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Real Estate Investing Podcast **Jam Packed: ROIs, Lease Options, Rentals, Section 8 and So Much More**

*Hosted by: Joe McCall & Alex Jounghlood
Featuring Special Guest: Andy McFarland*

- Intro:** Welcome, this is the Real Estate Investing Mastery podcast.
- Joe:** Hey everybody, welcome, this is the Real Estate Investing Mastery podcast, and I'm Joe McCall and Alex, how are you man?
- Alex:** I'm good man, oh this is awesome like I said we've been—it's been a little bit since we've done one of these, but we are back in it and it's great. Great guests, grateful hosts, we are marking [as four].
- Joe:** We recorded a bunch of them and just had a huge back log of podcasts. And I did a bunch of videos kind of on my own with myself and Claude Diamond, and a couple of other folks that...
- Alex:** Yeah, great content.
- Joe:** I like Claude a lot and -- but anyway it's been cool; I would say I missed you Alex, but that sounds kind of weird.
- Alex:** We still have to meet Joe, so...
- Joe:** Yeah, but I'm in Prague the Czech republic right now, I think a lot of people on my list, see my emails, my Facebook posts and stuff and already know that, but yeah man I'm in Prague. I look around the city and kind of pinch myself a little bit thinking, wow I'm really here with my whole family, my four kids.
- Alex:** That's very sweet.



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Joe: It's awesome, we are going to be here for three months, at least, we don't have a return tickets, we don't know when we are going back yet. And we rented a big three bed room flat that is...

Alex: A flat?

Joe: A flat yeah, because they are flat. But this is probably twice or three times as big as the one that we had for two months when we were here three years ago. And we just went to homeaway.com and found this place...

Alex: Yeah, that's great, HomeAway is awesome.

Joe: They rent it by the night normally, we just said hey, can we have -- we want to get it for three months. So we got a huge discount and it was really nice right in the heart of Prague, and it's beautiful we love it, it's awesome. And we are still flipping deals here, still flipping deals.

Alex: You got to be, you got to keep going, keep the train moving.

Joe: You've been doing virtual wholesaling for a long time, in fact it's one of the things you are known for Alex. I mean like -- and you are wholesaling virtually in your own backyard and in some markets around you. But I looked at this business when I was first getting into it and thinking, I'm already doing this right here in my own backyard, flipping properties without seeing them, why can't I do it from anywhere in the world.

Alex: And why not? Take the system and duplicate it.

Joe: Right, and that's all it is, it's the system. I was listening to -- I forget who it was, oh Rob Swanson the other day, and he's got a new podcast out. And he was talking about a real simple philosophy for business. And I think it's -- I don't know if this was intentional, but there were Ss all of them were Ss. Number one, simplify, keep everything really simple, number two, scale it, once it's simple -- no-no I'm sorry, once it's simple then systemize it, create a system out of it and number three scale it.

And that is a real simple formula for success right, so like if you want to have a lot of success in this business, you got to make sure that what you are doing is simple. You got to make sure that it can be systemized; you can create a system about it on it. And then



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when you have something that's simple and you have a system, a simple system, then you scale it. And that's pretty simple formula for wholesaling, isn't it?

Alex: Yeah, a lot of times we make things so complicated, and I get myself I'm guilty of this, I start a process, I sit down and I'm like okay, I'm going to put this process together and you start thinking of all the little tangents and things that can happen, or so you can say for instance say you wanted to do automated probate -- have VAs go in and pull probate stuff for you. Sometimes it's easy to say okay, pull this list of theirs, and then take the list of errors and their addresses and then also the executor and their address.

But there are so many different tangents that can go off and sometimes if you look at all the details from that, you kind of can get frozen on it, and do nothing enough. So you might as well just put something in place and if it's not 100% perfect, just let it run and tweak it along the way, but just you got to get it going or else it's going to do absolutely nothing.

Joe: Exactly, and I think my new favorite phrase is this, that done is the new perfect.

Alex: Yeah, I like that.

Joe: Done is the new perfect, it's done, it's not perfect, just go with it, you can always fix it later, it doesn't have to be perfect before you get started on it. Lately too I have been doing a lot more marketing, and I'm just sticking with the absentee owner list. I'm having good success with it. You look at all the deals I have done, and I don't know the exact percentage, 75%, 80% of them are absentee owners.

Alex: How about this, I just started this phrase, perfection is the killer of production.

Joe: Whoa. You just came up with that?

Alex: I did.

Joe: That's fantastic; perfection is the enemy of production.

Alex: Yeah, you see that doesn't even need to be perfect, we can work on that phrase.

Joe: How about this, the five Ps.

Alex: No we got three points in a poem, we are all set.



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Joe: Have you heard of the five Ps?

Alex: No.

Joe: Well, this has nothing to do with what we are talking, but I just thought of it because you had your performance and productivity and perfection thing. Prior planning prevents piece poor performance.

Alex: Yes-yes-yes, and that's the terror, that's like a military thing right there. We should probably get to Andy before we use...

Joe: Sorry Andy, he's going hang up pretty soon. But I just want everybody listening to this know if -- I'm not sure when this podcast will be released, but I'm going to be doing some extra special podcasts, teaching people how to automate your wholesaling business and those will be coming up soon. And I'm going to be talking about exactly how I'm wholesaling deals here in Prague, and it's pretty simple. I did a webinar last night Alex, and we had a ton of people on there, it was really fun. But I'm already turning a lot of that content into future podcast episodes.

Alex: Sweet.

Joe: Yeah, so cool, let's just jump in Andy -- we have Andy McFarland, Andy how are you?

Andy: Great. I'm sitting here listening to you guys like, I feel like I'm listening to a podcast right now.

Joe: Oh, you know what guys, this is so crazy because I mean you are up now and I'm meeting a lot of people here. We have a huge audience in England, and a lot of people listen to our podcast from all over the world, and we've known that for long time. We look at the stats and we have listeners from over like 160 different countries. And we have a good friend, we have interviewed before do you remember Tom Wade, Alex?

Alex: Yeah, that's the name I was going to say.

Joe: Yeah, we are actually going to be doing a workshop together in Spain pretty soon, yeah.

Alex: Wow.



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- Joe:** But he keeps on finding these people that are telling him, hey I heard on Joe and Alex's podcast.
- Alex:** Nice.
- Joe:** It's amazing, I did a webinar the other day, I had these people on there from United Kingdom and from Argentina and another person from Switzerland, and Norway.
- Alex:** The rain in Spain these days is mainly in the plain.
- Joe:** Okay.
- Alex:** Do you know where that's from?
- Joe:** No, I don't care to know either.
- Alex:** Wow, but it's a classic movie.
- Joe:** Where is it from?
- Alex:** My fair lady.
- Joe:** All right Andy, sorry.
- Andy:** Alex is a random isn't he, I love this.
- Alex:** I'm random.
- Joe:** So Andy you are a wholesaler, you are working with one of our mutual friends Justin Williams over in -- are you in California?
- Andy:** I was doing some stuff in California, but I'm not anymore.
- Joe:** Where do you live?
- Andy:** So I live in Utah and I do business in Utah, I also do business in New Mexico and in Indiana, and I was formerly doing some business in California too.
- Joe:** Okay, cool and are you doing a lot of stuff in Indiana right now?
- Andy:** Yeah, I actually am.



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Joe: We need to talk after the podcast episode.

Andy: Absolutely.

Joe: Are buying properties there, or just wholesaling, what are you doing?

Andy: I'm wholesaling right now but I'm there -- I actually picked that market, because why not right? And also I wanted to keep some properties there, so I'm wholesaling now but I'm going to keep them.

Joe: It's a fantastic market.

Andy: Absolutely, that's why I decided to go there so...

Joe: Three of my favorite markets right now just from friends that I have been talking to, clients and students that I have is Ohio, Indiana, and Jackson Mississippi believe it or not. Those are some really hot markets right now where I'm seeing, and we do marketing all over the country for our clients, right? And we are seeing about triple the response rates with our direct mail in places like Ohio and Indiana, compared to what we are seeing in Florida and California and places like that, even Missouri.

Alex: Oh, it's amazing, from market to market the difference because it's a different market assignment. I mean even my own local market is -- response rates are way down compared to some of my virtual markets.

Joe: Right.

Andy: Yeah, I have seen that too, a huge difference depending on where you at, huge difference.

Joe: I don't think that's just because the market has been rebounding, because I remember when the market was really hot back in 05, 2005-2006, there were still pockets around the country where people were doing a ton of deals, more deals than other parts of the country. And you just got to find out -- I love that book, 'Who Moved My Cheese,' and you just got to think about, where is the cheese now, because it changes all the time.

Alex: Where is the cheese?



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Andy: Absolutely, where is the cheese now, and where is it going to be, because we all know this market we are in right now is going to shift into something else for sure.

Alex: Oh yeah.

Joe: And who knows, maybe it will be Montana. I doubt it.

Andy: It might be Spain.

Alex: Spain that's -- I'll mention the guy's name, Chris Sedar, he is out there in Montana, isn't he?

Andy: I like this talk, let's do this.

Alex: We did it, we did that one.

Joe: I like Chris, we released our interview with him a few weeks ago as when we were recording this. Great feedback from the guy, and from people listening to the podcast, really a good guy, I like Chris. So Andy you've been wholesaling a while, talk maybe a little bit quickly how did you get into real estate, what were you doing before that?

Andy: What was I doing before that, you are going to embarrass me here? Before I got into real estate, I was working as a guy on a dock. I was just a dock worker, loading and unloading big trailers. And I was -- I had read "Rich Dad, Poor Dad," but I was working on the dock, and I didn't have any money, but that was kind of my W2 income to get started investing in real estate. And then I started investing in real estate on the side, and then the side thing became more money than I was making on the dock.

And then one day I was actually skate boarding on the dock and the manger came out and he said, and this is after work, I had checked out and everything, I punched at the clock they didn't like that. So I came the next day and they said, you were gone for three days and let me know if you want -- come back on Monday and will let you know if you still got the job. So when I came back on Monday they handed me my paycheck and said you are done here. So and that was it, that was the last time I worked for anybody else and it was a huge blast.

Alex: On the docks, you know who else worked on the docks?



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- Andy:** Who?
- Alex:** Rocky Balboa.
- Andy:** Oh, I don't know of Rocky, but if you want to make a comparison that's a bit of a stress though let's do it. Alex if you do it then...
- Alex:** That's where he started man.
- Joe:** I like it, that's a great analogy.
- Andy:** I think Johnny used to work on the docks too, didn't he?
- Alex:** Johnny used to work on the docks yeah.
- Andy:** And went on strike.
- Alex:** He was down on his luck.
- Andy:** Down on luck, it was so tough yeah. You all know.
- Joe:** Wow.
- Andy:** I could be random too Alex.
- Alex:** These are dreams of running away.
- Andy:** That's true.
- Joe:** So how many years ago was that...?
- Alex:** If it's okay, all right, I'm done.
- Andy:** I want to just play that baseline right now. Take a walk out there, I used to play base key by the way, just random. All right Joe we are back.
- Joe:** How many years ago did you do that?
- Andy:** It was like probably 13, 14 years; I have been doing real estate for 12 years now, 12 plus years now.
- Joe:** Awesome.



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Andy: So yeah, it was a while ago.

Joe: All right, so talk about your evolution and you do a lot of wholesaling now, what were you -- what did you start off doing.

Andy: I start off doing -- the first property ever bought was a bank owned as in illegal bank owned at non conforming triplex, and I tried to span a bunch of people heads there. But basically it was just a trash bank owned property, I had no clue; I didn't know what I didn't know. And I was just like here is the bank owned dirty ugly property, I should buy this. And I bought it with nothing but just great and I didn't have any money, so I was in there just working, fixing things up and I had no experience fixing things up. And I just basically went in there and I said no one is going to tell me no.

And I did whatever it took to fix it up, and at the end of that, I bought it, I fixed it up, I rented it out, I sold it on owner financing. And all of this was in like a year and a half span, I just learned so much from that deal. And in fact right now my company, one of companies, primary company is called Tree House Investments, and people think that's kind of a weird name, but it comes from my first property which was, I called it the Tree House, you know how you nick name a property, you call it whatever like whatever street it's on, or who are the seller who wants something.

It was my tree house because I literally had never had done any sort of manual labor like painting, nailing. So I was like a kid building this tree house, but I was like you know what I can do this, I always knew I could do anything I wanted to. I'm like I'm going to do this and that was it. I built my tree house and I bought it, fixed it, rented it, sold it on owner financing, and I just kept going from there.

Joe: Excellent, so your primary strategy right now is wholesaling, am I right?

Andy: Yeah, absolutely that's my primary stuff.

Joe: All right, do you buy and hold, keep any properties?

Andy: I do actually, I do buy and hold as well, I have rental portfolio, a single of residential stuff fourplex, duplex, a lot of single family, yeah I do, I believe in investing and keeping stuff for the long term as well.



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- Joe:** How many doors do you have?
- Andy:** Doors I don't know, I have got about 20 like buildings between duplex, fourplex, doors is like 28, 30, something like that.
- Joe:** All right, how many -- you probably know your numbers, I'm just curious like how many doors do you feel like you need to have before you stop buying properties?
- Alex:** Accumulating doors?
- Andy:** Accumulating doors, that's a good question. All my doors are now in Utah and Utah is not like the Midwest, I mean it appreciates better, not as good as the sun states, but it appreciates pretty descent. But the cash flow is not -- in the areas that I have got in, it's like it's not phenomenal, which is why I started looking Indiana because I mean...
- Alex:** Well, define phenomenal.
- Andy:** It's not, I might say...
- Alex:** What would be phenomenal cash flow, what would be -- no I'm not going to do the deal, would \$200 a month be phenomenal cash flow?
- Andy:** If you get into rental conversation, \$200 a month for like PITI, it's like not for me, that's not phenomenal. I mean my doors all do that at least, but I'm talking like real from that operating income, actual money left at the end of the day. My rentals all like pay for themselves that way, but as far as put money in my pocket with it now, they do but it's not as much as I would like for the equity that I have got my return on equity.
- So that's why I look at a place like Indiana, only those Midwest states and I think okay, that's actually going to get me a better cash on cash return. So at the end of the day net-net, you kind of get a 10 cap or 12 cap. I mean people might call it a 20, but it's like look, let's be honest here, like was it really after everything washes our management and all the destruction happens and...
- Alex:** Oh, taxes are huge too, you think about it in New York right where I grew up, where my parents live, their taxes are \$9,000 a year.
- Joe:** Wow.



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Andy: Oh yeah, ridiculous.

Alex: So if you don't have a mortgage, you are almost paying a \$1000 a month.

Andy: Absolutely.

Joe: Oh it's insane, so talk about -- explain really quickly for those who don't know what a cap rate is.

Andy: A capitalization rate basically is what is your property bringing in net per year? So when they call the net operating income is -- you figured \$1000 a month in rent, how much comes you actually get to keep after property taxes, insurance, after management, vacancy, loss collection, and impounds for capital improvements, I would also put it into there.

Joe: Whoa, impounds for capital improvements, that's the...

Andy: Oh, people, don't do this.

Alex: Sounds scary.

Andy: Impounds for capital improvement, because if you don't put that into your net operating, if you don't put that into your figures, like roofs wear out, concrete will eventually. Like the houses need to painted, these things that are kind of like we don't think about, because it doesn't happen every year or two. But when that roof wears out and you are enjoying that \$200 cash flow and then you got to write \$7000 cheque, gone.

So I look at things like that and say okay, what is it really doing over time, I started holding rentals for years now, so I know what really happens. Furnaces go out, hot water heaters need to be replaced, and that's just kind of maintenance stuff, capital improvement stuff. A lot of new investors they don't look at when they are buying rental properties.

Joe: So important, especially if you are a wholesaler and you are advertising properties with a 20% cap rater or whatever. Like come on...



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Alex: I'm going to come in here with a new segment really fast, I'm going to call it 'would you do the deal?' Okay. So I have got a property, I could take subject to, and I was thinking about just flipping it out. Let's see all right, so this – let's start with this property. This property is worth \$235 fixed up; I have got it under contract for \$132. The payments are \$1,179 among PITI, that means principal interest taxes and insurance.

And to get it into rental shape you maybe got to put 20,000 into it, and it would rent for 1350, to 1400 a month. Would you do the deal as a rental, or would you flip it?

Joe: Flip it.

Andy: Flip it.

Alex: But why not?

Andy: What year was this house built?

Alex: That house is built in the early '80s.

Andy: That's a twin, I would flip it still, the numbers are-- unless -- hang on a second, there are some other variables too. Is this an area, it's like an appreciating area, this isn't Virginia, is this going to be...

Alex: It's Virginia Beach. Everybody wants Virginia Beach properties here. Okay, so I could probably wholesale it right now, and make about 25,000.

Joe: To a rehabber or to a retail market?

Andy: To a rehabber, or I could wholesale it or put some money into it and maybe make -- well, see that's the question. Yeah, I'm not going to rehab it if I could make \$35,000 on a rehab or a wholesaler and make \$25.

Joe: Right.

Alex: But I'm thinking about rental.

Andy: I think it depends on where you are at in your investing career. Like if you look in to get some doors that are going to appreciate, stuff like that...

Alex: I am looking to get some doors.



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- Andy:** You mean that one, it's probably going to be -- I mean over time it's probably going to be negative 100 to 200 bucks a month, like truly. But it's going to appreciate quite better than that, and if you've got active income which you do from your business, you might go the stands to take a little bit of -- I mean you don't taking a hit every month, but you know those capital improvements and stuff. Something like that is going to appreciate. If that's where you are at in your career, I might keep it, I might do a little interest on it, it depends on where you are at though, so there's other variables didn't come into play.
- Joe:** Is the seller expecting any cash?
- Alex:** Well, I'm taking it subject to \$125 and he is getting \$7,000 out of it.
- Andy:** Is that a good loan like...
- Joe:** Yeah.
- Alex:** Yeah, the loan is actually okay, it's about six years old I think so.
- Andy:** Six years old okay, so it's still not too...
- Joe:** And the interest rate is fixed, payments are fixed?
- Alex:** Interest is fixed yeah.
- Andy:** I'm part like as long as it's not like weird FHA loan you are scared of getting called and getting blacklisted or whatever. I actually -- I don't hate that, I mean if you've got active income somewhere else, because I mean if you flip a lot of property...
- Alex:** Well, if you get called on it you could come in with a private money and cash it out...
- Andy:** Because you have enough equity in it?
- Alex:** It's not like beat the clock to get out of it, they are not like, oh we are taking it now that's the heavy process.
- Andy:** I have actually had some calls though; I have had one call, so.
- Joe:** Have you really? Because you bought it sub two.



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Andy: I bought at sub two and actually had a call; I have always told people, like no one's going to call in.

Alex: Now did the seller act crazy on you and do that to you though?

Andy: No the seller didn't act crazy actually, there was Wells Fargo, and there was a house that was in foreclosure. And I bailed him out of foreclosure, basically cut everything up, paid all the arrears, it was like 15 grand right. And then I was just going to keep it because I was just doing a subject two just to flip it at short term.

And I caught everything up, and we transferred title and did the whole deal and Wells Fargo sent a letter out saying, we noticed the title transferred, you can't do that, but what did I do? I pretty much ignored it, because how long is going to take to initiate the foreclosure and do it...

Alex: 45 days yeah.

Andy: Yeah, so I just ignored them, flipped it, they got paid off in like four months, so was fine. But if I was keeping it long term, then I would have to come up with some amount of cash.

Joe: This just goes to show how important it is that the numbers work, I mean if you would have -- if there wasn't any equity in there and you didn't have multiple extra strategies, you would have been could have gotten in trouble.

Andy: Oh yeah, you got to be careful about -- especially because if you put money into that, which I think I caught up \$15,000 of the stuff. And then I got paid the salary of 20 grand or something, it was a really good deal. He had a lot of equity, but -- yeah, you could get stuck somewhere.

Joe: We are going into a little rabbit show here, but I think this is good. No, this is excellent.

Alex: This is a new segment 'would you do the deal?'

Joe: I like it a lot, we should do that again, but my question is this though, do you think because interest rates are probably going to be coming back up in the next few years that banks are going to start calling more loans due?



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Andy: Good question....

Joe: Because they are making 5% on their money here, they find out it's been-- the title is transferred, they want their money back, so they can earn 6%, 7% somewhere else with that money.

Andy: Yeah, it could happen.

Alex: About to foreclose on a house and take it back though, that's a big -- I have heard foreclosures that cost banks \$20,000 plus, so...

Andy: I don't think it's going to happen, honestly I don't think they are going to raise rates that fast and aggressive that we are going be...

Alex: Everything is a gradual thing, just like people are scared of the market, right? Stuff doesn't tank overnight like a stock. Things happen gradually, so it's not like you're immediately going to be like, oh the market's changed now, I can't sell anything and I'm screwed.

Andy: For people listening if they are new in real estate, I mean I have been in this 12 years, so I lived through the disaster of 2007-2008. And really, I mean that was a fast moving as any market probably was moving. But it wasn't that-- I mean you could get out. I mean you would take the loss, and it was people not willing to take the loss. My house is worth a hundred, I'm only selling it for a hundred and then like -- then it was worth 90 like three months later, and they won't want to drop, and they drop at 92. It's like chasing the market down right. If you are willing to just cut your losses and say let's get out of this thing dump it, then you're going to be fine.

Joe: That's interesting, I like the -- what's this segment called again, should I...

Alex: 'Would you do the deal?'

Joe: Would you do the deal. We need to remember to do that more often. I think after talking to you more about it, I might stay into it as well. I mean if it's a good appreciating market, you'll only what \$25, \$30 grand into it. If you hold that thing for 20 years and get it paid off, that's going to be...



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- Alex:** Well, that's the thing because I could take \$25,000 now, get taxed on it, give my money to Uncle Sam, or you go long term on it and you will make way more than \$25,000.
- Joe:** And you get to write off, this one is going to give you more write offs, isn't it?
- Alex:** Yeah, I have got another one, but I don't think we have time or it.
- Joe:** We got Andy.
- Andy:** Long term is always better I think -- I mean obviously, anybody who has studied real estate knows it's the long term game that really wins over time. But people listen to this show probably because it's the short term that's sexy right? You flip properties and make more...
- Alex:** Very sexy, \$25,000 woo.
- Andy:** You got to live, but if you've got enough money to live, then at that point you really take a hard look like okay, let's not flip everything, let's keep some stuff, some sense.
- Alex:** All right Michael Jake, he is a great guy he is...
- Andy:** I was going to say Michael Jake.
- Alex:** He is like why do you want to sell this thing. He is like why do you want to sell these things, because here is the other thing, I mean you could get the deal, take it to subject two, then you get a down payment from somebody coming in, so you get a little short term cash flow. And then you don't get the whole landlord thing going on because you could do a lease option, if that's legal in your state.
- Joe:** You still going to do a lease option on that though?
- Alex:** I would think he would because at maintenance and you could charge more on your rent. Because you've renovated it back if they buy it.
- Joe:** I don't know if this is a long term play for you though I would probably just take the best person that you can get. Maybe it's a lease option or maybe not, but I would probably be more...
- Alex:** I could beat those lease options actually.



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Joe: Maybe but what if-- would you turn down somebody though who has really good employment, really good credit, they just want to rent for a few years?

Alex: No, no I wouldn't.

Joe: You could advertise it as a rental or lease option.

Alex: Right, because I think about this though, your out-sell or your boom is going to be a lot bigger if you sell it on a lease option, because let's say you get somebody in there you say, "Okay I'm going to sell this for \$235 and you're in it at say \$160." They'd been giving you monthly cash flow, they put money down, and let's say magically the sun, moon, and the stars align and they get a loan at \$235 no realtor cost, no commissions, bare landing closing cost, you're going to make a pretty penny when that thing finally out sells.

Joe: Yeah that's a good point.

Andy: Yeah, long term and long term gather against you. Yeah but you know what from the \$10,000 you know I look at this same thing, and people always argue, are you real estate investor or are you just like a flipper? And I've learned the guys that are like old stages that made tons of money in this business, they're all the long term buy and hold guys, but you got to be able to hold it, you got to be able to hold it for that long and you go to be able to live in the short term. So I'm both, I've got a great business that gives me a ton of cash a passive ton of like active cash, then also recognize that I've got to be able to put it on the other side too as investments side, I got to put into notes, I've got into...

Alex: For retirement yeah.

Andy: Yeah both for retirement, so I'm both you know so I'm not saying hey-- I don't want to go get a job at Wal-Mart so like how many people working at Wal-Mart to flip properties right, not to flip properties, but hold properties.

Alex: Andy where do I find the baking soda?

Andy: The baking-- aisle 13, the back left.



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Joe: I was-- I used to work at Wal-Mart when I was in high school or college or something, and somebody asked me where the diapers were one time and I told them, "In the plumbing department."

Alex: Aisle 32, plumbing.

Joe: Yeah well, anyway we talked about the cap rate thing right, and I think it's so important because it's so-- I had a wholesaler send a deal to me the other day and they were talking about 20% or 30% ROI or cash on cash. And the only expense he figured in was taxes and property management. He had nothing in his numbers there for vacancies, or repairs, or impounding capital improvements. It is really-really important when you look at your numbers and you're projecting your cash flow, spreadsheets will tell you whatever you want to hear, whatever you want to see.

But you really need to look at adding in money-- and so many people forget this, vacancies, repairs, future improvements. When you're looking at your numbers Andy generally as a good rule of thumb, are you looking at like 50% a year of your gross rent is really what your net operating income is going to be, does that make sense?

Andy: There you go, 60% if I'm managing it myself, but yeah 50% you're absolutely on, and in fact I've got a funny story about this, my neighbor again hopefully he never listens to this, I don't think he does. He's an accountant, he's like partners in accounting firm, like he knows his numbers seemingly okay. He's buying properties in the Midwest somewhere, I'm not going to mention the market in trouble it's going to lead him in trouble, but he's buying stuff he's like, "Yeah, I'm getting 20% returns."

So I dug a little deeper like I'm interested in this stuff, he says here's how they do it, rent is for \$700 a month so times that by 12 you know \$8,400 a year, and he's like and I'm buying it for \$42,000. He's like every time I'm making 20% returns, and I look at that and think that's a ten cap right. Cut his numbers in half, but he's an accountant and he's taking it off gross scheduled income.

It's ridiculous to me, that's what people do. As an accountant I thought-- I say, "Well who pays the taxes and insurance, "Oh it's always rented, it's always rented, there's no vacancy, and there's-- they always pay because it Section 8 or whatever." And I'm just like dude you got Section 8 you better put some capital improvements in there, like



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they're going to destroy some stuff." So anyway that's-- so you think like the lay person doesn't understand, this guy is an accountant, it's only like buyer beware guys, like just know what you're getting into right, know what you're getting into.

Joe: Well I've been there done that, and I have that t-shirt of figuring out like you know what-- and that was one of the problems-- not to bash The Rich Dad Poor Dad book because that's what got me started in the business, but I don't think that book did a good enough job explaining to people what real cash flow is.

And the whole idea is, you know you just get enough passive income to surpass your expenses and you're out of the rat race, and what really is passive income? And is rental real estate really all that passive, and it can be mostly passive if it's managed right, but I would have saved myself so much trouble and pain if I would have bought properties with better fundamentals and reserved money every month for the unexpected things that happen and always will happen in owning rental properties, does that make sense?

Andy: Absolutely.

Alex: You can't expect to live off that cash flow, you kind of almost have to just to put it right back into the business and to some kind of a reserve fund, or put it to pay down properties to speed your wealth development.

Andy: Here's what I think, I think real estate long term is a great place to grow your money, so if you put 10,000 down, you're going to leverage—your leverage return is going to be good and overtime you're going to be able to harvest more money from equity pay down and all that stuff or principle pay down. But I think if people are looking for-- if you're buying in decent areas right like Alex is doing with the beach thing, if you're smart if you're buying-- I think you're going to think 5 to 8% like overtime-- and I know it's not sexy to people, but like owning rental properties maybe 10% if you're getting like really good deals on stuff, but like if you plan on that then I think you're going to be a winner.

Like Mike Jack if you look at his stuff I bet you those areas he's making 6, 7, 8% truly on those properties, because they're not D rate properties, he's probably buying B, B+ stuff. But people always get wow I want the 20%, like just go for the basic there and get



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the equity appreciation and all that stuff, and you're going to win, it's just long term you know.

Joe: That's really good and you're buying properties in good neighborhoods, which makes a huge difference because they're just easier to find good tenants in those kinds of areas.

Andy: I can, man-- you've all got the t-shirts of this stuff too, but Section 8 rentals and stuff it's like it sounds good, it looks good on the short-term, but when it turns over in a year or two and you've got just to put another 10,000 into that unit, and they're kicked off Section 8 and go and try-- go get-- I mean I've got tons of judgments from Section 8 tenants right, good luck, anybody want to buy then from me, email me I mean.

Joe: Well I thought Section 8 was supposed to repair the house?

Andy: Yeah, in section...

Alex: Section 8 is the way man, guaranteed checks.

Andy: And this isn't like bag on Section 8 day, because if you're a good manager and if you can like make your houses bullet proof and that's your strategy absolutely go for it, but don't think that's it's just easy money. I mean the funniest thing for me with Section 8 is they have an inspection when you move in, and they move into this property, you've got it clean so like the inspection works, they move into your property. A year later they re-inspect same tenants there, and they give you a list of repairs and I'm like, "Wait a second, they were there for a year, shouldn't they repair it?" "Nope you've got to fix this up before we can renew this contract." And I'm just like, "Oh my goodness," again just makes no sense right. So if you want to play that game just play it well and know what you're getting into, but personally I'm not good enough manger to manage that stuff. Sorry that was a rant.

Joe: Well when a tenant does have to be evicted doesn't Section 8 pay for some of the repairs?

Andy: Not in my world, do they in your world?

Joe: Well I've never had Section 8 because I never...



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Andy: No, no it's-- when a tenant needs to be evicted and they're not paying or somehow they get kicked off for Section 8, then it's just like, "Oh I'm sorry good luck, get him out of your house, I mean deal with right." And these are people that you can't garnish their wages or anything, I mean it's just getting from a blood from a turnip right, they have nothing. So it's like-- then it's on you to get them out of the house and stuff.

So my deal with Section 8 is you're going to get above market rent and if that above market rent overtime can pay you enough to deal with the damages and the excess management supposed to happen there, then you're a winner. And I figured it was three years. If I could keep them there for three year, then I won, if they were turned over in less than three years then I lost. But if you can keep long-long-long term Section 8 people in there, yeah you're going to win. But this needs to be a management strategy. I didn't know you were going to turn your show on...

Joe: No I didn't either.

Andy: What do you think about Section 8? But yeah...

Alex: Coming from all angles on this one.

Andy: Yeah I got the t-shirt too, but yeah that's...

Joe: One of the things we're talking about before the show and maybe I'd like to talk about this Andy, is I'm starting to do more and more offers sending letter of intent to every single lead that comes in. If I have an address, I'm sending them an offer in the mail, and I don't care if they tell me to jump off a cliff and die, I'm going to send them an offer because I want to follow up and I want to follow up relentlessly with every single lead that comes in.

And so one of the things that I have been doing is sending letters of intent, like options with different options in the letter. It's not a contact, it's just, "Hey, I understand maybe now is not good time for you to sell your house, but if circumstances change or something, then we'd really be interested in talking to you again. So here are some numbers and potential ways that we may be able to buy your house." So first option would be cash, the second option would be seller financing with five percent down, let's say and five percent interest only payments with the balloon in ten years.



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The third option maybe seller financing with principle only payments, and then the fourth option if I do another option maybe lease purchase depending on the kind of home it is. And so you do some seller financing yourself and you've den some deals where you've done similar structures, where you've even may wholesaled or sold homes that you have under contract with seller financing. Can you talk about your philosophy on that too as well? Do you make multiple offers to sellers, what do you make-- if a seller rejects your cash offer, what do you do then?

Andy:

See I'm kind of a different animal. I come from the world of actually being like and you guys did too I think being knee to knee with the seller. Like I would go there and be like I would close my deals up until like a year and half, two years ago I would go close on almost all my sellers locally. So I've always come from that from the stand point of I'm not just going to throw something on the wall and see what sticks, I would go there and I would literally just dive into their world.

First of all I'll get into a rapport with them do all that, I love people, I love like meeting people and hearing their story, but once I'm getting the rapport with them I'm going to sit down and say, "Now what are we trying to make happen her Joe? Like what are we trying to make happen?" And then they're going to tell me all their stuff and they're friends with me, and I'm like hear those things and I'm going to take look at all the tools in my toolbox, and I'm going to pull out the one that works best for them.

And if that one-- if I'm wrong and it doesn't work best for them I'll pull the next one and the next one. I'm looking t the same how can I-- if I can solve your problem I'm going to find a way to solve your problem, and I'm going to get that deal. And if that means seller financing we'll do seller financing, if that means some sort of partnership, if that means I buy it for cash, whatever it is I'm going to solve their problem.

And I always go to them saying like don't tell me I can't it done, how are we going to get this deal done? I always do that, that feeling with sellers and I'm like if anybody can do it I can do it, like let's make this happen. And it was not like-- no two deals were the same, I'd look at every seller and say, "What is your specific needs." And if you've been working with sellers, I think you guys have, you know, it's not always money people assume that haven't worked with sellers a lot, they think, "Oh it's all money, they just want money," that's absolutely not true, it's not true. They have other needs that they



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want, they don't want to deal with hassles, they want to be somewhere quickly, whatever, it's not necessarily about getting the most money for a property. So if you listen to them, then you craft a solution that meets their needs, I mean you're going to win nine most of the time, that's where I take it.

Joe: That's phenomenal, everybody listening to you...

Alex: That's huge, that's the difference between the men and the boys on that one, because you realize and it's kind of funny, I'm looking at all these different-- with the new house I'm building, and you look at the different contractors and the prices that they give you and one of the big things that can kill you on anything is when you go on and you just looking for the cheapest price.

Because if you-- if you do you're going to end up paying maybe even more than you thought you would have saved by going with the cheapest price sometimes. It has to do with reliability, it has to do with the ability to get the job done, and not just somebody that's giving you a low price to get you on the door, and then it's going to screw you over later. Same thing with houses, if you're dealing with-- a lot of times we're dealing sophisticated people, they understand that, and if you come across with that credibility just like you said Andy I mean right there I was ready to sell you my house you know.

Andy: Yeah let's do it, that should be a segment, 'Get Andy to...

Joe: Sell-- Alex sells the house to Andy.

Alex: Would you do this deal?

Andy: Would you do this deal, I get it done I promise you that, it's a win, win.

Joe: All right, so definitely I get it. Now it's important to have that attitude when you're meeting with a seller, I'm not walking out of this house unless I have a contract, and it's about meeting their needs.

Andy: Absolutely meeting their needs.

Joe: So you said though a year and half you've not being doing that or something, what...



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- Andy:** Look a year and half ago-- so I got multiple different areas, I got three acquisition managers who basically are the sales people in those areas. So a year and a half ago in Utah my acquisition manager-- I brought her in and I haven't closed sales there, but I've probably done like eight or 10 in the last year and a half just because stuff comes up and I'll go do stuff. So I still like in the saddle doing it a little bit, but I would before that I mean...
- Alex:** You got to stay sharp man, you got to stay sharp.
- Andy:** Yeah you got to stay sharp, but before that I mean I would do-- like I was in seller probably in hundreds of hundreds like I've just done it so many times right. I don't know if you guys can...
- Joe:** So what have you done? I mean that's a hard one because giving over and that's something that I struggle with is saying nobody is going to be able to close this person better than me, and I'm sure that was a hurdle you had to overcome...
- Andy:** Huge, huge.
- Joe:** What did you do to do that, I mean dealing with these people number one are you paying them on commission, you pay them a salary post bonuses, or how are you doing that?
- Andy:** Yeah they get a piece of it, I mean our incentives are aligned there definitely for them to get the best deal possible for me, but yeah like you said that's a tough piece to give up because that's the life blood, like that's is it, like it's always like giving that up, so yeah we haven't talked about my business and how structure and stuff, I got a lot of people helping me in the business.
- Alex:** We need like a part five for this.
- Andy:** Maybe a part five. I truly I would work on my business rather than in my business, I mean I 'm like you Joe, I get deals now I'm like I never see them, I never talk to the sellers, but I definitely get a piece, it just happens, it's just the machine. But the last piece I gave up, this was my sacred cow, I was like, "No way somebody can go close it, like I'm going to close it." But I was holding myself back and I was spending a ton of time doing that, and it's not scalable obviously if you're trying to go see every seller right.



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So I brought in a sales person somehow reluctantly, and then I brought her to appointments with me, but she's a good sales person, she's just good at sales, she knew nothing about my real estate. We went to four appointments together I kid you not and I showed her like, I showed her like, here's what I got-- I showed her appointment, appointment, appointment, and at the end of like a couple of appointment she was just like well here's how I would have done it. I'm like look that's awesome, that's the way you do it. And then we had one we were like-- somebody was calling back like I had to go one direction and I had to go the other direction at the same time to get a contract signed, and she's like, "Look just let me go take that one. I was like, "Okay," I'm like, "Just go get it," and she did.

Alex: Don't mess it up.

Andy: She seriously on like the fourth one together she went one direction I went the other direction we both got the contract and that was it for me. I never have ever been to another appointment with her; it's been a year and a half. She's a fox...

Joe: Wow, that's awesome.

Andy: But that said and she was good, because she just good at sales, but I needed to tune her up with that real estate knowledge, which is why I've built trainings for her on like lots of different things, how I do the reverse math, how I educate the sellers, how I adjust value of site, how I do pre-work before an appointment, and finally the last thing I did a couple of months ago was on selling seller finance. If you can imagine you're a good sales person, but if you don't know have the tools to be able to explain something to somebody, you can't sell it to him.

So I did a training for her and some of my other people on how to sell seller finance to a seller, because as a sales person I don't if-- you guys probably know this you need to believe in your product, and if you don't believe in your product you can't sell it. So in I needed to show her and I did through this training that seller financing deals are actually better for the seller for a number of reasons depending on their circumstances.

So I showed her that so that when she sees those circumstances she can pull up the seller finance tool and she can sell it appropriately, because she can say, "No, Mr. Seller



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like this is absolutely better for you,” because that’s what I want, I want win-win scenarios, but she can’t sell unless she understand it, so that’s why I did the training.

Joe: Can we-- I’d love to talk more about that, and we’ve come up to a good-- probably a good stopping point on this podcast, and can we do that with you on a part two Andy?

Andy: Absolutely I love it, I love this stuff ma, real estate is like...

Alex: Part five.

Andy: Part five, when else am I going to sing, when are we going to sing Alex, is that part three, or is it part six?

Joe: We’re talking about Justin Williams, and you work with Justin Williams a little bit, well you still do right?

Andy: Well, Justin and I we do education stuff together. I mean he’s a huge volume flipper and I’m a volume wholesaler, so we’re both just like-- and we’re friends I was like, “Man you teach that side, I’ll teach this side, and that’s what we do together.

Joe: I love his podcast, I love Justin, and I mean in a good way right anyway.

Andy: I know where you’re going with this Joe, every time we do a live event together I make him sing, I say Justin sing, you guys want to hear him sing? And it was like, “yeah.”

Alex: I saw that video, that’s was funny.

Joe: He does-- he has this podcast House Flipping HQ, everybody should go check it out House Flipping HQ. And I was-- I don’t know what happened, I finished one podcast episode, and I forgot it was even playing and all of a sudden I hear this Arabic singing on my speakers, and I’m like what-- who’s singing in Arabic through my speakers right now?

I’m listening like 30 seconds, what on earth is that and then finally I rec it’s Justin William, he’s singing some song about flipping or whatever, and it sounded like totally what you hear at those Arabic house of prayers, you know when they’re singing out on the speakers to the whole city I thought. I told him about that later I thought man I wish I could remember which episode that was, but it totally sounded like some Muslim call



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of prayer, and I say that with full respect to anybody, I don't mean any disrespect to the Muslim faith, but I just it was hilarious.

Andy: Yeah he's awesome, he's just such an action taking guy, he's the epitome of what you guys were saying earlier right like perfection is the enemy of good, or done is the new perfect, I figured what Alex said performance is the killer of production...

Alex: I just perfected that, are you ready?

Joe: Yeah go ahead, come on now.

Alex: All right here it comes; the desire for perfection is the demise of production.

Andy: You did that real time while we've been talk about silly stuff, when did you have the brain power to figure that out?

Alex: Dude, he's my brain...

Andy: He's a machine ladies and gentlemen.

Alex: My brain goes in so many different directions, it's very— it's painful for me.

Andy: With Justin that's a perfect example about how he just-- he just takes action, I mean he just says like look you're not perfect, like he just do it, and it's amazing you just doing stuff is what causes you know, and you form your new perfect, fail forward absolutely.

Joe: Fail forward fast. Okay so cool Andy, let's do this I need to get going, I got help feed my kids; I'm dad for a week. I mean I'm always dad, I'm mom and dad for a week with three...

Alex: Where is your wife?

Joe: She's in Kosovo.

Alex: What?

Andy: Look at this guy, look at this guy.

Joe: Kosovo.



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- Alex:** So you're in Prague, and she's in Kosovo by herself?
- Joe:** No with my ten year old son.
- Alex:** How far is Kosovo from Prague, is this like?
- Joe:** Do you even know where Kosovo is?
- Alex:** It sounds Ukrainian or something.
- Andy:** Sounds like Kokomo, the old beach boy's house.
- Joe:** It's in the Bahamas, no I'm just kidding.
- Alex:** No, it's not. Kosovo it's like that's like...
- Joe:** Yes it's one of the former Yugoslavian states or republics or something, it part of-- it's so confusing to me, the Bosnians, Serbian area war torn region, our church...
- Alex:** Yeah, it's been war zone over there.
- Joe:** Yeah, yeah well our church St. Louis Family Church awesome church, SFLC.org, St. Louis Family Church does this huge summer kids camp every year in St. Louis. And this last summer we did it 6,000 kids over two weeks, and it's called 'Jump'. So we do a kids camp in Kosovo every year along similar line, and they have about 2,500 kids and its really-really awesome. So my wife is going to volunteer and help with my ten year old son, and they're there helping serve.
- And it's really cool, it's this kids camp they do soccer camps, and like soccer what do they call it lessons or something like that, and then they do-- they help kids learn with English. They bring a bunch of dentists from the United States over there for-- to help kids with their teeth and stuff, and then they do Christian ministry, it's really-really awesome. And we just couldn't-- my youngest kids are too young to go, so I decided I'd stay here with the three, and it's kind of crazy. I miss my wife man, she's...
- Alex:** Absolutely when the wife is gone man it's whoa.
- Andy:** You're like man they do a lot a lot, a lot.
- Joe:** She's the better half; she's the better two-thirds.



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Andy: Mine too.

Joe: So anyway that's why I need to end this, my kids are doing pretty good, I mean I don't smell any smoke, but Andy let's do this, let's end this for now, and we'll reschedule for the part two. Andy where can people go to get more information about you and what you do?

Andy: I do a little social media thing called 'I Love Real Estate Stories,' so if you go to lloverealestatestories.com, or if you go to You Tube and put a Andy McFarland on real estate, do a ton of videos-- we didn't get a chance to talk about that, but I think you guys will dig that if you go there, Andy McFarland real estate on You Tube. But yeah you can go there or just email me at andy@lloverealestatestories.com, yeah that's all on me.

Joe: Very good and we'll talk more about how to sell seller financing deals.

Andy: Yeah absolutely, I love it.

Joe: On our next part two with Andy McFarland.

Alex: And that's not sell them to like buyers, but that's to sell the concept to sellers, right?

Andy: Absolutely, sell the concept to a seller yep.

Joe: But I'd also like to talk to talk about on the next podcast about how to sell it to buyers if you wanted to, right?

Andy: Yeah you can absolutely sell it buyers, there's a little some nuances there, but you can talk about that.

Joe: You're basically selling the contract...

Alex: Yeah you got to be careful.

Andy: Yeah you got to be careful, you got to be careful, but we can talk about that for sure.

Joe: Yeah definitely talk about what to be aware of.

Andy: Yes powerful stuff.

Joe: Awesome blossom.



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- Andy:** And that's sounds Canadian, awesome blossom.
- Alex:** We got to end better than that come on, give us a good phrase Andy give us a good phrase.
- Andy:** A good phrase is-- how about perfection is the killer of production.
- Joe:** How about not, oh I'm going to screw this up.
- Alex:** Know the desire for perfection, because if you're perfect that's good, but if you desire for perfection then that can screw you up.
- Joe:** Well there's nothing wrong with desiring perfection, but like...
- Alex:** Okay maybe we got to work on then.
- Andy:** You guys got one; you got some goals though, what's the goal you got Joe? What is that, a three bedroom flat in Prague, what is that?
- Alex:** Was that German?
- Joe:** That's Czech for goodbye, and see you later.
- Alex:** Okay, all right, we can work with that.
- Andy:** I like it.
- Joe:** And don't ask me to say it again, because I butchered it and I'm embarrassed.
- Andy:** Somebody in Prague right now is covering their ears going, "Oh no."
- Joe:** I totally butchered that.
- Andy:** All right.
- Alex:** Great podcast, great podcast, can't wait for part five.
- Joe:** Yes okay good, see you guys. Oh our website-- hey Realestateinvestingmastery.com.
- Alex:** Oh yeah Realestateinvestingmastery.com, you might want to check that out.



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Joe: Yeah and check out the fast cash survival kit, Realestateinvestingmastery.com. We'll see you in part two Andy.

Alex: See you Andy.

Andy: Sounds good, see you.