Set Your Rent with Adam Zach

Hosted by*:* Joe McCall
Guest: Adam Zach

Joe: Hey, guys, welcome to the Real Estate Investing Mastery podcast. Hope you're doing well. I'm Joe McCall with a good new friend of mine, Adam Zach. And we're going to be talking about a unique program he is doing called Set Your Rent. And a lot of you guys maybe have seen some of the bigger hedge funds doing this. Adam has found a way to do this for the smaller investor like you and me. And he's been doing it already successfully in his own market. So we're going to be talking about that. First thing, though, I want to let you all know this Real Estate Investing Mastery podcast is brought to you by my book. A lot of you already have this. Some of you are like, I need to buy that. I keep on hearing Joe talk about it. I've not gotten it. You can't get this on Amazon. You can't even if you wanted to and you wanted to pay a lot of money because it's not there, but you could only get it at WLObook.com.

Joe: We're going to be talking a little bit about lease options today. And this is the book that got this is exactly what I did to quit my job. It's one of the easiest deals to do where you get a property that doesn't have much equity tied up on a lease option and then you sell or sign that lease option to a tenant buyer and you're done and out of the deal. And it's been working for a long, long time. It's an old strategy. I kind of coined the phrase wholesaling lease options. A lot of people call it lease option assignments or whatnot. But this is a real good book. In fact, I remember when I was first getting started, I bought a lot of different lease purchase courses and one of the courses I bought was from a good friend of mine named Todd Toback, and he called this stuff team work assignments. I've heard other people call it cooperative lease options. Other people even call it arbitrage lease options. So anyway, it's a it's a very profitable strategy. It's a great way to flip deals. Cool. So you can get it for free. Just pay a little bit of shipping and handling it well. I'll book dotcom W.L. old book dot com. All right. Cool. And Adam. Adam, how are you, man?

Adam: I'm doing well. I have your book and also was a member of your course as well. So they've been they've been helpful.

Joe: That's right. I remember that. Do you remember when you bought that book?

Adam: Oh, that one would have probably been two years ago when I first found you. I mean, a lot of us are just when you're looking to get started into something, there's a ton of free content. And then eventually, like you said, when just like you invested in someone else who was doing lease purchase assignments or however they called it, I basically did the same thing. Well, if I wanted to get into this, why not just seek out other people that are doing more than I am so that I can learn?

Joe: Yeah, well, good, good, good, good. Now, Adam, I'm going to I'm going to guess you are not on the beach right now, but that's why you're wearing a hat wishing you were on the beach.

Adam: Yeah, this is a little bit of a unique day. So when you have a three year old and a one year old at home, you never really know what your day is. But luckily, now that I'm down to ten hours a week at my job, basically because of the real estate, I have this flexibility of now I'm working at home. It's actually in my son's room. So you can see my want my one year old son over my over my shoulder here. And so it just it's kind of get creative. But I am in Fargo, North Dakota. So it is not quite beach weather, but we like to just close our eyes and pretend.

Joe: You know, I'm wearing. I didn't even think about this. I'm wearing a Kuai Hawaii hat right now. It's one of my favorite hats. And of course, I'm in St. Louis. So a little cold where we are. It's colder where you are right now. But you talk a little bit about your story. How did you get started in real estate and when?

Adam: Sure. It was the twenty twelve did an accidental house hack. Had no idea that I was doing a house. I didn't know what bigger pockets was, which was like kind of the first real estate investment game that I found, which wasn't until I got my third property that actually figured out that bigger pockets existed. So basically the first one was nice because I bought it, just wanted me and my college buddies to kind of hang out and play and have fun. Then you realize, oh, they're paying my mortgage. Oh, that's kind of fun. And I don't have to explain what a house hack is. Sure. So the house that was. Yeah, I graduated from engineering and I was like, OK, I'm making some money. Why not go out and buy a truck? Why not go buy a house? And of course, the truck was a bad idea. The house turned out to be a good idea. One was a depreciating asset, the other one was an appreciating asset. So essentially bought it.

Adam: It was a four-bedroom, two bath town home for one hundred and forty thousand. My mortgage on it back then in twenty twelve, doing like an eighty ten ten which was eighty percent conventional financing, ten percent as a second lien against the property. That was a higher interest rate and then ten percent down that I put down. And so my all in mortgage was like nine hundred bucks and I charged my buddy's three of them, three hundred and fifty dollars a month in rent. So I was just living rent free basically. And once you do that for three or four years you realize, OK, well now my mortgage is one hundred and ten thousand. The property is worth one hundred and sixty and I've been living rent free for four years. I was like, man, there's got to be something more to this. So that's kind of when I got the real estate bug, I wasn't very bright. I was just trying to extract as much fun out of life as possible. So this was the bar scene. This was beer pong on the dining room table. This was like, oh, you just get out of college, you're making some money, you can have a bunch of fun. And so then that's what kind of got me to the impetus before I then made the best decision to marry my wife. And then that's when I discovered personal development. And then that kind of flipped the switch again.

Joe: Awesome. I was just talking to my 12-year-old daughter about college and not about the party stuff, in Jesus name, we were talking about house hacking. She wanted to buy. She brought this up. She said, I want to buy a house and just rent it out to my friends. And I thought, that's pretty cool, you know, and I've talked to them a little bit about that, but nothing serious. I mean, my oldest is 17, but what a great idea. I mean, I wish I would have thought of that back when I was when you're single, like, there's no way you can do it when you're married. Right. Your wife wouldn't let you rent a room in your house out, probably.

Adam: Against my wishes, she wins that argument for good reason.

Joe: Right. So but anyway, what a great thing to do for a single guy or single lady, especially when you're in college. Rent, buy a house. It's so stinking easy for college students these days to get credit anyway. It's ridiculous. But like saving up your pennies now for down payment, buy a house on campus near campus and rent it out to your buddies. They can't get anything nicer and cheaper for three hundred and four hundred bucks a month.

Adam: That's right. And if you can't do it, like if they require you to live on campus the first year, even if it's the second year or you sophomore, junior senior year, and you can get maybe a parent or an uncle or someone to cosign for you if you can't quite get the income to do it, like, I would imagine that your family members would look at that like, oh, well, so you're actually going to pay the mortgage, you're going to be living there. You're actually gonna have eyes on it. And believe it or not, there's a lot of people that are looking to get into real estate. And so when someone just happens to bring the opportunity to you, we're like, wow, this would be this seems like a pretty easy way for me just to cosign on something and do nothing and potentially help out my son or daughter along with maybe they get part of it too.

Joe: And then after you're done with school, you can keep on renting the house out by the room. And, you know, it's funny, not funny, but serious. There's a lady I met in Ohio who teaches a course about student housing. I forget her, Dixie. Really cool lady. And she's in Springfield, Missouri, I think. But that's all she does, is she rents out houses to college in college towns, but she gets the parents to cosign all the leases and she only does twelve-month leases. Right. And the parents, if there's any massive repairs that need to be done and or if there's late rent or whatever, the parents take care of it. Parents pay it. So pretty cool. All right. So this was twenty twelve. When did you when did you finish college?

Adam: I finished in 2011 with my master's. OK, very cool. And then what did you do then? Then it got a little bit unique where we're like, OK, we want to potentially keep this one as a rental. And I and I was kind of into the American dream, like, OK, now I'm engaged. My wife and I are looking at a property, got married like, OK, now we want our quote unquote forever home. So we were going to buy the five bedroom, three bath, three thousand square foot because we could afford it for no other good reason. They're like, oh, we're going to start a family, we're gonna have a bunch of kids. And a long story short, that home lasted us two years and so we bought a three hundred-thousand-dollar house, but kept that one as a rental.

Joe: Right out of college?

Adam: This was three years later. Sorry. OK, so three years later in twenty fifteen is then when we bought between my wife and I saved up 20 percent down. Got our, our kind of our primary forever home that, that we wanted. So that was in twenty fifteen. So three years later been living kind of rent free for three years and like oh this is kind of cool. Then my college buddies or then recent grads kind of moved on, got their jobs in teaching or nursing or whatever and, and then it's kind of like, oh I'm left in this house now, what do we do? And so we decided to keep that one as a rental. But I really didn't like now that I look back and I was like, man, I really didn't need that big of a house because it was like kind of like a keeping up with the Joneses and you could afford it. So it's just nice. So we decided to keep that one as a rental list it way below market rent because we moved out in March and the first people that went into it said, we'll take it because it was like twelve hundred dollars a month and rent and market rent was like seventeen hundred dollars, didn't know any better. I was like, oh if I could just cover the mortgage that would be great. Wow. There was some ups and downs with that. That spring they flooded the basement because they forgot to put the downspouts on and this was like a Sunday night. My wife and I were like, OK, this is why we are never, ever doing real estate again. So it almost knocked us out of the game to now having twenty six properties, bringing in X amount in rent and now allowed me the financial freedom. It was this close to completely knocking me out of the game, just out of pure frustration.

Joe: I have a similar story of my first property. My company transferred us. I worked for an engineering company in Kansas City. They transferred me out to California for a three-year assignment and we were building the power plant out there and ten months into the job, they shut it down and sent everybody back to Kansas City. But I had rented my house out at two months, left on the lease. We were back in Kansas City, had no place to live. And every single month that tenant would call for something that was broken, that needed to be fixed. They were lent late every month on their rent. And who got the late fees, by the way, if you guys didn't know this, you should think about this. The property management company keeps the late fees. All right? You don't get the late fees unless you just. That with them in the future, right? Mm hmm. And then I was so mad at the property management company, I just thought I was going to sell this property and then. Oh, yeah. By the way, you have to pay us the commission if you sell it. Well, I'll just cancel my property management agreement. Well, there was still an extension even after the property management agreement expired. I was still tied to sell it through them for like a year or something. Maybe it was six months, but I was like, never again, never owning rental real estate again. This isn't worth it. So sorry. I'm making I'm interrupting your story.

Adam: No, it's a valid point because, you know, it's just a lot of people that want to get into real estate. Yes. It's can provide that financial freedom. But just the old adage of persistent and consistent and not letting something go out. Yes, I could have been a lot smarter and found books, people like you, bigger pockets and would have known like, oh, maybe check these things or do a walk through or an inspection just to kind of look at it. It was kind of like, oh, this is kind of cool. They're just paying me rent and away we go. So it's just a just I always like to hit the highs and the lows because the roller coaster ride that is this is is fantastic, although it's always trending up, which is nice.

Joe: OK, so how did you start on this track of buying more properties?

Adam: So then the next one was, OK, I'm going to just buy a regular rental that it's just I'm finding it off the MLS. I'm going to buy it. I found a three-bedroom, two bath that I thought I could convert from a three to a four bedroom because it had the bonus room. So as my first property was turning over, I would sit in there, I would do open houses for the applicants. And I would say, oh, by the way, if you don't want this house, I'm closing on this other house. That happens to be a three bedroom that I'm converting to a four bedroom. And that's how I filled the second rental was basically by leveraging the fact that this was a super attractive property. And in fact, that rental property that I have nine years later and that same property that I bought now in twenty sixteen. So this would be my second true rental property. I'm doing the exact same thing this spring. I'm slowly trying to get all of these out of rentals and into lease options. But these two I've always kept as rentals for that entire time. And I'm doing the exact same thing where if you don't like this one, why not check out this one? And so then I had a signed lease contingent upon me closing on the home before I closed on the home.

Joe: All right, nice. And what year is that? That was twenty, sixteen. Twenty sixteen. All right. And then. Then what?

Adam: Twenty seventeen. A buddy of mine said, hey, let's pool our resources together, because every time you keep putting 15 or 20 percent down, you're like, man, I'm just out of money. I can only do that so long before my capital just runs out. And so, like, well, what? I can't really do anything else. I don't have any money. So it's just like, oh, I guess I could just have to save. And then he's like, well, I want to do this. He kind of saw what I was doing. It was like, let's form an LLC. OK, great. He's got money. I got a little experience and we'll start knocking this down so we don't have to put so much into it. We bought a 1908 property that we thought we could put like ten grand into it and make it look nice. It was such a terrible, terrible deal that got us like two windows to meet code that didn't touch the kitchen, that didn't touch anything. And so we're like oh my God what, what did we get into? It's almost like the HGTV gone wrong. So we're in this 1908 property that we still have today. That's on a lease option. We ended up putting in way more money than what we expected to it. And that's where like, OK, this flipping thing or this rental thing like isn't for us. It took, I don't know, like three months just to get in our state, you have to get a certificate of occupancy for it to be licensed. I know not all cities or states require a city inspection. So that city inspector was our worst enemy. It was always this outlet has to be grounded. This window has to be within three feet of it.

Joe: And they can't tell you all of that the first time they're there, right? Oh, man. There's always something new every time they come up.

Adam: And so we went through all of that and it was like it took forever. And then we finally got someone to rent it out who happened to be a handyman himself. And then slowly over the period of 2017-2020, he fixed up the property in exchange for kind of a reduced rent, which we were super happy about. I don't know the legalities of that, and I'm sure everyone would say, like, you probably shouldn't do it. We actually ended up using him as our handyman for two years and all of our other rental property. Great idea. It turned out to be really well, but there was to that to date, we still own that property. I don't think we'll make any money on it. But again, it was just we tried it and that was the next one.

Joe: So then we kind of interesting failure can be your biggest teacher, your best teacher sometimes, right? I mean, I look at things in my past, I've learned the most from my mistakes. But here's the thing. You don't you don't really have you don't get success unless you failed. And sometimes many times, you know, I was just listening to the guy on an interview on the Mike Dillard podcast, and he's the guy who invented the well, didn't invent it, but he sold it, the gravity blanket, these heavy weighted blankets that everybody's talking about now. He had tried business after business after business and failed at all of them. And all of a sudden he was having a conversation with a sleep doctor because he was trying to design some pillow and he was just going to throw away the idea. It was stupid, but he just thought he already had an appointment with this sleep doctor. He was going to keep it anyway just because you don't want to be a jerk and cancel it and. She said one little thing about some of our clients, we give them we prescribe to them weighted blankets, and if you have, it's been scientifically proven. If you have a blanket that weighs 10 percent of your body weight, it'll reduce stress and anxiety and help you sleep better at night and about spit out his coughing somewhat. And then he went and he couldn't find you couldn't order those blankets anywhere online.

Joe: And if he did find one place, but it was like a website that doctors go to and it was built the website was built 20 years ago or whatever. So anyway, he went to Kickstarter and raised a million dollars in a couple of days and then did five million dollars in like a week and then figured it, freaked out because he had to figure out how he's going to make this blanket. Anyway, my point in that whole story is failure, failure, failure, failure, failure. And all of a sudden he hits on the big idea. The other thing I was thinking about was for rehabbing properties. How many investors do you know and who we all know who have failed miserably at rehabs and at least has one or two for me. I've only done two rehabs and I failed miserably. And both of those rehabs, I'm rehabbing one of my properties right now and I thought it would have cost about 20 grand and the bids came in at 40. I mean, just go figure. It's inevitable. It's going to happen. But don't quit. Don't ever, ever quit when you have these failures. It's interesting. I just wanted to throw that in.

Adam: Yeah, it was it was kind of a what can we learn from this? And I feel like each one we were doing we were trying to pivot where it was, OK, we didn't buy a property with much equity. So now the next one, we wanted to buy property equity. So that's how we got a nineteen hundred house. Oh a ton of equity. Right. The ARV is this. Well turns out if it's in crappy case we can't compete with an ARV. You've got to do like the 70 percent rule minus repairs. And in today's speak we didn't know any of that. And so now we're like, OK, we're going get out of that. We're just going to buy a property that already has tenants into it and the property is going to be in good, good condition. So like a turnkey property. OK, great. We did that on the next one. The bank required us to put twenty five percent down and it worked out until the tenants had to move out.

Adam: Then we kind of discovered, oh then we got to do the whole thing over again. But we started doing that more just because it was less work. It was a nice home. Tenants were into it but the numbers were just like and it's kind of iffy, right? Like we're making money. But boy, we were putting on a lot of capital to kind of squeeze out a few beans out of this with it, with the turnkey market. So that's what we did for a while there at twenty eighteen before we got to our new thing.

Joe: Were all these deals in South Dakota area?

Adam: Yeah. So they were all in literally in our backyard in Grand Forks, North Dakota at the time from where we were at North Dakota.

Joe: South Dakota. What's the difference?

Adam: It's just the Dakotas.

Joe: I always get them mixed up, even though.

Adam: I think there's a petition to combine us into the Dakotas. I think it got like seven hundred petitions, but never really actually made it to any congressional hands.

Joe: We drove through South Dakota on our big three-month RV trip. Where is Mt. Rushmore and the black? What do they have?

Adam: The Black Hills down in Rapid City. I would recommend if you're going to drive through one of the Dakotas, don't drive through North Dakota, drive through South Dakota, you'll hit the Badlands or maybe cool in North Dakota in Medora in the western part of the state. But the Black Hills and seeing a little bit more in South Dakota I would recommend.

Joe: The Badlands were incredible, beautiful. And then we went into the Black Hills and we stayed at a KOA. Either I didn't know that South Dakota was that beautiful. And I've not driven up in North Dakota. It was North Dakota, just like pretty flat or.

Adam: Yeah, yeah. The running joke is you can watch your dog run away for a week.

Joe: But it looks green on the map. It's not like desert, is it.

Adam: No, no. It's just yeah, it's pretty plain Jane. A lot, a lot of farming and it doesn't go up and down with real estate. You're going to get three percent appreciation and you're not going to get too you're not going to get four. You're not going to get ten. Besides the Bokan, which was the big oil boom on western part of North Dakota, that was kind of its own economy, an anomaly. But luckily, we just kind of in all it's kind of just the Midwest where families stay here. You got a population growth of one or two percent. And it's just pretty steady Eddie.

Joe: That whole that thing that was going on in western North Dakota is that is that bubble kind of burst or is it still?

Adam: Yeah, between the oil prices, it kind of ebbs and flows like 2012. It was huge then 2018 it came roaring back again and then covid basically slammed everything shut down. Now it's kind of going at probably a modest pace, I think, like the second biggest producer just behind Texas.

Joe: Wow. All right. All right. So what does this year now? 2017. You have three or four properties under your belt.

Adam: Yep. So 2017. We did the terrible flip. 2018. We started doing more turnkeys and trying to do that. And then 2019 when we landed on our model that we do exclusively now, which is our set your rent model, it kind of had a version one and a version two. Version one was, hey, college kids, go pick out any home on the MLS, hey, college kids. Yep. And you can pay the one percent rule and we'll just buy that home for you because we were into the turnkey game there. But instead of buying existing inventory and then trying to fill them or hoping that the property had rentals, we just said, hey, group of four kids, if you see a two hundred-thousand-dollar house, we'll rent it to you. We'll buy it, close on it and rent it to you for two thousand dollars a month if you sign a two-year contract. And to us it was kind of like no vacancies. They already picked out the house, so they're going to like it. We probably have to do less stuff to it. And so that was version one point. Also, we called that Set Your Rent, where you just said, here's how much I want to pay. And then we just said, oh, the one percent rule and here's the purchase price. And we sent college kids out hunting for homes with real estate agents.

Joe: And did that work?

Adam: It did for the one or two years that they had it. And then it turns out then we just had to rent them again, but we wouldn't get the same amount of rent. Right. So if they picked a two hundred thousand other house, two thousand dollars a month really looks good. Well, market rent was fourteen hundred dollars. So after the two years it was like, oh, now we're kind of back to the same thing again. It was great. Allowed us to get a lot of cash flow for those two years and I would recommend it if you're just trying to get into it. If you know someone that wants to rent and you can do that, like basically you close on the door March 1st and they move in March 2nd, it's kind of a cool thing.

Joe: Couldn't you just rent it out to more college students by the room?

Adam: You could. That would've been a smarter idea of how to do that, to get more income.

Joe: So this is interesting because you told me when we talked before another kind of way, you stumbled on this as you found it kind of hard to maybe you should phrase it better, but you had this idea of like, well, we do all this work to find the sellers. What if we found the buyers or the tenant buyers first to talk a little bit about your thinking.

Adam: Sure. So that's when we were slowly coming upon the idea because as our rentals were coming up, we're like, what else can we do with these? Do we sell and we just do normal rentals? And that's when the first person I heard about it was YouTube and it was Chris Crohn because he's you know, he's flamboyant. He's he's pretty in-your-face with Lamborghini's and different stuff. He's still got some good content. But I was like, oh, what in the world is this thing called lease option? So we're like, oh, we can do it. We can just have them sign one piece of paper. And this is a lease option. Not not the way to do it. Right. So we're like, OK, let's stumble upon what this looks like. And that's when we found your course, went through it and was like, OK, we're going to really get into what lease options mean, how to do them right, how to help them. And so me and a different business partner started going through your course and we started contacting for sale by owners and things were slowly generating. Then my business partner, a different one at the time, had a life event. And he's like, you know what, I can't do this anymore. And I was like, OK, well, I could hire some VAs, do all this stuff because I know it works.

Adam: But I was like, but given what I'm seeing and kind of like this unique thing, instead of finding motivated for sale by owner candidates, what if we just found already motivated tenant buyers and we just give money with money that we kind of did the one percent rule. But then because their tenant buyers, they don't want to move out, they want that home. So then that kind of solved the fact that they would sign a two-year lease and leave. With college kids, these tenant buyers would sign a two-year lease and then buy the property. And now I didn't have to basically do anything. So that was really the between kind of your program, along with what we were seeing locally and trying to do is really then how we pivoted to the last thing was just, you know, what we can't really find as motivated people or it was a little bit harder. But, boy, when you say home available is a rent to own or contract for deed, your phone starts blowing up. There is there are so many people doing it or that that want that can't get a home because of credit. There was just way more of those because I believe in your cause. You're like, well, if you get a property under contract, that's the hard part. Finding a for sale, finding the tenant buyer. That's the easy part. Says like, oh, well, if that's the easy part, there's a higher demand there. Let's just lean into that a little bit. And we're by no means an expert. We've done maybe 20 of them. So not nowhere near like the home partners of America homes who are doing this on like thousands and thousands of homes. I didn't know that they existed until like 2020. We just kind of thought we were doing something new, kind of a spinoff of what you guys were doing.

Joe: Now, when you when you first told me about this, you sent me an email and I thought, wow, that's really interesting. But I had done something similar before. So I was at first really skeptical. Back in oh eight, twenty-seven, twenty-eight, I did a similar thing and I found out that is way easier to find tenant buyers. So why don't I find the buyers that got money to put down and then I'll go buy the house for them. But I did a couple of things wrong. Number one, I wasn't putting enough money down into the house. That's number one. And number two, I didn't have enough cash flow. I had no margin for error zero. So when the property values tanked or when the tenants missed a month's rent, I had zero savings because I was used. I was only putting five percent down on these homes. And when the mortgages that high, you don't have any cash flow in there. And then any money that I collected from the tenant buyer went towards that five percent to buy to buy the house. And then the banks have these limits where you can only buy a certain number of homes. So anyway, that turned into I did make some money on some of those deals, but not a lot, but you you have a different approach. And I like the way you kind of work it a little bit because you are putting more money down and you're getting some of the money from the buyer, but you're also getting some private capital, private money. Right. So talk a little bit about how you structure these deals, because this is this is interesting.

Adam: Sure. Yeah. So I'll dove into it. And again, I'll preface this, that we are we are very much in the learning phase. This is like, oh, that doesn't work. And nobody tells you as an entrepreneur that you can't do something until legally you learn otherwise or that something's like, hey, you just can't do that. So we're just like, OK, how can we make this work for everyone? So now people are finding us and every home that we've bought has been one hundred percent word of mouth from an agent, from a banker or a past customer. And so that's a good reputation that we that we like to have. But essentially, somebody finds us like, hey, I can't get a bank loan because of poor credit, whatever the situation is, was recently divorced or most common is I'm an entrepreneur and the bank looks at me weird. I don't have my two years of taxes showing my self-employment, but in fact I make two hundred thousand dollars a year. I just write off two hundred thousand dollars a year because I don't want to pay taxes on anything. So when the bank looks at how much your adjusted gross income is, it shows zero. But really, if you looked at it, you're like, oh, well, they're literally writing off food, hotels, their mortgage, like everything like I'm no I'm no tax accountant, but they're writing everything off. So, like, OK, I have the money. So that's where they're finding us. Like, Hey, if I put down five grand or 10 percent or 20 percent, what does that look like for me? And this is like, oh, OK. Well, now that's a much less risk from our perspective. Is somebody putting down one month's security deposit of fifteen hundred dollars? That really doesn't do much at all. But if somebody is coming in with 40 grand, I was like, there is a lot the market can do a lot and we have a lot more wiggle room.

Adam: So an example of, let's say, a two hundred thousand dollar house that they bring in, let's say 10 percent. So they're bringing in 20 grand. How we'll ideally structure that is we'll get one hundred and sixty thousand dollars from an in-house portfolio loan to our LLC, which is different than the Fannie Mae Freddie Mac, because those are conventional loans that are in your personal name. So we're buying homes within our LLC, within house credit union funds. So if you go to Bank of America, a Wells Fargo and you say, hey, I want a mortgage or you go to a mortgage broker nine times out of ten, they're just going to say, OK, we're going to shop your stuff around and whoever can give you the best interest rates. And they are following federally guided documentation of what your debt-to-income ratio. And they can only charge you so much fees and they're going to lock you in at a certain interest rate. It's very formalized. Now, the bank can have overlays where Fannie Mae says you need a debt-to-income ratio of like, let's say, forty three percent. The bank can have an overlay as well. We really don't want you going above thirty-eight. But Fannie Mae and Freddie Mac have their guidelines that if you just go through that, you can't do it by law. The registered mortgage loan originator has to follow those laws. And that's where like, oh, you can't get more than ten of those, but those are your best rate, your best terms. If you can get that fantastic. Like, go ahead and go that route.

Adam: The other one is you got a credit union. And by the way, a credit union is what a great philosophy. They collect a thousand people money at ten thousand dollars. So now they have one hundred thousand dollars that they're paying you point zero one percent interest on a money market rate, and then they're lending it out at five percent. So all of a sudden they're just creating twenty thousand dollars a month in cash flow for securely holding your money, but then going out and lending it anyways. And so I was like, oh, OK, that's fantastic. What a great concept. Can we kind of get in on that style of a bank? So we're kind of playing middleman between a landlord and a bank where we're just leveraging the fact that we have an eight hundred credit score in the inhouse portfolio. Credit Union is willing to give me and my business partner a loan because we look really good on paper. The tenant buyer isn't. So that's why they're paying a higher interest rate, why we're taking on the risk, because the credit union, if the tenant buyer doesn't make the payment, doesn't want to foreclose on them, they'll just say, hey, investor, figure this out. And that's our job, right? If a buyer doesn't pay, that's our responsibility. So we're taking on that risk. And we're also getting then the reward from that.

Joe: Well, the banks protected, too, because you're putting what, percent down as a down payment?

Adam: Yeah, we're putting either 20 percent down or twenty five percent. So of that, two hundred thousand dollar house will either have one hundred and sixty or one hundred fifty thousand dollars loan. And from their perspective and they can assign the rents, they're doing personal guarantees. You're about as locked in as you can with those in house portfolio loans, almost just like a Fannie Mae, Freddie Mac. And so they're protected as well. I would agree. So now let's say that we have to come up with the remaining 20 to 30 grand of capital because the buyer came in with twenty. We get a loan for one fifty. So now they're still thirty grand. They're what we started doing is doing private money where we just went to someone who was like, I don't trust the stock market. If I put it in a five-year CD, it's currently at one point three, four percent. What if we gave you a modest return on your money?

Adam: And by the way, you're helping a tenant buyer get into a home, so it's kind of twofold where they're getting eight percent, 10 percent interest only on their money while they're helping someone get into a home. And now we can do this at scale because we're not putting in our own all the funds ourselves. And now that there's a lot of inherent risks with that. But, boy, it's really helped us accelerate.

Joe: And this house, used as an example, is a two hundred-thousand-dollar house. Right. So you're getting you're putting 20 percent down. Yep. And you're getting maybe half of that from the tenant buyer, the other half from a private investor. That two hundred-thousand-dollar house. What is it worth? Are you are you paying full market value for these houses? As long as you find somebody with a buyer with good down payment money, you'll buy anything for them. Or do you have to like you have to get it out at a discount?

Adam: Sure. So when we now screen the tenants, so we use ELT's. Thank you for the recommendation, by the way, in your course. Like, what a great thing they would you say, hey, for 50 bucks, go have them do all the work. They'll tell you if they're getting evicted, what their income is, how they verify it, and they'll give you a recommended or not recommended. Fantastic.

Joe: If anybody's curious, it's LT Landlord Tenant Services. I think if you Google Landlord Tenant Services, their website is Eltis Services, not us. But I've been using them for tenant screening for years and years and years.

Adam: Oh, thank you so much for that. So that was in your course that we picked up and was just taking golden nuggets of that. So we say, OK, go through all that. We are personally not of the opinion that we're trying to set anyone up for failure. So we use the general three to one ratio. If you make six thousand dollars a month, you can afford a two thousand dollars per month payment. And we're generally following that rule. So based on their income that's proven or that we can justify by looking back at their bank statements or they're self-employed, like, OK, I get what you're doing here. You're making six grand a month. If you make three grand a month, OK, you only approved for one hundred-thousand-dollar house because it's basically the one percent rule where we're saying don't exceed three times your monthly income for what your mortgage payment should be. So like thirty three percent of your overall debt specific to your house to make sure that we don't overextend someone. Because, of course, if they make six thousand dollars a month and they're making a five thousand dollar per month mortgage payment, that is a recipe for disaster. So that's the general criteria.

Adam: Like, OK, so you're approved for a two hundred-thousand-dollar house. Your let's just say your payment, whether we're doing a lease option or a contract for deed is just say all in for budgeting purposes between either your monthly payment or your principal insurance, taxes and insurance. If you do a contract for deed is all in at roughly two thousand dollars a month. And so when we sell the price, there's two things I'll go with. This is we can sell them the price exactly at two hundred thousand if we can do a seller credit and the seller credit. So this is the next thing that really game changed. So with Fannie Mae, Freddie Mac, my understanding is you cannot ask for more than three percent for them to contribute to closing costs.

Adam: Like there's just a federal guideline. Like you can't just say, oh, if I buy a hundred-thousand-dollar house, can you cover 10 percent? And so then all of a sudden you're coming in with like you're actually getting paid to move into a home in house portfolio loans. I'm just still shocked that nobody's figured this out. They do not care what that seller credit is, really. So we've been testing the water and it's and it's getting embarrassing. So that same two hundred thousand other house we can ask for no credits. Our closing costs would be like three grand for title, maybe some prepays and a couple of other things with a commercial loan. And so we could ask for three thousand dollars back and then we essentially have to come in straight with 40 grand if you're doing truly twenty percent. If we asked for three grand sell credit. So what we started doing is like, well, what if we bought the home, just as in this example, just from a credit standpoint for two hundred and twenty thousand. And we asked for a twenty-three-thousand-dollar seller credit. Now to us, the lender is going to say, OK, I'll lend you eighty percent of the purchase price or the appraised value.

Adam: So assuming that it appraises out for that number so you can't get too crazy, OK, now you have to come in instead of 40 grand, you have to come in with forty four thousand dollars. That's twenty percent of two hundred and twenty thousand. OK, so forty-four thousand minus the seller credit of twenty-three thousand. Now we have to come in with twenty-one thousand dollars to close that home. Oh and by the way, the tenant buyer was bringing ten percent, which is 20 grand. So now all of a sudden we don't even have to go out to private money because we used the seller credit trick to basically close on the home for a thousand bucks.

Joe: And these in house portfolio loans. Lenders will allow that?

Adam: They will. It is just absolutely shocking. Like I asked them, you know what I'm doing here. Right? And they go as long as it's eighty percent of the purchase price or the appraised value, they check the box, they check the box. So, of course, if we offered three hundred thousand with one hundred thousand dollars seller credit, I hope it does an appraisal for three hundred thousand. Right. It's a two hundred-thousand-dollar house. But what's amazing is, is you tell an appraiser that I bought this home for two hundred twenty thousand. Shockingly, they'll appraise it for two hundred and twenty thousand dollars.

Joe: Yeah. All right. So this is interesting. Now you've got, so it's worth two hundred. You're buying it for two twenty. What are you selling it to the buyer for? How and how much time do you give the tenant buyer to buy it?

Adam: Sure. So in this case, I mean, if we truly did like this egregious 220. We would sell it to them for two hundred and ten thousand, so technically we're getting it for two hundred, we would say, OK, to cover some closing costs, a little bit of appreciation. You're going to buy this for two hundred. Ten thousand. And that's so basically. So if they turn around in one month and bought it back from us, we can actually still make some money because if we bought it two hundred sold at two hundred, we basically just eat all the closing costs and we'd be out of money. So it basically OK, as long as you pay for the closing costs and a little bit of our effort, time and risk putting into this, you can refinance in one month, a year or three years. So we say two hundred, ten thousand. And then every month, if it's a lease option, they're getting a certain amount back that's building up to them as a credit or if it's a contract for deed. It's truly like an amortization schedule where it's principal and interest. So if it's a contract for deed, we give them the entire amortization schedule.

Adam: So if they wanted to, they could stay at an eight and a half percent interest rate for twenty five years. Wouldn't recommend that. But we're never going to kick someone out because it's just money, cash. We're paying off the commercial loan, they're paying us money and we're just making a spread. However, if in two months they want to refinance. Good for them. And they get their taxes back and they can go and take the money, then if they refinance in a year or less. So if they. So it's the two hundred versus the two ten. So there's a little bit there. And then every single month because our mortgage on a hundred- and sixty-thousand-dollar loan at a four percent interest rate is only twelve hundred dollars.

And they're paying let's say nineteen hundred dollars a month in rent. So there is and maybe if we had to pay back some private money lenders, but essentially I would say on a deal we're maybe making on average five hundred dollars a month just between our mortgage and what they're paying and assuming that we're covering taxes, insurance and on the lease options we use, a similar strategy was like, OK, we're going to get a homeowner's warranty oftentimes otherwise, like unless there's an insurance claim, you are taking on this responsibility because they picked out the home, they paid for the inspection, they agreed to all these terms. We want you to be a homeowner, act like a homeowner.

Joe: That's the other big, huge advantage of this, you don't need a property manager and you don't need to worry about maintenance and repairs. Right. Because they're responsible for.

Adam: And so the tough part that I haven't got a good answer on that. We've tried to talk to seven different attorneys and they'll give you seven different answers. And if you go to a different state or across state lines or city lines, you'll get even more answers is OK. What can you put as responsibilities on a lease option? Some people says it's anything not to exceed five hundred dollars or some say if it's anything structural or plumbing or electrical, you have to take that on as a landowner. So if a city inspector is required on that property, more often than not, instead of doing a lease option, we'll do an agreement for deed or a land contract because then it's truly transferred. They can file it at the county and they are the homeowner. Even though the title stays in our name, they are the homeowner. There's no rental inspection. There's none of that. And so if we fear that there is any concern there about whether or not who's responsible for it and there's different tax advantages. One way, if I'm selling on a lease option, I still get to depreciate the asset. I still get the interest only when I sell it. It triggers a sale. And so I no longer get depreciation. And now it's interest as income as opposed to in an investment. So there's at least in my perspective.

Joe: Would you say there's greater tax advantages for you selling it as a lease option, right?

Adam: Yep. And it's better for them buying it as a contract for deed. So everyone coming to us like, hey, I want to do contract for deed. I said, great, the down payments got to be higher because our risk is we're so in North Dakota, if I evict someone, it's probably a now during Covid, who knows how long. But let's say the standard is normally four to six weeks in a foreclosure in North Dakota is at least six months. And so I need compensation that they're equally invested in this if I'm going to potentially have to eat this property for six to 12 months. And so that's where we change the down payment. Maybe this lease option is five grand. Maybe the contract for deed is 30 grand because we have not and will not foreclose on someone, at least unless they absolutely refuse to pay it and need to go out. But luckily, we've never had to do that.

Joe: And a lot of times to just do it in cash for keys thing off so many of those problems when it comes. So when you do it, you do a contract for deed, so the title stays in your name, but you don't get to because it's a contract for deed. You don't get to write off that property anymore, do you?

Adam: Correct. So it's basically since we bought it and sold it literally on the same day, because that's how we do it. We'll structure it out so that they notarize the contract for deed. The same time that we're signing the settlement statement, we get ours filed with the county first, then they can file it at the county. It's their choice. And there's maybe two things there. If they file it, it's potentially a refinance if they don't file for them to get financing later on down the road.

Joe: Right. If it's a refinance.

Adam: Yeah, so I guess so. I interviewed a broker on our podcast because we started a new thing of trying to educate these tenant buyers, because I didn't think that there was, number one thought there was a bunch of crooks out there trying to take advantage of tenant buyers or they just don't know that they're getting into a lease option or contract or they think they're getting into one where really it's just a rental agreement with a verbal handshake saying, oh yeah, we got an option agreement with you. And so we started this at the beginning of the year, similar to when I was leaving. The job was, OK, let's educate them so that this really is a win win. Let's not hide any of this stuff.

Adam: Let's truly say, hey, is a lease option good for you or should you just wait a year and get a bank loan? Should you rent right now because you don't have a down payment? So we're trying to dispel all of that. And so in one of those interviews, North Dakota has something unique called the first time Home Buyers Act, and they'll assist with your down payment, but only if it's a new purchase. And so if it's a refinance, it doesn't count because they're technically a homeowner. But in general, depending on how it works out, I've seen it go both ways. But at least for North Dakota, for our specific broker, they're like, oh, and buyer, tenant, buyer. I would recommend that you don't if you know and you trust the company who's buying a home for you, because if you don't file at the county, someone could take advantage of you as well, like just from a pay. You don't you don't show any title this I'm just gonna go sell it to someone else type deal. So that's probably a long answer to a short question.

Joe: OK, that's fine. I get it though. And so you explain dove deeper into the kind of numbers, the cash flow and how you make your profit at the end of the day. So just so I'm clear, you're getting principal pay down. So basically the tenant or the buyer is paying your mortgage down the building principal as if you are doing a lease option. You get to the benefit, the tax benefits of writing off depreciation and then you get the monthly cash flow spread. And on average, on one of these properties, what is your average monthly spread?

Adam: So if it's a property under one hundred thousand, it's probably three hundred dollars a month. If it's between one hundred and two hundred thousand, it's probably five hundred. And if it's the largest the highest property that we've bought is a three hundred fifty-thousand-dollar house, which was about fourteen hundred dollars a month. That is our spread.

Joe: That's pretty good. Now with these in house portfolio loans, are you hitting into hitting any limits of like, OK, you can't you only can do ten or twenty or whatever.

Adam: So here's the fun part. There is no regulations on that. Fannie Mae, Freddie Mac, those are your ten. And I think we went commercial too early. I should have put more in my own personal name before we did these because I could have got a three percent interest rate instead of paying a commercial loan at four and a half is just hindsight. You can always do better. But essentially we have, what is it? Twenty-four loans now and with maybe seven different commercial loan lenders. And then one I'm hoping to do eventually is just refinance into a really large portfolio loan, get like a 70 percent loan to value and now just have a line of credit that we can start buying these homes all cash and then reinvesting them and going back to my portfolio loan lender and just saying, hey, can we add this into it? Because right now, every time we buy a new property, so the next one that somebody wants to buy for us is Illinois's. I was like, oh, we got to go call up every single portfolio loan lender, give them the whole spiel. Maybe like this is what we're trying to do. Will you do it? No, no, no, no. Maybe no, no, no.

Adam: Maybe yes. It's like, OK, great. And you can finally find someone who actually understands. Oh, I understand what you're trying to do. And they don't just look at you like sideways, like you got three heads because it's tough. But my business partner is really good at that. And to date, every single city that we've been in, we've been able to find a portfolio loan lender except for in Florida. So far, Florida seems to be a little bit unique right now.

Joe: So this is interesting. You're doing this. You're starting to grow and expand into other states. Why do that? Why not just stay in South Dakota or North Dakota?

Adam: Yeah, it's really as people refer people to us, like as I participate in different masterminds. So there's entrepreneurs like, hey, I know a guy who knows the guy who can buy a house for you if you're an entrepreneur. And then it's like, oh, I it's like I trust them because they came from a referral. It's like, hey, my cousin Joe who runs a construction company, wants a home.

Adam: I'm like, oh, character over credit. I could basically care less what you look like on paper. Like I know Joe's a standup guy. I'm pretty much willing to buy you a house right now and then. So I like that because it's really we're investing in the person, not so much the property. But I would I would say that we've missed the boat on truly being able to scale this just in our backyard because Divi Homes Home Partners, nobody's in North Dakota and we really should be owning that. But we've been doing kind of like the I think it's I think it's fear or my partner and I both working two jobs for the last two and a half years. And now it's like, OK, this thing is legit. Now, finally in 2021, we're both cutting the ties and we're going at this full steam.

Joe: Yeah, nice. I have a student, coaching student who lives in New York, I'm not sure where, but close to New York City. And he was trying to do lease options. And New York is just ridiculous. It's tough. Same with California, very liberal and very anti landlord. Anyway, he was having a hard time finding the seller's first and then the sellers and the buyers both have to have an attorney and all that. So he decided to go the realtor route, get his license. He's found its way easier to find the tenant buyers first. And he's using some companies similar to home partners to go in. So he's finding as an agent these properties. Anyway, he was just telling me yesterday that signs have been working really, really incredibly well for him. Like he will put one for every one he puts he'll get 20 leads for every one lead that he gets from a Craigslist ad or something like that. So he's just been putting signs up and he's working with a lot of good clients. And he's doing the thing where you get the phone calls and you take a lot of calls to find that one person that's got a lot of money down and understands what's going on. Who the small business owner, entrepreneur who needs a loan and he's doing well with it, just really starting to get some traction.

Joe: But that's something I would just encourage you to think about the old boring signs that you can get in trouble with if you don't do it right. But they work really, really well. And I know people in bigger pockets love bandit signs. Right? So you should tell everybody I'm bigger pockets that I told you to do a bunch of bandit signs and your neighbor, you'll become popular really quick. Yeah, that's the kind of an inside joke. If you've ever been on bigger pockets, there's certain things that people just can't stand on bigger pockets. And I love bigger pockets. It's a great resource. One of them is bandit signs. All right. Anyway, let's talk about like I want to ask you two more questions with regards to raising capital. What are you doing? How are you finding private money? That's good to talk about that, just for sure.

Adam: So we first started off by giving away equity. We would form LLC with individuals and be like, OK to collectively to lower this down payment on whatever the remaining spread is. We'll share a percent equity depending on how much money everybody contributed. So if we needed 20 grand to close on a property, if they brought 15 of it and we brought five, we'd say, OK, well, we both get 50 50 because we found the deal. They brought in more capital and we started sharing equity. Then like, I really don't like giving away equity and forming these new ELSS private money lending where somebody is just like, hey, I'll just give you 20 grand. If you give me two hundred dollars a month for the next four years that sign me up. What an easy way of doing it. And so that's been friends, family and other real estate investors. My understanding is that getting them as a second position on the mortgage is the best way of doing that to make sure making sure it's secure. Between us, as long as they agree to it and you're helping them put their money to work and everybody pays everybody like nothing is going to go wrong.

Adam: But I could see how that could fall out. Like a like a house of cards is something like, oh, yeah, sure. Just give me 20 grand, I'll pay you two hundred dollars a month and then they can't. And now there's not an asset that has enough equity to basically just fire sale everything. So we've built up enough reserves that we can just have an emergency fund to pay off second positions. But we're still trying to leverage that just because if I can leverage four percent for 80 percent of it and then 10 percent for the other 20, my effective rate is, let's say five percent. And that still works in this model. As long as we're bringing in zero cash now, now we can scale a lot faster.

Joe: Which is one of the big mistakes I made is I didn't have that cash reserve back then. And that's so important because when things go wrong and they could and they will, are you going to be prepared to cover some vacancies, to pay back some private lenders who may want their money back early. What are you going to do? I want to ask you some questions about your cash flow. So you've got twenty something properties now, you said. Yep. And so this is you're getting enough cash flow from these deals that you and your business partner can quit your jobs or where you just from a personal question perspective.

Adam: Sure. Yeah. So I pull it up. So we have we have a running Google sheet just so I could talk from it. So we have personal properties that each of us own and some of them we've had to put in our own personal name that we've still done lease options for. And then we have the rest of them closed within the LLC. So we collectively, between the two of us have twenty six properties and they bring in rent of close to 40 grand per month. And so then once you take out like principal insurance, taxes, insurance, all of that stuff, that's roughly enough for, let's say, twelve grand a month, 12 to 15 grand a month, depending on how things go, because now you don't have that crazy capex or maintenance. We still do on a couple of those old rentals. And which is why we're trying to get the heck out of Dodge because we just see how these new ones are crushing the old model of just a performance basis. And so with that, we're kind of like, you know what? That's pretty close to completely replacing our incomes and is enough so that if we put in more time to this and we double that in the next couple of years, OK, now that 12 to 15 grand turns into twenty-four thirty and we can keep growing it from there. Or if it's just a lifestyle design, we're like, you know what, we don't want this to get any bigger than thirty properties and we're just going to let them come as they go. But we have or at least me personally have way bigger appetite. So I want to grow this thing big.

Joe: Nice. And you're living below your means which is awesome. Smart and you've got the reserves. You just reminded me of a book that I read when I was getting started called Buy

Low Rent Smart sell high. You heard of that book, I have not. That's a great title. You can still buy it on Amazon. I don't know if the guys who wrote it or even in the business anymore, but buy low rent, smart, sell high and basic strategy is you go buy properties at eighty-five, 90 cents on the dollar from realtors on the MLS or whatever, and then you rent them smart, you buy them low but not crazy ridiculous at normal discounts you should expect to get you rent them smart to tenant buyers on lease options and then you sell them high and then you just keep on doing that over and over again. But the cool thing about that book is they give a real simple plan where you can have over you can get over a million dollars in equity in I don't remember the number of years, seven, eight, 10 years, just doing like one deal a year. Or maybe it's one starting with one deal a year and then two deals a year and then three deals a year. So by by year 10, you're doing like five deals a year, but you're slowly building up to that. And so it's nothing big and overwhelming, but it's a lot it sure beats investing your money in the stock market. Like if you're trying to just put away 10 percent of your income, it's going to take you 30 years to get a million dollars in assets or whatever. Right.

Adam: But it's crazy the velocity at which something happens. So it's like, oh, you had one property in 2012 than I had like two and twenty fifteen. Then it was three in twenty seventeen. And then it was like six and then it was twelve and now it's like twenty-six. So it's like it just the exponential growth of OK now we're closing about a property a month like how, how cool from our wildest dreams was. If we could just get a property a year we'd be happy.

Joe: That's cool. And you know your numbers too. Which I didn't. Which I love that you're doing that right. Like you know your numbers, you're tracking it and you've got reserves. So but you know what? If I know somebody is asking, like, well, what if the buyer doesn't buy the house? Right. What are you going to do then? What if values start, you start going into another recession or values start dropping again. So what are what are some of your contingencies for that?

Adam: Sure. I would say if they want out of it, I would say, OK, do you want to just literally walk away and have this be kind of a part where you break this contract and you have no intentions whatsoever of trying to make this somewhat reasonable? And if the answer is yes, that is a tough person to work with. Luckily, we've never got into someone. But if that's the situation, it's like, OK, it's the eviction, it's whatever it is, you go through all of that. Like, I would much rather want to work with someone because what I would rather say is like, OK, well, what can you afford if we miss a payment? Can we tack it on three months later? And do you have a plan of doing this? OK, if that's not the case, can we do some sort of different structuring of the program or do you have someone that can fill your spot in this or can we just sell it and split the profits depending on what kind of equity that you have into the home? Like, let's go through those options first. But it truly could be there, just out of it. And if that's the case, then it's like, OK, what do we redo that? Is it fix it up and sell it? Is it find another tenant buyer. Is it rent it? We have not had a single one where somebody has not exercised their option or they haven't had the choice to sell it. But we're really new I imagine. I never know what the national statistics are on lease option fulfillment. You probably do.

Joe: It just depends on how you do business like your thorough and prescreen them. You're going to have a higher, much higher success rate than most people who just take the first one who has enough money. I've even heard some gurus say I hope the buyer doesn't buy the home because then I can get somebody else in there, get more cash flow and get another big fat down payment, which I think is not right.

Adam: I would I would agree financially. It's best for you if you can do that as the investor. But just from an overall life philosophy where I would the whole goal is work, helping create homeowners, that that is the mission and that's what we want to do. And so I would say if prices drop, I would advise them to say, please do not at the lowest point sell your property. Like this is the exact covid situation. March, April, stocks just completely dropped. The last thing you as a buyer would want to do is just say, you know what, I just want to sell this home. Now, I get that every situation is different. But if you can somehow work out something and just say, OK, maybe you were planning on buying this in 2020and covid happened, nobody could have predicted that. But now let's wait till 2021 and look what home prices have done over the last year. Like just, just hang in there a while or two years or three or so that with time and appreciation and as you're building up credits like eventually you'll get on the right side of this, it's this will be the same thing as a mortgage that if you put three and a half percent down and all of a sudden they drop 10 percent, you could do a strategic foreclosure and walk away. But why not hang on for four years if you wanted to and potentially not have the bankruptcy on your thing? And now the same properties that were in Colorado or Florida are now worth two times what they potentially were, when it dropped.

Joe: If that tenant via that contract for deed buyer can't get a mortgage in one or two years, you're not going to evict them and kick them out, right?

Adam: Absolutely not. So we've had multiple of those where there's like. I didn't pretend that covid was happening, you didn't expect that we just said, how about we just do a re extension, keep everything the same? How does that sound? They just say, sounds great. And that works out for us because we're not in the business of trying to get our capital back to redeploy and do something strictly I mean, it's cash flow for us. And as long as they're happy and we're making money like one year, five years, 30 years, you know, it's just if they're the homeowner and it's no problem for us, it's just this little income that comes into the bank account every single month that you don't have to do any work on.

Joe: And then if they just say, you know what, they lose a job, they get a divorce, they move, what do you do then?

Adam: So this would be talking hypothetically because it hasn't happened to us. But if they just say, hey, I'm out of this, I would probably go back to that same thing of like, well, if you're just gone and you're out and you don't want an eviction, you don't want anything. You just said, hey, the keys are on the table, have fun. I would say, OK, good luck. And then from there, I'm like, OK, well, we still own the property in the title. If it's a lease option, that's pretty easy because they just failed to exercise their option. We have the title. There's not much clouding that if it's a contract for deed, I would go and see if they filed it at the county. If there is, then it's like, OK, I need you to sign this release of this agreement so that if we choose to do this again or sell it, there's not something clouding the title.

Joe: Yeah, very good. And then you just find another tenant buyer for the house, right?

Adam: Yeah, I would say that that would probably be our default. But at some point we might just say this property or this person didn't work out, just fire sale it. Because our new thing is we want the tenant buyers to pick the home as opposed to having a home that we then have a bunch of tenant buyers. The second way attracts way more people, though. When you put a like you say, when you put a sign or you put a property on Facebook or Craigslist, way more leads than if you're like, who are these group of people called such a rent that says I can go pick a home and do a rent to own like that? That doesn't sound right. And then that's more of the home partners of America style philosophy that we're getting into.

Joe: Yeah, well, that's smart. And then so you have enough equity in the house where you could sell it.

Adam: Yep. And that's why I like the heads I win, tails I break even. If they move all that. And we just said agent for a five percent listing fee fire sale this thing. And if we just break even, OK, we lost our time. It was a bad deal, but I see very low situations unless the buyer, the contract or the end buyer, whoever it was, really did a number on the property that we would actually be upside down on something, considering how much money we put into it, how much were leveraged, how much they were forced to put into it over a time period is I would guess that we would break even maybe we lose some. But that's that's the that's the general philosophy that we like, is the heads I win, tails we break even.

Joe: All right. Good, good. All right. So you're in North Dakota and you are starting to do this nationwide. How can we help you? What if somebody is interested in maybe partnering with you on some of these deals, maybe lending money on some of the deals or bringing your tenant buyers? Or how can people reach you and get a hold of you?

Adam: Yeah, I would love for people to poke holes in our strategies because I don't pretend to know it all. So if someone's like, hey, I think you're doing this wrong or like, hey, I really like this, here's the way that you can improve it. Like, what a great way. I would love the feedback if this was any value to you, like share the same thing and maybe you can help us. But then we started. The second one is running little pilot cities in Wisconsin, Florida, and then entertaining the idea of someone reached out to us in New York. They're like, hey, if you just give me everything that you know and we prove it here in this city, we thought about the idea of like franchising it, of like now instead of Adam and John, my business partner, buying homes across the United States and trying to find those local lenders. What if somebody in Florida who already had the connection just did it for Florida? And so that's really the next step is private money lenders. If they want you, they can reach out. My guess is that's probably not the listeners. And honestly, not not a huge need for us in some ways, like, hey, if you can just give me X amount percent on my money and it's interest only. Great. Feel free to do so, but really interested in those that are like, hey, I think this is how your model can prove or I think that this is a good fit because I have a ton of tenant buyers in my backyard that I just can't get a home because the market's too hot in good.

Joe: All right. So how can people reach you?

Adam: The easiest way is through our website, which is SetYourRent.com. We have an investors page. Otherwise just a simple email at homes at set your rent. Dotcom is the best.

Joe: All right. SetYourRent.com And homes@setyourrent.com. You got it. All right. It's been good. Adam, I'm glad to see that you're taking this idea that I had twelve, thirteen years ago. Fourteen years ago and doing it the right way, you know what I mean? That's awesome. And I love this, too, because, you know, we all see what these hedge funds are doing and thinking, oh, man, I could I could never do that. Or like, how on earth are they doing that and doing it profitably? And the little guy can do it also.

Adam: And the last thing is, so we got accepted into an expert the last round of an accelerator program. So kind of like Y Combinator, but this one's called generator. And we're interviewing for that tomorrow to basically say, like, hey, if we went and tried to do this, venture capitalists like the Divi Homes who raised five hundred million dollars, and now they got a team of 90 people trying to do this across the United States, like we're potentially on the verge of depending on how things go tomorrow, which will be February Twenty fifth of 2021 of seeing if this is truly a they believe in us. And this is like some capital infusion from venture capitalists to go to go a lot larger. So it might they might just say no, but we're on the third round. So we're excited to see what that what that could bring us.

Joe: All right, guys. Adam Zach. Give him a nice big round of applause.

Adam: Thank you very much, Joe, for helping me. I was just looking at your review. Is in how many? Like two hundred and seventy some testimonials, my videos on there. Same thing with the podcast. Just keep doing what you're doing, man. This is fantastic.

Joe: Thank you. I appreciate it. SetYourRent.com. Email homes@setyourrent.com and you'll appreciate that too, if you want to. If you got any value out of this podcast, out of any videos, any content that I've done, I'd appreciate a review. And I've got this cool tool that you can do with my phone. Go. Here it is. If you go to review Joe dot net review Joe dot net from your cell phone, it'll redirect you to a page. Looks like this and you can see it. If you just want to leave me a nice video review, I'd really appreciate it. But the cool thing about this is after you leave a review, I have a special surprise for you. You'll get a book that I wrote called Flipping Houses, Making Extra Money, Flipping Houses While On Vacation. I don't know why we chose the long name like that, but I wrote that book with a friend of mine, Jason, after I got back from our big RV trip.

Joe: But you get the free book and a video that accompanied the book and then you get a all day Saturday workshop I did talking about this strategy, wholesaling lease options, and I did that course seminar in Colorado Springs. So go to ReviewJoe.net. ReviewJoe.net I think ReviewJoe.net and do it from your phone because it will ask you for a little video selfie testimonial thing right there. And I'll give you a free book in the videos and I really, really appreciate it. But. All right, Adam, thank you. Man, I appreciate you being on the show. Thanks for having me, Joe. It's been an absolute pleasure. All right. We'll see you guys all later. Bye bye, everybody. Take care.