What is Passive Real Estate Investing?

Hosted by: Joe McCall
Guest: Marco Santarelli

Joe: Welcome. This is The Real Estate Investing Mastery Podcast.

Joe: All right. What's going on everybody? We are live. This is The Real Estate Investing Mastery Podcast and I'm Joe McCall and I'm with a good friend that I think you're going to like as you get to know him and he's got a great podcast and I'm excited about introducing him to our podcast audience. His name is Marco Santarelli, and we're going to be talking to him more in just a minute. I want to just remind you guys first off that RealEstateInvestingMastery.com you can get all the show notes, you can get the transcriptions of these podcasts as well. If you don't like to listen and you just want to read, then you can get the transcripts and we also have just a ton of cool free things that you can get that at the website, RealEstateInvestingMastery.com and then one more announcement. If you like this show, go to ITunes, go to Stitcher, subscribe and leave us a review.

Joe: We'd really appreciate it. Love the reviews. It's like my tip jar I like seeing the tips in there. Let's just know what you like about the show, what you don't like, what we can change, how we can make it better and appreciate it. Cool. You ready to dive in? This is Marco Santarelli. As I'm recording this, we're live on Facebook as well, so if anybody is on Facebook, if you have questions and you want to ask Marco some questions, please type them in the comments below and I'll ask them as we're going on. Marco is the host of The Passive Real Estate Investing Podcast are very popular real estate investing podcasts. How long have you been doing that show, Marco?

Marco: Three and a half going on four years.

Joe: Nice. Okay, cool. It's a good podcast and as you can maybe tell from the title of his podcast, he talks about passive real estate investing, which I want to ask him a lot of questions about because even if you're like wholesaling or doing lease options or some of the more fast cash strategies you need to understand passive income. There's a difference between piles of cash and streams of cash. We need both., right? And Marco is the expert on getting streams of cash, cash flow. What are you going to do with all those profits? One of the big problems with wholesaling because when you stop wholesaling, you stop making cash, right?

Joe: Well you need to start thinking about taking the cash and the profits that you're making from your deals and investing them in long term wealth building assets. Even if you've got a full time job and you're interested in real estate and you don't know like where and how am I going to start doing this stuff? I don't have the time to go find my own deals. I don't have the time to do the marketing and talk to sellers and make offers. How can I build a passive real estate portfolio if I'm like that. Oh, we're going to talk about that on this podcast with Marco. So welcome Marco, how are you?

Marco: I'm doing great Joe. Thanks for inviting me on. I'm excited to talk to your audience and help provide some value and some knowledge.

Joe: Thank you. Now I was on your show recently. It's called The Passive Real Estate Investing Podcast. How can people find your podcast? Just go to ITunes and do a search for Passive Real Estate, or do you have a website? What do you, what do you prefer?

Marco: Yeah, it's actually available on all the platforms from IHeart radio to ITunes to Google Podcasts. But the website has got the links to everything. So PassiveRealEstateInvesting.com pretty straight forward.

Joe: Nice. Nice. Okay. So the name of your company is Norad Real Estate. Did I get that right? I should know that.

Marco: Norada.

Joe: Norada.

Marco: Norada Real Estate Investments. You've got it.

Joe: You sidelined as a meteorologist, I'm just kidding. So talk about your history. Marco, how did you get started in real estate? What were you doing before you just started doing real estate?

Marco: Yeah, everybody's got an interesting history when it comes to how they fall into or stumble across, you know, real estate investing. For me, I just knew at an early age that real estate was the way to create wealth, create passive income. I just have to look around and see the people who were, you know, financially independent. And the common denominator was they all owned portfolios of real estate. You know lot of them had duplexes and four-plexes all along Center Street and the town I grew up in. And so you don't have to be a rocket scientist to figure out pretty quickly that real estate is the asset class. Plus, you know, everybody talks about it. I mean monopoly has been around for a long, long time. You know, what's the secret there? Four green houses, one red hotel. But when I turned 18, I was able to qualify for financing and really that's when I took the leap, bought a town home unit, a town, a town home and unit, fixed it up, put a sign on the lawn.

Marco: There was no internet back then. So it was done by signage, you know, newspaper and paper and leased it out, managed it myself and it was pretty much textbook. But that was the writing on the wall that allowed me to do the next one and the next one and just fell in love with it. And you know, today I, you know, just built upon that and built a large portfolio. So, you know, simple beginnings, but really it's all about real estate and just the message I would give your audience is just start, if you haven't start as soon as you can. Real estate is very forgiving, but time is a powerful factor and the more time you allow to build your real estate portfolio, the bigger that cash flow is going to be when you start going.

Joe: Yeah. Well let's talk about that. How do people start and you know, let's talk, put people into maybe a couple of different categories or groups. I'd like to first talk about the guy or the lady that's got a full time job they got little kids at home, they're busy, they're stressed, they're hard and they don't have much time. How can somebody like that get into passive real estate investing?

Marco: Time is the biggest factor. If you look at all of our clients, one of the main reasons they come to us is because they lack time. They may have good income, they're professionals. They may be, you know, salespeople, doctors, dentists, whatever it may be. They have the interest to invest they have the ability to invest. So they have capital and credit, so they have everything they need to move forward, but they just don't have either the team or the time.

Joe: Let me add one thing to that. Marco, isn't that important to like, you may look at your job like a liability, but it's really not it's a huge asset. It's so much easier to get loans on rental properties when you are have W2 income, right?

Marco: It's infinitely easier. And in fact, that's a really good point, Joe. We've had people, not recently, but in years to past say hey, I want to go real estate into real estate investing full time. I'm going to quit my job. No stop. What people don't understand is not only do you have income coming in from your job your job or nine to five, which you're going to use to save as fast as you can to create the next down payment and the next down payment in order to invest in your next rental property. But the fact that you can show a lender that you have W2 income, you have actual provable income, allows you to qualify for this abnormally cheap financing that we call a 30 year fixed rate mortgage. That is an incredibly powerful leverage tool and that allows you to control real estate, a lot of real estate, 100% of that real estate and have all the benefits of real estate, yet you're only putting down 20% of the down payment of the purchase price.

Marco: So do not quit your job. In fact, I would suggest that you create a passive income that exceeds, that's two times what you make now before you even start to consider leaving your W2 employment or your job.

Joe: Well that's, that can sound intimidating to somebody I would imagine. Like if they're making $75,000 a year, they need to get then income of $150,000 a year. But where, how do you start? Like what are some of the steps you help clients lay out for them so that they can see it as something doable, not overwhelming, makes sense?

Marco: Yeah. Everybody is in a different, on a different spectrum when it comes to real estate investing, you know, a different part of that spectrum. Some people are what I call lovingly newbies, they're just getting started. They have never invested. In fact, they probably haven't even bought their principle residence. And that's fine for a lot of people. It actually makes more sense to rent and invest in rental properties than it does to actually buy their principle residence. And then there are people who have bought their first property and you know, they have two properties. They might have five, they might have 10 but the point is you've got to get started. So how do you get started?

Marco: The first thing you need to do is educate yourself. You really need to build a foundation of knowledge so you can talk the talk. You know how to differentiate between a good deal and a great deal. You can do an analysis, you can do some due diligence and you can assemble the right team and ask the right questions to know that you're actually getting the right people on your team. The other thing too is you, I'd like to say, you know, set yourself some investment goals.

Marco: A lot of times people go half cocked and they start looking at quote unquote deals, not realizing that they're making a mistake even though the property might be renovated and the numbers look attractive it's in the wrong area. Bad neighborhood, bad market, declining market. I mean, I've, I've made that mistake long ago, investing in markets like Detroit. I didn't know what I know today and I made the mistake of buying in a dilapidated war zone, but I fell in love with the property, so I did it backwards. Really, you need to start from the top and work your way down like a funnel. You know, begin with the market, then analyze the neighborhoods, then look at the properties. And while you're doing that, you've assembled a well-vetted team to help you out. So the key is to know what you want. Know yourself as an investor, educate yourself, create some investment goals.

Marco: Break that down into a workable criteria or an action plan. A lot of these things you can get help with. I mean that's one of the things we do with our company is basically get into your head and pull that information out so you can see where you are, where you want to go, how you plan to get there, how many units is going to take to create that passive income that you want. This is stuff that you can do on your own, but sometimes you just need someone to hold your hand and guide you through it. But ultimately the rubber needs to meet the road and so you need to increase your income, save like crazy, create that capital pool, those chunks of cash that you're going to turn into streams of cash, which is cash flow, the passive income. And then pull the trigger, pull the trigger on that first property that meets your criteria, that fits inside that buy box.

Marco: And then once you've done that, guess what? It becomes a little addictive. You're going to want to do that next one and that next one and keep building on that and build that portfolio in that market and then keep going on and build a portfolio in another market and another market. And so that's, you know, everything I just covered here in the last two minutes Joe really is an entire podcast episode in and of itself, but I've just kind of compress that timeline into how to get started.

Joe: That's good. I like the analogy of the buy box and let's talk about that. Like what makes a good deal? What is a good rental property that you're looking for or that a beginning investors should be looking for? Is there a type of neighborhood type of price range, a rent range. And then I have some more questions I want to ask you about how do you calculate the numbers? So what would be, what's a good buy box? What are some good parameters that people need to be thinking about when they're looking at a deal?

Marco: So I think your audience would know that that buy box is going to be specific to the strategy. Like with you, if you're wholesaling or you're doing lease options as we've talked about, you know in weeks passed you're going to define what that looks like or what that needs to look like in order for a deal to be a good deal. So you define the buy box based on the strategy. If you're talking about buy and hold rental properties, properties that we're going to call passive income vehicles, then you know it needs to be defined as follows. Now I've defined that for myself as a, as a real estate investor and for our company. So we can pass that onto our investor clients as follows.

Marco: We call it a turnkey real estate investment. But for me, this is how it's defined. You start with the market. So it has to be in a good market a market that is stable, has a good foundation, has jobs, job growth ideally and has positive net migration. That's kind of the litmus test at the market level. Now you start looking at some markets and neighborhoods. You can classify neighborhoods from basically a through d and then you know if you want to call it an absolute failure. That's a war zone. You don't even talk about that, but you know, for me, I'd like to focus on what I'll call B, B plus and A minus neighborhoods. Why? Because you kind of have the best bang for the buck. You have stable neighborhoods that have above 50% owner occupied homes that provides stability and pride of ownership, so you have a better demographic typically, and you also have cash flow.

Marco: You have numbers that make sense in those markets or those neighborhoods depending on the market. When you go above that, the numbers don't make sense. If you go into premium neighborhoods like A grade neighborhoods, you're just not going to get the types of returns like the cash flow, the cap rate, the cash on cash returns. If you go below that, like if you could start going to C class neighborhoods, their sketchy neighborhoods, you're dealing with low income demographics, which is not, I'm not saying it's a good or a bad thing, it's just it is what it is. And for some people they just can't deal with transient tenants, problematic tenants, higher turnovers, people that tend to lose their jobs more often. You know, I'm just trying to paint not necessarily a rosy picture, but just kind of a spectrum. So those are neighborhoods. So we talked about the market, we've talked about the neighborhood.

Marco: Now you look at the property, is the property in good condition, are there deferred maintenance items on that property? Or is it in like new condition where there is no deferred maintenance, there are no capital expenses. That's how I'm going to define a turnkey rental property. So now that you've looked at the property, and I'm doing this at a 30,000 foot level, now you can look at the numbers. I mean you could look at the numbers first, but you cannot be myopic and ignore those other factors those are critically important. So now you start looking at things like your cap rate, your capitalization rate, your cash on cash return, which is really what you're going to get as far as immediate return on your investment. You start looking or projecting out what the potential overall return is based on factors of what you predict to be the ongoing appreciation rate for that market was considered normal for that market.

Marco: And of course last but not least is the team. You know the team you surround yourself with, you know where you're getting the acquisitions from, the property management, the title company, the inspectors, the lenders and all that good stuff. So that's the stuff that's in my buy box. And you know I'm going to look for properties that are going to be in the %6 to 8% cap rate range ideally, but I don't really choose property based on cap rates because I want to be more holistic and I want to look at cash on cash, total return on investment, cash flow in terms of dollars. And last but not least, what I'll call a rent to value ratio, which is essentially what does it rent for per month versus the purchase price or acquisition price. I've thrown a lot at you Joe. It's a big question and it's not a simple answer.

Joe: Of course. Oh I was just going to ask something about the cash on cash return, but there was something else.

Marco: Cap rate.

Joe: No I forget, but let's, let's talk about that because I see a lot of guys advertising turnkey rentals with all kinds of different numbers. There's not like an industry standard I wish there was. Like how do you report or advertise your cash on cash returns? Sometimes it includes vacancies, sometimes it doesn't. Sometimes it includes property management. Sometimes it doesn't. Sometimes it doesn't even include maintenance and repairs or future capital expenditures and things. Because you're going to have to replace the water heater someday. So how do you, when you're giving an investor a property that they, for them to consider, can you just run through maybe a list of like property management, vacancies, insurance, taxes, those kinds of things that you are wanting to show them? Because as a wholesaler, when I'm selling a property to a landlord or turnkey company, I always try to under promise over deliver. So if the rents are like $800 to $900 a month, I'm going to tell them in my advertising it rents for $800 so like what's your philosophy when you are putting running the numbers on a, on a house like that? Do you use things like vacancies and maintenance and repairs and future capital expenditures that you're going to need to put into the house? Does that make sense?

Marco: Yeah. Joe, that's a great, great question. I'm glad you asked that because it's important for everybody to know this because a lot of people fall into a trap where they juice the numbers by reducing or eliminating what they factor in for vacancy and what they put in for maintenance and repairs. And that's a huge mistake because you may have a completely turnkey property or even a brand new, new construction home that you buy as a rental and you know what, you're not going to expect capital expenses or maintenance and repairs anytime soon, but it's a mistake not to budget for those because things happen and you don't know when they're going to happen when you're going have, you know, a repair item come up or something happens because you know the tenant created some damage. It may or may not have been their fault. Things just happen.

Marco: So the right way to do it is to budget for vacancy and every investor has an opinion on this. So I really can't say there's a right or wrong way to do this. We like to use 5% as the vacancy factor. You could use anything from 3% to 8%. A lot of that is based on the neighborhood you're in. If you're in a very stable neighborhood, kind of a better quality neighborhood, what I'll call an A minus an A. What we typically see anecdotally is that tenants in those neighborhoods tend to stay two to five years. Why? Because they have families, they're rooted into the neighborhood and their kids go to the school in the area so they don't want to be moving, but you know, you deal with couples or single tenants or people that are in, you know like these lower class neighborhoods like C, C minus, they tend to be more transient so you have to factor in larger amounts for your vacancy allowance.

Marco: Long story short, I like to use 5% on the expense side of the equation. When you're talking about maintenance and repairs, again, I like to use 5% that's what we plug in on our website is just kind of the defector global variable, but you can change that. You could turn it to 8% or 4% whatever you want to use, but you have to include that as well. So this is a really good question, Joe. You have to look at, you have to look at your investment as an investment and realize that things are going to happen. You're going to have repairs, you're going to need maintenance and upkeep, you're going to have capital expenditures. So I'm not sure if I'm answering your entire question.

Joe: Related to that though is you have maintenance that you're going to set aside for this current year. What do you do you recommend setting aside for future years maintenance? Where something's going, like a roof's going to have to be replaced or water is going to have to be replaced. It's not your normal, hey, you have to fix this leaky toilet.

Marco: Yeah, so in the beginning it depends on where the investor is in their, you know, their journey of investing. But in the beginning we like to recommend that they put aside two to three months of gross rent. So if the property rents for $1,000 a month, put aside $2,000to $3,000 right from the get go into a reserve account or an operating account that you just don't touch. It's there for when you have that water tank, water heater break or you need to do a roof repair or something comes up. Now you're going to clearly add to that from the maintenance or repair 5% or 8% or 6% budget that you have on an annual basis. So you will grow that reserve account.

Marco: As you grow your portfolio, you can scale those numbers back because the likelihood of you having a roof repair or a water heater repair come up at the same time, across multiple properties is highly unlikely. But you're going to build your operating capital and you're going to build your reserves. So that way when these things do come up, you're not going to stress and you're not going to lose sleep. It's already in your LLC operating account. You just, you know, deal with it, pay for it, get three bids, go with the best deal and get it fixed and move on. So it's inevitable that it'll happen it's just you have to plan for it and you have to budget for it and that's how I think how you do it. So people have different philosophies on that, but that's the system I like to use.

Joe: Okay. I remember what I was going to ask you. What are some of the markets that you like to invest in? By the way, in case you all didn't know, Marco is in Orange County, California right now, which looking at those clouds in the background. I'm shocked that it looks like you're going to be getting some rain.

Marco: It's raining cats and dogs outside right now.

Joe: Which is good, it's kind of rare.

Marco: Yeah. We've been in a lot of rain this year. It's been a lot. There's been a lot of floods and stuff, so it's not as sunny as it normally is, but it's okay we need the rain.

Joe: I'm assuming you don't look for cash flowing rentals in Orange County right? Where do you go?

Marco: We have a lot of clients that come out of the expensive markets, the coastal markets, what I lovingly call the bubble markets. You know, these are very expensive markets. So when you're talking about single-family homes that are $500,000 to a million dollars, but they only rent for about 0.5% of that purchase price on a monthly basis, the numbers don't make sense. You know that million dollar properties should be rented for $10,000 a month, but it doesn't work that way here. If you get to pick up a rental, it's $4,000 to $5,000 a month. That's not going to work. Besides that, there's a lot of downside risk investing in a market like this because the land value is so high compared to the improvements that sit on it that this is why we have a cyclical market the land values fluctuate a lot.

Marco: You know, every time we go through a real estate cycle or through a recession, it makes more sense to invest in markets like the Midwest, the South, the Southeast pockets of the Northeast. I mean you know this Joe. These are markets where you know it's Middle America, it's bread and butter communities. You have a good working class demographic. The numbers make sense. You can get a hundred or $150,000 home. That rents were about 1% of that, you know, a $1,000 month to $1,500 a month. That's where it makes sense. Now, the challenge we're having nationwide is we're having an inventory challenge. You know, inventory is tight, very tight in some markets and it's hard to find good deals, whether it's a lease auction deal, a wholesale deal, you know, a rent ready property or what I like, you know, going to the extreme as a turnkey rental.

Marco: The problem is, is that they're hard to find. So what's the solution? In an ideal world, I'd like to only be in six markets, three that are optimized for cash flow and three markets that have growth potential, what I'll call more of a growth market or you know, a cyclical type of market. But the reality is we have to expand and go wide into 22 different markets right now because we can't get the depth of the inventory in each of these markets in order to have enough inventory for our clients to pick and choose from. So it's more markets than I want to be in, but this is a nationwide problem. So we have to be, you know, we had to go wide and be in 22 different markets.

Joe: If you don't mind me asking, what are some of those markets?

Marco: Yeah, so it goes as far south as Cape Coral, Florida. Basically the Lehigh Acres area of Southwest Florida, as far north as Cincinnati and Cleveland. Chicago is a big market for us. Indianapolis, Memphis, Jacksonville, Florida, Dallas and Houston. Houston, particularly, Oklahoma City from time to time, three markets within Alabama, Birmingham, Montgomery, Huntsville. Now all these markets have, you know, pros and cons, if you will, and not so much the cons, but different strengths. Some of them are more cyclical, have stronger appreciation potential. Some of them are better in terms of your initial numbers upfront, like the cap rate, the cash flow, and the cash on cash return. So if you want, you know, a boring market, slow and steady Memphis might be the right market for you because it's a perennial market. There seems to always be inventory there from wholesale to turn key. The numbers make sense.

Marco: A lot of the areas in the Memphis market don't tend to lend itself that much towards appreciation. Some of the better areas like Cordoba and what not certainly do. But again, you know, this, this goes back to that funnel approach I was talking about before who are you as an investor identify the markets. That makes sense then look at the neighborhoods and drill down to the properties.

Joe: Good. Okay. So in a market like Oklahoma City, I think you said, right, you're looking for the B neighborhoods. What price range would a typical house that you're looking for in Oklahoma City be?

Marco: I haven't looked at Oklahoma City for a little while here. As I recall inventory, there was somewhere in the $100,000 to $120,000 price range and I've seen inventory come out of there at 80,000 and we see new construction come out of there. You know, around the $130,000 $140,000 price point. As I recall, $120,000 it was probably the sweet spot that we had out of Oklahoma City and they rent for about 1% 1% of that price per month so it's $1,200 per month rental.

Joe: That's solid, that's solid. And when you're using leverage, obviously that helps your cash flow number. What's your philosophy on debt and mortgage? Should you get a 15 year loan? Try to pay it off as quick as possible. Try to be debt free as quick as possible, or really use leverage to buy as many houses as you can and pay them slowly over time. What's your philosophy on that?

Marco: So first of all, for those people out there who are Suzy Orman and Dave Ramsey lovers, nothing against them. I know enough about Dave Ramsey. In fact, I have friends who are friends of Dave Ramsey. The reality is this, there is good and there's bad debt regardless of what anybody tells you.

Marco: You know, the bad dad is obvious. It's, you know, it's when you charge your credit cards or pull money out of your home like an ATM and go on a vacation, buy a car or anything that's depreciating or anything that rusts, but you know good that it's something that actually helps make you money and create wealth for you. So mortgage financing is the best thing out there. It's cheap financing it's artificially cheap because in a true free economy, in a free market that that debt financing those mortgages would be a lot more than what we're paying today in the five, you know, 5% to 6% range. Personally, I like the 30 year fixed rate mortgage. I think it's the best deal out there when you can control virtually an endless amount of real estate and put as little as 20% down on it and have 100% of the benefit because the lender's giving you the other 80% so you're leveraging your investment capital five to one.

Marco: Why wouldn't you get as much of that debt as possible and build a large enough portfolio for you and your family to create the type of passive income that you want and need and create wealth short term and long term. Why wouldn't you get as much of it as you can? So my personal philosophy is I love the 30 year fixed rate mortgages. It's still historically speaking, super cheap money. You can use that to control a large portfolio of real estate, which is a hard asset, which is hedged against inflation and gives you the best tax benefits out of any asset class out there. You just need to stock up on it.

Joe: I interviewed somebody you would know. His philosophy is refi till you die. Does that sound familiar?

Marco: Sounds very familiar.

Joe: What is your thought on that?

Marco: It's a good strategy. There's nothing wrong with it. It just depends on you as the investor and what your comfort level is and where you want to draw the line because both strategies work. You can build a portfolio as fast as you can and leverage it all and then accelerate the payments and start knocking them down one at a time until you have a free and clear portfolio where now there's no debt service it's all cash flow. That's fine if that's 20 properties or 50 units, whatever it is, if that makes sense for you and that gives you the passive income you want need and you're happy with that and now you've got a free and clear portfolio that you can live off of benefit from pass onto your heirs, you know that generational wealth, great.

Marco: The flip side of that is what you're just talking about. If you're refinancing these properties to continually strip equity out and build the portfolio to acquire more property faster, that's the idea there is you can accelerate the speed at which you acquire these properties if you have the equity build up as the years go by in order to be able to do that, then you just get to where you want to get to quicker in terms of the size of the portfolio and the number of units, but of course the only way for that to work is when you do refinance and pull money out, which is great. You can do it tax free. That property still needs to be cash flow positive. You cannot put yourself into a hole so it doesn't work all the time. Like if you're not in an appreciating market, that's going to be very difficult to do. It's only when you have inventory or properties in an appreciating market where you have enough equity in time to be able to refinance or strip out that equity in order to build a portfolio. I don't know. Does that makes sense? I don't know if I'm saying...

Joe: Yeah. You know, you got to be, you got to be super careful. I think, you know, you can get a spreadsheet to tell you anything you want and I can understand how it's hard to argue against the refi till you die. Because when you look at it on a spreadsheet, it does make sense. You make at the end of 20, 30 years you're making more money. But I just get nervous, you know, just like get as much debt as you can makes me nervous person. That's my own comfort level. But you know, I'm thinking about like the market goes through cycles. Maybe we're cutting into one, I don't know it doesn't matter. How can a smart investor avoid getting into trouble the next time the market does dip prices go down? How can an investor protect themselves when they're trying to build passive income portfolio? Makes sense?

Marco: But that's a great question. The answer to that question is actually within the question itself and here's what I mean. If you look back at why people got in trouble in 2006 and 2007 is they weren't actually investing, they were speculating. They were buying property in the hopes of the property values or price continuing to go up and they didn't care if they were upside down on that property or not. More specifically, they didn't care if they had a negative cash flow. They were willing to put in the, you know, the $100, $200, $300 a month or $400 a month extra to float the property. And what they were hoping to do is hold those properties for one to three years and then sell some or all of them and pull that equity out and then go off and do whatever they wanted to do with it.

Marco: That's all well and fine, but that assumes one the markets will continue to appreciate and two there's an end buyer that you're not the last person standing in a game of musical chairs. So the important thing there is in order to prevent making that mistake, it's my third rule of my 10 rules. Never speculate, don't chase after appreciation because you're really just gambling. Here's how you protect yourself and this is the answer to your question. If you buy smart and buy right in the beginning and make investment decisions that are prudent and you're cash flow positive from the beginning, it doesn't matter if that acquisition that you bought at $100,000 goes off to $120,000 or goes down to 80,000 your mortgage, your service as fixed. If you're getting 30 year fixed rate mortgages, so your debt service is fixed, your cash flow might fluctuate a little bit.

Marco: It doesn't fluctuate all that much. In fact, in some cases when you're in a down cycle, in a real estate cycle, rents tend to go up. And that's because a lot of people can't afford housing and increases the demand for rental housing, enlarges that rental pool, that pool of people. And so that demand keeps the rent, the rent rates up, you know, it holds it there or pushes it up further. So even if you're a property value comes down for two to four years during the down cycle, guess what? You still have positive cash flow. And this is why I call cash flow the glue that holds your real estate deal together. Because if you've got that deal held together because of the cash flow from the tenants, you're going to weather through every storm. And that's the simple answer is just buy right from the beginning and have positive cash flow and good times and bad.

Joe: Maybe this question relates to what I just asked. As a wholesaler when I'm doing marketing, my favorite segment of sellers to send my marketing too are tired landlords, absentee owners, right? As a group of homeowners, they are the most likely by far to be motivated to sell and willing to discount their price at a good discount, right? Like I remember when Chris Chico came out with a course called Absentee Profits, I think Absentee Owner Profits. And this was way back in 2007. It was kind of, not too many people knew about this, right? I mean there were these little tricks that you can go and get lists of landlords where you could send postcards to, right. And it worked crazy well back then it's more competitive now. But I guess my question is this, how can a landlord avoid getting into that motivated landlord trap of like, I got to get rid of this stupid rental property because we talked to them all the time as wholesalers. You know what I'm saying?

Marco: I've always wondered why landlords end up selling their properties at a deep discount. I think it comes down, you probably know more about this than I do Joe. But here's my feeling about it. One is they just simply got tired and they just don't want to deal with it anymore. And the mistake there is, I think they were self managing from a long distance and they should have actually been using professional property management right from the beginning so things would have stayed intact right from the get go.

Marco: Number two is they make the mistake of letting repairs and maintenance go and so now they've got these repairs and maintenance stacking upon each other. One thing after another, they come to realize that it's going to take thousands of dollars or tens of thousands of dollars to make that property sellable and like new in order to be able to get fair market value for it. So they don't want to put the money in, they don't have the, and so now they've got issues with tenants because now the tenants don't want to pay rent because there's all these different maintenance items, you know, they basically dug themselves into a hole. That's probably the, in my opinion, the biggest reason. But again, I'm not a hundred percent sure about that. You know, you might know more about it.

Joe: The main problem is the properties are not managed.

Marco: That's a big one too.

Joe: Passive doesn't mean, and I think you would agree with those. Passive doesn't mean like zero involvement, right? Passive means like, well I like to, I like to look at it as it's still kind of like you still need to be involved, right? You still need to stay on top of the property manager and if you can't manage the properties yourself, you better make darn sure you get a really good property manager and that can manage the property, sometimes you also need to manage the managers. So having the right expectations. I think upfront it goes a long way, right?

Marco: Absolutely. And I think you hit probably the biggest one and that is a poor management. I mean this is true in apartment complexes. A lot of times the best deals in an apartment complex comes about because of poor management. They're not keeping the property up to date in good condition. They're not leasing it to the right people and they're not asking enough rent. So, you know, you end up finding a distress situation and then you pick up a good deal. So you're right. Management is a big one.

Joe: Let's talk real quick about, cause we're running out of time. As a wholesaler, somebody who wants to sell you, Marco a deal, so you can either keep it for yourself as your own property or sell it as a turnkey to an investor. What are some of the things you're looking for from an investor who's finding the deals? You know, the wholesaler that's out there knocking on doors, doing cold calls, finding the deals and the hustling. Could you speak to that wholesaler and like, hey, this is what we're looking for. This is what we'd like to see. Stop sending us this stuff. Stop saying this. That's not true. Like this is what we'd like to see. Does that make sense?

Marco: Yeah. Well the numbers are always important because you need to have enough meat on the bone, right? For the next guy and make sure that you're buying at the right price. So after you put it in the capitol to repair the property and bring it up to like new condition that it's priced accordingly. So if you're flipping it, you know, obviously you want fair market value, but if you're pricing it with a bit of a discount and it's got to be attractive to a real estate investor, but there's two things you want to look at right from the beginning. So begin with the end in mind as they say. You know, first of all, when you have that property fixed up and you're looking at the after repair value, you have to look at the after repair value and you have to look at what fair market rent is for that same property.

Marco: And if those numbers work, you know, it's like that 1% rule as close to that and you know, everything else works off of those numbers, then you've got the right deal from a financial perspective. The other thing too is the neighborhood. You know, we've talked about this before, but you have to make sure that the property's in a good neighborhood. If you're finding a wholesale deal where the numbers will make sense, whether was a rental or is a flip in a C class neighborhood, but that's not who you're selling it to ultimately, then that's a mistake. Don't start in a C class neighborhood. Focus on those B, B plus A minus neighborhoods. That's where I like to focus on. That's what we like to sell. So start there, you know, begin with the end in mind.

Joe: Okay, good. Just some advice to you all out there, start talking to landlords like Marco, what are you looking for? What do you like to see? What price range are you at? It's much easier as a wholesaler, to shop for what your buyers want and to try to sell them what you have. Does that make sense? So if you're out there just trying to find whatever you can and then sell it to guys like Marco, you're going to have a real hard time. But when you find out what Marco wants, then you go out there and get it for him you can make, it's a lot easier. You can make a lot more money doing that. I just thought of another question Marco. What are some of the lending requirements that banks have right now for landlords and what are the limits for like the number of houses you can typically get once you reach that limit? What are some strategies you can do to, you know, bundle them and maybe get some more loans?

Marco: Right, so okay, so that's a good question. So conventional financing is where investors start. If they could qualify for conventional financing, it's essentially the cheapest financing you can get that's the best thing going. 20% down after four to six it's 25% down and then you basically borrow the rest. There is some variation between mortgage brokers and lenders that you work with, with something called overlays. But essentially you want good credit, so 680 and above. A lot of the lenders, a lot of the borrowers today typically have over 700, 720 seems to be that sweet spot. But if you're in the upper 600 range, odds are pretty high that you can get qualified. Of course you need to show income, particularly for the last two years. We still are not in an environment where there are a lot of stated income loans or you know, the no doc type of loans that we saw 10 years ago, 15 years ago.

Marco: But conventional financing is where you start. You typically cap out at about 10 if you're married and you qualify separately, you can theoretically double that to 20 conventional loans and that's what we advise our investors to do, our clients is split, you know, if you could qualify separately, split it up. So you have 20 conventional loans. Beyond that, theoretically you can have an unlimited number of loans that come from portfolio lenders that we work with. So these are basically non-conventional loans. The rates are going to be a little higher, but you can still get 30 year fixed rate mortgages. The numbers still make sense. The down payment might be a little higher, 5%, maybe 10% more. That's okay because the rate is a little higher. Your down payments a little higher. The number's at the end in terms of, you know what your monthly debt services kind of kind of comes out in the wash. So theoretically you can purchase this, you know, an unlimited number of properties as long as you've got the investment capital for it. Does that answer your question?

Joe: Yeah, very good. And you have those lenders is what you're saying. You'll work with those guys, nice?

Marco: Yup. Every day.

Joe: Okay. Well it'd be a good place to go, Marco for someone wants to find out about you? But also like let's say there's somebody out there who doesn't have a rental property yet and is really wanting to do that they just don't know where to start. Do you have some books that you might recommend or resources online that people can go to if they want more information?

Marco: Yeah, actually I created years ago a great primer called The Ultimate Guide To Passive Real Estate Investing. It's a 47 page mini book, if you will it covers really hardcore. Here are the nuts and bolts, exactly what to do and what to look for. And I mean it's the best primer I've seen. So it's a free download and it's on both of our websites. So your first question, where to find me or us, the two websites that we have are really the best place because that's where we have all the free information and contact info, PassiveRealEstateInvesting.com appropriately named. And then our what you would call, you know, the core website is NoradaRealEstate.com N O R A D A, NoradaRealEstate.com and those two websites linked to each other. So if you're at one you can go to the other. So it's pretty easy.

Joe: Nice, very good. And your podcast, when do you, how often do you do episodes?

Marco: We do a weekly episode, so one per week. And every once in a while we'll throw in a second bonus episode in there just kind of like an ask Marco people send me questions all the time. So I answer them somewhere along the way.

Joe: What are some common topics and things that you talk about on the podcast?

Marco: Yeah, everything from asset protection to financing, to property management to how to pick a market. We do market spotlights where we, you know, go deep on a particular market, whether it's, you know, Kansas City or Houston, you know, the what, the why, the where, you know, what's going on, what are the drivers. We talk about, you know, the infinite banking concept, we talk about even some stuff on personal development. Like, you know, I had Dean Graziosi on not too long ago and we were talking about, you know, millionaire habits, you know, habits that millionaires and billionaires have. You know, Brendon Burchard was on not too long ago and we were talking about, again, you know, habits. But you know, Brendon likes to talk about high performance habits and this is just all stuff to help you grow as a person, not just as, as an investor, but just as a person and just be more of the person you could become, right.

Joe: Nice. I appreciate it. Marco has his podcast is a very good podcast. Marco was gracious enough to have me on along with Yosi and Brendon Burchard.

Marco: You don't know this, but I actually had you on twice because I, we recorded for so long we went over an hour I just decided to split it into two. You're double dipping my friend.

Joe: That's nice. So I have probably one more podcast than Dean Grasiozi or Brendon Burchard do.

Marco: There you go.

Joe: Okay. It's fun. It's a good podcast guys. Go listen to it and leave Marco a review. Go to ITunes, give him a five star if you like it obviously, but leave him a review. Let him know what you like about the show and it's a good podcast and I highly recommend it and he's a good guy. There's a lot of good real estate investing podcast out there and Marco's is one of the best, so, hey, thanks again Marco. I appreciate it guys. If you want, if you want to get in touch with Marco, go to PassiveRealEstateInvesting.com. I look up his podcast and listen to it. And if you want the show notes and the links that he gave here, and if you want the transcript of this podcast, go to RealEstateInvestingMastery.com, RealEstateInvestingMastery.com. Thanks a lot, Marco appreciate it. Have a good one.

Marco: Thanks for everything, Joe. Appreciate it.

Joe: Thank you. See you guys. Bye. Bye.