Deals Gone Bad #1: Too Many Deals, Not Enough Cash Flow with Mark Dolfini

Hosted by*:* Joe McCall
Guest: Mark Dolfini

Joe: Hey, guys, welcome to the Real Estate Investing Mastery podcast. You're in for a treat today because I'm starting a brand-new series called Deals Gone Bad and get your mind out of the gutter. I'm not going to talk about that kind of bad stuff. I'm talking about deals that have gone bad. And you all hear the success stories. You hear of the checks, you see the big deals, and you think, man, I want that. Sometimes people forget, sometimes you get bad deals. And in fact, I would say this. If you don't have a bad deal yet, you haven't had a bad deal yet. You've not done enough deals yet. Right. And that's just kind of the nature of the business. That's the nature of the beast.

Joe: And so I want to do a series here, and I've already got like twenty five, thirty people lined up. I put a post on Facebook, said, hey, who would like to talk about their bad deals? And surprisingly, a ton of people said, yeah, I want to talk about them. And so some of the guys I know is like some of them are friends, some of them I don't know. So I've kind of vetted them out to see who has a good, bad deal to talk about. Right. Who's got a good, bad deal? So I'm going to be doing this podcast here. So we're gonna be talking about some bad deals. I was inspired. I got to give some credit to where some credit is due. I was inspired by a couple of guys, one guy some of you may know him. He's a good dude. His name is Phil Pushtiyavski. Phil Pushtiyavski. He's got one of the largest YouTube channels and he's got great videos. You should go check him out. I don't know how to tell you to search for his name.

Joe: Just do. Phil, try to spell it out. Pushtiyavski. Oh, I forget his channel. I forget the name of his show. But he's got one of the biggest real estate investing channels on YouTube. Anyway, he's got a book called Deals Gone Bad. I interviewed him on my podcast a couple of years ago and it was really good. One of the podcasts we talked about were some of his deals that had gone bad. Last couple years, it's been kind of stewing in my mind. Then I found a podcast the other day called How to Lose Money. I don't know what consultant they hired to come up with that name for a podcast, but I was interviewed on their podcast and I talked about high lost money and the stupid mistakes that I've made in the past.

Joe: It was a really good podcast and I've been downloading them and listening to them. And I thought this would be a great idea to talk about in the Real Estate Investing Mastery podcast, how to get bad deals. Somebody said once and I'm not sure who it was, smart. And I hope I get it right. If I didn't get it right, please let me know. Type it in the comments. If you're watching this on Facebook and YouTube right now or whatever, send me an e-mail. Somebody said once, smart people learn from their mistakes, wise people learn from the mistakes of others. Right. Smart people learn from their own mistakes. Wise people learn from the mistakes of others. So on this podcast series, I'm gonna be talking about mistakes. We'll be talking about the good, the bad and the ugly.

Joe: And we've all got some ugly, don't we? If you've been doing real estate for any period of time, if you've done more than five, 10, 20 deals, I don't know. You probably have some experience. You probably have some bad deals. And so I'm hoping through this series of podcasts here, you're gonna be learning from the mistakes of others. You're going to be learning from our mistakes. And so if you are new to the business, you'll hear something hopefully that will save you thousands, if not hundreds of thousands of dollars in the future. By not doing what we did. OK. So I think it's going to be a really helpful podcast.

Joe: Now, I got something cool to give to you guys. I have a mind map. I just created it. I'm going to be updating it as we go through this series of all of the lessons learned that people revealed to me on this podcast series. So the questions I'm going to be asking these will be short 15 to 20, 30 minute podcasts. But the questions I'm gonna be asking are, what was the mistake you made? How did the deal go bad? What would you have done differently next time? And so if you'd like to see my notes of all of the what would you do differently next time? Then get my mind. That is going gonna be an interactive mind map that I update. And you can get the mind map by texting the word bad to 31, 31, 31. You like that. Like that. That keyword, by the way, I'm using a certain software called Easy Texting. It's like twenty-five bucks a month for that keyword, I guess. So whatever.

Joe: Text the word bad to thirty-one thirty-one thirty-one or go to JoeMcCall.com/bad. And you'll be redirected to a little place where it asks for your name and e-mail and we will send you the link to the actual mind map. And as I progress through this series, might turn it into a book or PDF report or something like that later on down the road. So again, text the word bad to thirty-one. Thirty-one. Thirty-one. Or go to JoeMcCall.com/bad. I can hear the jokes already coming in about that. Your URL. So whatever. Okay, I can handle it.

Joe: So I want to bring on our first guest, our first. I don't want a dummy. He's got me. He's a test dummy or whatever they call it. Right. His name is Mark Dolfini. And Mark and I are in a similar. We're not in a similar mastermind. We're in the same mastermind called Leadership Boardroom and we're in different groups. And Mark is just a really genuine down to earth guy, humble and loves helping people. And he's got a lot of real estate experience. He's got a business called Landlord Coach. We'll talk about that in a minute here. But as before we jump in here, I know I've had a lot of kind of introductions here and stuff like that. But if you were watching this live right now on Facebook or YouTube, just give me a thumbs up. Give me a heart. Say hello. Say hi. And share this, please. Or comment in the comments and we can see your comments like this one from Kimberly.

Joe: Hey, Joe. She says, I'm glad you're here. We can go now. I'm here, Joe. OK, Dusty. I'm not sure what. But if you type in your comments into the Facebook or the YouTube, we can see them here. And if you've got a good question, type it in there and I will ask Mark the question. OK. So, Mark, how are you doing, man?

Mark: I'm doing awesome, man. Thanks. I'm not sure how I feel about going first, but it's gonna be a doozy. I'll have to make sure I get the truly worst of the worst.

Joe: All right. Well, let's bring it. Let's do it. Would you agree that if somebody has not had a bad deal yet, they've not done enough deals or they've not been in the business long enough?

Mark: Yeah, they've not been in business long enough. That's just the nature of it. And unfortunately, you're not taking big enough risks. Because I mean, we learn, we learn at our extremes. Right. And if we're not going to those extremes, if we're not going out, we're playing it safe. And it's ironic that we're doing this today because my I did a post this morning that said specifically, are you playing to win or are you playing not to lose? Big difference there.

Joe: Yeah. I heard somebody talking about that recently and I did a video podcast about that, too. But yeah. All right. So when you play to win, you're going to make mistakes. You're gonna find bad deals. All right. So let's talk about one of your worst deals. Talk about that.

Mark: Yes. So it was probably not any one particular deal, but it was probably a string of deals that I had put together. And it was all under a very flawed, ideal, flawed policy that I was put in. And I put together this investing strategy. And what I had done, I was buying a lot of single-family dwellings and I had been buying single family dwellings. I started back in nineteen ninety-eight right after I got out of the Marine Corps. I bought my first rental property and, you know, I had gotten sucked into the buying of any types of properties I could with no money down. I thought basically if I could get to a property with no money down. Right. We've all pounded that drum. OPM, OPM, using other people's money. I totally get that idea, but not really understanding the risks of that. I just happened, my default setting was if I got into a property with no money down, it had to be a good deal. Right.

Joe: Great lesson learned. That's a writer downer there. I'm going to write that one down. But just because you are using OPM, other people's money. Right? Right. Doesn't mean it's a good deal. Talk about that.

Mark: Yeah. And that's what it was. I mean, I was getting into properties with no money down and granted. Times are different. So, I mean, this is this is, you know, pre 2006, 2007, you know, before things start that we will start to come off the wagon. But I would just figure, well, if I could get into a deal and it flow and it may have only cash flowed one hundred dollars a month. And I'm socking cash flow above P. I.T.I, my principal interest, taxes and insurance. You know, that was enough for me. And what I didn't recognize was that you had all those little line items, those pesky line items on a PNL called expenses, such as mowing, painting, cleaning, showing of the properties and advertising, things like that. Vacancies, vacancy expense. Exactly. So all of these things. And what I didn't recognize early enough as I was underwriting it and it was just clearing it over PITI was that every individual line item that I did not budget for on the expense side was a job that I created for myself.

Mark: So if I didn't budget for showing, doing the leasing, I just created a leasing job for myself. If I didn't budget for maintenance well enough, I just created a maintenance job for myself and so forth and so on. So all of those individual things, those between those two things right there, those lies that I was telling myself I had built up a portfolio up to ninety two rental units, which, through a hodgepodge of creative financing and wheeling and dealing, was about a six million dollar portfolio. And that's when the house of cards came falling down and the wheels came off the wagon.

Joe: Totally. I didn't have that much, but I had about 12 or 13 those. But yeah, I thought one hundred two hundred dollars a month would be great. Yeah. That's how you escape the rat race. I just need, you know, two hundred of those and I'll, I'll be kicking Harare's. But just one month of vacancies on each house wipes all of that cash flow out. All right. You lose it all. There's no cushion. There's no room for error.

Mark: There's very little room for error. And that was part of it where, you know, here's the problem. Many, many, many people I know that are in the real estate business, they're not lazy people. Like they're fundamentally not lazy. They're willing to work or are willing to go out and flex that hustle muscle. We hear that all the time. And for the entrepreneur, especially for the real estate entrepreneur, the default setting is to do work. Right. So we never define alternate activities as to why. I mean, we get into this job, we get in this life because obviously you escape the rat race. But where do we escaping to? Are we escaping to a worse job, working for a worse boss. Right. I mean, when you're your own boss. That's I mean, that's the worst boss in the world. You never call in and you can never, you know, have sick days. You never take vacation. So I was working for the worst boss and that worst boss was me.

Joe: But you were also working for the bank or the private lenders or the mortgages that you were taking over, right?

Mark: 100 percent. Very well said. I mean, I had created what I thought was freedom, I actually created bondage in a way that there was no way I was going to escape this. Maybe in 25 or 30 years when these things started to pay off.

Joe: So that was the hope. Was at that time, wasn't it? But, you know, these will eventually pay off. Properties always go up. So you were basically counting on appreciation.

Mark: Well, really, to be honest with you. I really wasn't even thinking about ever selling them. I mean, I was buying with this mindset of getting in long term hold and that one hundred or two hundred dollars a month, like you said, was going to be enough. And with scale that it would never be a problem for me to. OK. Well, I can get you know, if I can get that cushion of six to ten to twelve thousand dollars a month coming in, I lived pretty lean. I didn't really live that high on the hog. But I live pretty lean. And I was thinking, well, I get to a certain point I can start pouring that money into deleveraging and, you know, start getting these things paid off.

Joe: So are these subject twos or owner financing or did you borrow private money? How did you buy these?

Mark: Yeah. Good question. So in the early days, it was, you know, hey, let me learn how to buy a property first and let me ask all the questions that they're willing to tell me. And it was sitting down and just asking, so why are you asking for this? Why are you asking? And it was really and I would even tell you first, if you're looking to get into this game, do that now, sit down with a banker that's willing to help educate you in terms of what it is that they're going to be looking for. Have a good friend of mine who's a mortgage broker here in Indiana and just met with my mastermind group and helped them walk through. Hey, this is the stuff you're gonna need. You're going to need three months of cash reserves for all this stuff and et cetera, et cetera.

Mark: So that way, you know, if you're gonna try to do this with a six hundred credit score, you're wasting everybody's time. You know, you're gonna need a minute minimum middle score of 720, things like that. These are the things that you need. Again, that's a moving target. Right. And based on how the mortgage world changes. So I sat down with a mortgage broker. He kind of showed me the showed me the playbook in terms of what they're going to be looking for. And that's what I worked towards showing them.

Joe: So you were buying most of them with bank loans?

Mark: I bought a lot of them upfront with bank loans. And of course, you max out. I don't know that there was a max back then. There may have been.

Joe: What were you doing this what year? So I started in ninety eight and I, I think my last bank loan might have been two thousand three or four somewhere in there.

Joe: And this was even before the big boom of '04, '05, '06.

Mark: Back when I had a lot more hair. So I did that. Then I started putting together and piecing together this hodgepodge of creative financing and wheeling and dealing, doing, you know, I mean, literally, you name it, I was putting together these, you know, and I thought I was so smart, you know, so slick. I was like, yeah, look at me. I'm doing this and piecing together all these deals. But it was all a paper tiger. And I just was not leaving myself enough margin and enough margin in my cash flow to keep me solvent. So, OK.

Joe: So I want to drill down to how you bought these properties. Like what percentage? You're more with bank loans, what percent were with subject to their owner financing or lease options, more creative things.

Mark: So let me think back here. I would say the lion's share was held through contract sales. So I probably had I would say about twenty five. I'd say about a third. I had three bank loans. And then and then the other two thirds I held through contract sales. I think I only had like one or two percent through like lease options or things like that. I didn't I didn't understand them well enough.

Joe: Contract sale is like a land contract for deed. Correct. So you would take over the mortgage subject two.

Mark: No, so that I didn't actually take deed to the actual property. I was a contract for deed.

Joe: OK. That's interesting. You didn't take deed to the property. The title stayed in the seller's name and the mortgage stayed in the seller's name. Correct. So then would you put private money on these deals or did you raise, put private investors in these deals? You know what I mean?

Mark: No, I put my own money into it.

Joe: OK. That was something that I got in trouble with, with my subject twos. Right. Because I borrowed money on these deals, which a lot of people were doing that in '04, '05, '06. Right. OK. So give us an example deal because you've got ninety two of these. What was a typical deal like this that you were doing?

Mark: So one of the ones that I had done, it was kind of wrapped together in a package with a guy who was he was in pain. I mean, of course, we know that's the big motivating factor for somebody who wants to get out of the business is how much how much discomfort are they in? And he was completely checked out this year. He did not want to be a landlord. In fact, you probably he really shouldn't actually talk to people in general. He's just not a people person, didn't want to deal with people. So he had this, I think, twenty I'm going to say twenty six units. I think altogether that he had there was one building that he had one apartment building and he had the rest were single family dwellings. So the strength of that deal upfront was definitely the multifamily deal. It was a 16-unit apartment building and the rest of more single families.

Mark: Single families were the typical hundred twenty-five hundred fifty dollar a month cash flow over and above PTI. But the apartment building was probably closer to maybe two hundred per unit. So that was definitely the strength of the deal. But so I really was aiming towards getting that deal put together because of the multi-family property. But again, the problem was and this is another problem that I had. I was attracting a client avatar that was that was so that required such a high degree of maintenance. First, it required such a high degree of management because I was taking on properties that needed a very high degree of maintenance. So because the maintenance, and these were single family dwellings, but some of them were, you know, CND properties.

Mark: Again, I had properties that required a very high degree of maintenance. So the client tell me that a very high degree of management, you know, meaning that, you know, there's no way I could have set up an automatic payment portal on a Web site where they would have gone to. You know, these were people that would call me up on the phone and say, oh, you can come get your rent. So, you know, I was being the good little landlord I was, I would jump in the car and drive down there and 15 minutes later banging on the door and they're not there. Are you kidding me? You just called me. How are you not here?

Joe: So you were managing these yourself. You didn't have a property management company?

Mark: No. Ninety two units.

Joe: You couldn't afford a property management company.

Mark: No, I couldn't have afforded one.

Joe: All right. So then what happened? How did the bottom fall out?

Mark: So it really was I mean, it was just a question of not if, but when this was all going to kind of come crashing down. I mean, I was building equity, but I was building equity so slowly that, you know, to a plan that I had had and kind of plan that I do now is get the property paid off and then refinance that on a commercial side, keeping my loan constant low enough to where it still makes sense. But now I can have the cash to do other things, either grow or deleverage or go out, do other things with it. But what happened? The labor market fell apart in two thousand and eight. And it was really funny because I remember very I was sitting there having lunch watching Maria Bartiromo say how bad the labor market was starting to get. Is she not being pushy? Maria Bartiromo was the money, honey. She was on CNBC. She was the you know, she was the one of the reporters for the Financial News Network financial channel. I'm pretty sure with CNBC.

Mark: And Maria Bartiromo comes on and says, yeah, things are getting really, really bad in the market. And I had been wading through this crap storm for eight months. And I'm like, where have you been dealing with this for eight months? But that was it. That was the ripple effect that was happening, was the labor market hadn't fallen apart yet. There hadn't been a job layoff yet. And these massive rounds of layoffs were going on. And that's really where you show my revenues were coming in about sixty-five thousand dollars a month and that went to thirty thousand dollars a month.

Joe: Somebody would say sixty-five grand a month. That sounds like a lot of money.

Mark: Well, keep in mind, that was my gross revenues.

Joe: Right. So if like somebody is thinking that's a lot of money. Right. But like it was just varnishing it.

Mark: Well, keep in mind, that was my gross revenues prior to debt service. So.

Joe: So you had a lot of debt service. That was. Yeah, that's I'm saying should you agree you can't eat equities? Have you heard that phrase before? Yeah. Yeah. Eat equities.

Mark: You can't eat equities. Yes.

Joe: You know, there was a popular book back then. Remember this book Equity Happens.

Mark: I don't remember no.

Joe: I'm not knocking the book, but there was this kind of a philosophy back then in those days, like equity happens, all you got to do is hold onto it for the long haul. And if it'll all work out and you just need a little bit of cash flow. Pay down, re-fi till you die. Just keep on re-fi, debt, debt, debt, debt. And there's good debt and bad debt. So it doesn't always work out that well. Yeah. OK. So this was 2008. Lehman Brothers. They had collapsed about that time. Is that right or is that?

Mark: A little bit later. But Bear Stearns I think went belly up. Lehman Brothers. All of these massive. I mean, it was a bad time all year.

Joe: So your sixty something thousand dollars in revenue went to, what?

Mark: About 30.

Joe: And over. How long of a period of time?

Mark: That happened in one month because everybody was laid off. And again, keep in mind the clientele that I was servicing. Right. So these were the people they didn't live paycheck to paycheck. Some of them literally lived from day to day. So it was not a question of like, oh, they're going to tap into their 401K. They're going to be like, you know, I need to buy bread, like literally bread. I don't know, I don't have food in my cupboard. So they went from sixty five thousand a month to thirty thousand a month. And after about three months, I had any cash reserves that I had, which wasn't near enough. That just vaporized.

Joe: So then what happened. By the way, Mark, I appreciate your honesty and transparency in all of it. I know this is painful. I don't know if this whole podcast series is a bad idea. You're gonna hate me when it's done. And I'm not, like, knocking you when I say, like, are you kidding me? Like, I'm not trying to insult you. This is I think it's is so good for people to understand. History repeats itself. Guys don't think that we're never gonna see this again. What happened in 08 and 09 may just be around corner.

Mark: Yeah. We'll keep in mind, and you might remember, Joe, if you were in the market back in 06 and 07. Yeah. I mean, you remember the pricing going parabolic. Kind of how it is now, you know, and I'm just saying, like, I'm not forecasting anything. I'm not going to stare into a bowl of water at Notre Dame-style and say that I know exactly what's going to happen, but I'm just seeing the pricing going parabolic. Kind of like it is now. And all of a sudden the unexpected happens. So what ended up happening was I kept the balls in the air as much as I could. And I became a master at keeping the lights on and stuff like that. But one day I remember my credit card was declining and I literally I had just enough, I couldn't buy paint. I had just enough gas to get home. I had just enough gas in my truck to get home. And I was like, I'm dead in the water.

Mark: There was nothing I could do because it was something wonky going on on my account. And I had to wait for the next data to cycle so I could get some credit back on my credit card so I could actually go out and buy stuff again. But it was literally one of the worst times in my life. And then I was working so much course, stressed out and everything else, losing my houses and my car. Everything I had built for 10 years was evaporating around me. Then I got double pneumonia and almost died in the hospital.

Joe: Were you married, did you have kids?

Mark: Not at the time I was in a long-term relationship course that was circling the bowl. It was just, you know, just one example. Yeah, it was. It was awful.

Joe: All right. So the market crashed. Can you talk about what happened? Did you have to do bankruptcy or were you able to salvage anything?

Mark: So fundamentally, I'm just opposed to bankruptcy, if you can avoid it. And I had lots of people giving me very good counsel. I chose not to declare bankruptcy. Part of the reason was because there were vendors out there who were local vendors that were counting on me paying my bill. And I just said to them, look, you might see some stuff coming up in the paper. And I had these really bad conversations with all of them. And I said, you might see some stuff coming up in the paper about me, which was foreclosures like every other week. And I said, I'm just going to be honest with you. I will pay you. And I understand if you've got to cut me off, I totally get it. But you will be paid and every single person that got in line got paid. In terms of the foreclosures. On the other hand, those came fast and furious.

Mark: And some banks chose to work with me. And as a result, I still have those properties. Some banks did not or could not or wouldn't. Whatever. You know, some banks, you know, just depending on their own personal strength. You know, if they were under a cease and desist or whatever, they didn't have a lot of options. So I did. And the properties that were under contracts, I ended up having to give those back.

Losing any equity that I had in those property and those properties. Any improvements that I did to them. I mean, it was, it sucked.

Joe: All right. So what kind of impact did that have on, you know, for the next 10 years? You eventually got out of? How long did it take you to kind of get your head above water?

Mark: So I remember one time one of the things that I was really that I'm really good at is kind of one of those things where just like, OK, what's my fastest path to cash? Like, what's the fastest way I can get, you know? I love that thought. Right. So I'm really handy. I'm actually really, I can fix almost anything. So I did this kind of like handyman service where I would go out and fix washers and dryers and stuff like that. I mean, I was just really good at that stuff. So I started doing that and I was making upwards of 500 dollars a day just doing that, fixing appliances, handy man, that sort of stuff. Yeah. So I did that, but I knew it wasn't sustainable. So I did that for about a year and that was enough to kind of get me a toehold. And all of a sudden one month I had enough money to pay both my water bill and my electric bill in the same month.

Joe: What year is this?

Mark: I think it was 2011. Yeah, I climbed out of that. So what I did as I was climbing out of this and working through whatever I could work through and of course I had one hundred grand worth of credit card debt and that was just terrible. And all these other creditors, you know, blowing up my phone. But I remember I had printed out my credit report and I kept in a binder clip and it was, you know that. And anytime a creditor called, I started taking their calls and they would say, hi, I'm so-and-so. And I go, Oh, OK. Hold on. And they could hear me flipping through the papers and go, OK. I spoke to Jennifer on this day. At this time. OK, how can I help you? And they're all like, are you for real right now? Like, yeah, like I'm for real about this. And I told you three weeks ago that I could probably pay you one hundred dollars or whatever. So I kept very, very, very detailed, detailed records. And I carry that around with me everywhere. And I never knew whether we're gonna call. I'll give you in the middle of Lowe's and yeah, they call. So.

Joe: So. Yeah. Bury your head in the sand, which is admirable. I mean, a lot of people did that.

Mark: It was tough because I, I had to own it. And I felt one of the things that I found out was I felt everybody in the world knew my failures. As I'm walking down the street, I'm feeling like, oh my God, all these people, they know. And then I ended up having lunch with a guy that I really respected who's awesome in in the property management industry, very much like a father to me. And I said to him, you know, like, hey, you know, how's it going, would love to have lunch with you. Like, OK, we ended up sitting down, he's like, what you got on your mind? I'm like, well, I'm sure you know what's going on with me and this and that. And he's like, no. And I'm thinking. I mean, I was. Fairly sizable at that point in time. He knew I had a fairly sizable portfolio, he's like no, what's going on? How do you not know, like you don't know about the foreclosures? Like, no offense, man. I've got so many of my own problems right now. And I was like, oh my. It like it was at that moment I'm like A, that's pretty obnoxious. I mean, to think that everybody's so worried about my problems. Right.

Joe: Pretty arrogant, And I'm the same way, you know.

Mark: Oh gosh. It was it was crazy. And then I thought, wait a minute, if you don't know these things and you're in the business, then chances are probably hardly anybody else does. And the ones that do and the ones that are the most critical are probably the ones not busy enough to be doing anything that's going to be of any consequence. So why am I worried about it? So I did I went at it full force. And that was probably one of the best things that I did. Now, would I have gotten out of it faster had I declared bankruptcy? No question. But it took me a good five to six years to where I was even lendable again. And I just had five to six years. It was about twenty, sixteen, twenty seventeen where I was actually able to get a credit card again. You know, other things.

Mark: And all of a sudden I was able to get mortgages again and that sort of stuff. Now going back and started to rebuild my portfolio prior to that. So I was in again in those times I was doing again, like contract sales and contract purchases and subject two deals and things like that. I didn't do a lot of it. I was really careful about not putting anything in my name because some of those deficiency judgments were coming, you know, were filed in persona, which means that they would come after me personally. So I was really careful about keeping that stuff separate. But, you know, anybody that got like that, anybody, they got in line, they got paid.

Joe: Excellent. All right. So let's talk on the lessons learned. What kind of deal would you take on today and compare like this is what I used to be find acceptable, and this is now what I find acceptable. What is that?

Mark: So now I'm very, very, very mindful of the activity that has to go on to a property and making your property successful, single family dwellings. They don't generally cashflow that well. They just generally don't when compared to the multi-family counterpart. I still that said, I still like multi-family or single family because it gives me a lot of options to buy properties or sell properties or do things. And it's just the property. That's just what I know. Right. So that said, I never get into a property. My acquisition strategy always has to match up with my disposition strategy. I don't get into a property unless I know specifically what my exit plan is. And that exit plan may be to hold it. But there was a lot of times I was buying properties just for the sake of buying properties because they were on sale or they were for sale.

Mark: So that was probably one of the biggest takeaways, but probably the biggest one was making sure that I wasn't creating a bunch of extra jobs for myself, whether I didn't want to be in the mowing business. I didn't want to be in the painting business. I didn't want to be in the cleaning business or the leasing agent business or whatever line item that I wasn't budgeting for high enough. So if I can budget for all those line items in, it's still cash flows, even if even after that, if it only cash flows one hundred dollars or so. Now I now I am much more likely to make that investment versus before where I was just looking to clear PITI. So that was probably one of the biggest things.

Joe: So just let me put that in my own words here. Now if you can cash flow one hundred two hundred dollars, that's OK. But factoring in vacancies, maintenance, repairs, cash reserves, feature capital expenditures and property management, where you're not the one with the hammer and fixing the toilets, right?

Mark: Correct. And we're not even not taking the calls. You know, some people just you know, again, if your phone system looks like this, you no longer get to complain when your residents call you at 2:00 in the morning or on a Sunday or when you're sitting at Thanksgiving dinner.

Joe: So let's talk about the numbers then or percents or cap rates or ROI or cash flow. What are some of the numbers, metrics that you look at when you're looking at a single-family home?

Mark: I just try to keep it as simple as possible. I mean, I don't want to overcomplicate and I know there's 50 million different metrics that people look at. I just simply look at cash on cash return in the cash on cash return is going to be in excess of 20 percent. It's generally worth going a little bit deeper for me with leverage with. Yeah, with leverage. Yet without leverage, that wouldn't be possible unless the property was an absolute steal. But with leverage, it would be a D neighborhood or your. Yeah, exactly. The neighborhood that I don't, where it's a war zone. I have to have, you know, Marine Rifle Squad with me to go in, go into it. I'm not about that.

Joe: OK. So your cash on cash with debt needs to be around the 20 percent range, right? Correct. And how do you calculate your cash on cash return?

Mark: Just simply what leverage that I'm putting into it. Closing costs, that sort of thing. You know, that's the cash return in the first year, right? Correct.

Joe: What are you taking out of the rent to figure your net income?

Mark: So I take out everything, which I know some people do not take out CapEx. CapEx is future repairs, right. So CapEx is capital expenditures. Most people don't know how to calculate that appropriately.

Joe: Is it a percentage of the rent that you do?

Mark: Yeah. So by my background's in accounting. So as people who know me go, how in the world did you get through accounting? And I'm like, well, it was an interest of mine at one point. Right. But so what I actually do is I'll figure out the useful life with the most expensive repair items that I see. To me, which doesn't you know, most people say, well, that's your cap ex is your furnace and your water heater and your roof. Well, maybe. I mean, at least it does. But what if you've got a driveway that's, you know, 200 yards long that's paved. Right. You have to replace that at some point. So what I would do is I figure out the useful life of that particular asset. So if it's a furnace, we'll say it's twenty five year useful life and we're five years into it. So 20 years, I'm going to have to replace that. Now, there's math that you can do. It's basically, you know, to figure out what the projected costs would be in 20 years based on inflation. I just say just use a use a number and round up a couple of thousand. I don't want to make it too complex.

Joe: So you look at your cap ex capital expenditures as wine items. It's not just a simple flat percentage of the rent that comes in.

Mark: No, because you've got to consider that if most people that I know and I was doing the same thing, they throw in a 10 percent cap ex and go, that's good enough. But that's absolute backwards thinking because a two thousand dollar a month rental, which is likely to be higher quality. Right. And newer and doesn't need as much in terms of capex allocation. You know, if you've got a seven hundred a month property that's older, I would make the argument that that probably needs to have a higher capex allocation. So I put I do put cap ex and what I'll do is I'll you know, it should generally only two or three line items, but I actually figure that out in terms of not just 10 percent of the rent, but I actually come up with an actual number and that number usually some weird number like ninety one dollars and 12 cents. And that's the number, that line item will go into another account. That's my CapEx count.

Joe: OK. What else do you take out of the rent to figure cash on cash?

Mark: And just basic operational stuff. So management fees. Now again, management fees. If you are planning on having that managed by a property manager, that would be appropriate to take the percentage out because they do collect a percentage rent. I would say that for most people, having a V.A., a virtual assistant that is allocated, that would be not only a cheaper option, but it's also somebody who can you can manage a lot closer. But that's a whole other conversation. But however you manage what you want, it managed that line for management leasing expense. Again, you would want to compensate somebody for getting a property leased up. A vacancy expense because vacancy expense is almost always under calculated again and calculate that per year and again if you get past the first year. Well, guess what? That vacancy expense now becomes profit for you because you've already budgeted for it for one year.

Joe: Do you try to save like one month's rent a year for vacancies? Is that what you're trying to do?

Mark: It depends. So we compensate, like if I was for some people. Depends on whatever you can negotiate. So if you could get like a realtor, for example, that has a new realtor and they're new in the business ends like they're trained on fair housing, they're ready to go out there and, you know, do the hustle for you. Would they do it for half a month's rent? I'd say many.

Joe: When I say vacancies, I mean lost rents.

Mark: Right. So, yeah, I'm sorry. I'm talking leasing expense. Yeah. I'm sorry. I'm confusing leasing expense with vacancy expense yep for vacancy expense. Vacancy is a calculation of time. Right. So, you know, if you realize if you really think that you can go from zero dollars to turn, back to dollars in one month, then absolutely. You know, then then you're looking at eight and a third percent vacancy. If you think you can do it in two weeks, then two weeks. But you have to be you have to be realistic in terms of how quickly you think you can get that property, get them moved out, get it turned, get it shown and get back to dollars. You know, for some people, they can do that very quickly. Back in my my day when I was doing it by myself, I mean, I had people moving out the back door while I was painting and cleaning in the middle of people moving in the front door in the same weekend. So it just depends on what you can do.

Joe: OK, what else do you take out? Vacant maintenance repairs.

Mark: So, yeah. So it may need some repairs. Again, something that often is under calculated for for lots of people. Again, depending on your area, it's just going to depend. So I mean, I would really, really be cautious about going too low on that because you might go six months where nothing happens and then you have a thousand dollar bill. So I would really, I think I caution people where I say well, I'll throw one hundred dollars on there for maintenance expense. I don't think for most places that that's going to be realistic. So I think it's not realistic. I think anywhere between one hundred and fifty is probably about the minimum again. But if you're talking about a market in New York or California, you may have to adjust that based on us reasonable people here.

Joe: As a general rule of thumb, is there like a percentage of the gross rent that you will set aside for all of these expenditures, expenses?

Mark: What I see is, I was also an underwriter, so I was in commercial underwriting for a while, and I will tell you that I happened to see that if 25 percent or 30 percent of gross rents does seem to be a roundabout figure for most back of the napkin numbers, I still. That said, I still want to make sure that I'm doing my own individual analysis. So, you know, your I would say buyer beware if you're going to do only that. But personally, I like to do my own analysis. But I will tell you, historically, the numbers still come out to roughly 25 to 30 percent of all of the expenses. And that includes management, including management. Right. But not including debt service.

Joe: Right. OK. I'm surprised it would be that low. I would have. You being more conservative now, would make that a higher number. 40 percent.

Mark: Well, you've got to keep in mind that 20 percent cash on cash is still hard to hit. You know, it's still hard to hit even with even with those numbers. So I'm that is a very, still pretty conservative.

Joe: Let's talk about cash reserves. Back to the lessons learned. Do you have, like a number in reserves that you want to have typically on hand for every rental property that you have?

Mark: Yeah, I think that and this is something else that you've got to keep in mind, too. So one of the things that I see in terms of underwriting with mortgages. So if you're looking at growing your portfolio, you're going to have to show anywhere from three months to six months in cash reserves for a lender to be satisfied just to continue to lend to you. That's just their basics. And I actually think that that's a pretty reasonable, reasonable policy. Now, that's not necessarily, you know, cash sitting in the bank reserves, because as we're heading into an inflationary environment, that's not the best use of our cash. But access to cash, meaning like, is it a four one K? Is it liquid? Liquid. Liquid cash. So I think that's probably a pretty good number. You know, I did say at a minimum, three months, but as you grow in scale, you can also start to leverage on other things. But you got to keep in mind, you got to keep that CapEx separate and all those other accounts separate and not dip into that. We're talking about specifically cash in cash reserves for the purpose of servicing your debt. If you're not able to and I think three months is probably about the minimum super important, OK.

Joe: So I got some serious questions. I want to hurry through this here. And some of them are questions already asked you or questions that maybe are repeating themselves. Bear with me is the first time I'm doing this. What are you going to do differently next time? Let me rephrase that. What could you have done to avoid this problem way back in the late 90s when you started?

Mark: Yeah, for me, I would value my time more. I would place a higher value on my free time. I didn't do that well enough. And as a result, I created all these horrible jobs for myself because I just just because I could do it did not mean it was the best, highest and best use of my time.

Joe: All right. Good. What was your biggest lesson learned or your biggest takeaway from this?

Mark: That leverage isn't only about money. Leverage is also about time. I was completely over leveraged in those.

Joe: Good. And then what advice would you give to people listening to this right now? What are one or two of the biggest pieces of advice you can give to somebody?

Mark: I would say get with somebody that knows that's been through this. You know, I often talk about the guy that, you know, like you're in a bar, right. And some dude is giving you a hard look across the bar. And meanwhile, your third-grade buddy, Timmy, who's never been in a fight, is like, dude, I've got your back. I've got your back. I'm like, Dude, you've never been in a fight. I don't need you to have my back. I need you to get the car right. You've never been in a fight before. You've never had your nose bloody before. I would really, really caution people taking advice from someone that's never been in a fight, never, never stretched to the, you know, clawed at the mud just to survive. And I'm not saying that some of the stuff that's out that's out there isn't valuable, you know, from some of the people who are hitting high levels of success. But if you can be successful in the last five or six years, that's not saying that much. You and I have been through some horrible times. We know what it looks like.

Joe: I was listening to a podcast from I think I want to say, as Russell Brunson. And he was talking about if you heard a story, he's got a podcast called Marketing Secrets Podcast. We've become friends. He's a super nice guy. He's had a lot of failures, at least two really big spectacular failures. Almost lost everything. Fired, you know, 60, 70 people one time. Got in trouble with the IRS, like you see him as this huge success. Everybody wants to be like Russell Brunson, who's got a hundred million dollar a year business. But forgetting what he went through to get there and when he was at his lowest point, he was coming out of it. He was talking to somebody that he really looked up to as a coach and said a similar thing. The guy said to him something like, oh, you've rebounded. I forget the whole context of this, but that he was making the same exact point.

Joe: You got to be so careful getting advice from somebody that's never had failure. Since 2012. So the last eight years. Right. It's been hard to lose money. It's been hard to lose. But it's been so easy to make money in this business over the last eight years. Be careful who you get your advice from. And I'm not saying, like, don't listen to them. I've got some good things right now. But most successful people that have been in business for a long time have rebounded, have hit the ground and come back. And that's the people that you want to get advice from, the ones in business, whatever your business is that have hit the bottom. But what's even more impressive is not their success, but how they came back. How did they bounce back? Right.

Mark: And it also says a lot for that person's character that that they're willing to. And it's interesting. It's made me a better coach to help people because I feel that as they're heading down that road and I know what that looks like and what that feels like and that that level of overwhelm it changes you.

Joe: And I think that people that's probably one of the biggest takeaways that I had. Biggest piece of advice of some big advice from you would be get from. You're done that right? Cool. We'll mark this went way faster than I thought it would. Really good. Forty-eight minutes into this, I wanted to keep them under a half hour. But how could you to reach you. And what do you what do you do these days?

Mark: Yeah, well, Landlordcoach.com is probably the best way for people to learn what I'm about. I'm on Facebook and that sort of thing. But, you know, I, I have coaching for people specifically who want to get deeper into the landlord business. Ironically, I don't want to make them landlords. I want to make them owners of rental businesses. And that's the conundrum. But reach out to me. You know, mark@landlordcoach.com. You could drop me an e-mail. I'm on social media. It's not hard to find me.

Joe: Landlordcoach.com. Mark@landlordcoach.com. OK. Cool. Man, we sure appreciate you being on this interesting series of podcasts. I'm excited about it kind of in a morbid kind of way, but I'm doing my best to keep notes through. Each of these episodes are doing. And as Mark is talking, I'm like, I don't want to be typing. I want to be listening. So I'm going to give my this recording to my assistant and have my assistant take some notes here in the mind map. But you can get this mind map. I wish I could show it to you. It's right here on my screen and you can get the mind back by texting the word bad to thirty-one. Thirty-one. Thirty-one. And on that mind map, we'll have the notes from this episode. We'll have the lessons learned and the contact information for Mark. You can reach out to him, but text the word bad to thirty-one thirty-one thirty-one. Go to JoeMcCall.com/bad. That'll redirect you to the link that you need to go to and to get a hold of Mark. Go to LandlordCoach.com. I'm sorry about that.

Mark: We look nothing alike. It's okay.

Joe: What's his name. I've never had him on my show.

Mark: Jeffrey Taylor. Jeffrey Taylor. He's got great tips. I mean, he really does. He's a very tactically based good dude. You know, I like his stuff, but I'm more strategic. I'm just a little bit more top down. He's more bottom up. But good stuff.

Joe: LandlordCoach.com. Or send Mark an e-mail mark@landlordcoach.com. Thanks again, Mark. We'll see you all later, guys. Stay tuned. I've got at least 20. I just counted them earlier, 20 something more of these already scheduled. I'll be releasing these one or two a week over the next a little while here. But these are good. Thanks again, Mark. We will. We'll see you later. All right. Bye bye, everybody.