Learn the Right AND Wrong Way to Invest In Real Estate, with the Legend, Michael Jake! – PART 2

Hosted by: Joe McCall
Guest: Michael Jake

Joe: Welcome to the Real Estate Investing Mastery podcast, I'm Joe McCall and this is part two of my interview with Michael Jake. Just interviewed him last week so much I wanted to ask him and go over. And I said, hey, can we please do it in two parts? And he agreed, graciously agreed. Those of you that don't know Michael, he's been around in the business for a long, long time. I met him years ago. I've spoken at his, do you still lead that REA, by the way, the real estate club.

Michael: We're on meet up pretty much at this point and we're pretty much all virtual. But yet still we still run it. We're kind of and so we can get back and meet in person, but still running things there.

Joe: You've invited me to speak there twice, which is crazy. And I love any excuse to go out to Colorado Springs I can get. But all right. So part one, we talked a lot about how Michael got started in the business, what he's doing today. He's got an impressive story of where he's kind of come from and where he's at today. How many doors do you own today right now and manage?

Michael: Our company, we're down to, I think, forty-eight with the high-water mark internal of about one hundred and two. And then again, I think on the last show I mentioned, I had a partnership with thirty some that we dissolved and then I have about twenty-six or so in in a Roth IRA type environment that I'm involved in.

Joe: So a total of how many?

Michael: Eighty-ish, whatever that adds up to.

Joe: And over the last year or so, have you been selling some of your inventory? Why?

Michael: I mean at some point I kind of had to relearn the basic plan I kind of signed up for. I think I'd mentioned on the last one John Schwab at a pretty huge impact on me. And when I originally read his book, you know, it was buy a house a year and wait from the double. And when they double with you can sell a house a year and has this massive chunk of equity to live on. And all you got to do is buy one house a year. And that was like, wow, that's incredibly simple plan that works. And then you kind of get mixed up in this world. You realize, oh, it's probably easier to buy a house a month than it is to buy a house a year, because when you kind of set up all the business systems and the marketing systems, it's hard. I mean, it's harder in my opinion, to buy just one than it is to buy a crap ton of them. But it's simple. Once you have a crap ton of them, you get to the point where less is more and kind of slowly realize that I don't need to be this busy. I don't need to be this hectic in my life. And again, I'm business partners with my wife. So the more hectic I am, the more hectic she is in magnitudes. So, you know, the market here got fairly I mean, like most places got really competitive and margins are bidding down. And at some point it's just like, I'm good, I don't need to play.

Joe: I heard this from so many people, especially recently. Prices are going up. People are like, do I really need a hundred doors? Right. Like, I mean, you can cash flow. Yeah. You can make the same cash flow, selling half of them and paying down your debt on the other half.

Michael: Absolutely. With a with half the headaches and hassles. Absolutely. I mean, we don't have the hassles of flipping or rehabbing. I mean you still have I guess you want to call it the hassles of owning rental properties. I mean, there is maintenance involved with that. But because we were rehabbers and flippers, we have a good team of people to do that. And we still we have less of them now, but we have a lot of people that we like and trust and we keep them busy and we just have them do different work now, basic maintenance stuff and keeping the rental portfolio in good condition. That's kind of it. And it's enough moving parts. And as you said, by selling a bunch of them and paying off debt, we actually, by having less houses. We actually have more cash flow and we have less management, meaning there's less tenants to manage, less houses to manage and things like that.

Joe: So what's your goal, Michael, if you don't mind me asking, you don't to get too personal, but like, is your goal long term wealth or cash flow to pay the bills today long term? You know what I mean?

Michael: Yeah, I mean, it's just sport at this point. I mean, we have plenty to live the rest of our lives. I don't need to work another day if I don't want to. I try to help other folks locally learn the business. And I mean, I am working I'm working on deals right now. I mean, they just kind of fall in my lap doing what I do and what I have done, doing what I do with the real estate group. But I'm not running huge marketing campaigns anymore. I'm not doing, I don't have an acquisitions team anymore, just me and Lori. And we have one point five employees predominantly to deal with the management side of things. And then I participate in deals with my Roth, predominantly with people that I know, like and trust locally, that I've hopefully corrupted their thinking to buy and hold. And that's predominantly where I do my IRA investing is I help people structural deals. I provide the cash needed and I I'm looking for growth in my IRA as I was looking for growth outside of my IRA when I was building my portfolio originally and. Now, I'm looking 10 years out with my Roth and how much I can grow that to and realize I don't need it, I don't need it now, so I would I'm going to need it there. So at some point, I'm just growing numbers to grow, numbers to see where I can take it.

Joe: I want to ask you some more questions about the Roth IRA. How do people invest in IRAs and what's the point of that? So I made some list of questions here and I kind of wanted to go through them with you. You know, looking back, we talked about on the previous podcast about some of the mistakes that you've made and a lot of us made them. I made a lot of them. You know, looking forward, ahead, I know you can't predict what the market's going to do, but do you think about it still? Do you think about like, how can I protect myself to avoid the same mistakes I made before?

Michael: If the worst case happens in a couple of three years, if I could win the clock back to where I started, I would have I would have learned and studied property management a whole lot better early on. And knowing that would have helped me make a lot less mistakes and probably buy a lot less of the wrong kind of property and really probably shortcut a lot of the mistakes. And sometimes, you know, you buy what on the surface looks like a great house in a great area. And there's just other things like we had one house that literally had an underground stream underneath it. We had we've had crazy neighbors that stalked our tenants and properties. And it was no problem with the house, no problem with the neighborhood. We just had a wingnut neighbor that would chase away tenants. So in that particular house, we used to have that one. And then eventually the situation righted itself when that person moved. But it's you know, you do the best you can. And having better front and knowledge of management, I probably would have worked a whole lot better. I say that. I mean, but know when I was really grow in the portfolio, we had subprime financing, a lot of people that were qualified were buying and I would say there were a lot less A caliber tenants then than there are now. So I don't know if I got where I got it. I made the mistakes I made and ultimately the mistakes I made helped shape my philosophies going forward.

Joe: So what's your prediction of the market in the next couple of years?

Michael: I'm in a hot market and I'm in a state where people are relocating, too. So my opinions on this topic may vary wildly from somebody who maybe is in a different type of a city. So I get confronted with this a lot with looking at eviction moratoriums and foreclosure moratoriums. I just see I've seen our market explode as rates have lowered and what low twos right now, which makes it very affordable for people to buy. There's a shortage of inventory. I honestly don't see any problems in my local market for several years if every one of the percentage of properties is that is in.

Michael: Well, OK, let me rewind a little bit. I was just at collective genius and we have the John Burns comes there pretty regularly and kind of gives his predictions on the market. And and he did a breakdown of the number of loans in some sort of forbearance. And the reality was the stats he's showing is over 50 percent of them are in forbearance by on purpose, not by accident. So his take is over 50 percent of these loans that are in forbearance literally have the money sitting in the bank as an emergency fund and don't need it. They have the capacity to make the payment. They're just not. I've gotten feedback from that from mortgage brokers that I that I know, like and trust, where they've been doing reifies for people on loans and forbearance. And they're like, holy crap, they get it all the way down and they're like, wait, your loans and forbearance, we can't do it all. Just write a check and catch it up. And there's a lot of that going on where they're just strategically in forbearance, not from a distressed standpoint.

Joe: So the other half, is that a much higher than normal number? So half of them, half of the loans that are in forbearance, the homeowners have the money set aside. The other half is that a scary number? Is that much higher than normal?

Michael: You know, I wish I was looking at the slide, but I mean, basically, you had this entire pie and it got cut down to about twenty five percent or maybe even less of the people that really are in in distress and probably can't maybe don't necessarily have enough equity to get out. But in my local market, since covid started, you know, I'm under contract right now on a rental that we had and early this year. I was thinking we were going to sell that for like two fifty to sixty. And then it looked like maybe we could do like two seventy and we gave it a little bit of love and we're under contract at three twenty. I'm waiting to clear to close. And this is the same house in the same neighborhood in less than one calendar year. So our market has gone up at a faster pace than what people's mortgage payments would be accumulating if they weren't paying them. So if they really if government subsidies doesn't allow them to put the payments on the back end of the loan, which is really what I see is going to happen, they're just going to say, OK, write us a 30 thousand dollar check and they're not going to do that. They know they're not going to do that.

Michael: So they're going to most likely do workouts and dump those on the back end of the loan. And we're going to we're going to see smooth sailing, really, until we see more of a real estate debt crisis, which we had in we had in 08 from the subprime meltdown. And we didn't have prior to that until the S&L crisis in the late 80s, early 90s. And if you stretch that window and there's a quiz, the other book, The Secret Life of Real Estate and Banking. And I mean, they track real estate cycles on an 18-year window, not a recession cycle on a on a seven year window. So anyway, dude, I don't know, but I think locally we're good. I think a lot of markets are good. I think if you're in a high bubble, if you're I thought New York was going to fall on its face and I've just been reading things where New York is starting to come back.

Michael: So dude to I haven't got a clue. I mean, I think what we do in residential real estate is so micro economic that you could have one part of your city is in huge distress and others are booming. So I think you've got to pay attention to what's going on in your market. I use some local market trackers. I use some national market trackers. I look at some basic stuff. I use a little housing tool. I pay attention to John Burns and I try to make up my assessment based on what the heck's going on in my market. But would I buy another rental today. Hell yeah. Even as hot as I think the market is right now, if I could get good terms on it, yeah, I would probably buy as many as I could right now.

Joe: Yeah. So it's kind of crazy. You hear these dire predictions and projections in the some parts of the media, but you talk to the boots on the ground, people that are active in the business, it's like we don't see it yet. So it's kind of a, is the can just being kicked down the road, who knows. Right. But if we're buying, would you agree with this? You know, if we're if we're staying true to our fundamentals, the fundamentals of cash flow, for one, then we should be fine. Right. And the other thing I love about real estate, maybe you can talk about this, too, compared to the stock market, the stock market, crypto currencies, they can turn on a dime, right. Like just overnight, they're down. Real estate is much slower. It gives you a lot more time to fix and adjust and. Correct. Would you agree with that?

Michael: I would agree with that. But also you have a physical asset that when you look at all the benefits of the property, equity is only one part of it. Income is only one part of it. Let me go back to this house I just mentioned I have under contract. I bought that house in 2007. I bought it subject to. So it had little to no equity when I bought it. When I sell that house we're going to walk with over two hundred grand. So did I make it in 2008. Somebody could say, Mike, you're an idiot. You just bought a house in 2007. It's never going to come back. I mean, the reality was the income was there. The equity vaporized for a while. And I don't know Bitcoin. I mean, I look at the charts and like, wow, neat. I look at Tesla, I look at Apple. I mean, but I also worked for a company before I got into real estate where all my stock options were basically worthless at the time of execution. So, like, I can manipulate real estate if the market tanks, I can just hold it longer and eventually it's going to come back to the curve, the inflation curve. And it's going to I mean, if I take over a loan, if I create a loan, if I qualify for a loan, there's one thing that we can hold true. It's going to pay down. And you can put that the numbers into a financial calculator and realize whether I ill-timed the market. I still have the benefits of amortization. I still have the long-term benefits of inflation. And if you're not trying to be a day trader and I don't think anybody should try to be a day trader in real estate, I don't think anybody should try to be a day trader in stocks. I mean, you should look for value, buy the best house or the best stock you can and manage it well and hold on for the long term.

Joe: So if you had one hundred thousand dollars and you wanted to do something with it, you go buy a property free and clear with cash, or would you go buy two or three properties down payment?

Michael: Let me ask you this and I'm going to lead to my answer. But how much money has the Fed printed in less than a year?

Joe: Probably more than it has in a long, long time. A lot.

Michael: So what happens when they print money?

Joe: Well, I don't understand all this, but I think inflation.

Michael: I mean, it devalues our currency and it does create inflation. And they're like, what? We're trying to get things two percent, two percent. When you take food, gas and housing out of the equation, if you add those back in, it's probably nearly double that. So, I mean, just take your market, take any market and study back far enough. Like look at census data. That's easy to get. You don't have a subscription and you can Google that. You can find a basic market. You look OK in nineteen forty. Here is the housing price index and here it is now. And if you draw a line it's. Probably in just about any market, about three point seventy-three-point eight percent inflation, you can call it appreciation, you can call that speculative. But I mean, I would say history history's on our side in that case. So you can kind of count on inflation in most houses, in most markets now. I mean, St. Louis, I know you guys have houses that you can probably still buy for under one hundred. I mean, that's retail in those neighborhoods.

Michael: Now, I'm not referring to those houses. Unfortunately, those like if you look at the national median house, it's over three hundred thousand right now. I would want houses that are in the middle of the market that do go up in value. I don't want high. I don't want one percent of month houses or two percent of both houses. I want high growth houses over the long haul. I want the best house in the best neighborhood with the best schools that a tenant can afford, which means the rent that the property will generate will support all the cost of ownership. And I don't want the cheapest one with the highest income factor. I want the one with the growth factor.

Joe: Yeah, interesting. So, OK, this is you, St. Louis. Let's say the median home price in the entire area of St. Louis is two hundred thousand dollars. Median home price. You can buy homes right now at retail for 80 90, but have that high rental yield in it. Right, because of materials. That's a lower quality area. You're going to get a lower quality tenant, more maintenance, more management. So if they if, let's say, the median home price in the entire St. Louis metro area is two hundred thousand dollars, you want to be at that two hundred thousand dollar price range?

Michael: I'd want to be probably one sixty to two twenty is kind of where I want. I mean, right where the median is. That's kind of where I want to be. Like you can say, the numbers don't make as much sense as the ones on the low end. But I mean, the people that make comments like that are only like taking the consideration of income. That's the only factor they look at. They don't look at depreciation. They don't look at amortization. They don't look at growth. And if you stack all those benefits, the median price point house will just eat its lunch over time. In the short term, the income looks stronger. But I mean, you get the higher dollar portfolio, you get the depreciation that shields your income. So you can actually, without working any harder, make more income because of tax advantages. Like let's just basic math and nobody understands what a lease option is or creative finance. And they don't know. You can take over payments and you're tethered with a ten Freddie Fannie loan limit. Like if that's your limit, I want to get the most I would want to borrow the absolute most money I possibly could from Freddie and Fannie on those ten loans, which is, what is the what is the loan amount right now?

Michael: Just under five hundred thousand maybe. Maybe it just crested five hundred thousand. So I could effectively borrow upwards of five million dollars of debt from the government on 30 year fixed rates in the threes right now. Like I would much rather do that assuming the tenants can afford the properties that I'm borrowing the money on, because if I have the one percent houses, I'm probably going to have like ten of them. What am I going to have? Eight hundred thousand? Like no, thanks. If you're going to use debt, use debt, more is better assuming the assets will afford themselves.

Joe: OK, interesting. Now talk about subject to because you just mentioned there's most banks will only allow you to have about ten loans on properties. Now you can convert them to commercial loans and that's a whole nother subject. But you probably reached a point where like I can't get traditional bank financing anymore. You started buying homes creatively. Talk about what a subject to is for somebody who doesn't know. And why do you like about subject to?

Michael: What I like about subject tos? Subject to is effectively subject to just lingo. It's we're buying a property subject to an existing loan or pretty much subject to any and all existing loans and encumbrances on the property. So what we're doing is we're buying it, meaning title transfers from seller to buyer, and the loan isn't getting paid off. And usually that's a situation where their lower equity, usually it's a situation where they're an owner occupant or they're an accidental landlord that didn't want to try renting it out. They because they had to move away and things aren't going so well. But ultimately, it's an owner-occupied loan. They're usually lower interest rate than investor loans right now. I think this morning I saw you can get an owner, OK, loan two-point two percent. Now I am doing a couple of reifies on some subject to properties right now and there at three-point six percent.

Joe: So refinancing them into your name or your refinance is the owner, refinancing them in their name?

Michael: Refinancing these into my name. And my wife's name. Yeah, we've had them over ten years. There's massive equity. And like some of these loans are five point five- and six-point five percent. And they made sense when we bought them. The rent is still higher than the debt service, but now money is so cheap and I can sort of refi this money and pay off debt on this money. So we're just again, I do believe we're going to have an inflationary market for a long time coming. And if you look at that, I'd rather have as much cheap debt right now as I can because I'm going to be paying it all back in our deflated dollars over time.

Joe: So, OK, so buying a house subject to is when you take over the mortgage, the loan stays in the seller's name, but now you take title to the property. Now some people look at them think and that's kind of risky, isn't it? Like you don't have much equity, you're not getting much cash flow.

Michael: It's risky if you're a bad manager. It's incredibly risky. If you're a bad manager, it's incredibly risky. If you don't have cash reserves to solve a problem that you have, it's incredibly risky. If you don't really know what you're doing and you go about trying to do that business halfcocked, you know, there's a lot of people that are better at marketing and getting leads, and they are like all the granular details of making sure that you do it right and you protect yourself and you protect the seller and you better own it like it's your own loan, because people have I mean, people have gotten into trouble in some cases going to jail because they have a mismanaged the property's handled the situation poorly and let houses go to foreclosure, let them go back to the bank and didn't try to do any kind of workouts or give them back to the former owners or, you know, I'm just you're going to hear a lot of people say that's illegal, don't do it.

Michael: I mean, if you do it right, it's a fantastic business and you're able to help people that no other investor or not many other people are even trying to do in your neighborhood. I mean, I happen to be in a military town. We have five different military installations and they're getting one hundred percent finance VA loans on nice properties. And then the government says you got to go and they may not have enough actually good to sell the traditional way. And, you know, what? Am I going to offer them 70 cents on the dollar for their beautiful house in a nice neighborhood with zero repairs? I mean, if that's the only tool I got my toolbox, I can't help that person. And I can help them if I know how to a marriage to property effectively and know how to buy it subject to.

Joe: So let's talk about your criteria today then. On a subject to deal. Let's say it's worth three hundred thousand and they owe two ninety-five on it. Maybe, maybe you give us the typical numbers.

Michael: Well I may have, I've done that. You know, I'm not lying but I mean I like a little bit, a little bit spread in there. But the reality is the loan on that three hundred, two ninety-five loan is paying down five six thousand a year. That three hundred thousand that's going to go up nine, nine thousand to twenty-eight right now. Thirty thousand, forty thousand a year. But I mean if I just use inflation numbers it's going up and ultimately let's say I theoretically could wholesale that for fifteen grand. OK then I pay, if I'm a wholesaler I'm probably paying high taxes on that. And whatever is left, I got to pay for the cost of my marketing. I mean, ultimately you're not you're not making all that much, you're really not. Whereas you buy it subject to and you don't have spendable money but you've got a growth factor and you have an amortization factor and a depreciation factor. And you're doing I mean, you're getting at least 20, if not thirty thousand dollars per year of benefit from that property that has zero equity.

Joe: Twenty to thirty thousand. I hope you guys are understanding this. I can rewind this if you need to. If you don't what Michael's saying here, it may not have much equity, but you're paying down the principal. It's appreciating and you get some tax write offs. Right. And you're looking at if you were to wholesale, you might make your gross wholesale profit. Might be fifteen grand, but your net, net, net after the end of the day might be only five thousand. You're making more than that by just holding on to it through the principal pay down through the appreciation and through the tax write offs. And so over the long haul, it's it's a really it's a really great game.

Michael: It's a great game assuming you have a business that's providing you income along the way.

Joe: OK, so let's talk about that, though, the income, because you're absolutely right. Like you can get in big trouble in this subject to game, any kind of buying property and owning property game.

Michael: If you don't have the right property management in place and you're not treating it like a business, and often this business gets sold as a beginner strategy with no or low money down. And the worst is when people teach you how to borrow money against them and pull-out cash. And that is a really bad idea.

Joe: We know somebody from your neck of the woods who used to teach that.

Michael: Yes. I mean, he's not the only one. A lot of people have taught that because you got to make it sexy, man. You got to make a product. And I mean, the reality is it's not sexy. It's like I mean, I remember the first five years my wife and I were doing it's like she's running this whole management company that effectively made no money. It just broke even. And we had to be wholesalers and fix and flippers to have the money to, you know, to live on and pay the bills and to do the marketing to build a rental portfolio.

Joe: These homes that you buy, then you're not getting much cash flow, if anything, on them, right?

Michael: Not initially, not in the first five years, no. I mean, they cover their costs. You're getting the benefits. You get the depreciation. I mean, again, I had to I did the flipping over here so I could do the buy and hold over here, buy and hold over here, provided me tons of tax shelter for the flipping over here so I could flip half as much over here because I could keep all of it as opposed to paying huge amounts of tax. I could pay no tax legally, morally, ethically and because of this. So did it pay us. Yeah, I mean it paid us because we had this as well. If we just did this, I would have needed a job and my wife would have needed a job for this to percolate for the five years to do that.

Joe: Let's talk about the depreciation side of things that you just talked about. Sure. Are you taking accelerated depreciation on these homes or you know, I mean, there's goods and bads about.

Michael: But a buddy of mine calls it don't let the tail wag the dog. And when you when you have, when you take this accelerated depreciation up front, you kind of create yourself where crap if that's a property I do want to sell. And let me go back to the house I'm selling right now because that's what's on my radar. Like, that's not a house I want to own forever. It's not in the right neighborhood to own forever. And I don't want to be stuck, like crap. I don't want to sell that because I'm going to have to repay or recapture all the depreciation, which basically, if you've taken, say, sixty thousand dollars of depreciation on property, you've got to repay that at a twenty five percent bracket. OK, plus your capital gain. Yeah. So you're like, let me find another property. What, what am I going to find right now that I can ten thirty one in to avoid those taxes. I don't know, I might not make the best decision. OK, and I just see a lot of people that because of the tax situation make a bad decision on a replacement property. And I just don't want to be able to make I mean, I'm literally going to take pay the tax on this because I'm not real optimistic on where tax rates for capital gains rates are going to be in the future. And I don't want to be stuck with an even bigger problem later. So I'm just going to pay the tax.

Joe: Explain that. You're not taking any depreciation and you're just doing a normal appreciate depreciation.

Michael: Normal depreciation cycle. So we don't componatize anything. And so it's twenty straight twenty seven and a half years on the improvements.

Joe: So on a three hundred thousand dollar house. How much is that about a year?

Michael: Sure. Let's do the math. OK, let's take three and thousand our house times point eight. Point eight. I'm just taking twenty percent for the land. This is basic accounting. Like in some places you could justify the land's worth less, but let's two hundred and forty thousand in improvements divided by twenty-seven point five. So there's eight thousand seven hundred and twenty seven dollars in benefit. Now if I'm in the let's say, thirty five percent tax bracket. So that's three thousand and fifty four dollars of taxes this year. I don't have to pay, which is good. Right. It's a good thing. Yeah. So time's one hundred. That's pretty decent money you know, that you don't have to pay tax on. So OK, even times ten.

Joe: It's such a, I can't emphasize this enough. What you're saying is so good if you have the right property management in place. I want to ask you about property management tips and then I want to ask you about what kind of advice would you give to a beginner who's listening to this and is like, this sounds good. I'm a little overwhelmed, confused, but like, how would I get started to go down that path? So talk about property management tips like your wife's amazing because she's managing all of these properties. I know you well enough. I don't know you that well, but I know you well enough. Like, you know, you're a lot like me, chasing shiny objects and, you know, you love chasing the deal and you love sales and you're having somebody on your team like that is amazing. So we'll talk about some property management tips. Somebody is just getting started in the business and they're starting to buy properties, but they want to they're listening to you and say, all right, I want to take property management seriously. What do you do?

Michael: My best advice is go learn from David Tilney. David Tilney.com he teaches. I mean, a lot of my mentor said the easiest thing to manage is a detached, single family house. And anything other than that is harder. I mean, a duplex, harder, fourplex harder, an apartment building harder. Does it mean it's too hard? No, it's just it's harder than a detached single family house. So, I mean, and that's that is David's forte. So, you know, as a wholesaler, which I have been, we're looking for houses typically. So it just goes right along with what we're already shopping for. So I guess some of the guys now are wholesaling duplexes and quads and maybe that's bigger in different areas. But ultimately, I was always looking for houses. I was wholesaling houses. So I bought the wrong small multis when I started, so I realized I don't want any more of those. They were way different demographics. And the houses were always so much easier and so much less hassle.

Joe: And so you prefer you still prefer it to this day, single family homes?

Michael: Absolutely. Absolutely. Because I'm not solely income focused. I want all the benefits. And part of the benefit I want is the growth factor of it now granted locally are fourplex this year have grown astronomically. So maybe I missed the mark on that one because we were buying those after the collapse in the ones and now they're in the fours to sixes and there's yeah I probably should have but didn't. I just stuck with what I like to do.

Joe: You feel like single family homes are better long-term play.

Michael: Yeah. I mean if you don't want to get burnout at management. Yeah absolutely. I mean I know landlords that have been managing houses for 30, 40, 50 years and they're still doing it. I don't know anybody that's managed fourplexes that long. Most of the time that people that I started in fourplex moved up to apartments and then at some point you can exchange up and get into bigger apartments where you can get real commercial smart property managers that know how to manage those assets. And like any huge player, they're not self-managing that stuff. I mean, they run it like a business and part of the businesses. We've got to have the right management on the on the ground in that market. So, yeah.

Joe: And you still got to wonder, though, at the end of the day, after they look at their net number and their return on time and the return on their money, are they really doing that much better in the big large multi apartment units versus what they could be doing on it with a single family?

Michael: This is my philosophy. I know some apartment guys that are going to dwarf my net worth like. So I mean, yeah, you can go bigger, faster with apartments. And I would never argue contrary, but I have some good friends in property management. And one of the things he says is it's managing the tenants isn't the hard part. It's managing the owners. He's like they're the biggest pain in the ass. And I could only imagine what people that are putting their money into apartments syndications are like. They're probably pains in the ass. Sorry, am I allowed to say that? I mean, you know, like I mean, maybe they're not. I don't know. I just wasn't my aspirations. So but there's management, like whether it's a tenant, whether it's an owner, whether it's an equity partner or somebody that's putting it does require management. So you may not be managing the tenants on the ground with an apartment, but you are managing something.

Joe: So somebody just getting started. Would you encourage them to I mean, I'm looking at David Tilney's website right now. DavidTilney.com looks like he has a property management course. He has a thing called House of Property Management, Master Leasing and three Powerpack days when he was something like that, somebody who is getting started starting to buy some houses. You recommend that they manage in-house, hire an assistant manager your own properties or find a good property

Michael: I think when you're small? Absolutely. If you get to know the business and you don't want to do it, you can always outsource it in some capacity. I don't know if we talked about it last time, but like at one point we had 102 houses and my wife said she didn't want any more. She didn't want to hire any more employees. She didn't want to scale that. So I found management by partnering with other people that had the skill set. So a lot of the subject to deals in my market don't have enough gap in income to pay the debt service to afford a manager. So you can't scale that without scaling a monthly negative. So how do I get somebody to manage for free, give them a piece of the pie? So I did that with my Roth IRA. I did that with another partnership. I mean, at this point, like my portfolio is mature, that we could outsource management at some point and our original goal was to have thirty free and clears.

Michael: I don't think we're going to get that small. But because my wife does like having employees and she does want to maintain enough to justify, you know, at some point the fee you could pay a fee manager. That's good is less than what you pay for an in-house employee. So there's a balance there where we're probably going to maintain a certain portfolio size just to justify having an employee so we can do it our way. And I mean, we do. The last time Tilney did a seminar, my wife and both our employees were sitting on a Zoom call watching the seminar together. And every time they go, we kind of move the management ball down the field and we get a little more streamlined and get a little better what we're doing.

Joe: So, yeah. Do you think somebody could manage a group of twenty, twenty-five properties with a virtual assistant?

Michael: I don't think you need a virtual assistant. Did I was idiotic and had no business system. And I had probably twenty-three to twenty-five houses before on my own while I was doing wholesaling and granted I wasn't doing full on fix and flips then. I was doing either wholesale or wholetale. And it wasn't until my wife joined me that that we actually did, for one, rehabs. But I mean, if you do and I did not know who David told me was that if I had his systems, I think I could have easily done probably 40 to 60 by myself and still been a wholesaler on the side.

Joe: That's amazing. So, you know, there's been a ton of advancements with software, property management tools online. Everything's online now. Are some online tools that you guys use and recommend?

Michael: Buildium is our primary management software podium. Buildium and At Folio is another similar one. And there's others. But like building them seems to meet our needs as an owner manager. And then we use you know, we had Podio built out thanks to you. I think we originally got Podio set up using your apps. And then because we had Podio, Laurie kind of built out her own Podio. I mean, both property maintenance side and also from the rehab side. And then we have all our contractors and subcontractors that are employees. They have access and they're all do whatever they do through all that stuff that goes through. I have no clue. And I like to have like over here, I used to have stacks of paper that was my CRM. I had like high priority leads, medium priority leads and slow follow up leads. And I've bought the market like that's how I started to.

Joe: And I wanted to just touch real quick on what we talked about before, too. You've got in the past you used. Oh yeah, you do more rent to own, but you had found today. Listen, it's better to get a good quality tenant because you're going to have less maintenance requests and they're going to stay longer. Right. So what are some of your criteria is today for? Look, if you have a vacancy, what are some of your criteria looking for good tenants?

Michael: That's a good question. I mean, we have basic criteria on our website. Let me see if I can pull it up. I can I can tell you, I don't. I mean, there's wrong with the income requirement. You got to look at just like if somebody was qualifying for a mortgage, they have to be signing up for a house that's easily affordable. Do you know what I mean? Don't ask me the percentages because I don't know. Honestly, right off the top of my head, I can pull it off our website. But if you're qualifying for a mortgage, they won't let you spend more than a certain percentage of your income on the payment. And it's the same thing for a tenant. Like if their house poor, at some point a flat tire on their car is a financial hardship.

Michael: So they have to be able to easily afford the house. They have to have good job history, meaning they don't job hop. They are in the same field. One of my mentors, Jeff Miller, used to say poverty is created from job hopping and moving all the time. And it's just that occasional gap in one's income can create a lot of financial hardship over the years to the point where people just can't get on the right side of the curve. So people that stick with their jobs, that have strong ties to the community, you know, typically husband and wife, two kids, dog, good school district, that's who stays the longest amount of time. And part of it is have the right house that's big enough for them to move all their crap in and stay the rest of their lives. Then when we have a vacancy, we typically do move somebody up nearly to market. If you look at our entire rent roll, we probably are on average about nine percent below market value. So that said, they can't shop us and go get a better deal elsewhere. There's a fine line between undercharging and like losing money and revenue that you could get versus charging top dollar and having higher turnover because they're always looking to move to get a better deal someplace.

Michael: So I'm not telling you, like I know from really investors that are very long in the tooth. They tend to like the older you are in the game and the longer you've had the properties, the people like that want less and less management charge less and less below market rent because they have less and less turnover and less turnover. They have they have less maintenance. They have less everything like one of my mother. So they still have orange shag carpet in one of the rentals. And whenever the tenant complains about the orange shag carpet, you're like, absolutely no problem. Go pick out whatever carpet you want and based on whatever you want, we'll just make an adjustment in the rent. And they never have replaced the carpet because it's, you know, it's not that bad. Which put a throw down.

Joe: Well, you know, it's amazing. The huge difference, just fifty to one hundred bucks a month in the rent can get in the quality of tenant and length of time that they stay there.

Michael: Even just in the quality of the applicant, just advertising a rate that's fifty bucks less than what most people are asking is huge, and both the quantity of applicants you get and the quality of applicants.

Joe: I see people do this where they're pushing the rent, you know, they're trying to get as high as possible. Just one extra month of vacancies wipes out all of that little extra rent that you're trying to get to underprice your rent just a little bit to fill that faster and get more better-quality applicants.

Michael: Well, there's real numbers when you have you know, we were talking about cost SAG and depreciating some items of the property quicker in a carpet does depreciate quicker. And when you have an apartment and you have higher turnover, that's a real expense. So if you can keep somebody in the house longer and not replace carpet every five years, you're having a huge I mean, that's huge numbers to your bottom line. So, as I said, you're kind of in this together with your tenants. Like we can't have rental property without providing benefits to the tenant. And for doing that, here's somebody that their family goes to work for 50 percent of the month to give us money to pay for our assets like it. It can't be one sided where it's all our benefit. We are we have the benefit of depreciation and amortization and long-term inflationary growth on the value of the properties in exchange for sacrificing the use.

Michael: We give the use to the tenants and the tenant's job is to be a good steward of the asset, maintain or improve the property, to get along with the neighbors and pay the rent on time. And for that we treat them like adults. We don't micromanage them like children. And, you know, ideally we live leave them alone. They leave us alone. And again, these are these are my philosophies that I've adopted from David Tilney, Jeff Miller from John Shore. A lot of guys that have taught this business for longer than, I mean, many multiples of the time I've been in the business.

Joe: Man, this is guys, I hope you're picking up the gold nuggets here, because these are really, really good. I once I got a couple more questions for you, Michael. Let's talk about IRAs, self-directed IRAs. Can you explain what the benefit of that is? Just briefly? I think most people know and explain this to somebody who's maybe has a small IRA or just getting started, like how do they use that and how can they grow it?

Michael: Cool. Remind me to share some resources, too, in that department as well. So when I worked for corporate America, I went in, I had a salary and one of my benefits to the job was I had a company 401k plan and that's a long term retirement plan where I could go in and say all based on my risk tolerance, I can go in and pick some mutual funds and crap like that. I had a certain selection of things I could pick to invest in inside the 401k after I'm no longer at my corporate job or outside of my corporate job, I could create my own self-directed IRA account. So doesn't mean I'm going to go to Charles Schwab. I'm going to go to like initially I started there's a local trust custodian in our town that allowed us to invest in real estate via a retirement account. So I had my rollover IRA account from corporate America and I rolled it over to first a traditional IRA at the self-directed custodian.

Michael: So now, instead of having mutual funds in there, I just have basically an account, a money market account that sits there until I direct it to buy to do something. And with my IRA, I tend to not want to own real estate. I want to own notes and or options. I don't want to be in title. I don't want to have to manage anything. I just want to be more of a passive investor in this capacity. Well, you can't self-deal for one. So I can't provide services or value to an investment that my IRA is participating in. So let's rewind. OK, after I figured out the game, I think the first class I went to, like I fumbled around and I did some good stuff. I did some bad stuff. I tried to be an equity participation on some flips and somewhat good. Some didn't feel good. But I went to a class by Pete Fortunato and Dikes Bodiford and they were, somewhere over here, self-directed IRA class. And basically Dikes does a really good job at scaring the bejesus out of you with all the rules.

Michael: And then Pete Fortunato, who is like, you're silly if you don't go learn from this guy who whoever's listening this Pete has been teaching this for fifty years, I think an amazing guy. But he teaches how to navigate the waters, I mean, especially from a creative finance standpoint, so he can be hard to understand if you don't really like. A lot of it goes over your head initially. And a lot of it went over my head. And I knew that about Pete because I've been to some of his other seminars. I'm like, all right, I want to go get one thing that me as a marketer, as a guy that's a deal junky and churn a lot of volume, I want to do one thing that I can take back and replicate over a.

Michael: So, you know, one of the techniques for self-directed IRI's is creating a rap environment and I don't like raps and that's a whole we could digress on a whole series of podcasts or that, but I'm like, I know how to find a subject to deal. And basically I know how to put that transaction together. And I also know people as well that I've coached and trained and know like and trust in my local environment. So initially, my IRA found one of those opportunities. Just funny how IRAs can find things like that. But my IRA found an opportunity like that. And it was basically a, it was in the recession. I bought a hundred-and fifteen-thousand-dollar house subject to a hundred and twelve thousand dollars first mortgage, and the seller needed two thousand dollars to move. So my IRA went to contract to buy that property subject to and provide two thousand dollars to the seller. I then called a friend of mine who knows the subject to business and is a property manager, managed his own rentals and I said, Hey, and this is another concept I got from Pete. Like, I can't lend.

Michael: Joe, you probably wouldn't want to borrow my money at sixty six percent. Right. OK, are you sure. Yeah, I'm positive. Yeah, OK. But if I said, Hey Joe, I have a free house, you can have it. I'm going to provide all the money. All you got to do is just manage it for a few years and when we sell it we'll split the profits. Sounds a little nicer, right? Oh yeah, sure. OK, so I called a call my friend and I said, hey, you want to you want to manage this house? And he's like, hell yeah. So we bought that house. I signed my contract. He basically ended up borrowing the two thousand dollars in September 12. Well, yeah, basically I let the property I lent it against the property in second position behind the loan that we were taking over subject to.

Michael: So he owned it. He managed it. He got the depreciation during ownership. And a few years later, the house went up over two hundred thousand dollars. He had to put a little bit of fix up into it. After he paid himself back for the fix up, paid himself a commission to sell it. He was licensed as well. And basically we split the profits. My two-thousand-dollar investment turned into about seventy thousand dollars investment. And based on the duration that we owned it, that was a compounded sixty six and change percent ROI. Compounded ROI on that two thousand dollar investment.

Joe: Yeah. Not bad. Tax free. You can't sell a deal and. Right. Which means you can't manage it yourself. You have to hire a property manager.

Michael: Right. I had to hire somebody to do it instead of hiring somebody to do it and basically losing money every month because the property management fee is on top of the PITI and ongoing maintenance and other things like that, I would be negative. So in this case, I eliminated the property management fee. I eliminated property management in general, and I basically just became an equity lender on the property.

Joe: So do you do that on all of your deals inside of your IRA now?

Michael: Yeah, I've been advised like John Higher doesn't like low dollar, things like that. He's like there needs to be some financial substance or rationale for investing in the deal. And I'll give him credit for that. So now I tend to do more capital invested. So it looks I mean, it's more of a real investment. I mean, it's an argument just like if Freddie and Fannie wouldn't lend over 80 percent on the loan and I'm lending it darn near one hundred percent or not taking a lot higher risks. And shouldn't I have a much higher reward threshold? I think so. But again, just like there's some fairly significant numbers in my Roth at this point, I want to play a game. So I like the last one I did. I put in ten thousand dollars and most of them are somewhere between ten and maybe twenty-five or something like that.

Joe: So you'll lend, you'll put 10 to 20 grand into deal, you'll find a friend to manage it for you?

Michael: Or less. Yeah. Financial friends locally in my market.

Joe: Do you ever just lend like hard money lender or bridge loans or lend to other investors?

Michael: I consider it. But mostly I like I don't want to replace being a house flipper and a wholesaler with another job. I don't want to be a hard money lender where I'm constantly looking to place it and get it back and replace it and get it back. And I like being an equity lender because those deals I make a loan and they just sit there quietly for years. And when they pop there, you know, and then then I do have to scramble a little bit and get the money back out there.

Joe: Do you ever just put your money into a syndication or a big fund?

Michael: I have recently. That's new to me, though. That's somebody that I've known for probably eight years and somebody that has been in that business, in the fund business for many, many years. Longer than that.

Joe: Gotta be somebody you trust.

Michael: Absolutely.

Joe: OK, so let's we got to wrap this up, Michael, it's been really, really good. Let's talk about advice, something. What would you tell beginners as they're getting started? They they're not looking for the get rich quick, make a quick nickel. They want to make a slow dime and they want to build wealth over the long haul. What would you recommend them to start doing?

Michael: Learn management and then go look for asset. Like once you have a good management system, it's easy to dump assets into that system as opposed to, oh, now I've got an asset. Let me go figure out how to manage it. You kind of always behind the eight ball in the sense that you're always trying to figure out what you needed to know before you got the asset. So I would encourage people to learn management first and adopt those philosophies because it's a whole lot easier to build systems as you go when you start with one and two and three and four.

Michael: And if you do things right when you're young, A, you can scale quicker, you can scale faster and you can scale better. And you don't have to go back and constantly reinvent the wheel. Like when we started a we had no system and that evolved to some systems and an Excel spreadsheet and then that evolved to a real basic property management software and then that evolved to buildium.

Michael: So every time there was like for us, so we had a learning curve. We had to get data transferred. And if you could just wind it back up, start like you're going to run it like a business, start out with a good management class, start out with a good management platform that will scale as big as you want to. You want to go, then you're going to save yourself a lot of time, energy and effort and banging your head later. Are you going to have higher costs on the front end? Yes. Like, oh, I don't want to get that because it's such and such dollars per month, but you're way better to pay it now and build your foundation around that because then you can scale so much quicker and then than the cost of that software is irrelevant.

Joe: All right. So you start you take a good property management class, you get the good systems and software and all that. And then what?

Michael: As you scale, I mean, if you want to scale, you get how do you how do you steal anything? You get to scale relationships. You've got to scale some mechanism for creating offers. I hate to say it, I haven't listened to a lot of your podcast lately, but I assume I know from your history you've done a lot of direct marketing, you've done a lot of online marketing, and I did a ton of that stuff to make my phone ring because I'm very unless I'm talking about real estate, I'm very introverted. Like, I don't want to knock on doors. I don't want to cold call people. I want people calling me. So that's what I did is I did a tons of direct mail, paper, click, SEO, blah, blah, that other crap to get my phone to ring and then make offers that way.

Joe: Would you say maybe you need to learn how to do some more of the creative type of deals like subject to?

Michael: I think it depends on your market. I mean, in my market, absolutely. In Southern California, like in higher dollar markets, you better absolutely learn creative finance in collective genius. There's a there's a young a young guy there and he's got over. I really talked to him in a couple of years, but he's got like hundreds and hundreds and hundreds of of rental properties that he basically buys. They're basically shells. He buys them. He basically guts them completely, redoes them and basically refinances them. And does the BRRRR thing on a next level. I mean, his market in Pennsylvania, he has the ability to to replicate that. That's not something I have the ability to replicate.

Michael: So I have higher dollar houses that have higher growth that I need to learn how to creatively finance my way in if I want to keep growing that. Whereas he just had a whole nonstop conveyor. I mean, granted he still has to work to find them. He could just find these BRRRRs and scale that. So I think what are successful people doing in your market from an acquisition, in a financing and try to replicate that in your market? I can tell you what's worked for me, but maybe that's not a good fit for your market.

Joe: You mentioned John Schwab's book. It's a really good book. I'm looking at it right there, building wealth. I'm not looking at it right there. It was right there anyway. Building wealth one house at a time. Right. And that would be a good book for people to start.

Michael: Absolutely. It's a great book. I've read that a couple of times being that I'm not a beginner anymore, but there's always good nuggets in there. So I think learning from people like John Sharp, learning management from David Tilney Jack Miller is no longer with us, but he was one of the most creative minds out there and in cash flow depot dotcom is I think you can now pay one price and you get a lifetime membership. And of course, as I used to buy from Jack, are now on there for free. So Jack was Jack was like part of it was a seminar. Part of it was a standup comedy routine. And like the mistake would be to look at this guy in his in his nineteen seventies look JC Penney suit and think you're never going to learn anything from this guy.

Michael: And he's absolutely brilliant, brilliant guy, and without Jack, Jack Miller, Pete Fortunata and John Sharp and also Jimmy Napier, who's no longer with those guys, really started the whole creative real estate movement. And anybody that's teaching this stuff has probably learned it from them or somebody that learned it from them. Yeah. So anyway, go to the sources.

Joe: CashFlowDepot.com is the website you talked about.

Michael: Yeah. And there's a lot of other stuff. There's another guy on there you should study, Mike Tanta out of Southern California. He's got a super mix, my hero. He's always had a real super lean and mean operation. And here's a guy in Southern California who flips 50 houses a year and has 40 some rental properties. I think most of them are paid off at this point, even have a cure for anything. So, I mean, you can do it in any market. And I think if you tried to do the BRRR model in California, you'd have a harder time.

Joe: I just had one more question for you, Michael. You mentioned the resources about IRAs. And can you share some of those resources you were given?

Michael: I think one of the, like to grow a small IRA. There's a gentleman, Walter Woolford, and it's just his name, Walter Wofford our dotcom. He is a ninja at the small dollar IRA thing. And in fact, I think he has a package where you can buy like seven different seminars for incredibly cheap. He teaches the concepts and Walter's kind of a hub of a lot of incredibly gifted investor minds, that kind of all kind of go to his events. What would his website be? Again, I think it's Walter Wolfer, dotcom physiologies money dot net. Would that be it? No, I think it's just his name. Yes, here it is.

Joe: You're right. Walter Wofford.

Michael: Yeah. So he's an old Jack Miller guy, and I think he made plenty of money. And when he had plenty of money, he started groaners as IRAs and became quite the ninja at that. And he teaches a lot with Quincy Long, who owns Quest Services. So Quincy is kind of the I guess I told you I went to the Dikes and Pete seminar, but Dikes sort of sounds like an attorney, like from the granular level of information. And Quincy is kind of the he's he knows all the rules for self directed IRAs. And those two as a team, Walter's a creative mind. Quincy is the rule book. And together they teach a lot of really good concepts on how to navigate. So if you want to take what can you put into a Roth IRA if you're not already exceeding the income requirements, you can only put fifty five hundred bucks in.

Michael: So it's not a lot of money to work with. But I give one example from my portfolio where I use two thousand dollars to grow it to 70. So that's that stuff works. I recently did and and when I was actively wholesaling, I never did wholesale deals with my IRA. I didn't want something I was doing as a business venture out of my IRA to do it in my IRA. So but I'm no longer doing that. So I have stumbled into a wholesale here and there since, and I can do that in my IRA. So I'm going to put a thousand bucks out and I'm going to get 15, 20, whatever thousand back. I wouldn't do a bunch of those, but I may do one wholesale year at this point, so I'm hard to call me a wholesaler.

Joe: Any other resources, IRA resources you might recommend?

Michael: I mean, definitely like dike's website assets one 101, one dotcom. He teaches that class with Fortunata once a year, I think. And that's probably coming up in February, March. I don't know if that's going to be Zoom or not.

Joe: I say it right here. Assets one on one dotcom. Cool.

Michael: Yeah, there's another good seminar. Gary Johnston, Gary Johnston seminar. He teaches a class called Financial Freedom Principals. And that's kind of learning how to use a financial calculator, learning how to understand the decisions we make in our lives from how we operate as a as a as an employee, as a self-employed person, as a business or what business entity and how that impacts our tax situation, our investment situation, like how a different type of plan allows you to put more money into a retirement account. I mean, there's a lot of really anyway, it's a great class. It's probably a class that I will drag my son to kicking and screaming probably as soon as he's eighteen years old. It's just one of those things people need to understand. I mean, at any age and most people that go to financial freedom principles usually attend, if that makes sense.

Joe: Do you have a favorite IRA company that you like to use?

Michael: Right now I'm using a company called Provident. They're low cost, but I have created an LLC that my IRA owns. So Walter would probably tell you to create a trust that your IRA owns and hold it with Quest. I just ended up with Provident. Just a referral. They're very cheap. They're just worthless if you want them to do anything in a reasonable amount of time. And I would say that about probably any of them. Whereas once you create an entity like a trust or an LLC and then you fund your IRA dollars into it, now you can have a local bank account that I am the manager of my LLC that I receive zero compensation for. But I can effectively go write a check to get something done in a moment's notice if I can. So a provident doesn't. I made the move and then I realized I couldn't do a trust, so I did the LLC has a really good deal. Quest has a lot more expertise via Quincy Long and they do a lot of really good resources.

Joe: I was just talking to Quest Trust today, getting those details ironed out.

Michael: There's a Advanta is another one. I think my friend uses Advanta. There's Marissa from which I had her card handy, but she's really she's a sharp cat. I've seen her on some podcasts. But again, I mean, it's like subject to don't try to go about this halfcocked, like, learn what the rules are, learn how to do it right. So you don't shoot yourself in the foot and have them come back and blow up your IRA if you're if you have it set up an account. Yet Dorsay Dike's daughter wrote this book with Dyches and John Hire, an attorney on the solo 401k. And if you have a solo on 401K, you can basically create part of it as a traditional environment and part of it is a Roth component. So even if you make too much money to start a Roth, you can create a solo for one K, and there's also benefits of doing it like a Roth 401k versus a traditional Roth IRA, because in that my understanding is every transaction is kind of its own thing. So if you do something bad and they slap your hand on one transaction, it's not going to blow up your whole IRA like it would in a Roth IRA.

Joe: So it was called solo 401K?

Michael: Yeah, the Solo 401K. I think like 20 bucks. So that's a wealth of information and a good foundation for that.

Joe: Super helpful. Awesome call Michael. Part one and part two guys again, if you haven't heard the part one, go to real estate investing mastery dotcom and check out part one. We gave a ton of links here and all of those links are going to be in the show not to go to real estate investing mastery dot com or a shorter URL is REIMpodcast. com, REIMpodcast.com.

Michael, thank you so much. Do you have a website or an email or cell phone number? Something we can call you?

Michael: SwiftResults.com is my website. That's my house buying website. You can hit me through that or I guess I'm on Facebook. I mean, your big Facebook group. I'm in several of the big wholesaling groups out there. If I don't know you honestly on Facebook, I'm not one of these guys with five thousand friends. I actually know most of the people on my friends list, so I probably won't accept a friend invite. But if I can help you, I mean, hit me up off my website. I'm a junkie. If I can help a structure deal, I'm all ears. I'm used to doing a ton of deals and I'm not that guy anymore, unfortunately. But I still part of me still wants to be that guy. So if I can put a fun, creative transaction together, I'd love to help you out.

Joe: So Swift Results.com. Cool. Well, thank you, Michael, so much. Appreciate it. Any time. It's always fun. Good to see you again. Soon sometime. Likewise. All right, guys, we'll see you all later. Take care, everybody.