risk when investing in properties.

Joe: Well, let's go ahead and book that Jason, after this show let's get that on the calendar, because I'd love to interview you again.

Jason: We'll do it, I'd be happy to come on and talk to your listeners about that.

Joe: All right guys, so get more information on Jason, go to jasonhartman.com, on Twitter jasonhartmanroi, and your excellent Podcast on iTunes. If you just go to iTunes, or Stitcher and do a search for Jason Hartman you'll see all of his shows on there, but your most popular show is The Creating Wealth Show. I even see an episode on here where you talk about Bit Coin.

Jason: Yeah, we've talked about Bit Coin a lot, which by the way I'll just say as a parting thought, I would love to be wrong about Bit Coin, but I don't think it has a huge future, but I'd love to be wrong about that. I really want to be wrong this time, but I don't think I'm going to be wrong.

Joe: Okay, good, good, good. You're … You have an episode here about why the U.S dollar will not collapse?

Jason: Yep.

Joe: I agree with that actually.

Jason: Yeah, I think the dollar is a lot stronger than people want to say it is.

Joe: Mm hm. (affirmative) I don't think China is as strong as everybody thinks they are.

Jason: No, I agree with you completely Joe. China, you just wait 10-15 years and China is going to be … They've got big problems ahead, China is not … I'm not bullish on China.

Joe: They, if you look at the percent of people in China that are poor, and are below the poverty level, it's one of the highest in the world. They have a long ways to go before they're economy will be anywhere close to as strong as the United States, so we're going to be around awhile. I think my opinion. Okay, anyway, thanks everybody; we've enjoyed this interview Jason, thank you so much.

Alex: Great call.

Jason: Thank you Joe thanks Alex, and happy investing to everybody.

Joe: See you all later, good-bye.

Alex: See ya.