Flipping Houses with J Scott

Hosted by*:* Joe McCall
Guest: J Scott

Joe: Hey, welcome, everybody. This is the Real Estate Investing Mastery podcast and I'm excited about this one because we've got a great guest. His name is J Scott and you all probably know him. You probably seen him around. He's been all over Bigger Pockets for a long time and he's got some really good books. So, this is an old Version One, The Book on Flipping Houses. When I saw this thing I thought, Holy cow, how did he write this?

Joe: So J Scott is a beast in the business, been around doing a long time and so we're going to be interviewing him and asking him some questions about how he flips houses, how he negotiates, how he estimates repairs, and how on earth he writes these awesome books because it's beyond, it's crazy. Like I, I've tried to write books and it's extremely hard. But speaking of books, this podcast is brought to you by my new book, REI Secrets, and it's not as fancy and technical and I don't sound as smart as J Scott does in his books, but this REI Secrets, you can read it...

Joe: Every chapter is like two or three pages long and I just did it kind of like a daily devotional, but it's not a devotional that sounds too weird, but it's like a book on how to just get some daily nuggets of real estate investing wisdom to help you get more leads and close more deals. And you can get this book for free. Just pay a little bit of shipping and handling reisecrets.com... Reisecrets.Com. The feedback I've been getting is really amazing.

Joe: And the other cool thing is that, I'm starting to try, I want to get some pictures of people holding my book on the social medias and stuff. So, if you take a picture of you holding the book or do a little video with a little testimonial of, you know, read a little bit of it at least, right? But like say, Hey, this is decent book. If you send me a testimonial with a picture of you holding the book and the video and all that, I will refund you the shipping. I think it's $7.95 or something like that. I'll go ahead and refund that to you and appreciate that. And just when you do that, send an email to joe@joemccall.com. Okay. joe@joemccall.com or support@joemccall.com or whatever. Reisecrets.com and there's the fancy domain right there. So, check that out.

Joe: Okay, so cool. This is a, we're broadcasting this live right now to Facebook and YouTube and Periscope even, and if you are watching this live right now with us, please comment down below the video and whether you're in Facebook or YouTube and if you've got any questions for J, this is the place to ask them because when you type in the comments down below, we'll be able to see the comments as you type them in.

Joe: Like Jonathan says here, Hey, Hey friends, what's up? Jonathan Dunn, thank you very much. And Carlos. Hey Joe, how you doing, Carlos? Glad you guys are here. So, take a minute right now guys. Give us a thumbs up. Subscribe to the YouTube channel or comment the video in Facebook. Like the video and tell us where you're from. Just say hello. Tell us where you're from. And as we start going through this podcast, you can ask questions for J Scott, and if you're listening to this later, if you listen to the audio of this, most of you guys are listening on iTunes podcast or whatnot. Leave a review, leave a review in iTunes. If you like the show, let us know that you like it and we'd love to hear from you. I appreciate the reviews very much.

Joe: There we go. Here's the Facebook comment right here. Morning Joe, what's up, Tom? How are you? Cool. Oh, we got some more. Look at this, Rodney, do you know Rodney, by the way, Jay?

J Scott: I don't, but Rodney, nice to virtually meet you.

Joe: He says, looking forward to what is probably going to be an awesome content podcast with you and J. Awesome. Carlos is from Kansas City, love Kansas City. Jonathan's from Orman Beach, Florida. And Scott says, good morning gentlemen. So yes, see, we love the comments here guys. Keep them coming in. Let us know where you're from. Say hello and if you've got real good questions for us, we'd love to chat with you as well.

Joe: So, J, yeah, sorry. Sorry for the long drawn out introduction.

J Scott: That's okay. That's great.

Joe: This is not a formal fancy podcast. This is pretty laid back, but I'm glad you're here. How are you, man?

J Scott: I'm doing well. How are you doing today, Joe?

Joe: Really, really good. I've been following you a long time, man. Ever since you've been involved with Bigger Pockets for how many years? Like when it started? Almost, maybe?

J Scott: So, it's funny because a lot of people think that I was one of those people that kind of started Bigger Pockets. I was a real estate investor or I was somehow involved in Bigger Pockets and, and, and was there from the beginning. It's not true. I actually joined Bigger Pockets in 2008 before I had ever purchased a property. So, I thought I found Bigger Pockets because I was looking to learn how to, at the time I was actually looking to learn about multifamily and syndications and this was... This was 2008. And ultimately, I decided that syndications probably weren't the best vehicle of choice back then. There wasn't a whole lot of transaction volume for, for big multifamily deals back in 2008.

J Scott: So, I was on Bigger Pockets and, and I decided to kind of make a transition to doing multifamily to just kind of start with flipping. And so, I was on there and I basically started with, Hey, how do you flip a house? And so, I got my education by the same way a lot of people do, jumped on Bigger Pockets and start asking questions and networking and from Bigger Pockets started meeting other investors in the space, both locally, nationally, and, and yeah. So, I, I kind of started the same way everybody else did.

Joe: Are you still actively involved in the group?

J Scott: Yeah, I am. Absolutely. I've written four books for them working on my fifth. So, my wife and I are cohosts of the Bigger Pockets business podcast, right? Anybody that's familiar with like the Bigger Pockets, they'd probably think of the real estate podcast, but they actually have three podcasts now. So, there's a money podcast and earlier this year we kind of launched the business podcast, talks more about the business and, and the entrepreneur side of both investing and running other types of businesses because a lot of real estate investors are also entrepreneurs.

Joe: Good for you. Congratulations. That's, it's a great group of folks over there at Bigger Pockets. I'm not on there as much as I would like, but it's all right. It's, I recommend people all the time, at least a couple, three times a week, I'm recommending people to go to Bigger Pockets to find local resources. You know, like if you want to find a title company that can help you with your wholesaling so you make sure you're doing it right or an attorney or a broker or somebody that's if a great place to advertise your deals. Like you should be a member at Bigger Pockets and you should also be a pro member I think is what is it still called a pro member?

J Scott: It's still called the pro member. I'm sure they're going to appreciate you putting it out there.

Joe: It's a no brainer. Come on. You kidding me? Like seriously the just even getting the better signature that you can have right with your website and name of your company and contact information or what. So Bigger Pockets is a great forum; it's a great place to go and get questions answered to find other people in your market or if you're doing deals virtually, we talk about that a lot, J, in our podcast and doing deals virtually in other markets. How would you go, how do you go find an attorney in another area or broker or a property manager or a wholesaler if you're buying deals?

Joe: Well, you can just go to that search bar in Bigger Pockets, type in Des Moines, whatever it is, right? And you get all of the forum threads, the, the questions where people asked about Des Moines and you get the companies that are based in Des Moines and you get to see, you know, who's doing deals there. And that's, that's the great thing about it. It's a great resource for everybody. And I've even had a, I've had Brandon on the show before. I've not had Josh yet, but yeah. Cool. So, J, how you got onto the bigger pockets in 2008... What was your journey into doing deals after that?

J Scott: Yeah, so my wife and I, we were in the corporate world up until 2008. And so, we're both business people. We were both in the tech field, we were in Silicon Valley, we left the tech world 2008 when we decided to get married and start a family and we were looking for a lifestyle business. We were looking for something that would allow us, kind of put our family first. We were planning to have kids, get married and we just kind of wanted to have something that would allow us to keep generating income. But not necessarily... We weren't looking to be billionaires; we weren't looking to grow a huge business. We just wanted to have some income coming in while we focused on growing our family. So, 2008 and we were trying to figure out what that next thing was going to be, what that lifestyle business was going to be.

J Scott: And like I said, we kind of, somebody mentioned real estate. I had never owned real estate before. We had just bought our first personal residence a few years earlier, a few months earlier, excuse me. And somehow, we got into this idea of buying real estate. And so, I'm looking at multifamily, decided multi-family is probably not the, to go back in 2008 there just wasn't a whole lot of transactions being done. And one day my wife was sitting on the couch and she said she was watching HGTV and there was a flip show on. She said, let's flip a house. I was like, ah, okay. That sounds like hard work. That sounds like something I'm not sure I can do. But she said, yeah, let's, let's give this a try.

J Scott: And so August 2008 after a couple of months of study, we bought our first flip. And luckily, we bought our first three houses within the first two weeks we found three houses at the same time. We looked at like a hundred houses, couldn't find anything. We like finally my wife said we're just going to buy the next thing we see cause...

Joe: What market were you in?

J Scott: We were in Atlanta.

Joe: Atlanta. And you're buying these from the MLS?

J Scott: We were buying, yeah. So, Atlanta had gotten crushed during the downturn and basically, I mean there were great deals on the MLS, could literally just throw a dart and whatever it hit was probably a good deal on the MLS in terms of on the purchase side. And so, we found three houses all at once, which was good because had we bought just one, the first one didn't go so well. We probably never would have bought that second.

Joe: Wow. So, your goal was to fix and flip it?

J Scott: Our, our goal was to buy it, to fix it up, and to sell it to a retail buyer. So yeah, we bought that first one in August. We fixed it up. It took longer than we expected. It costs more than we had expected. We went to resell it, we couldn't resell it, so it sat on the market longer than we expected. Ultimately, we ended up doing a lease option and held that property for about two and a half years before we did a second rehab because the tenants destroyed the property. They never ended up closing on it.

J Scott: So, we did a second rehab. At that point we had done about 50 or 60 other flips, so we knew what we're doing at that point. And about three years after we bought our first property, we sold that property.

Joe: Oh wow. For a profit?

J Scott: We made I think around $1,600 so it was great. I mean, we made every mistake in the book. We, we paid too much. Our renovations ran over budget. Our holding time was, well obviously a couple of years longer than we expected, but just the renovation timeline was a lot longer than expected. We sold it for less than we expected to sell it for, but because we were ultra conservative when we purchased it, we still made a small profit. And that's kind of been our, our kind of our mo. The entire time is that we're ultra conservative and we probably pass up on a lot of deals that would've made us money over the years. But I like sleeping well at night and so I, I'd rather be conservative and pass up the, the thin deals or the risky deals and, and just go over those, go for those deals that we think make sense.

Joe: So, this was 2008, right? And I remember 2008, 2009 the market was, people were getting skittish. They were scared that people were, were saying that real estate is a bad investment and there's no way to make money in real estate. It was hard to sell houses to retail buyers because it was hard to get financing. And all that. So how did you do it? What was the success secret for you during that time?

J Scott: Well, I think for us stupidity was, was the big driver...

Joe: You didn't know any better.

J Scott: Yeah. We didn't know any better. And there were a lot of people who were saying, Hey, you can't flip a house in this market. And we were too naive to, to either listen to them or to, to understand why they were saying that. And so, we kind of powered forward full steam ahead. And what it turns out with 12 years of hindsight what I've learned is there's never a perfect market to be flipping houses.

J Scott: In some markets it's going to be easy to buy, difficult to sell. In some markets it's going to be difficult to buy, easy to sell, and every market's going to have its challenge. Every part of the economic cycle is going to have its challenge. Every house is going to have this challenge. And if you can kind of focus on mitigating the risks around the piece, that's challenging. If you can focus on solving that by, by gaining expertise or partnering with the right people, you can solve those problems.

J Scott: And back in 2008, the difficulty was in reselling properties... 2008, 2009, 2010, and we mitigated that. We solved that by having my wife and my wife is a master negotiator. She's a master marketer, great at building relationships. She's a great interior designer. So, she was able to take these houses that look nice and basically find buyers even though there weren't too many out there.

Joe: Nice. Nice. And so, you were just doing fixing and flipping. Were you using bank financing at the time? Private money? What were you doing? How were you financing these deals?

J Scott: Yes, so, I like to say that, that we tried every form of financing around in our first six deals. So, the very first deal we paid cash and we tied up a lot of cash in the first deal. So, the second deal came around and we said, ah, let's try not to tie up cash. We actually got a conventional loan and we, we ran into challenges there. We learned with conventional loans that banks don't like to lend. If there's literally anything wrong with the property, if it's not move in ready. And on our first property, literally the day before closing, the bank sent an appraiser out and said, we can't fund this because the hot water heater doesn't work.

J Scott: Oh. And I said, well, it's a flip property... Sometimes things aren't perfect. And they said, well, hot water heater has to work. It has to be move in ready for us to come to, to fund this with conventional loan. So ultimately, we ended up fixing that before closing, which was probably not a smart thing to do, but we learned our lesson about conventional financing.

J Scott: On the third deal we used a small local bank portfolio lender and we've got a portfolio loan. On our fourth deal, we actually found a hard money lender and we did a hard money loan. On our fifth deal we went in with a partner, we had somebody who came to us and said, we have a property and will you partner with us? So, we, we did the work, they brought the money. And then on the sixth deal we found private money. Basically, we had a family member who said...

Joe: Everything was different. That's so cool.

J Scott: Yeah, everything was different and it was, that wasn't planned. It just so happened that every deal there was another opportunity for financing. And on that six deal that private money, it went so smoothly and we realized that private money is kind of, if you can get access to it, it's easy to close. You can get a hundred percent financing. If you talk to the right person, the rates are typically pretty reasonable because people are looking to, to put their money to work and, and they're not going to be, they're not looking for exorbitant returns. So, I learned on that sixth deal that private money was kind of the way to do it. And most of our deals since had been private money.

Joe: Which is another big reason for a community like Bigger Pockets. Right? I'm assuming, do you, do you find private lenders on places like Bigger Pockets?

J Scott: Yeah, absolutely. So, what I have found is the best way to find private lenders is to just put yourself out there, be successful, be transparent about your successes and your failures and be trustworthy and be honest. And if you do that, people come to you. And, and so what I've found is after a couple of years of kind of documenting my journey in, in flipping, after writing a couple of books, people felt comfortable coming to me and say, I have this money, can I, can I loan it to you? And so, the, the transparency and the honesty and the building relationships, if you can do that, the money will come to you.

Joe: Yeah. If you've got good deals, it's easy to find the money.

J Scott: And having good deals is obviously a big part of it as well.

Joe: You had a blog at one time, didn't you?

J Scott: I did. So, I kind of started in back in 2008 when I was starting in real estate. I said, I'm going to document this because...

Joe: I remember that; I remember that blog.

J Scott: Yeah. 123Flip. And I like teaching and I like the idea of holding myself accountable. So literally every day I would document my flips and I still have, if you go to 123flip.com you still have the, the chronicles of my first 50 flips in gory detail, like down to the penny, all the mistakes we made, all the successes, videos, pictures. And so, for anybody that's looking to get into flipping, if you go to 123flip.com you can see literally my first 50 flips in glory detail.

Joe: I remember when you came out with this site, when you were doing it in 2008 and 2009 and this was when blogs were a lot bigger than they are now, right? There was one, there was somebody published a, you know, top 10 best real estate investing blogs on the internet and yours was one of them. And I remember looking at that thinking, oh man, this is so cool. So, do you not update it much anymore?

J Scott: It's hard. So, just between all the things that we do and writing the books. Ultimately the, the reason that I originally wrote the book, the first books, was that I did the blog, I started getting attention, people started sending me lots of email and people were asking the same questions over and over and over and all the questions were answered kind of in the blog. I was writing articles and, but it wasn't well organized. And so, people would ask, well, how do I do this and how do I do that? And my wife actually said, well, instead of just getting all these millions of questions and having to write the same answer over and over, or send them a link to the right article over and over, why don't you just organize it nicely and put it in a book?

J Scott: And so, I originally wrote the book... I wasn't looking to make money off the book. I wasn't looking to sell a bunch of copies. It was basically just a way of keeping people from sending me lots of emails or asking me lots of questions.

Joe: Get the book! This was your first draft and you wrote this book here, 2013... Is that when the first publication date of this was?

J Scott: Yes. Released that book in 2013.

Joe: And by the way, how can people get your books now?

J Scott: So, Amazon sells all four of the books or you can go to the Bigger Pocket store, biggerpockets.com/store and...

Joe: What are the four books?

J Scott: It's The Book On Flipping Houses, which is all about flipping houses, basically 20 chapters, 20 steps.

Joe: Very, very thorough. Very thorough.

J Scott: I'm an engineer and...

Joe: I was going to ask you that. Yeah.

J Scott: Yeah. And as much as I would love to be a motivational writer and I would like to write in a nice narrative form, I write it...

Joe: That's probably why I like it so much.

J Scott: Yeah. So, I kind of laid that book out. There were lots of books out there that kind of talked about flipping houses, but it was more stories. It was more anecdotes and nothing wrong with that. It's great. It was very motivational, but I never saw anything that was kind of a step by step guide. So, I laid that book out in 20 chapters. Each chapter is the next step in the process of flipping your first house.

Joe: It's so funny. It could be a school textbook. What was your engineering degree in?

J Scott: Electrical engineering.

Joe: Okay. I was civil. The electrical engineers are always smarter than the civil guys. Whatever.

J Scott: I wasn't a good electrical engineer. I was electrical engineer. Not a good one.

Joe: Okay, but yeah. This could be like a textbook for a college class. This is how good of a book this is and you're not going to get the inspirational, feel-good goosebumps stories out of this. But you're going to be like, oh yeah, I forgot about that. This is really good idea. Yeah. That's how you do that. So very good. Good job on this. What are some of your other books?

J Scott: And funny story about that book. The first one star review I ever got on Amazon on that book, the comment was something along the lines of, there's too much information. I can't get through it. And I'm like, I'll take it if that is the worst thing somebody, if that's the worst thing somebody can write about the book, I will take it. At the time I was writing that book, there was a chapter like chapter 13 or 14 or 15, whatever chapter it was, that was how to estimate rehab costs. And so, I'm writing that chapter and I'm writing and I'm writing and I'm writing...

J Scott: By the time I'm done, that chapter's as big as a book and I'm like, this doesn't really make sense. I have a 600-page book here where 300 pages is one chapter. So, I actually broke out that chapter on estimating rehab costs and at the same time I released the book and flipping houses, I released a book called The Book on Estimating Rehab Costs.

Joe: Right. I have it somewhere here. So, what has the feedback been on that book?

J Scott: It's been fantastic. So basically, it’s, people don't buy the book thinking it's going to tell you exactly how much your rehab is going to cost. Basically, the purpose of the book is to lay out a methodology for you to figure out how much your rehab is going to cost. So, it talks about the 25 major rehab components and then all the sub components and sub tasks under those 25 components.

J Scott: So ultimately there's about 300 different rehab tasks. It talks about how you can inspect a house to determine which of those 300 tasks need to be taken care of and to what extent and then how you can go and create a scope of work based on your inspections. And then based on that scope of work, you can go and actually get contractor bids. So, it just lays out a nice organized methodology for anybody that's looking to learn how to estimate the cost of a renovation for a typical renovation.

Joe: So, what are your other two books?

J Scott: A third book is called The Book On Negotiating Real Estate. That was coauthored with Mark Ferguson, who is a friend of mine and real estate investor out in Colorado. And my wife was also coauthor of that book. She's the best negotiator I know. And it's basically a book all about how to negotiate for real estate investors.

J Scott: And then the fourth book is a book I put out earlier this year. I have an MBA and I'm an economics geek. And so, I put out a book called Recession Proof Real Estate Investing, which is basically first half of the book is all about how economic cycles work and the different pieces of the economic cycle. And then the second half of the book is examining each piece of the economic cycle and talking about what strategies and tactics, investing strategies and tactics will work in each piece of the cycle. So that as we move through the economic cycle, as the economy changes, we as real estate investors can figure out what's the best ways to be maximizing our profits, minimizing our risk.

Joe: Excellent. So, I'm looking here on the website. There it is Recession Proof Real Estate Investing. And I know you guys can't see me, but I'm just looking at it here. How to survive and thrive during any phase of the economic cycle, 1999. Very good. I've been thinking a lot about this and maybe this is something more we can talk about on this podcast. But before we go there, what are, what are you guys doing today? Like you, you flip 50 deals and you documented everything at your website. 123Flip.com. What'd you do after 50 deals?

J Scott: So, we did another 250 deals. So, we've flipped a lot of properties. We've, we've done a little bit of everything. So, around 2013, we moved into a development, new construction. It was just kind of a natural progression. It was harder to find good flip deals. So, we were doing larger PR, larger flips, doing additions, we were doing what are called pop tops, where you kind of add a second story. And we decided, well, why not go into doing some moremore new construction.

J Scott: So, we did a bunch of infill construction between 2013 and 2017 we bought a bunch of rentals. We've bought some multifamily, we've done some notes, are currently doing a little bit of syndication. So, we've really, we've done everything. My background is again, I'm a business guy. I'm, I'm an engineer but with a business degree and I kind of in the corporate world, I spent my career at Microsoft and, and I did kind of the, I did a little bit of the business stuff, a little bit of the engineering stuff, a little bit of the, the mergers and acquisition stuff.

J Scott: So, I really like to figure out how to take my business knowledge and apply that to my investing business to really scale and grow my investing business. And so, I'm, I'm lazy, I'm inherently lazy, so I like to try and figure out how, but I am what I found is, is the laziest people tend to make the best entrepreneurs because they're constantly looking for the shortcuts. They're constantly looking to figure out how to get the most bang for the least amount of effort. And so, I'm constantly asking, how can we scale our flipping business or our multifamily business or our business with the least amount of work? Whether that means delegating, whether that means systematizing, whether that means partnering, whatever it requires, basically to get the most bang for the least amount of effort. And that allows me to kind of scale my time and do different things.

J Scott: So, people always ask, what are you doing these days? And the answer is a million things and probably too many things. But I get bored easily. And so, we're, we're doing a whole lot of different stuff.

Joe: So, what does your team look like right now? Employees and all of that.

J Scott: I am very anti-employee. We do as much as we can. And so, I run businesses outside of real estate. We have a whole lot of employees, but in the real estate world I kind of try and rely on contractors as much as possible. We tend to have, we typically have a project manager in each market that we're in. And right now we're down to two markets. And so basically my project manager is kind of my mini me. So his job is essentially to be me. So, analyzing deals, putting together scopes of work, hiring contractors, managing contractors, dealing with rehab issues, basically all the things that the investor typically does.

J Scott: I like to have somebody that goes out in the field and can do that for me so I can focus more on the not doing that. I don't like to be out in the field. So, from an employee standpoint, we typically have one or two or three project managers depending on what markets we're in. And a personal assistant. Everybody else in our business is contractor.

Joe: Okay. Very good. And how many... Like your business today then, what does it look like? How many do you have rehabs going on right now? Are you still in acquisition mode trying to buy deals?

Joe: So, these days we mostly partner and we look to other people to do the work. We're mostly the money people. And so, we're doing a bunch of flips in... I don't want to say what town because it's a small town in Georgia where we found a really good niche and typically, I'm not protective of any information in my business... But I do have a partner and it's a small town and we found a good niche. I'm not going to say what town that is, but we're doing a whole bunch of rehabs in a small town in Georgia. And then we're doing a bunch of rehabs down in the West coast of Florida near where I live.

Joe: I love small towns. Probably in the last one or two years, a couple of years we've been really focusing on, we do a lot of wholesaling. But the small towns, I'm telling you, you have less competition and there's still a lack of inventory. There's still a high demand for people that want to live in those small towns. And so, you can still, you can buy properties at a deeper discount and you can still sell them fast even if you're a wholesaler. Have you found this to be true? Like even if you're wholesaling, there are people out there, there's, there's a lot of mattress money in these small towns, right? Absolutely. A lot of people that want to live there, a lot of investors that are buying houses to rehab there, so good for you. Yeah, I like small towns.

J Scott: I love small towns. And you mentioned wholesaling. So, for many, many years we never wholesaled a property; like we would buy a property and it never even occurred to us, Hey, there's a different exit strategy besides doing a full rehab and then selling to a retail buyer. And it was a couple of years ago that I started realizing, wow, there's some wholesalers that... Wholesalers to me were always, Oh, these are guys that like, they're, they're hustling. They don't know what they're doing. They're doing one or two deals a year. And a couple of years ago I started realizing there's some wholesalers out there that are doing, they have a great business model. They're running their business like a business. They're doing great scale. They're making great money. They've really got this thing systematized. And it was the first time that it hit me that wholesaling can be a real business.

J Scott: It's not just like a hobby. And I don't know why it didn't hit me earlier, but it made me realize that wholesaling is, is a very viable strategy. And while we don't do a ton of pure wholesaling habbing, where we flip contracts these days, we're doing a whole lot of wholesaling or pre depending on what you want to call it, where we're buying properties we're going in, we're junking them out because a lot of these are our hoarder houses down here in Florida. We're replacing the roof and then we're turning around and selling them for nearly the same profit we would get if we did a full rehab and sold it to a retail buyer.

Joe: Yeah, that's super smart. Really, really smart and it helps when you can take them down too like that, actually close on them, just clean them up. You know, I've tried rehabbing twice, J, and both times I lost my shorts. Of course, I did them right when the market crashed and turned. I bought it wrong. I didn't, I ignored the fundamentals. I was really burnt by rehabs and ever since then I've always just tried to do mainly wholesaling and lease options. One of the things I figured out and tell me what you think of this. Maybe I'm wrong or not. Like I figured, you know what, the same three to six months I could have rehabbed a house. I could've wholesaled three or four, five, six properties and made the same amount of profit without taking the risk of putting my money out there, managing contracts, dealing with realtors, dealing with inspectors and all of that good stuff.

Joe: So, like what do you tell somebody who's new getting started in the business? They watched those flip or flop TV shows and they're like, I want to rehab, I want to fix and flip. You know, I want to make, I want to make those big $30k, $40k, $50,000 paychecks. Do you tell them like how do, what advice do you give to somebody like that who wants to get started in real estate? Do you tell them, Hey, start doing rehab right away? Or maybe learn how to find the deals first?

J Scott: So, I mean every market's going to be different. But where we are today, I 100% agree with you that wholesaling is a superior strategy or maybe wholetailing, but basically taking these properties and reselling to other investors is a superior strategy to flipping to retail buyers. And the reason for that is that there are all these investors out there that are desperate to find deals and the deals are few and far between.

J Scott: So, if you're really good at finding deals, if you're really good at marketing, if you're really good at negotiating and you can pick up these deals, you can make as much, if not more, reselling to investors than you can to homeowners. And like you said, you can do that in a fraction of the time. Instead of spending three months, you might spend three days, or if you close on the property and resell it, it might be a week or two.

J Scott: But I mean, the velocity of money is so important. You can keep your money working. And if you don't have money, you can potentially be making infinite returns because other than your marketing costs, you don't necessarily have to spend any money to wholesale. But what you do have to do is you have to gain the specialized expertise that a lot of people don't have. You have to know how to market. You have to know how to negotiate. So, what I would tell most people, if they're starting out in real estate today, those are the two things you need to focus on. You need to focus on learning to market and market for off market properties. I mean, there was, there was a time five and 10 years ago where like I said, you could throw a dart at the MLS and whatever it hit was going to be a good deal. Those days are gone.

J Scott: You need to find deals that nobody else is finding. You need to find deals where you don't have competition. Because I always say if there's one other person out there that knows about your deal, there's one other person out there who's stupid enough to overpay for that deal and take it from you. So, so the best deals are the one where you don't have any competition, where your only competition is the seller themselves or your own, your own negotiating ability. And so...

Joe: Which is why we love small towns!

J Scott: Which is why we love small towns. You don't have a ton of competition. And again, your, your biggest competition is yourself. Your biggest competition is learning to market, learning to negotiate and, and convincing the seller that you can solve their problems.

Joe: That's really good. I love your emphasis on negotiating because sales skills are often overlooked, right? I know for me it's like, being an engineer as well. I was always interested in the blueprints, the plans. Like, you know, when we took our calculus classes, there was one question and one answer, right? And there was one path to that answer. But when you start getting into real estate, it's more of a soft skill in a lot of ways, right? Like, yeah, not always, but like it's a soft skill and it was hard for me to start thinking like a salesman and start learning how to negotiate and how to sell. I think it's $1 million skill in this business and you could know how to rehab a house, but unless you know how to talk to sellers and negotiate, make up good offers and follow up, you're going to really struggle, aren't you?

J Scott: Yeah, absolutely. And what I tell people is there's a, there's a compounding in real estate. You need to be able to save money at every step of the process. You need to be able to save time at every step of the process because there are so many pieces of the puzzle, whether you're wholesaling or you're flipping or you're buying rentals or whatever you're doing. There are so many different touch points that if I spend an extra hundred bucks today and I spend an extra hundred bucks tomorrow and I spend... $100 doesn't seem like a big deal. But if every day that I'm working on a project, I spend an extra hundred bucks in over the course of three months, I've now spent an extra nine or $10,000 and that might be the profit for the entire deal. Yeah.

J Scott: And so, people tend not to focus on, they focus on the big picture stuff. Yeah. I'm an okay negotiator now, I'm an okay rehabber and I'm an okay a sales person on the back end and my realtors, okay, my lenders okay. And all these people are okay, but they don't realize that you need to optimize for each of these pieces because at the, at the end of the day, making an extra five or $10 each step of the way is going to add up to tremendous profit at the end of the year or the end of five years, the end of 10 years. So, get good at your craft. Really focus on learning how to do these things, focus on being the best as opposed to just being adequate at it.

Joe: That's really good advice, really. You know, I was looking at the Bigger Pockets bookstore and I don't see anything there on wholesaling. You should write a book on wholesaling or wholetailing.

J Scott: I think you should because I am, I am far. I would love to read your book. So let me, let me put you in touch with the publishing person there and you write that book because yes, they need it. I've had a lot of people who have said that there's, there's no good wholesaling books out there or no good wholesaling books under the Bigger Pockets.

Joe: Yeah. There, there are some good books in Amazon, some really good books that have been done, but this thing intimidates me. The quality of the books that Bigger Pockets has. The, and I'm sure there's other people on the Bigger Pockets forums that are more active. People would know more than me that could probably be better writing a book on wholesaling, but like I think it is important skill.

Joe: Let's, let's talk about your economy recession-proof real estate. Let me, let me, what was the title of the book again? Let me look at it right here. Recession Proof Real Estate Investing. Oh yeah, there it is. Okay, good. So, talk about that. Like, you know, we came out of a big recession. A lot of the people you see now in the Facebook ads in the YouTube and the Instagrams, they're like riding their Bentleys and they're flashing their jewelry and they're like, yeah man, everything I touch turns to gold. I wholesale deals in 25 different markets, a hundred deals a month or whatever. Like, but they got started three, four years ago. Right. And so, they have not seen maybe five, six years ago, but they've not seen anything but going up.

Joe: Like, I remember a story, one of my friends, he was before the market crashed in '07, '08, he was getting a haircut and the hairstylist was telling her friend who was there next to her as they were talking, he was listening. Yeah. I just, and this is in Phoenix, I just bought a house. I just sold it like a week later and I made $30,000. I'm going to go do it again.

Joe: And he knew at that point immediately if his hairdresser is making 30 grand on a deal, he needs to get out of the market and he subsequently sold all of his deals. So, like, you know, you got started when the market was kind of peaking and then starting to fall. You started doing really, really well. Now you've seen a lot of people coming into real estate right over the last seven, eight, 10 years, everything they touch turns to gold. It's like hard to fail. It's hard to make mistakes. Am I right?

J Scott: Yeah. Warren Buffet has a quote that I really like. Everybody is a genius in a bull market. And everybody can claim, yeah, I'm the best at this because I'm making money. It's hard not to make money. I was reading an article yesterday about in 2018 I think it was pretty much every major asset class appreciated in 2018 so no matter what you are investing in, whether it was real estate, whether it was precious metals, whether it was cryptocurrency, whether it was equities, whether it was bonds, whatever it was, if you put your money somewhere and you left it there throughout 2018 you made money. And everybody that made money can claim I'm a genius because I made money. But you have to break out the how much was it luck? How much was it the market, how much was it your own skill. And I think a lot of people are pretty bad at being Uber introspective and really saying, Hey, how much of this was me versus how much of this was just externally driven? And so, and, and I've never been through a full cycle. I started basically at the bottom of the market and now we're probably the top of the market.

Joe: You started '08-'09; I mean, the market still didn't fall and collapse till 2011. I mean, it didn't reach the bottom until 2011-2012.

J Scott: Yeah, that's true. But I was, I was a good six months into the crash, which we, we saw a lot of value kind of fall out in that first six months. So, it would have been really easy. And I don't give myself any credit for this. I mean, the timing just happened to work out. I was very fortunate that I didn't decide to propose to my wife and quit my job and move across the country and start real estate investing six or eight months earlier because had I done that, we probably would have lost a lot more money on the first couple of deals. So, I like to think that I've learned a lot and I'm really smart. But I'm also reasonable enough to, to recognize that part of, of why I've been successful is that I started at the right time. I started during one of the large longest economic expansions in history. And real estate has, has been tremendously appreciating over the last 10 years. And, and so it's not, it's not all my expertise.

Joe: But you know, that brings up a good question though. Is there ever a bad time to get started in real estate?

J Scott: Never a bad time to get started in real estate.

Joe: Right? Yeah. That's important for everybody to understand because when you know, I asked you questions about the fundamentals, J, of like, you know, what are the things people need to be aware of and concerned with while they're looking for deals? But why is it never a bad time to do deals, buy real estate?

J Scott: Because there's always strategies that are going to work in any market. Now, sometimes you have to modify your strategies during different parts of the economic cycle. Sometimes you have to modify your strategies in different markets. Not every strategy is going to work equally well in every market. Sometimes you have to modify your tactics within your strategy. I use the term strategies and tactics and people often take them as interchangeable, but from my perspective, they're very different things. Strategies are things high level. So flipping is a strategy and rentals buy and hold is a strategy. And syndications are a strategy and notes are a strategy and wholesaling as a strategy, but within those strategies, there are tactics and the tactics really drive how you implement those strategies.

J Scott: So, for example, I could say the buy and hold multifamily buy and hold strategy works in certain markets at certain times, but the tactics don't all work. So, there are certain tactics, for example, buying C class properties or mobile homes is going to be a better tactic within the multifamily strategy in certain markets and certain times. So, I can say buying rental properties, buying rental properties is a strategy that works in any market, but there are certain tactics that you're going to want to use in certain markets and at certain times to really maximize your profits. I could say for something like flipping houses, flipping houses works in three of the four major parts of the economic cycle.

J Scott: But during a recession, when the market's actually dropping, flipping houses isn't where you want to be there. There, that strategy just isn't going to work. If you're flipping houses in a market like we're in now where it's a really hot market but things could turn soon, it's a strategy that works. But you're going to want to modify your tactics to really reduce your risk. You're going to want to keep projects short because when the market starts to turn, you don't want to be in the middle of 10 projects. So instead of working on those flips that are going to take six months or the new construction projects that are gonna take a year, focus on those quick deals, focus on the wholesales and the wholetails, those deals where you can be in and out in a couple of weeks. So, that way if the market starts to turn, you have the opportunity to get out before it happens.

Joe: Would you also agree with now may not be the best time to start rehabbing luxury homes, you know, in that middle medium-priced home?

J Scott: Absolutely. So, once the market starts to turn, and we're, we already seen this in a lot of markets, I mean every market's going to be different obviously. And in some markets, we've already seen this where the high end of the market is already softening. So we're seeing longer days on market, we're seeing lower resale prices, we're seeing less transaction volume and so certainly that's one of the tactics if you're going to be flipping houses at this point in the, in the economic cycle, one of the main tactics is focused on the median price points. Don't go well above the median price point. Don't go well below the median price point because if the market starts to turn in your local area, you're going to get caught and you're going to run into problems. So that's one of the tactics that I like. Like you said, that I always tell people at this point in the cycle, focus on those medium-priced properties.

Joe: One of the cool things about wholesaling too I think is that you can wholesale in any cycle. Absolutely. Because you just need to find out what your buyers are looking for.

J Scott: Yeah. Everybody thinks when you wholesale you have to be wholesaling to rehabbers. And a lot of people that don't do this, most of them, not most, but I'd say about half of my wholesales or wholetails are to investors who are going to hold the properties as buy and hold and flipping. Flipping might not work well in a recession, but buy and hold works great in a recession. Right?

Joe: I remember some friends of mine who were wholesalers in Florida when the market was flying up high and then when the market crashed, Florida especially got hit real hard and the ones that started doing, having success and doing well were the ones that were going out to Oklahoma, Texas, some of the Midwestern States where prices were still really low and rents were high relatively, and were wholesaling to landlords. Right. And it's crazy to think, but there were actually, there's a lot of money sitting on the side right now. Would you agree that as soon as the market starts correcting, that money's going to start coming back in and they're going to be buying single family rental properties? That's my opinion. They're looking for return on investments.

J Scott: Absolutely. And keep in mind, a lot of these buy and hold folks, they have cash. They know how to manage rentals because they probably have other rentals, but what they don't know is how to find deals. They're not out there. They haven't learned how to market. They haven't learned how to negotiate with sellers. So, they're going to be looking for deals and if you can bring them better deals than they can find on the MLS or publicly listed places, public places, they're going to buy from you all day. So yeah, that's, I think that's, that's one of the things that a lot of people don't recognize with wholesale and everybody thinks wholesaling means selling to a rehab or a house flipper, but the best wholesalers are going to target all different types of investors and can optimize the, can maximize their profits by focusing on the right type of investor for the right property.

Joe: Talk about what are your favorite ways to find those investors? What are some of your favorite ways to find buyers?

J Scott: Well, these days it's easy these days. I mean you can, you can... I'm a big fan of, I like to hang out where other investors hang out. So, I go to REIA meetings, real estate investor association meetings. I go to meetups. Bigger Pockets has a lot of local meetups around the country now. So, I go there. I participate in various forums on the internet where real estate investors hang out. So Bigger Pockets again is a good one, but certainly not the only one. So, hanging out in the places where local investors hang out, even more important than hanging out in places like Bigger Pockets is great.

J Scott: But you want to get, if you're wholesaling, if I'm wholesaling in Sarasota, Florida, where I live, I want to be networking with buyers in Sarasota, Florida. I mean it's great to talk to the guys in California cause maybe they'll buy a deal in Florida one day, but the bulk of my buyers are going to be people that are going to the same local meetings, the same luncheons and, and meetups and, and dinner events that I go to here in Sarasota. That's what I'm focused on. I'm focused on actually meeting those people locally.

Joe: Oh yeah, that's really good. One of the things we did in 2012 when we saw a lot of money coming back into the market is we went and looked to see, cause we were trying to wholesale deals in St Louis and we started looking to see who were the investors that were buying properties outside of their states in other states. And one of the cool things with data providers now that you can get access to those buyers, like you can say, all right, you know, there's a lot of out-of-state buyers that are buying in Memphis. I forget... Shelby County, Tennessee, right? And so, you can go actually get a list in the last year of all the investors that have purchased properties from outside of Tennessee in Shelby County and you can send them letters. And we started sending letters and started getting, not a tremendous response rate, but those phone numbers on those letters went to my cell phone.

Joe: Like I answered those calls or they went to my acquisitions guy. It worked really, really well. And so, I'm just putting that out there. If any of you all thinking about this, like where it's not that hard to find the buyers and no matter what direction the market is going, you need to know what the buyers want. I often say too, J, that our customers are not the sellers. They're the buyers, right? What do the buyers want? They're the ones that are bringing the money to the table. We need to, so it's so much easier to shop for what buyers want than to sell them what we have. Right now, buyers don't want big luxury homes, right? So, we need to give them what they want. They want medium priced bread and butter homes.

J Scott: Yeah. If your bread and butter is buying $100k-$150k properties in, again, I'll use Sarasota as an example, and I plan on reselling those to landlords that are going to hold them as rentals. Well, great way to find buyers is to go to my real estate agent who happens to be my wife who's a broker and say, Hey, can you pull me a list of all these, all the cash sales on the MLS of houses in the $100k-$150k price point over the last six month? Cash buyers are often investors or investors are often cash buyers. So, if you have the list of the cash buyers, that may be a great list of potential buyers for your properties when you find them.

J Scott: You mentioned out of state owners. So, it's very common when you're marketing for sellers, if you're looking to buy properties, it's very common to market to out-of-state owners. So, what are often called absentee landlords. So, people buy properties in other states, or maybe they buy property and then they move out of state and they rent that property. And a great way to find sellers is to market to people who are their tax address. Where their tax bill is sent is different than the physical address and often out of state. And you know, those are landlords and you can market to them and say, Hey, are you tired of managing this property or you're looking to sell it? Well, flip that script. Now those are your buyers because a lot of those people don't want to sell their properties. They actually want to buy more properties. So instead of sending them a letter saying, Hey, if you want to sell your property, me, send them a letter that says, Hey, if you want to buy more properties, call me. And too many people, like you said, people don't think about that, but it's so obvious.

Joe: Let me give you a little tip just for you and everybody listening too, one of the best ways to find buyers if you've got a deal already, is send a letter to what... I use yellow pad of paper. Okay? And I write it red ink and I pretend like I'm a desperate seller. Help big, bold, underline, help. I need to sell my property right now. I'm desperate. I've tried selling it for a while. I can't wait any longer. The taxes are paid. The title is clear. I need this thing sold today. Underline it. Write your name and phone number. Okay, crumble that paper up. I'm telling you this, this doubles your response rate. Crumple the paper up now. Then fold it, put it in an envelope, hand address it and send it to all the other absentee owners within a one- or two-mile radius of that house.

Joe: Okay. Investor owners, the response rates are crazy. I've had people call me up on that letter and say, hey listen, I'm not interested in this house, but I just wanted to call you because I know what you're doing and I love this letter. I'm going to be using it, I'm going to steal it, you know, and make a joke out of it and whatnot. But there's really simple, easy way is one of my favorite ways, J, to find buyers. This is look on Zillow. Who are the landlords that are advertising rentals and just call them? Bring donuts to the local property manager that are managing these properties and say, Hey, do you have any clients that are looking for more deals? Good. Okay, so Scott, what do you, you know, what's your projection right now with where the market's going? Do you see it, you know, plateauing? Do you see it falling like Niagara Falls in a year?

J Scott: Okay, so I'm going to start with my standard disclaimer, which is nobody can tell you when the next recession is going to occur. Nobody can tell you how bad or not bad it's going to be anybody that tells you that, that, that they know that information is probably trying to sell you something. But the, the truth is you look back at the data over the last 160, 170 years, and there are certain patterns that we can track. There are certain things that we can say very easily about how the economic cycle works. But the one truism is that there's no data that predicts exactly when it's going to happen or exactly how bad it's going to be.

Joe: And it doesn't happen right on a dime either. Sometimes it's a slow thing that just you don't realize you're in it until it's done almost or it's already fallen.

J Scott: I think part of the problem we have these days is that a lot of people, especially in real estate, younger people in real estate, they've lived through one recession and that was 2008 and they tend to assume that recessions or the cycle works the way they've seen it work since 2008 in reality, 2008 was an anomaly. 2008, just a lot of things happened and converged in a way that has never happened. We've had 33 economic full cycles since, since around 1840-1850 so if you do the math, 33 into however many years that is, 170 years... We have a cycle about every 5.5, every six years. So, on average every six years we go through a recession. Now there are people who have only lived for the last 10 years and they don't realize that recessions are inevitable. Recessions have to happen. I mean, it's just, it's part of how it's part of the foundational how economics works or how economies work.

J Scott: And so, I talked to a lot of people now who are younger who say, yeah, I don't think there's a recession coming. I don't think, I think we're another 10 or 15 or 20 years away from a recession. Like our, our economy can just keep going up. And historically recessions occur every six years. And right now, we're about 11 years into the cycle. We're almost 11 years into the cycle. I mean, just from a historical standpoint, just from a statistical standpoint, we're probably pretty close from a timing perspective of coming up on, on another recession. Now, I'm not saying that means it's a month away or three months away or even a year away. It could be two years or three years away. But statistically speaking, when recessions occur every six years, on average, when you get 11 years into a cycle, you have to start thinking it's probably gonna happen pretty soon.

J Scott: A lot of people like to say this time is different. Every recession, you're going to have people saying this time is different, this time is different, and one of those times they might be right, but statistically speaking, this time's probably not that much different. So, from a timing perspective, we're probably relatively close the next and timing is one way to look at it. That'll kind of give you the broad historical overview. I'm a big fan of actually looking at the data and if you look at the data where there's a lot of mixed data right now, so depending on who you talk to, you're going to have, and this has become a ridiculously politicized topic, but you can talk to people on one side of the political spectrum or even if it's not political, you can talk to people at one side of the spectrum who will say, this is the greatest economy in history and we've never seen anything like this.

J Scott: Then you go and you talk to the guy standing next to him and he's like, we're basically, we've been in a recession for two years and people don't want to admit it and the sky's falling. And so, the reality is if you look at the data, we're actually somewhere in between. There are definitely some indicators that things are still really strong. If you look at unemployment, if you look at GDP, GDP is still around 2% which historically is about average. So that's not a red flag. The stock market's still doing well. Consumer confidence is still high. Those things are great. Then there are other things that are kind of there. They're more red flags. You look at, well, GDP is a 2% but it was a three and a half percent 12 months ago. So, it's kind of trending in the wrong way. And manufacturing has been in a recession for the last three quarters, so that's kind of a negative thing.

J Scott: And business investment is down. Businesses aren't investing as heavily as they were. Interest rates are down and the fed starting to print money again, that's not so good. So, there's a lot of mixed signals there. And typically, if you look back again, historically we start to see these mixed signals at the point where the expansion, the kind of the up part of the economy kind of hits that peak. There's good reason to believe that we've kind of hit that peak. Now, if you look at the data over the last year or two, a lot of people would say, yeah, we kind of hit that peak about a year ago or maybe a year and a half ago and we've been kind of bouncing along the top for the past year, year and a half. We're probably at the end of this economic expansion. We're not going to see a tremendous amount of more inflation. We're not going to see tremendous amount that we may see like highs in the stock market, but we're not going to see in the broader economy, we're not going to see like a ton more economic expansion. GDP is not going to go to three or 4% at this point. The next move is going to be that is going to be down, but that doesn't mean down is tomorrow or next week or next month or next year.

J Scott: And there are some recessions, there's some economic cycles like 2008 where that transition from going up to going down literally happened over a couple of weeks. Like everything looked good. You turn on CNN or Fox or CNBC or whatever it is and, and you got economic pundits out there saying, market's great, the economy's great. And then two weeks later everything crashed and then you have times like 2001 times, like 1989, where we kind of had that going up. And then it was like a year or two of just a flat economy before things started to trend down and it was a much more gradual downtrend. And every economic cycle is different. Every recession is different.

J Scott: So, to say that we're at the top of the cycle. A lot of people agree with that, but we can't be certain. to say that we'll probably start going down at some point in the near future, three months, a year, two years, three years probably, but not certain. And how big of the next recession, how big will the next recession be? Nobody has any idea. So, I mean you can certainly look at the data to kind of form some opinions. I like to think of the, the economy, it's kind of like a puzzle. If I hand you one piece, you have no idea what that puzzle looks like. If I hand you five or 10 pieces, you still don't know what it looks like. But if I give you 500 pieces of a thousand-piece puzzle, you can pretty much make out the picture. And the more pieces I give you, the clearer that picture becomes. And that's kind of the way the economy works.

J Scott: Every data point is just a piece of that puzzle. And the more data points you have, the more data points you look at, the clearer that that puzzle, that picture becomes and the more understanding you have of what's going on. And so yeah...

Joe: Good things to look at. So, what do people need to do really quick to be prepared for when the market does shift?

J Scott: Yeah, so what I'm telling people now is depending on what your, what strategy you're involved in, if you're flipping houses like you said, focus on medium priced properties, medium price point in your market, focus on shorter timeframes for your flips. So, don't take on six and nine- and 12-month flips because who knows where the market is going to be in six, nine or 12 months.

J Scott: I like to tell people that 2008 was a great barometer for a worst-case situation. Certainly, we've had worse recessions, depressions than 2008 if you go back a hundred years. But realistically speaking, 2008 was pretty bad. And so, looking at your market, looking at what happened in your market back in 2008 is a great barometer for what is likely the worst-case situation in the next recession.

J Scott: So, if I, for example, I lived up in Maryland up until a few months ago and I did a lot of investing in the DC and Maryland markets back in 2008. Those markets fell about 16% so the, the areas I was investing in saw about a 16% average drop back in 2008. If I assume that that 16% drop is kind of representative of a worst case scenario, I know that if I'm flipping houses in that area now and I'm ensuring that my projected margins on each of those flips is more than 16% then most likely my worst case scenario is if we have a 2008 event, I break even on a lot of those properties.

J Scott: So, I kind of use that as a barometer. If I'm flipping in an area that dropped 30 or 40% back in 2008 like Atlanta, I'm going to be slowing down a whole lot more because I know my worst-case scenario, I'm not going to be making 30 or 40% margins on flips in Atlanta. So, I would rather just kind of slow down and not do as many deals there because I know the worst-case scenario kind of wipes me out. So, I focus on those areas that were a little bit more recession resistant back in 2008 where my margins are greater now than the drop, we saw in 2008. So, that's what I recommend to flippers in terms of buy and hold investors. Some of the things I say is there's no bad time to be doing buy and hold real estate. It's always a good time to buy if the numbers work.

Joe: As long as the cash flows, that's the big mistake I made.

J Scott: As long as the cash flows. Exactly. And in a lot of markets, again I like to use 2008 is kind of the barometer of what's the worst-case scenario... In a lot of markets in 2008 rents didn't drop, but worst-case drop in some of the bigger markets was about 10% so when I tell people now is if you're looking to buy a rental property, kind of model in what the numbers look like if you have a 10% drop in market rents, do your numbers still work? And likewise, in a lot of markets, the worst-case scenario back in 2008 was that we saw occupancies dropped by about 10% or 12% in certain markets. So, I tell people factor in an extra 10% or 12% occupancy drop, do your numbers still work? If your numbers still work with a 10% market rent drop and a 10% or 12% occupancy drop, you're probably good to buy that.

Joe: And that's worst case.

J Scott: And yeah, and that's worst case. So, there's probably a lot of upside to those worst-case numbers as well. Typically, what we see in a recession is there's this thing called cap rate and rent compression. So, class A properties typically had the largest drop in market rents. Class B properties have a smaller drop class, C properties even smaller. So, typically if you want to be conservative, focus on the B minus class properties. Focus on the C class properties, focus on mobile homes. If you're in the commercial space, focus on things like self-storage, which is very recession resistant. I mean when there's a recession, people move, they downsize, but they don't like to get rid of their stuff. So, what do they do with their stuff? They put it in storage for a couple of years.

J Scott: Medical, if you like, commercial, focus on medical buildings, focus on retail that's anchored by grocery stores. Focus on liquor stores, things like that. I mean, these things tend to be a lot more recession resistant. So, if you're in the buy and hold space or in the commercial space, there are definitely things you can do. If you're in the note space, now's probably not a great time to be buying first position notes at 91% of fair market value. First position notes are really expensive now and you're almost paying full price these days. If the market drops even a little bit, the market drops 5%, 6%, 7%, 8%. Well you're going to start seeing defaults on your first position notes and you're going to start to see loss of income on your first position notes.

J Scott: But if the market starts to go down, that might be a great time to be buying heavily discounted nonperforming notes or heavily discounted second position notes. So, I mean there's always strategies in the note world that are going to work, but you have to kind of flip things around if you're a wholesaler like you, like we were talking about earlier, if you're a wholesaler, focus on properties that are going to appeal to those buyers that are most active in your particular market at any given time. If there are a lot of flippers in your market right now, focus on those properties that are going to be attracted to flippers. If your market has moved away from flipping, if the market starts to turn and all your flippers stop flipping, focus on those properties that are going to be attracted to buy and hold. Investors are focused on maybe multifamily or commercial that are going to be attractive to commercial investors, your multifamily investors. Figure out who's active in your market and find the properties that are gonna appeal to them.

Joe: I love that. We're getting so many good comments here. Ralph Newton says this, I have a ton of notes. Wow. Thank you, guys. Cedric. Exceptional economic empowerment information. Alan, cool interview guys. Lots of note taking. Nice. Awesome. I love that. Franco saying, thanks Scott or that's Scott. Cool.

Joe: So, your book, I'm looking here biggerpockets.com there's a section called Bookstore. Go right there and we can find your four books. The one I have here is The Book On Flipping Houses and you'll see that... excellent book. You've got Negotiating On Real Estate and Recession Proof Real Estate Investing. That's the one we've been talking about now. And the other one is the book on rehabbing costs or estimating rehab costs. Right? Strongly recommend you guys get these books. Is there a place that people can go to get more information about you, Scott? J, sorry.

J Scott: Yeah, that's okay. That's okay. I'm used to that. So, website, if you want to learn about my first 50 flips and just kind of read my flipping journey, 123flip.com.

Joe: I'll put that here on the, on the right there, 123flip.com on the banner. Do you see that? Cool.

J Scott: Excellent. And if you want to learn more about me more personally, jscott.com and I hope everybody will check out my wife and I are now cohost of the Bigger Pockets business podcast. And I mean, if you're a real estate investor, you're also a business owner, you're also an entrepreneur. The two go hand in hand. Thank you so much, Joe.

Joe: This podcast, I'm just looking here. Oh, where did it go? I just had it up. Yeah. One of my favorite authors. You had him episode number 30, Mike Michalowicz.

J Scott: Mike Michalowicz, yeah, Mike's a great guy and Mike is coming out with a new book in about three months. So, we're going to have him back on March.

Joe: What's that one called? Do you know? What's it about?

J Scott: He didn't give me the name. I think they're still working on the name and he didn't want to talk too much about it, but he said, can I schedule a time to come back and talk about it? So, it looks like he'll be back in March to talk about his newest book.

Joe: Well, this podcast is titled how to guarantee profit from day one. That sounds spammy, but it's not.

J Scott: No, no. He's got a book called Profit First, and...

Joe: One of the best business books ever written.

J Scott: It really is. He lays out a way of ensuring that you're taking profit, profit from your business the day you start making income. So, you don't need to wait three months or six months or 12 months or 10 years to start making profit. You just, you need to prioritize it and he talks all about how to do that.

Joe: Have you read his book, Pumpkin Plan.

J Scott: Yes. Actually.

Joe: Yeah, there's a fantastic book. You know the whole thing. We were talking about your buyer is the customer. That's where I got that from, that book. Focusing on that. Hey J, this has been a fun podcast. I really appreciate it. You're doing some amazing work for the industry, for the community. Thank you for doing it. You know, thank you for writing the books. It's a labor of love. I'm sure. I mean, you're not making much money from selling these books, am I right? None of my business, but like...

J Scott: No, no, no. Book books are tough and it's one of those things that I love teaching. I love writing and but it's why those, that if I'm in the mood, I can write a book in two or three months and pound it out. I have a book I've been working on my fifth book for almost a year now, and I'm only about halfway done because it's like I just hit this, this mental block where writing is really difficult. So, yeah. So yeah, it's, it can be tough.

Joe: It's a labor of love, but you've got a good podcast going on. Bigger Pockets, Bigger Pockets is a great forum. Anybody, any of you guys listening to this, if you're not a pro member of Bigger Pockets yet, you need to go do that and get a J Scott's podcast called Bigger Pockets Business Podcast. Of course, you can find that in any, you know, any podcast player. Do you have any, really quick before we end here, J, do you have any favorite podcasts that you like to listen to or books that you like that you're into right now?

J Scott: What are my favorite podcasts?

Joe: What's your favorite podcast app?

J Scott: I typically use iTunes when I'm listening in the car on my computer. I use Google podcasts on my phone.

Joe: I use Pocket Casts a lot.

J Scott: I've heard of Pocket Casts. I haven't used them before.

Joe: One of my favorites, while you're pulling that up, lately has been you know, our friend Seth Williams, RE Tipster Podcast.

J Scott: Love Seth, Seth and I have gone back a long time. We started around the same time.

Joe: Social Media Marketing is another one that I'm liking a lot right now.

J Scott: I've really loved the business podcast, so I'm a big fan of How I Built This, which is the NPR guy Raz. And there's another one for anybody that's really interested in like big, big business and brands. One of my favorite podcasts ever is called Business Wars. And...

Joe: Oh, I've heard of that. I've never...

J Scott: So, I highly recommend anybody out there that likes any business stuff, listen to Business Wars. The Economist has...

Joe: Just subscribed.

J Scott: Awesome. The Economist has, has a great daily, I'm sorry, weekly economic show that I like. And I often, when I'm not listening to podcasts, I love listening to Ted Talks. So, you can actually, you can, you can download Ted Talks pretty easily. And like that's what I listen to most when I'm in the car or just have some downtime.

Joe: You know, another really good one is Marketing Secrets by Russell Brunson.

J Scott: Yep. I have the books behind me.

Joe: That's a good podcast. But I'm just, I got so many of them here. Mike Dillard has got another really good one I like, More Cheese, Less Whiskers. You ever heard about that?

J Scott: Not familiar with that one.

Joe: That's a good one. But anyway. Good. J, thanks so much for being here on the show. Again guys, his website is 123flip.com or jscott.com and he's got a Bigger Pockets podcast called the BP Business Podcast. Go check that out and appreciate all the books and the work that you've done over there, Bigger Pockets, J and a these, he's got some really good books. I recommend you guys get the university level manual on flipping houses right here. It's called The Book on Flipping Houses: How to buy, rehab and resell residential properties by J. It's like jam pack. Look at this text. It's not. It's not like, and there's not a lot of diagrams. It's intense. I get, I'm looking at this thinking, this reminds me of school.

J Scott: I don't know if that's the best-selling point, but I'll take it.

Joe: One engineer to another.

J Scott: Joe, you're too kind. I really appreciate it.

Joe: Hey, thanks again, Jay. We'll see you guys later. If you liked the show, please leave a review on iTunes. Go subscribe to the business podcast on Bigger Pockets as well. We'll see you guys later. Thanks. Bye. Bye.