Deals Gone Bad #3: The Whore House From St Pete with Jonathan Rexford

Hosted by*:* Joe McCall
Guest: Jonathan Rexford

Joe: Hey, what's going on everybody? Welcome to the Real Estate Investing Mastery podcast. This is episode number three of our Deals Gone Bad series. And this has really taken off. I'm excited about this. Getting such good education, talking to folks, normal regular folks. These aren't gurus. These aren't people trying to sell stuff. They're just regular investors talking about their bad deals. And we've all got bad deals. Right? In fact, you don't have one yet. You probably haven't been investing long enough. But don't be afraid of failures. All right. That's our best teacher. And a lot of times we learn more from our mistakes and our failures than we do from our successes. And somebody said once smart people learn from their mistakes, wise people learn from the mistakes of others. I think it was a Eleanor Roosevelt said something like that. I might get it wrong.

Joe: Somebody will tell me, I'm sure. So this is a podcast. We're doing it live right now on YouTube and Facebook. So, hello. What's going on? And this episode, we're going to be talking with a good friend of mine I've known for years, Jonathan Rexford from Florida. And we're gonna be talking about some creative financing deals that went bad. And these are right. Two things that I love talking about virtual deals and creative financing deals. And this is a combination of both. Jonathan's got a virtual creative financing deal that went bad. And we're going to be talking about the all the gory details. I'm not we're not going to be talking about gory details, but we're going to be getting some really valuable lessons learned from Jonathan as soon as I bring him on here in a second.

Joe: So hello again. And if you're watching this live on Facebook and YouTube right now, please leave a comment. Say hello. Give us a thumbs up. Share this. Let us know you like this stuff. Let us know what you're getting out of it. If you're getting anything at all and if you have a question for me or for Jonathan as we do this podcast here, type it in the Facebook and YouTube comments and it will come up and I will bring it up on the screen here and give you a shout out or ask the question and we'll get it answered for you. OK. Let's see what else is going to say. Oh yeah. You've got to subscribe to the podcast. Subscribe to our YouTube channel. We released at least two or three episodes every single week. And we give a lot of good content out there that you won't even know is coming out unless you subscribe to the podcast I use.

Joe: There's a podcast app that I like on my iPhone called Pocket Casts. You might want to check that out. You can use the Apple podcast app, Spotify, Stitcher, Google Play, where now it's not even called Google Play anymore. It's called pop, Google podcasts or whatnot. All right, one more thing. I am keeping a show notes of all of these episodes. And the last one I just did, Vamsi gave me some links and resources. I'm going to ask Jonathan for some resources as well and notes. And you're going to learn all of the lessons learned are going to be combining all of them into one mind map. And if you want that mind map of all these notes, it might turn into a book or I'm going to be using this, compiling all these lessons learned into a resource that you can get if you go to JoeMcCall.com/bad. JoeMcCall.com/bad. Or you can text the word bad to thirty-one. Thirty-one, thirty-one. If you're driving, don't send a text.

Joe: But it's easier sometimes to remember sending a word to a number than a Web site. I don't know. But text the word bad. Thirty-one. Thirty-one thirty-one. And we'll send you this mind map and during each episode we compile our notes, put them in there and the resources and stuff like that. You want to look at and reference in the future or get all of the show notes. I've got at least twenty or twenty-five of these interviews lined up, so I'm excited about this and it's just a great way to that. I'm hoping is helping a lot of you guys. So text word bad thirty one, thirty one thirty one or go to JoeMcCall.com/bad to get the mind map. You'll get a link to it and you can check it out and get all of the resources we'll have soon. Transcripts in here of each episode, bullet points of all the notes and then all the references and links and stuff like that that we talk about in the show. All right, you ready? Get Jonathan on. Let's bring Jonathan Rexford. Jonathan, how are you, man?

Jonathan: I am super fantastic. Joe, how are you doing up there in beautiful land of St. Louis, Missouri?

Joe: Yeah, I love it. It's overcast. It's 45 degrees. Haven't seen the sun in a week. Feels like a couple of weeks anyway. I'm just kidding. You're in Florida. I'm sure the weather's a little nicer down there.

Jonathan: It's been wet. I'm on the east coast of Florida, just a little north of Miami, about two and a half hours.

Joe: We've known each other a long time, Jonathan, but why don't you tell your story a little bit, you've been in the business a long time, right?

Jonathan: Yeah. I bought my first house nineteen eighty-six. Started my investing career in nineteen eighty-seven. Both as kind of grew up in the business itself. My both my parents owned a general contracting company, development company, that kind of stuff. I took over the day to day operations in ninety-three but always had my hand in the investment side of things. I got in the creative side of stuff, you know, following the same group that we all follow and pick up some bumps along the way. But yeah, it's going to always fail forward, I think.

Joe: Jonathan, weren't you on the Naked Investor Forum at one time?

Jonathan: Yeah, I was pretty active back in the day. We're connecting investor before we had Facebook.

Joe: Yeah, that's not what you guys think. All right. In fact, it's still going. What's the gentleman's name? Who runs it?

Jonathan: Michael Carbonare is just south. Oh, is he? Yeah. Michael Carbonaro, great guy.

Joe: Yeah. I got to bring him on it. I reached out to one-time and. Happened. I forget. But nice guy, and he's got a Web site called the Naked Investor. Yeah. And it's just an online form and it's not. Naked. Naked. It's like naked ingredients. You ever heard of the Naked Chef? It's like using pure raw ingredients. So anyway, enough of that. But he now is active and that's how we met. That was back 12 years ago or thirteen, twelve years ago. It's been quite a while. Yeah. OK, so you've been there, done that. You've got that T-shirt. You've done a lot of different types of deals. You're into residential, commercial. You do land a little bit too, don't you?

Jonathan: I've done several developments. I kind of I got slaughtered. So I've decided that this third stage of my real estate life, I'm not going down, not going back to that side of thing for speculation because that was entirely speculation and that I've kind of redefined my word of investing, which is not speculation. That's good, you know. So I've kind of developed my little pillars, my own little pillars that I try to stay in my lane, stay in my box. And quite frankly, 15 years ago, this was one of these deals that I did that I should have stayed in my lane, stayed in my box, and then I went out.

Joe: I'm writing that down, stayed in my lane. That's a good lesson learned. All right. So talk about this. You had a virtual deal, creative financing deal. How long ago was this?

Jonathan: Well, this was back in 2005. Very memorable. But it's not the worst financial deal, but it's the most memorable. We didn't have the tools that we have today, but this was a lead that came online. And I had an acquisition manager back then. I had a ton of cash. Joe, I mean, I was I had restaurants. I had you know, I was I thought I was going to be the multi business owner. And Cash made me stupid. And my acquisition manager found this deal and it was his first deal that we were going to J.V. on. And he said, man, I've got this deal. I got a hundred thousand dollars in equity. And so we ran the little real Quest CD I don't know if you remember those. But we were. So I ran. They said, man, this thing has one hundred thousand dollars in equity. And guy had major motivation. Divorce, you know, behind on payments, that kind of thing.

Jonathan: And I said, you know what? I'll take this subject two. Subject to an existing mortgage, take over existing debt. And this was a house. this was a two-story house, beautiful home from the pictures. Didn't have the Google Street View yet for us to be able to do. So I said, sure, why not? Let's just take it down. So went ahead sent the package over. I was actually looking it up. The payments on that were $1422 to a month. The PITI. Back then, he was seven months behind. So I reinstated the loan. The deal was I had to pay off his Home Depot bill because part of his divorce. You know, again, hundred thousand in equity. I'm walking into this thing.

Joe: And the payments again, I'm sorry. I'm just writing notes here.

Jonathan: Fourteen twenty-two per month. PITI. And we were estimating that we could probably get somewhere around 1850 because the whole idea, I was going to flip it. I was just gonna take it subject to, flip it, make some money because I had no business being a landlord three and a half hours away, St. Petersburg to Beer Beach, Florida. I mean, as a as a bird flies, it's a straight arrow, but it's still quite a bit.

Joe: Who did you want to flip it to?

Jonathan: Again, stay in your lane. I was not that wholesaler. I don't like wholesale deals. But still, I was going to flip it to a retail buyer because it was one of these four-bedroom, three bath homes, nice wood floors, just beautifully remodeled with a mother in law apartment. I mean, it was like one of these 1920s style type homes in St. Pete. OK. And so we did all this. Got everything recorded. Done everything by mail with a notary. Back then, they still had traveling notaries back then too and got it recorded. And I said, OK, let's sell this.

Joe: But you didn't even get an inspector there to go look at it.

Jonathan: No, no, no. I mean, looked at pictures. He took a picture. To me, looking at a house from pictures. And you take a picture of certain systems. I can kind of get an idea what's wrong with it. HVAC, that kind of stuff. And again, I had a lot of cash. It just didn't matter? You know, here's an invoice. My bookkeeper paid it. That was it. Yeah. Just go ahead and do it and just put it on the block. Well, we're sitting there. We go through January, February, which is still a pretty good year here in Florida. Could still move properties. And my acquisition manager was living in Lake Worth at the time. I said you need to come up Vero so we can go to St. Pete. So we drive over to St. Pete one morning. I said, I need to take a look at this house, why it is not selling. We've got it for sale by owner, you know. Have you thought about reaching out to a real estate agent?

Jonathan: I pull off the interstate and I start worrying about that. This house, this house was probably worth about two seventy, you know, bad comps, but it was right in the middle of several 10-unit apartment buildings. This is like the only house on the block. And I'm sitting here, Oh, boy, what have we bought? So I get there and I said, OK, let's fix this up because grass is kind of high, yelled at the lawn guy, that kind of thing. And we kind of cleaned it up a little bit. And this back when we had to use Garman G.P.S. to get there, you know, before, your MapQuest directions on a piece of paper. That's it. Again, I had no business doing virtual deals. I tell people, if you want virtual? I'm not your guy. I can tell you how. I can tell you how not to do it, but we wound up visiting there and I said, OK, we've got to find another way to do this.

Jonathan: So we got some contacts around the area figuring maybe we can flip it or maybe sell it or have somebody take over our position with the owners of the apartment building. No takers. They were all they were all owned by different companies. And we just never could get in, get a bite on it. It's a lot more rent this thing out. Couldn't get a taker to rent it for the mortgage. Really? Coming out of 2006? Oh, coming into 2006. I had been into this thing for about nine months at this time. The market was still white hot. It was still white hot. But understand, you could fog a mirror and get a mortgage.

Joe: So it was hard to find a renter.

Jonathan: Yeah, I mean, you got to think about the loans that were back. They had the NINA, the non-income non asset verification, you know. You could qualify for anything. And here I am. I've got a 70-year-old house that I'm trying to sell at the top end of the market for in a totally rental neighborhood. So we could not find anybody take over that debt because they were finding properties to move into. So I said, OK, let's just come back. By the way, that was later on. We just decided.

Joe: Before we move on from that, John. That's really interesting. I remember those days and I remember thinking because people are always complaining about either, can't find any sellers or I can't find any buyers. It's funny because I had one time two coaching students in the same city on the same day. Contact me separately. And but one of them said, I'm finding tons of sellers can't find any buyers. The other one said, I'm finding tons of buyers, can't find any sellers. Right. What's the difference? But this is a real thing, and I think this is going to be happening again in the future. I'm predicting maybe. I don't know. We'll see. Markets go through cycles, right? We haven't seen, you know, in since 2012, a time when it's been hard to find buyers. Right.

Joe: It's been hard to find sellers to most. We still find them. You know, if we come back to this where it's getting hard to find buyers, does that mean you can't do deals? Now, we're talking about bad deals here, but I just wanted to refresh everybody's memory. You could still find buyers even back then for your creative deals, right? Right. It's just a little harder. And I remember back then too what was, do you remember, Kent Clothier came out with find cash buyers now. Yes. The system. And that was a big thing because finding the buyers first made everything so much easier. It's not as important on people's minds now, but it will become important later. Would you agree to find buyers first?

Jonathan: Absolutely. Because instead of going in with one type of disposition strategy, you need to have multiple disposition strategies to handle situations like the one that I was in back in 2009.

Joe: You must have multiple disposition strategies. And what that means is exit strategies, right?

Jonathan: That's the rental about owner financing a retail. OK. All right.

Joe: So this house had what you thought about a hundred grand in equity, right? You thought it had about 400 something dollars in cash flow. Right. You couldn't even rent it, though, before the mortgage payment of fourteen twenty-two a month.

Jonathan: No, because a two-bedroom house, a two-bedroom apartment in these units were running for about 450. Five hundred a month. Oh my gosh. So we ran through this for about three months. And then I get a call from the property manager next door says, hey, fire department at your house. Is that your house? So I said, OK, again, stupid me. We had force placed insurance because I was not mining. I was not staying in touch with my business. Again, I had cash. It didn't matter. I just, my bookkeeper just wrote checks. So we had forced placed insurance on top of that 1422 per month.

Joe: What does that mean?

Jonathan: Forced place insurance is when you do not properly insure a house, meaning that if you if you let the insurance lapse, the mortgagor I'm sorry, the mortgagee, the lender will place insurance to insure their risk in the property.

Joe: OK. So the lender got insurance and did you know that they had?

Jonathan: Again, not in not staying in touch with my business. Went through the bookkeeper. Bookkeeper said, oh payment increase. Boom, boom, boom. You know, write the check and go for it right now. Yeah. So here's the neat thing about this. Well, I'm like, oh, crud, what's going on here? So I decide to take an early morning run back to St. Pete. And what had happened is that the mother in law apartment caught fire and it wasn't a big fire. It was just enough to do a short and some smoke damage and so forth. And I found somebody to rehab the mother in law apartment. So, you know, I dropped another twenty-two thousand dollars rehabbing because it was already not up to code and not what I would want to be able to resell. So I'm already into this thing puttering along about sixty thousand dollars with not coming in. So I'm seeing my hundred unmagical hundred disappear, which was already gone anyways.

Joe: So you put about another 60 into it.

Jonathan: Yeah, 60 with the payments back up payments and all the other stuff that kind of goes along with it. I figured it out that we lost about sixty, sixty-five thousand altogether in this deal.

Joe: Well the fire. What happened then?

Jonathan: Well the fire, we remodeled it because I knew if I made a claim against the, there would be no money left if I made a claim against the mortgagees insurance policy. So I went ahead and cashed. I wrote a check for that one. We rehabbed it and we went along for another two months. Nothing happened. I decide, you know what? I will go. And, you know, find out what just really get into the market. My wife said, hey, I might be back tomorrow. I'm just gonna go over. I'm going to work the local real estate agents, find a way to dump this property because, again, we're moving right into 2006. I got things rocking and rolling over here in Vero Beach. I'm selling houses, flipping houses, building houses, doing a development. But this is the thorn that's in my side that's really causing me problem.

Joe: And how long had this been?

Jonathan: This has been right at right at eleven, almost eleven months.

Joe: You were paying 1422 per month.

Jonathan: And actually more than that because the insurance went up, insurance went up one hundred and things like a hundred eighty bucks. I remember correctly. But it ends very quickly right here. I get over there that day, I take my tools over to my tool belt, over rake, that kind of stuff. I have no idea what I will run into. So I kind of clean up the place and I'm out front raking and so forth. And I thought I heard something inside the house. So I walk inside the house. And lo and behold, Joe, I kid you not, this lady that was a local streetwalker. A prostitute walks into the house. I've got my front doors open. Right. And of course, I kind of nicknamed this The Whorehouse from St. Pete. But she made a proposition for me for, you know, for a quick 20-dollar bill. And I said, I'm done. You know, I said, okay. I said, hit the street and so forth. So what I did is I called my wife. I said, OK, this is what I want to do. I want to read the property back to the seller, by the way. This is the only property in thirty-three years that I have bought subject two that I have ever given back to the seller.

Jonathan: And I said, I want to deed the property back to him. We're gonna give him two months where the payments are set and we're done. And so I recorded the deed and I called the seller up. I said, I pay two months on your mortgage payment. Welcome. You have your house back and I'm going to tell you, yes, the money is gone. But closure was such a relief at that time that you just like that. It was over. It was. And I was able to focus on the good stuff in my business instead of focusing on the bad stuff. But it is the most memorable thing that ever went through the whore house.

Joe: I wonder if it's okay to call this podcast that if YouTube or Facebook will let me do it.

Jonathan: I think you might have trouble with. Well, you might have to do something with Apple.

Joe: You know, we'll see. All right. So then what do the sellers say? Just OK.

Jonathan: He never contacted me back. Never contacted me back. I did everything through e-mail. You know, I sent him copies of everything. Did a change of address. Did all that stuff that you were supposed to do.

Joe: And, you know, I did a couple of homes back to sellers back in the day. And I was so terrified of what they would do or be angry and upset. And I I made sure that for me and for mine, too, that I did. I made sure there was a tenant in there. And I just was honest with the seller. I said, I cannot make another mortgage payment. Right. So I just made your last month's mortgage payment. The next month, the tenants can be sending their rent to you. And they didn't complain or say anything. I mean, they knew that I was in a tough spot. But wow. All right. So I'm assuming you probably have a lot of lessons learned. You already talked about them here. You had a lot of cash. Cash made you stupid, man. I can relate to that. You know, it's because it's just like I sent you write a check for it. And did you have at this time I can operations manager or an assistant that helped you manage that stuff, or was it just you?

Jonathan: Well, I kind of ran the real estate side of things, but I had you know, I had my construction company and I had my you know, I had employees back then. Plus I had employees and other businesses that I kind of brought them in whenever I needed them. But I was kind of the guy that kind of made the decision on that side of things. And my bookkeeper worked with me side by side. I wish she would've worked with me a lot closer, but, you know, because she took care of all my bills.

Joe: OK. How much money did you lose on this deal?

Jonathan: About sixty thousand. Sixty-five.

Joe: 65. I'm writing this down. I know for me, I hired an operations manager and she's been amazing. She's more than just an assistant or bookkeeper. She manages my numbers. And that's been helpful for me because so many times I just I would write a check just to get rid of the problem with not realizing it doesn't get rid of the problem. You really have to have somebody on top of it. So that's a lesson learned, I think, for everybody out there as well. All right. Let's talk about what would you have done differently? Looking back, Jonathan.

Jonathan: Well, outside of getting in a vehicle and driving over, there would probably have been number one, because I would've seen the area right away or I would have had somebody there walked the area, take a street view, pictures, that kind of stuff, because I relied on sellers. Of course, we know that sellers don't lie to us, but we that's a joke. I relied on sellers, pictures and sellers' stuff to give me. I did not say take a street view, so obviously have a physical or have somebody there that is a trusted business associate to go into that area.

Joe: You know, sometimes it more than just the street view, right? Because there may be a railroad track behind. There may be industrial buildings in the area. There may be a huge cell phone tower that you just never know. OK, what else what else would you have done differently?

Jonathan: Well, that would probably be one of the biggest things. The financials, of course, I should have verified the financials on this, that my comps were not really the comp. Not really dependent on the CD from Real Quest. Come into my all went to data back then, not rely on that information. Get local. Get a local professional local real estate agent in play right away for this type of property. Possibility. Find a way to do a local rent study in that area. This would have been some of the things that I would have done if I'm, you know, if I was going to stay in that area. So if I want to go back there to do this. But again, we didn't have a lot of these tools. With the click of a mouse like we do today, today, it is just so much easier to do this stuff. But here it is. I'm thinking I'm about to make a twenty five-thousand-dollar investment and, you know, a buy in strategy and think, what? Why would not have I got in my truck and drove three hours for twenty-five thousand dollars to me. I kick myself. Why didn't I do that? Because if I did, I would not have spent twenty-five grand where I should have just done it.

Joe: When you look at deals today and virtual deals today, how do you do your due diligence?

Jonathan: Well, right now I will. I'm not the virtual guy. So to me, I must have feet on the ground in that in that seat is somebody that's going to have skin in the game. And that's usually in form of a joint venture partner that we have to, you know, through associations that we develop. And that is the only way that I will do them today. And that taught me a valuable lesson right there. Oh, for sure.

Joe: OK, good. What advice would you give to somebody else?

Jonathan: Jonathan, that would probably be the number one. The other one would be try to find a way not to use your own cash. You know, from all these strategies over the years, I developed what I call my five pillars of funding. That money for real estate does not come out of these pockets right here. Money stays here. And that's how I kind of fund my transactions today. I break my pillars every time. But again, I try to maintain that because once you put once you put cash into a deal, into a deal, Joe, Cash is gone. We're hoping to get everybody talk about return on investment. I want return of investment. So that's one of the things that I look at today. Yeah.

Joe: I think another lesson learned we talked about this is staying in your lane, having multiple disposition strategies, multiple exit strategies. Can you flesh that out a little bit? What you mean by.

Jonathan: Yeah. One, when I'm evaluating a deal today, Joe, I'm looking at it. Can I rent it? Can I lease option. Can I sell it with owner financing or kind of retail it. And you know, those are kind of like my four. I don't like the retail side as much anymore. So the way that I'm looking at it, if my if my three main strategies are those three, if I could do two of the three, I'm probably going to go in and do the deal if I'm stuck with one. That's a no deal for me and the St. Pete deal. That was a one strategy that wound up being a big fat goose egg.

Joe: Yeah. So important. And this going to become more and more important, I think, guys. I don't think I know as we go forward because it's been easy the last seven, eight years to make money. Right. It's easy. And an idiot can make money. Right. But going forward, as a market starts changing. And I think we will start seeing prices dip. You've got it's going to be more important than ever to have multiple exit strategies, especially those of you guys that are doing the high-end rehabs. If all you have and you hope that you can sell it in six months, you might be in trouble. So just be sure you have multiple strategies. If you can't sell it. If you can't rent it. If you can't owner finance with it, whatever. So. Good. Excellent. Jonathan, you have a really good Facebook group. What is that group?

Jonathan: Well it's a subject two group? We've got about twenty thousand people. And it's kind of dedicated with creative financing. Just kind of like some of strategies that you teach. And, you know, we kind of just sit back and chit chat.

Joe: And I'm going to look for it right now and then put a link to it in the mind map. OK. It's just called subject two.

Jonathan: It's subject to real estate investing. If you Google me, you'll find it or Facebook me.

Joe: I guess it's called subject to real estate investing. Twenty thousand members. I have 1128 friends in the group. Sure you do. I'm going to copy this and it's a really good group. Guys, I recommend you go check it out. I'm putting it in the link to the mind map here. You also mentioned the five pillars of funding. How can people get that? Is that something you have online or.

Jonathan: Yeah, I can certainly get a copy of that to you or to your assistant, if you like. You want me to. I can just run right through it real quick. I mean, it's.

Joe: Sure. Yeah. I just have a couple of minutes so. But I'll send it to me. OK. And I'll put it in the mind map but go ahead and fight.

Jonathan: Well, the five pillars of funding the money must come from these sources. Seller buyer, tenant equity partner or private lenders. Buyer, seller buyer, tenant equity partner, private lenders, partner, private lender. And each of those have subsets where money comes from the seller where money comes from a buyer such as such a remote option to buy that kind of stuff. So those are the strategies that I have.

Joe: And I see you had that on a PDF for some kind of doc. Good. If you send that to me, I would appreciate that. I will put this in the mind map. And guys, you can get that mind map again by texting the word bad. Thirty-one. Thirty-one. Thirty-one. Or go to JoeMcCall.com/bad and we'll get you the mind map right away. And we also will have the link to the Facebook subject to group that I know you guys can go search for that and face. It's a really good active group, I recommend you check it out. Go. I see that you shared my one of this video right now. So it's in the Facebook group as we speak. Subject "to" real estate investing Facebook group. Good. Jonathan, thank you. I got to go. Appreciate your time so much. Good luck to you. It's good knowing you. I've known you a long time. Hopefully get to meet you someday. We'll see you guys all later. Bye bye.