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Learn the Right AND Wrong Way to Invest In Real Estate, with the Legend, Michael Jake! PART-1

Hosted by: Joe McCall
Guest: Michael Jake

Joe: Welcome. This is the Real Estate Investing Mastery podcast. Hey, guys, I'm Joe McCall. This is a real estate investing mastery podcast, and on this special interview today, I have Michael Jake, some of you guys maybe have never heard him, but the guys who know who Michael Jake is, he's one of the coolest investors in the United States.

Michael: Well, there was a time, Joe, funny that you're streaming on YouTube. There was a time when I had the number one video on YouTube for you for real estate investing. That is long since past. I haven't shot a video in ages.

Joe: I was going to bring that up here. So a lot of you guys don't know Michael Jake, but he's a rock star. He's a really excellent, awesome investor. You go to the big mastermind's and people know Michael, Jake, and he's one of those guys who has a lot of property, has survived the downturn and thrived and is doing very, very well in a difficult market. I mean, he's doing things that a lot of us wish that we could do. And so Mike's just a good friend. I've known him for a long, long time. I remember first following Michael Jake on YouTube's right. When you had, I would do a search for real estate investing. And I don't know if it was in your living room or something, but you had some really is about lease options and subject tos and creative financing and things like that at the time. Michael, were you trying to be YouTube famous or trying to gain a social following? I mean, this was like 2007 and '08.

Michael: I did run a local coaching program, in fact, back in back in the day. And I think that's what my goal was with the YouTube. And I was you know, I was kind of on the Dan Kennedy train for a while and a good friend of mine I knew through there, Terry Weigel got really good at doing YouTube videos and getting placement on YouTube. And it's real funny. We were at one of these Dan Kennedy conferences and I was probably four or five beers deep having a conversation with Terry, and he's telling me how you do the videos and here's how you tag them and keywords and blah, blah, blah. So I literally went up to my room at the hotel and shot a video, I think on lease options, you know, semi inebriated. And I knocked out pretty quickly Terry's own video on real estate investing. So I'm like, well, this is pretty cool. So, you know, I mean, that was the good old days when we didn't have competitors like you own in the space. But yeah, it's just, you know, I thought I was trying to feed my local coaching group, but I don't think I ever was really that good at it. But no, I mean, learning the tagging and things like that, it was definitely fun. Little, right? Well, it happens.

Joe: But there's guys right now that are doing real estate videos like Meet Kevin, Graham Stefen, some of those guys. Yeah, yeah. They're doing a million-dollar months from Google. You believe that?

Michael: Yeah, I do. In fact, I've sort of watched a little bit of Graham's stuff and I don't know the Meet Kevin guy, but I watch Ken MacAvoy videos and he referenced Meet Kevin. I think so, yeah. I probably should have stuck with it. But I mean, I hate to say it, it's kind of like a job. Like if they don't keep working at it, I think the following kind of dissipates.

Joe: But here's a big problem with it to YouTube and in a second can pull the rug out from under them. Now, I'm not going to get into politics, but YouTube is already doing that and they've said they would do it. Anybody who disagrees with this election and who says and I'm probably going to be pulled off of YouTube for saying this right now, you just watch it in five seconds. I'm going to be gone. But anybody who says like, hey, I don't think Biden won, Trump won, Google has already said in their blog, and I didn't believe when I heard this and I looked at it, I saw it. We will remove your video and maybe even delete your channel like insane. So here's one of the problems. When you're relying on Google, if you do something wrong or if somebody hacks into your account, I've heard this many times, somebody hacks into your YouTube account, does some stupid stuff, YouTube, they'll shut you down. It's some ten dollar an hour minimum wage person in India can shut your entire account down and wipe out. And then if you're going to complain and try to get it back up, who are you going to go to? You know what I'm saying. Anyway.

Michael: Good luck getting through to somebody at YouTube.

Joe: Well, you got to own the racecourse. This is one of my, you can't have all your eggs in just one platform. If any of you listening to this or into social media and you want to be an influencer and all of that, if you're if you think that you're going to be a rock star forever on

Instagram, Instagram is not going to be around forever. YouTube probably be around for a long, long time. But like, they can change the algorithm. They can hide your videos. They can. So you have to own the racecourse. And one of the cool things about what Michael's doing in real estate is he owns a lot of properties. So, Michael, let's talk first about how did you get started in real estate and when what year was this?

Michael: I started originally because of a really good friend of mine I've known since third grade friend of mine, Shaun, from where I grew up in Ohio and in high school. I remember Shawn's dad starting to flip houses and buy some rental properties in Wilmington, Ohio. And Shaun was like nineteen and bought his first rental and kind of sweat equity, fixed it up over time and he kind of did it on the side and right after. So I grew up in Ohio. I've got a business degree and I wanted to move out to the mountains, had another college, but he dragged me out to Montana and I just kind of fell in love with the West and wanted to move to the mountains and ended up here in Colorado Springs. And I was kind of on the IT train when or let's call it the IT wave when it crashed right after the millennium. And I just bought my first house with the plan of kind of doing what I could do to replicate what Shawn was doing, building, building a portfolio, rental properties. So I bought my first house with the plan of I got an FHA loan, low down. I was going to live in there until I could refinance it at conventional and then go buy another one and just sort of move laterally and build a portfolio of rental properties. The slow, steady way, but slightly after the millennium, slightly after I bought that first house, we all got called into a room and said, hey, 30 percent of you guys aren't going to have jobs in the next 90 days.

Joe: So now people forget about this time or some people weren't even born yet. Listen, we're talking about the dotcom bubble burst the late 90s, early 2000s, right?

Michael: Yeah. I mean, in IT, it was all of the millennium and the date change stuff created a lot of demand for I.T. workers to get in there and get the code changed. And then after the millennium, where is the demand?

Joe: What are you going to do now?

Michael: Yeah, yeah. And I mean, I didn't do a lot of that deep change crap, but that's ultimately how I ended up in the space. And it's just round after round after round of layoffs. And they were taking a lot of the people in. And I did mainframe stuff which like I don't even know if those exist anymore, but they were outsourcing jobs to Third World countries where they could get that labor significantly cheaper than what they could in the in the United States. So, you know, we enjoyed the wave while it happened, but we created our own demise because what it cost to keep us as an employee outweighed the value that we had after the demand for that labor was gone.

Joe: So isn't that crazy? Because I graduated college in the spring of 2000 and I remember in late ninety nine, nineteen ninety nine back in the last century, last century, being worried like, man, am I even going to be able to get a job when I graduate in six months? That was a real fear. A lot of people were worried about that. Yeah. All right. So you're in Colorado Springs, you are buying homes, but you lost.

Michael: So I met my wife out here in two thousand and one.

Joe: And God, because we're going to be talking about how awesome your wife is.

Michael: Yes, she is. She's a rock star. Best investment I ever made there. So we met in '01. We bought a house together in 02, made the old my house a rental. So kind of slowly following the plan. But we also got married in 02 and that kind of slowed the pace of any investing. So by three, we're like, I want to do this seriously. I don't want to live in fear at my corporate job. Like every six months or so there's another round. And I literally was sitting in this huge office building and initially it was so crowded I had to share a bullpen with like there were six of us in a bullpen. That's a real fun work environment. And then I finally ended up because all these people got laid off, I finally get a window seat, which was awesome. And there's nobody on this side of me. There's nobody behind me. And, you know, but the writing's on the wall, like, how long is this party going to last? You know, there's a really good coach, mentor Bill Bronczek, who time was running the Colorado Association real estate investor. So I started going up to Denver and going to those meetings and I started I bought some of Bill's courses. In fact, my first one was on lease options and just kind of wanted to make a business out of this. And I ended up buying a triplex, not my best decision, but it got me off to the races and got me started. So 003, I officially had a crappy business card printed up that said I was a real estate investor. And were you are you fired by this time? Did you still have a job?

Michael: No, I was not fired. By late 2003, I was picking up checks in my cubicle trying to get fired like I was trying to get a package at that point. Like, I mean, it was a pretty amazing transition. Like A, my wife is a rock star and said, you know, when we kind of went to one of these free seminars where it's free to get in and expensive to get out. And I was like, well, OK, let's go, honey. And she's like, you said you wanted more information. You said you wanted to do that. There it is. Go sign up. And I said, if I'm going, you're coming with me. Like I was a big chicken. And she you know, we went to that seminar and we were able to repeat it a lot. And I started buying Bill's courses.

Michael: And Bill, like, I really got to give them credit because, you know, you can learn all these tactics and stuff. Bill's an attorney, and he was really good at explaining all the legal stuff. And I needed that. And I knew and I did paperwork, too. So that and I kind of like cold calling by knocking on doors. I networking at local clubs. I came across a guy who I just pestered the crap out of. His name was Brett, and he had credit lines, and I knew if I found a deal, I could bring him a deal. And back in the day I had my database, my contact database resembled one of these a little notebook. And I wrote everybody's name down and, you know, and I knew what they were looking for. And ultimately, one of the other people in the club found a wholesale deal. I called Brett. I said, hey, I got an opportunity. We looked at it and he's like, well, what do you want? I said, Dude, I don't know. I said, let me I'll help you. I'll do some sweat equity. So anyway, he knew I was pestering him constantly and he told me no or completely ignored me a lot. But it's kind of getting close to what a deal needed to be and what did it need to look like. And so anyway, I did some sweat equity. We eventually I put my course to use and I found a rent to own buyer. I filled it. I mean, before we called the business turnkey, I created a turnkey deal out of accident.

Michael: And then we sold it at about 10 percent below market to another investor that I knew that wanted to buy rental properties. So it all worked out. And I walked away with a check for sixty-five hundred dollars. Wow. And that was just like at that time it was like, wow, that's like major money. That was like a whole month or more of working in the cubicle hell. So it was just kind of off to the races. And then the next deal actually Brett found it and he's like, hey, I'm going on vacation. If you find a buyer for this wholesale property, by the time I get back, I'll split it with you. So, I mean, we had nothing in writing. It was just I mean, he said, I got this property in Woodland Park. I said, do I made one call because, again fancy Rolodex.

Michael: I called a guy that I knew wanted rental properties in Woodland Park and I made eighty-five hundred bucks on that deal. Then, you know, I think I did a couple of lease options with a tired landlord. Got that from Brunswick's course. So now I started having some passive income on top of what the triplex, the original house and I kept plowing in into marketing and mailing letters and doing stuff like that. And by the end of the year, I mean, I think we did, I don't know, maybe a quarter million in cash and equity.

Joe: And what year was this?

Michael: This was '03.

Joe: Excellent. So '03. Yeah. And almost two hundred two thousand dollars in equity and profits deals.

Michael: And we paid off debt. Put it back into my education. Clearly spent a couple of bucks on courses and seminars, but by '04 I was kind of ready. I'm like, this is working. I was closing on average one and a half deals a month and they weren't all big ticket, but that was enough. That was going to replace my salary. And we had we ended up flipping the house we bought to live in in '04. And after we did that, we bought a little bigger house. In fact, I'm still in that house. That house was supposed to be a two-to-three-year hold and anyway, '04 to now we're still here. So that move put enough money in the bank to where we had a year salary of myself and my wife cumulative. So I kind of had that safety net to walk away from the job. But we did get I say we my wife got pregnant and we were on my insurance. So I had to ride the train out till August of '04. But I was taking advantage of the window seat with nobody buy me at work like I was working leads. I would get to work early. I would pound out all my work. And I'm sure you've read the four-hour work week at some point. Joe and I was I was living that before. That was even a book. Like I was pounding through my work so I could spend my lunch on doing real estate since the afternoons. And like, I was so sure I was going to get a package, man. I'm like, they're going to so fire me. And I did my review in '04 and they're like, you're doing such a great job. And they gave me a freaking raise and I nearly lost it.

Michael: I nearly laughed at my boss over our phone call review. And I was like, crap, I'm not going to get a package. So anyway, my son was born in August and basically I just I just never went back. I gave my notice from a marketing seminar in Orlando and I kind of did the old

Ron Legrand. I fired my boss in a polite way. I liked him. He was a good dude. But anyway, I just never went back. And that was the best thing that ever happened to me. I kind of wanted to marketing some years back to back, and that really helped me refine that process. And I kind of went quickly from doing one and a half dollars a month to to two to three to four and just kind of build on it from there.

Joe: What did you do between '04 and '07 when the market started teetering?

Michael: My wife joined me in '05. So we had no safety net of job or corporate benefits or any of that stuff. But my wife wanted to have a family business and that was a huge blessing. So, I mean, I effectively have a partner that all the income stays under one household.

Joe: Who's smarter than you.

Michael: Who's smarter than me. And like, we're a good mix. Like, I think like if you've ever read Traction. I'm definitely divisionary and she is the implementer and you can't have one without the other and me, I would just be a bolster of oh shiny object syndrome. And she can kind of put the good ideas to the to the ground and get it running.

Joe: So we'll talk more about that, too, because she's managing all your properties now and you do a really, really good job of managing your portfolio.

Michael: Well, and absolutely. And that was an evolution because in this era we were doing, you know, what the gurus would all say, oh, just sidestep management and do rent to own and blah, blah, blah. And you get more cash flow and you get option consideration. And later on, I'll tell you, that was not a good experience for us. But we basically ran two operations. I did wholesale. And what I would call wholetale. I like this was we're coming into the sub prime time.

Michael: So you could basically get a property, clean it out and put it out there and get retail, I mean, effectively retail for a property. And that was great. We were making crap loads of money and some of it we plowed back into the business, but we never really fully rehabbed the house. And I think that's key. We never really fully rehabbed the house until the market tanked. And that was like talk about who moved my cheese. It was you really had to hunker down. And so 2008 basically, I built about seventy eight houses in a portfolio. Most of them were subject to existing loans or a few lease options and a few BRRRRs or so. Yeah. And then I went from probably having a net worth of very attractive to probably somewhat negative.

Michael: I'm not somewhat negative, probably laugh about it. I was in Phoenix with a good friend of mine from Dan Kennedyville and we were hiking Camelback Mountain and Gerald Assamese. He's like, so what do you think your net worth is right now? Because he kind of knew how many houses I was in. I'm like and I just gut reaction. I just kind of laughed and I said, I don't know, probably nothing. But we held on and the rent roll was there. And that was the era where we really realized we got to get good at management or we're going to lose it all. Like I mean, we're going to lose it all.

Joe: How many properties did you own when the market crash started?

Michael: Seventy-eight.

Michael: Seventy-eight homes.

Joe: And you were buying a lot of them subject to creatively, right? Yeah.

Michael: Yeah. I mean, by my model. When I was buying them, I'd have at least ten percent equity. I'd kind of walk through the here's what you get with a realtor. Less six percent less, three percent less blah blah blah blah blah. And here's where you shake down. So marketing wise, I would do my direct mail lists so I would target them right at that window where they may or may not be able to have enough equity to sell. And if they didn't have the time to sell. So we're in a unique market. We have five military bases here, Fort Carson being the biggest one, and we have what's called PSCs. Permanent change of station. So they rotate them in and out, rotate them in about so they get one hundred percent loan. They buy a nice house, pretty new, in excellent condition to qualify for a VA loan. And then they unexpectedly have to move sometimes. And you're signed away to the government and you're going to do what they say. So and a lot of those guys are just like terrified to to be an out-of-state absentee landlord. And I always joke like that was always my evergreen source of deals. The out-of-state absentee landlord. Easy list to get, but if you work it, the deals are always there. So my goal is I don't ever want to be one of those, but we just racked them and stacked them. And ten percent equity. In 2006, I bought thirty-six rentals.

So wrap your head around that. 2007. I went to the seminar by Jack Miller and John Chubb called the subprime meltdown. So I went to this in 2006.

Joe: That was before anybody was really even talking about that wasn't it. Yeah, yeah.

Michael: I mean I had a crystal ball and I just didn't pay enough. I'm like, oh, it's going to be that bad here, you know, like we knew what was going on in Florida with the condos and the California. And I'm like, this is Colorado Springs, slow and steady. Nothing really dramatic ever happens here. We're going to be fine. And I was wrong, you know, I mean, two thousand and eight, our properties pretty much dropped 20 percent overnight. I mean, it seemed like it happened overnight. And now we went from wow, I'm smart to holy crap, what did I get myself into?

Joe: But what kind of cash flow did you have on average for each of these properties?

Michael: Not much. We had enough to support them, not much for vacancies. I mean, my typical house pre collapse was probably around one eighty to two hundred house that had roughly, let's call it an eleven hundred dollars payment that I could rent for twelve fifty to thirteen hundred.

Joe: How did you survive that?

Michael: My wife and management in. Just kind of making it work, and we did, again, like we were kind of following this whole recipe of you get option consideration down, you get premium rents, and that's going to solve all your management problems. And my wife built a an online training platform, did live classes for our tenants. We gave them an entire curriculum for free on how to get their financial act together from basics of how to how to balance your checkbook, how to pay your bills on time, how to clean up discrepancies on your credit report. We also at one point we were hiring credit repair as a part of their, so we'd take part of their down payment and buy credit repair for them. I mean, we did we pushed, pulled and dragged that any way we could possibly get them through to the finish line. And ultimately, our biggest competition was it did work. But, you know, they went from, OK, I can't buy a house. And there's like a handful of rent owners available to now. I can get qualified. And the world is the world's playground. So we had a lot of people went and bought a different house. A lot of them bought new builds because the builders were given really good deals at that time. And the new car smell is gone from the house they're living in.

Joe: When you had vacancies and you always had vacancies, I'm sure, although because of your wife, your vacancies weren't that long. Like, did you have enough in reserves to cover those mortgage payments?

Michael: Honestly, at the time? No. And I'll talk to you about that because the flipping funnel got squeezed because I mean, basically, I had one lender and I had an amazing relationship with this lender and I had access to all the capital I needed. And through some development deals, he had his business got shut off. So I went from having all the money I need to to do deals, to no money, to do deals. So I had to go to purely a wholesale model. And what happened was my marketing cost was here and I would make a profit sum up here. So the profit was significantly higher than the cost of the marketing. And what happened after the market tanked is so many people that didn't have any equity that could have said yes before, can't say yes now. So my marketing cost went to here and my profit went to there. So I was effectively treading water all year, not really making a lot of profits. So like 08 was a rebuild year, I had to scramble to find private lender relationships so we could do two flips. We had to scramble to figure out how to do rehabs.

Michael: And in that process of probably 08 and 09, we took on a lot of personal debt. We had a home equity line. We had some other credit lines that we'd established to do flipping. And those ended up as long term credit lines that we were using to feed vacancy and maintain the properties and people that didn't buy our houses, which was most of the tenant buyers, if they put five grand down, they took 10 grand out and maintenance and we lost a month or more of vacancy while we had to do the fix up other people. I mean, it was a it was a huge recession. So we had a lot of people losing their jobs. It would have stayed but couldn't because they lost their jobs. So, again, we had we had so much more turnover from management. Turnover is what kills you from a cost perspective. Like when you lower the turnover, you radically lower your holding costs on a property. And that ultimately around I think it was 06.

Michael: I was at a Dan camp, maybe it was '07, I ran into a guy named David Tilney and I'd heard this guy's name every time I go to a real estate seminar, especially to Jack Miller, John Sharp, stuff like, oh, you're from Colorado Springs. You must know, David Tilney. I'm like, no, who is this guy? I need to meet him. And he's kind of like the single-family house property management guy. And somewhere around there, Laura and I both went to his seminar and we both slowly started adopting his philosophies of management and we slowly got rid of the rent to own and went to a traditional management. And that really by effectively getting less up front and believe it or not, charging less monthly, we made radically more money because we had significantly less turnover, we had significantly less wear and tear on our assets. And effectively, like thinking of the tenants differently is revolutionary in all my management philosophies.

Michael: I'm going to give credit to David Tilney. I mean, he really is the guy to teach this stuff. But Joe, we both have businesses and we both have employees. And what we both know about business is you don't want to hire the first employee the same year. We want to hire rock stars that can hit the ground running and tenants are no different. Employees are an asset to our business because typically their production is higher than the cost. So more employees, more leverage. More leverage, more revenue. Tenants are the same way they are just another point of leverage and you want to hire rock stars and how do you hire a rock star? We got to have the right compensation plan, right. You've got to start with the house that a great tenant would want to move in. You don't want dumpy properties with deferred maintenance. You want you know, like if somebody that is a poor credit risk walks in to buy, let's just call it a vanilla car. They're going to walk in with poor credit and they're going to buy that vanilla car at a payment appear because the credit is a reflection of their desire and ability to pay the same person that comes in, who has excellent credit, impeccable history, can walk in and buy that same exact vanilla car for a payment down here because they're a much less credit risk. Does that make sense?

Joe: And who's going to take better care of the car?

Michael: Exactly. So because they want to maximize their return when they sell that car or trade it in and tenants like I'm using that analogy because I like cars, but we reward them and we attract them with a lower payment, not a higher payment. If I put that, if I want like a rent to own caliber payment on my property, who am I going to attract? Somebody who's used to paying high prices for things because the credit sucks. Who am I going to attract if I if I advertise a lower payment for the property? Somebody who's deserving of the lower payment and recognizes value.

Joe: Well, you're going to have when you lower the payment, I'm assuming you're going to have a lot more applicants to choose from. Right. And then you're going to have a much bigger pool of tenants to choose from. And then you dive deep into really doing background checks and finding the good ones, right?

Michael: Absolutely. Absolutely. We have very high criteria. We publish our high criteria. And as long as they meet the bulk of it, we have the leniency to you. So they don't have to meet all of it. But all of it is very high. It's a high mark. So we prescreen out a lot of people before they even apply. And ultimately, it's, you know, what do you do when you want to hire a rock star employee? Do slowly give them a few hoops to jump through to see if they can jump through them and make sure they do the right fit and they're not going to roll over and play good. Yeah, we do the same thing with our tenants. You know, they don't know the length of the application process before they start. They just start in the process at some point. Weeds out the non-hackers. What's the I'm sorry, I went back to Full Metal Jacket. We will weed you out. No, but that's who he is.

Michael: And we want to we want to have rock star tenants that understand our philosophies of maintain and improve the asset, get along with your neighbors and pay the rent on time and ideally stay the rest of your life and your children's lives as well. We basically treat them like adults and we leave them alone, know we don't treat them like kids. We respect their privacy. Do we do inspections? Yes, it's typically right before lease renewal. How do we also do inspections through our team of subcontractors? Like when there's minor maintenance items? Those are people there are eyeballs between inspections to see what's going on in the house and they will let us know if something weird is going on, like between when they moved in. But ultimately it's when you start hiring. We went from high turnover and now our average tenant stays about four and a half years.

Joe: That's crazy. And people don't think about that. I'm a guy who loves lease options. I've bought my own personal residences with lease options, starting with lease option. Right. There are some there's a place for lease options, but don't feel like that's the only way to do this. Right?

Michael: There is a place for it. And there are markets where that probably can work.

Joe: But you still you can't throw out your normal pretty screening process and you can't lease option cheap properties. I see so many people doing that lease optioning the cheap sub. One hundred, one hundred- and fifty-thousand-dollar homes. I just in my opinion, I think that's a recipe for disaster. But I want to ask you some more questions, Mike, if that's all right. During this time when the market was crashing, did you maybe you don't have to answer this if you don't want. Were you able to make all of those subject to mortgage payments? Did you miss any of the payments?

Michael: No. Look, if I do anything on these look, I got the product to sell. I want to share the harsh reality and hopefully huge re learning from gurus, from local people. But it was also, I learned just as much from the failures. And like, you know, I used to tell people when I was coaching fail forward fast. Like, failure isn't a you either fail or you succeed. It's like you're going in one direction or the other direction. And slowly you're trying to get back to the line closest to the destination you want to get to. And it's just feedback. But no. Answer your question. We really buckled down, we tightened our belt and we made all those payments, which was a struggle that was not easy. No, it wasn't. And we did take on a lot of personal debt. But whether they were somebody else's loan or not, that's what I agreed to. And we treated them all like our own loan. And I will tell you a story, because there was there was one neighborhood in particular that I bought from one unit that was PCSing out in 2006. These guys were literally passing the phone to me.

Michael: And the one guy that started this had one house that had two hundred fifty month negative cash flow. But I got all six of these guys houses in the same neighborhood, so all six of these houses came and that was kind of the turd in the punchbowl. But in the middle of the recession, you're looking to cut costs any way you can. Well, this guy calls me and he says, hey, my wife and I are filing a bankruptcy. And I wondered if if that's going to impact you. And I said, well, you definitely talk to your attorney, but you're going to want to include that property in your bankruptcy. And we had a short conversation, and that was kind of the end of it. And I'm like I kind of thought and I'm like I followed up with him a month later and said, hey, I just wanted to see what's going on with the bankruptcy. And he's like, well, we don't have the money for it. And I'm like, how much is it in there? I don't know. Is like sixteen hundred dollars for the attorney. And I said, listen, I agreed to make payments on this property and I intend to keep doing that.

Joe: This is a property you got under contract and you sold to this investor.

Michael: No, no, no, I bought it. I'm the investor. I bought the house from him. This was the one of the six properties that had two hundred to fifty of negative cash flow. So he was obviously still on the loan and he was filing a bankruptcy. OK, so when you file bankruptcy now, the house is the only collateral for the loan. So I said, listen, hypothetically speaking, if I paid for your bankruptcy, would you be OK if I turn the house back over to the bank and he's like, yeah, I don't care. So that's what we agreed to do. So that was the one house that I wrote him a check to pay for his bankruptcy. And with his permission, we basically gave it back to the bank. OK, now let me wind the clock forward. Wish I still had that house because, I mean, I know how to do the math now. I know how to work in financial numbers. And I mean, it's just sort of like putting two hundred fifty dollars into a 401k every month, hoping you get a long term deal. If I could plug that yield, I would keep the damn house. I mean, a house is just a doohickey to create a yield.

Michael: And I'm in a market where all these sub tos are not high-income properties, in fact, and probably no income in the first five years. When you really look at vacancy maintenance and repairs and it's, you're building an investment vehicle that throws off yields that come in the form. I mean, if you completely remove income, you get depreciation in the midst of the mess when we were flipping properties after the market tanked, we got to keep the first three hundred and eighty thousand dollars of income tax free because of depreciation that carried over from our rental portfolio. So just significant. It's significant during that phase when I also kept my income right. About three hundred eighty thousand dollars. I mean, it's more than that. But we had business deductions on top of that. So basically we were technically in a zero tax bracket during that phase. So that's when I took my and they also allowed me to do traditional to Roth rollover because the government won more tax revenue now. So we took my old IRA from corporate America and I did a conversion to Roth and paid zero taxes because we were in the zero tax bracket. Wow. OK, doing lately because that's what I'm doing is working my Roth.

Joe: So you survived the crash. What did you start doing in 2010, 2011?

Michael: Paying off personal debt aggressively. That came with the portfolio. Started buying heavily again. I mean I wished I'd have started buying more like in '10 for the long haul because like looking back every loan originated from two thousand eight on was wholesale, I mean retail. One hundred percent VA loan in 2008 is flipping wholesale because that two hundred-thousand-dollar house was now a one forty house or one sixty house, which in today's market is a three fifty house. Like it was so dirt cheap relative to where it was going to be because we dropped so far below the inflation curve. Like I mean I quit calling value increases in houses appreciation. I just call it inflation because that's what they do.

Michael: They inflate. You can call it speculative, you can call it whatever. Look back in history like never has there been a window of ten years when a house was still worth less than what it was ten years prior. So, you know that that said, I look differently like nowadays. Houses, I bought a two thousand. And seven, if I'm selling one, I'm walking away with like six figure checks, like most of that wasn't from inflation or appreciation, most of that has been from amortization. Another benefit to pay down. Yeah, yeah. I even have it on my little coffee mug. Thanks to Pete Fortunato. I have all the benefits that can be carved on a piece of property.

Joe: Would you do us a favor and send us a picture of that so I can put it on the podcast?

Michael: Yeah, sure. I mean, you've got to give credit to Pete Fortunata. He's going to come up with it and teaching that philosophy of carving up the benefits for probably 40 years.

Joe: So that's the I'd love to see a picture of that. And then I'll try to put it on the podcast here. Can I ask you about in the last five years, you've been on a buying spree, you're buying a ton of property. What are you looking for when you buy a property and what's your criteria?

Michael: Well, let's back it up to up to two years ago, I was definitely on a buying frenzy. You know, I built up our personal portfolio to a little over one hundred doors. And at that point, you know, we always had at least one employee to help with management. And my wife kind of realized, like we're at capacity. So you manage all your properties, too, right? Yeah. I mean, we have our own management company. So my wife oversees that. And Nancy and Sharon are the two that we have that work in that that part of our business. But I mean, effectively, as a CEO, our CEO and I would be I guess the CEO, I don't know, I'm mostly unemployed right now. You know, we were we were in CG, we were in the full let's scale, scale, scale.

Michael: You know, we really scaled up our flipping business, you know, like CG, Collective Genius for those that don't know what that is. Mastermind a big market. Yeah. So we joined and I doubled our flip business. I doubled that again. Lori didn't want to manage anymore properties and I wanted to keep buying. So I created a partnership with another I would call them sort of a student of mine, but he was a student of success on his own. And he was really good at property management. He was really bad at sales and marketing. I was really good at sales and marketing. And we built up another thirty-two houses in another company that we co-owned. So about two years ago we decided, hey, it's been a good run, let's part ways. So we sold off all thirty two of those assets and we each paid off a bunch of our personal assets along that road. Good.

Joe: Michael, Mike, I'm sorry to interrupt. My main marketing guy director just texted me and he needs a Zoom account for a coaching call. So I have to get off the phone right now. Can we break this up in the second part, would you mind?

Michael: Not at all. Let's do it.

Joe: This has been really good because I have about five or six more questions I want to ask you. And Mike, I appreciate you so much, guys. If you want the show notes, go to RealEstateInvestingMastery.com, RealEstateInvestingMastery.com. We'll do a part two and we'll see you guys there. Thanks a lot.