The Future of Creative Financing – Brought to You by Real Estate Investing Mastery

Hosted by*:* Joe McCall

Guest: Pace Morby and Matt Theriault

Joe: Hey, everybody. Joe McCall here with Pace Morby and Matt Theriault. This is exciting. I'm super pumped about this because we've been talking about this a long time. We were all hanging out recently at a mastermind and we just said, hey, let's do a podcast together. Let's do something cool. Talking about creative financing, Pace is a legend. Matt's a legend. I'm just a humble little guy privileged enough to be here with these two giants. And I'm excited about this podcast because we're going to be just delivering a ton of value. This is our first episode on this episode. We're going to be talking about the future of creative financing, specifically subject to, you know, we've all been doing deals a long, long time. And subject tos is a great strategy for finding deals, but it's also a little controversial and Matt Theriault recently did a video that garnered a lot of attention, got people excited and talking, you know, so we're going to be talking about that.

Joe: But, hey, let's just take a little minute here to introduce ourselves to people who don't know who we are. This is going to be a brand-new weekly podcast series that we're going to be putting out. Our goal is to just build tons of massive value to teach you guys what's actually working today in the creative financing world for subjects tos, lease options, for owner financing, all any all of that creative stuff. Right. That's what we're all about here. So let's just introduce ourselves. I'll go last. How about Pace? You go first. Who are you?

Pace: Hey, guys, my name is Pace Morby and I'm just lucky to be here. Both of these guys are heroes of mine. Love Mat's YouTube channel. If you guys are not, subscribe to our YouTube channel, go subscribe. I know we're going to jump into a video that I love. I actually had a handful of people DMing me on Instagram saying, Hey, Pace, what do you think about Matt's video? Is sub-to really dead? I was like, you got to watch the full video, man. It's unbelievable. But I'm very lucky to be here. I operate primarily in Arizona. We buy in five different markets. We do sub to seller finance, a lot of innovation agreements, tons of fix and flips. And we actually have a new TV show with A&E. We just signed a five-year contract with A&E for a fix and flip show here local in Arizona. And watch out for that coming out in September, airing live.

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Pace: But I'm lucky to be here and great to have everybody join us. Do me a favor before I pass it to Matt. When we go live and we start doing this, the one thing I'm going to continually ask you guys is come into the live show, ask questions, but more importantly, bring a friend, share it to other Facebook groups. Let other people know that we're doing this because we want to give as much value to as many people so that you guys can all do deals with each other in the live comments. That's a great place to meet other investors from all over the country. So you guys can actually do deals together and build your business together.

Joe: Bam, awesome. Matt. Who are you?

Matt: Who am I? Thanks, Joe. Nice to meet you. I just I'm just living below you, but underneath your shadow all these years and literally. Right, right. Go on. It's nice to meet you Pace for the first time. And this is fantastic. And I've been a fan from afar watching you and watching you grow. So congrats and congrats on your show. That's awesome. Matériel epic real estate is we have the second longest running real estate investment podcast and Joe likes to compete with that. But I think I'm only second to Mr. Jason Hartman. But anyway, yeah, we've got the oh, I was in the music business and when that thing came crumbling down and the digital download came and replaced the record store, I had to go do something new. Started from scratch and life, the age of thirty-four literally went from a seven-figure year to seven dollars an hour and just really missed my money.

Matt: And the most unlikely mentor was the grocery store manager that I was working at. He had said, if you want your money back, it's going to be through real estate. It's the final frontier where the average person has a legitimate shot at creating real wealth. And after that, at that moment in my life, I was like, I didn't know any better. I don't know if he was telling me the truth or not, but I knew I had to learn something new. I missed my money. And that's where the money is that that's what going to do. So I became an agent for a few years and then realized, if you really want the money in real estate, it's on the other side of the desk as the investor. And so I started that. And, you know, in a few short years, I adopted the whole escape of the rat race philosophy of getting a passive income to exceed your monthly expenses.

Matt: So I got that in about three and a half years and figured that out kind of came to a place where when you escape the rat race, you're not necessarily rich, you don't have a lot of money even though you are free. And I enjoyed that experience more. But capital I was

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really short on. So I was really forced to start embracing all of the different types of creative real estate investing strategies because, you know, when you don't have the money, you got to use your mind instead. So that's where we are today. And we've got a cool YouTube channel. We've got we probably flip 15 to 20 turnkeys a month and we're probably adding two or three rental properties to our own portfolio every single month. We've got a fund and now we teach stuff, too. So here we are.

Joe: Awesome. Hey, guys, I'm Joe. You may not have heard it. I was looking up your podcast, Matt, so I can see when your first episode was how all of a sudden it started playing. And I was like, Matt's talking, but I looked at you and you weren't talking.

Matt: Well, it's funny, Joe, I wish that would be a good way for you to discover who was really number one. But they only allow you to post three hundred at a time. And I am on episode, I think fifteen hundred and something.

Joe: Who cares? No, I do care. Here, here's the thing,

Matt: I'm sorry that you guys are just bringing there'd be none of us.

Pace: No, I think I was talking to Jason Hartmann the other day and he that's his big claim to fame. So maybe one of you guys will take him over one day.

Joe: How young are you, Matt?

Matt: I am fifty-one years, young Joe.

Joe: Oh, so I'm forty seven I think. And so we'll see who longer because I'm not going to have the longest running real estate podcast. Got it. Sean Terry is older than ours, but he doesn't really update it anymore. Sean's a good guy. But anyway, I've been doing my podcast since twenty eleven and just past my thousandth episode and it's been a privilege. I remember when I started that podcast thinking, man, I missed the boat, I missed the podcast wave. You know, it's like so many people are already doing it. And I remember talking to Sean Terry and Matt Theriault when I was wanting to start my podcast. And I remember at the time to thinking, is it OK to talk to your competition? You know, but I learned pretty quickly early on in my career in real estate and publishing, it's like we're not competition. We're

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potential collaborators and partners, which is why I'm so excited about this podcast. We all have similar products and courses and we teach the same thing. But there's so much we can learn from each other. And when we can combine our efforts, we can help impact more people and change more lives, which is I'm on board for that any day. All day. Right.

Joe: So anyway, my podcast is a real estate investing mastery podcast. Listen, creative financing. It didn't save my life, but it saved my financial destiny, my future and making money in real estate because I had tried for three years a professional student buying course after course after course, trying to combine all these different strategies, trying to do short sales and then trying to rehab and trying to buy and hold and just doing a bunch of stuff. And none of it was working right. And it wasn't until I focused on just one strategy. And for me at the time, it was flipping lease options. When I just focused on one thing and just did that, I started making money and consistently started making money. So that was in 2009 and quit my job.

Joe: Everybody thought I was crazy for quitting my job and making I was probably doing 10, 15 grand a month and just assignment fees, flipping lease options, which was enough for me to quit my job. I was a civil engineer getting real frustrated in my cubicle, as I called it, and haven't looked back since. And at that time I was friends with some people that were in the business, like Wendy Patton was one of them. She teaches been teaching these options. She's not as active anymore in teaching any more, but she asked me to speak at one of her boot camps and I started getting other local real estate clubs asking me to speak. And so that's when I really started thinking about two years into working, doing deals full time, because I've been doing deals for a couple of years earlier. But like I thought, man, I'd love to be able to teach and share with people how I do this stuff. And so we're still doing deals today. The crazy thing is I'm doing more landslips vacant land Flip's right now, which is pretty awesome because I have two teenage boys. And so we're flipping a lot of vacant land in Texas to North Carolina right now. And then my coaching business partner, Gavin and I, we're wholesaling just traditional wholesaling, five seven deals a month in Alabama.

Joe: And once in a while, I'll do a lease option. Deal. I keep my team really small. I just have three people on my on my payroll. So I try to keep my team lean and mean. And I love doing podcasts like this, so I'm excited about this. I think we've got a lot of great content that we're going to be sharing with you all. So I just want to say again and reiterate what

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Pace just said as we start doing these things live, we're really going to be pushing you guys hard to ask us questions and share comments and give feedback and partner with each other. You're going to find people in the YouTube threads, in the Facebook threads that are active investors. And I'm hoping that a lot of you guys will find somebody in a certain market that maybe you're doing deals in that you can partner with them. Right. And of course, any time you can bring us deals, I partner with students on deals all the time. So anyway, let's jump into today's topic. We're going to be I'd like to I like the idea of diving into what Matt was sharing in that video. You were talking about the quote unquote death of subject to and really it's just what's the right way to do subject to Matt, would you mind sharing a little bit about what you were talking about in that video? Sure.

Matt: I mean, to really understand why this could be the death of subject to and that that might be a little bit dramatic, but certainly make them a little bit more difficult and they have to exercise some extra precaution is you got to understand the history of subject to and specifically I'm speaking about the due on sale clause that banks put in there. And that was in the eighties, I believe. And it was because people were it was a standard practice subject to this kind of new creative thing that's kind of reemerging and people are getting excited about it. But that's the way houses used to be sold for a very long time, just from one person to another, not as an investor, just as your primary residence, and because it was really difficult for you to get a personal loan from a bank. And so what people would do is they would just kind of you take over my mortgage and you can own the house. And that's kind of how that evolved.

Matt: But once mortgage rates, I think was an eighty-two. Three eighty-four major mortgage rates started a super spike, I mean, they started like they almost went vertical and I reached all the way to a point of 18 percent. And what the banks were starting to notice was that these mortgages were being transferred from owner to owner, the owner at five, six, seven, eight percent, so that they had the inability of writing new mortgages at the new rates of 18 percent. And so they'd recognize that they were losing money. So they went through their the whole lobbyist process and started inserting this due on sale clause that they had the right, not the obligation, but the right to call that loan due. If that ownership ever changed and they blamed it, they just wanted to have keep eyes on who was living in their property, who was living in their collateral. And that's what they phrase it as. But that was kind of a bogus reason, because as soon as the rates started to drop,

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they stopped enforcing the due on sale clause on a consistent basis. So it was really all about the money.

Matt: So since the eighty five, eighty six, eighty seven, we've been kind of on a steady decline in those interest rates ever since. And so we, as we all know, just in the last few months, we've hit an all-time low. It can't go much lower. And with the amount of stimulus that's being produced right now and there's a bunch more coming this year, the only way they can really kind of stave off the inflation is to increase those interest rates. And we've already seen them since the beginning of January. They're slowly inching up. So it's a nice, steady incline right now. And so they're doing it really slowly. But when you hit a point, I would say once we hit around five, six, seven percent, we've got so many people, millions of people refinance all of their mortgages right now at these two and a half and three percent. And once they hit like this five and six percent, that's not just a three percent increase to the banks.

Matt: That's double the amount of money that they're losing. Right. You go from three percent to six percent. That's cutting their revenue in half by not being able to generate that new loan. And so I think once those start creeping up, I don't know if it's going to happen this year, but it's going to happen. It has to or else, you know, going to bigger fish to fry in this country if it doesn't. But once they do, I think they're going to start looking and actively seeking out where these mortgages have been transferred and potentially start really enforcing the due on sale clauses.

Pace: Yeah, I like this a lot. So we went through actually, I watch your YouTube video, I go through and I call my partner Cody, and I said, hey, let's go through all of our sub tos. We have about one hundred and thirty in our portfolio, sub tos. We have a lot of seller finance as well. But on our seller finance, our average note with the seller right now, the bank is about two percent is really low because we do get some 0% on some mobile homes and we get some one or two percent or three percent every once in a while. Our seller finances are lower, but my sub tos we went through and I go, I want to know the average interest rate that we have on our sub tos. And it's three-point two five percent is our average. Right. And it's going to get lower, as you know. It's going to be interesting because you get people that get loans last year and maybe the beginning of this year that maybe in two or three years they're going to default and we'll have the opportunity to go in there, catch up

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their arrears, take it over sub to whatever. But it is such an interesting topic because you're one thousand percent correct.

Pace: If my average sub to is three-point twenty five percent and in three, four years, the banks are writing loans at seven percent, six percent, even five percent. That sleeping giant of the due on sale clause where a lot of people, a lot of investors that are buying sub two don't even have to worry about it right now because it's not even on the banks radar. All of the sudden they say, wait, we have millions of loans that we're not writing because these guys are changing now. They're going to actually put software together that goes if they don't already have it. And my understanding is Wells Fargo does have it. They just don't implement that software will go through and see what's transferred, what hasn't transferred, so they can go in there and pull the do on sale clause, get that loan paid off, and then go out and write new loans at the five percent, six percent, et cetera. I think it's one hundred percent going to happen.

Joe: You know, I think it's also the same for lease options. You know, they're going to see because a lot of these loans that well, I maybe I shouldn't get into that. But even though you're not transferring the deed, you are transferring equitable interest and the same thing could happen to lease options.

Pace: I didn't I wouldn't think that that would happen. But it's an interesting conversation. So, Matt, at the end of your video, at the end of your YouTube video, you actually talk about some ways to do it the proper way. Do you want to touch base on those? And then do you think that doing those items for people that everybody is listening? Right. Let's say they're getting their first sub to they're getting their tenth sub to whatever. Utilizing the strategies that you talked about your video, do you think that will prevent the banks from noticing and ultimately calling the due on sale clause?

Matt: Sure. So I was just to bring everybody up to speed that hasn't seen it now would just be like only three thousand of you have. But bring you up the speed.

Joe: By the way, let me interject something that let me inject something really important. I looked at my YouTube channel. My videos are two years older than yours. My first video on my YouTube channel is eleven years old. Yours is nine. So you have an older podcast, but I have an older YouTube channel.

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Matt: Never mind, I won't go there. I'll let you have that Joe anyway. The strategy this time, I was using a land trust, and that's nothing revolutionary. That's how we do all of ours anyway. And I don't have a 100 like you, Pace. I just have a handful of them. But I initially started using the land trust because that's what I was. It was really originally taught to do it to conceal your that transfer from the bank. And it works for a little while because the bank can't see the transfer, because when you put the property into a land trust, that's a standard estate planning practice that's done every day on a on a daily basis and estate planning. And so it doesn't even cause a red flag of any sort. But what happens is the only way that they really discover that something's up is when they get the notification from the insurance company because they are the loss payee the bank is the loss payee. And when that insurance changes, they get a little notice.

Matt: So that strategy will still work up until the insurance company blows the whistle on you and that's where you could get caught. So what I am anticipating is you're going to have to do it, especially if you do buy and hold with subject to you're going have to recalculate your numbers for that extra expense. I think you have to carry and maintain that seller's insurance policy so they don't get dinged or they don't get notified. So we have to carry two insurance policies on your subject, too, I think is the only way. But still, who knows what like you just mentioned that they might have some software or something going out there researching stuff like that. I don't know. I don't know what we're really up against but that would be the next level of preserving. You're subject to portfolio.

Joe: You know, it's interesting, as I was talking to somebody at Citi Mortgage who is actually one of my students and they were wanting to learn how to do these options. And we were talking about subject to and he works in the mortgage department of Citi Bank, Citi Mortgage, whatever it's called. And I said, you know what, subject tos are? And he says, oh, yeah, so do the people in your bank, in your industry, do they know what subject to? And they said, yeah, we do. I mean, it's no secret. We know what it is. I said, why don't you do anything about it? You said, well, you know, sometimes we do. He said, this is really important to understand. He says, we know what's going on. We're not going to do anything as long as the payments are being made or if you stop making payments. There's one or two reasons why this would happen. No. One, you stop making payments and we'll dig into it. Right.

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Joe: But number two, if you cause any red flags to raise, you're forcing us to actually do something about it. And the biggest thing that happens is the whole insurance issues right on pace, that you're better experts at this. And I am. But like, if the bank has to be on the insurance as the mortgage or write and the person who bought the house, who has the mortgage has to be on there as additional insured or primary insured or something like that. Right. But when that changes, that causes the red flags to go up and they have to do something about it. But he said, you know, we know what's going on. We just want our money. And it's always the third-party payment processing companies that handle the payments anyway. But it was interesting because he didn't make it sound like it was a big deal. Just don't do the stupid stuff to raise the red flags and caused problems.

Pace: And I don't think it is a big deal yet. Right. I think what Matt's talking about is when you get to that five or six percent origination percentage, you know, in the future, maybe it's two years, three years down in future, it does become something where they go, oh, my gosh, now I've had to do on sale clause called on me four times. And I'll tell you guys the reasons why I've got the do on sale clause. One of them really interesting. So we buy a lot of our sub twos come from pre foreclosures, right. Somebody falls behind. They don't have a tremendous amount of equity. They might have. Let's say the average purchase here in Phenix is about two fifty. We're not a turnkey state like you guys are, Matt. We just don't have that. Nobody does turnkeys out here because it's just the prices of homes are too high for turnkeys to really work. So a lot of people go invest their money, you know, in the Midwest outside of turnkeys, which is a great business model. So here locally, let's say somebody falls behind on their mortgage at ten thousand dollars and they're in foreclosure. We come in, we go, hey, we'll catch up the arrears, we'll get the loan reinstated. Everything's good. And then two weeks later, we're close on the sub to never had a problem with that until we bought a home sub to through a loan. That was with Johnson Bank. Never heard of Johnson Bank.

Pace: They have six freaking branches. Right. Six branches. So here's what happened. Reinstate the loan, buy the house sub to, transfer insurance. And Matt will I'll jump on to insurance as well here in a minute because I agree with you 100 percent. So about a month later, the seller gets the due on sale clause sent to them, even though we've updated all the account information to make sure all the notifications come to us, the seller gets it in sellers like, hey, you told me that this might happen because in my documents we show them like, hey, due on sale clause could happen. Here's the three steps that we'll take if and when it

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potentially does. Right. Full disclosure, all that kind of stuff. So we get the letter, we call the bank. We get a hold of the freaking president of the bank in like four minutes. That's how small of a bank this is. Right. So we get on the phone with them and we say, hey, you know what? We're paying the payment. We don't understand why you do that, why you're calling the due on sale, he goes it's a policy my dad put in place when we started the bank back in nineteen fifty. It's just policy. There's nothing I can do about it.

Pace: And I said, OK, well what if you guys have done this before? What suggestions do you have and I already had overcome the due on sale clause recently, like three months prior to that, and I'll tell you how we did it. And I said, what would you suggest I do? I came up with ten thousand dollars to reinstate the loan. I gave the seller three thousand dollars to walk away. I cleaned up the property. I got it rented out were honorable people. And we're trying to do the best we can to help people out. He says, well, you know, an easy way to do it is just buy it. He goes deed the property back to the seller, will stop the due on sale clause and then you can either buy the property back on an executory contract, which would be in my state an agreement for sale for you guys. It might be a land contract or contract for deed or whatever.

Pace: Rebuy it on executory contract so we don't transfer the deed, therefore don't trigger the due on sale clause. Or he goes a really cool ways you can buy it on a an auto renewing lease option and your option price is the price of the home after 30 years. So essentially I'm buying the home at zero dollars after I made 30 years of payments on the deal, essentially. Right. Or whenever I execute the option, let's say I go to sell the house or I go to refinance or whatever my option price is, whatever the mortgage balance is. So I was like, I've never done that. Right.

Matt: And that's pretty clever for a bank president.

Pace: Right. And that's what I'm saying is like going to the back to what Joe was saying, is that these guys know what it is. Right. They just want their money. Now, going back to Mat's video, I think that we're going to see a lot more of this in the future, a tremendous amount of it, actually. But the banks know and they do want their money, but that's like the five and six percent rate. I don't know that they're going to be as forgiving. Right. So I simply this what we did, we did the property back to the seller in my due on sale clause documents I state to the seller, hey, you need to make yourself available to us. We do have

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power of attorney, but just in case we need you to sign something, we're going to deed the property back to you and we'll pay you five hundred dollars just for your time and effort. And then we're going to resign. What we did is a fifteen-year lease option, auto renewal, so we don't have to go back to him whatsoever. And my option price is the mortgage balance whenever I decide to execute that option.

Pace: Now, the downfall to that which is another topic for another day, the downfall of that is that I use a lot of depreciation. Right. So all of our fix and flips, my title company. We own all the things that we make money on. I try and pay as little amount in taxes every year by leveraging the IRS rules of allowing me to depreciate those assets. If I buy on a lease option, I don't have the ability to use depreciation. And so we lost that on that property, but we stopped the due on sale clause and we still have that property in our portfolio because of that. So that's one. But the biggest one. And I'll stop right here. The biggest one. The other three have all been because of insurance, all that because of insurance.

Matt: I want to feature the escalating purchase inside of that contract for deed as well, because you could assign those rights of depreciation into the contract for deed.

Pace: You know, it's an interesting thing. So I've been talking to Anderson Business Advisors, who does my, they're my CPA. And I was like, how do I get that? How do I make sure that I'm getting that on the contract for deed? And so we're doing that now on. Well, for us, it's an agreement for sale in Arizona. Same thing. But I'm curious, can I do that only option?

Joe: I've never heard of it before. But Matt, you know.

Matt: I know when we do trust partnerships. We can divide, you know, who gets the amortization, who gets the appreciation, who gets the cash flow, who gets the depreciation. So I wonder if there's a way that you could do the trust, like a trust like that in combination with the lease option.

Pace: I'd love to learn that because it's one of the main reasons I've stayed away from lease options from at least, not from wholesaling them like Joe teaches, but from an accumulation standpoint. Right. There's just what I do is I go to the seller, I go they go, well, I would be willing to do like a rent to own thing. I'm like, no, I want the deed. I need

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the deed, you know? But if you could figure out the tax benefits of a lease option now you're cooking. That's pretty. That'd be amazing.

Joe: Well, could you just build the depreciation into the option price?

Pace: I don't know. I don't that's either a question for a CPA or so.

Joe: If it gives you five thousand dollars of savings or benefit a year, that's probably even too much.

Pace: Oh, I see what you're saying.

Joe: If it gives you twenty-five hundred dollars a year in benefit and you're going to hold this thing for ten years, that's twenty-five thousand dollars that you can negotiate. In addition, you can negotiate it like a like a rent credit. Yes.

Matt: And you're in the lease agreement. You can apply a certain portion of your lease to go to ownership. I don't know why you couldn't do the same thing for depreciation. Yeah.

Joe: So it's not going to reduce your taxes today, but it's going to.

Matt: Nobody but even you can. You know, this is the, I pay eight hundred bucks a month and rent two hundred goes to my ownership and I get the depreciation on the property. It's just the contract. Right. You can write anything you want and as long as the both parties agree, I don't know why you couldn't do it.

Pace: Well, the challenge is, from my understanding and I don't know this is what we might want to bring on, like Tobi Mathis from Andersen Business Advisors as a guest on here. Because he's so good. He's so good about. A lot of fun, so I want I wonder how the IRS sees that you don't have you have not executed ownership, right? You have an option to be the owner. You're not technically the owner. Now, obviously, you interest in the property with your contract, but does that convey to the IRS so that I can utilize depreciation on a form? I don't know.

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Matt: I wonder if it falls in the same category because I had filed a lawsuit on a property manager about seven years ago and I actually won. But the property manager didn't have the money to pay. So I got a judgment and I was able to take that a judgment, that judgment and apply it towards taxes, right?

Pace: No.

Matt: Yeah. So I was able to actually sell a portion of that in return.

Pace: So you sold a portion of it like a good debt collector and they went after him for the judgment.

Matt: I sold it to one of our high-end turnkey clients. He has a high income. He's a doctor and he has so he's always looking for the tax write offs. So I gave him eighty thousand dollars in deductions for fifty thousand dollars. So that was so if you can assign my whole point is, if you can assign that type of IRS collateral, you might be able to do that with the depreciation as well. But I think it's much appreciated.

Pace: So, Matt, he gave so you had an eighty-thousand-dollar judgment against this property manager?

Matt: Actually, eight hundred thousand. Eight hundred thousand. I just sold him a portion of it. Yeah.

Pace: Genius.

Joe: Interesting.

Pace: Did he ever get collected on the other fifty grand or did he ever go back to the property manager and try and utilize part of that, or did you just assign it to him and say, hey, it's a total loss.

Matt: I had the judgment so I had the credit. Right. So the property manager's out of it now. I'm the ownership of this judgment. So now I was able to sell a portion of that to him, to my client.

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Pace: I understand. So my thing is, you have a judgment against the property manager, right? He owed you that 8 hundred grand. So at any point, the guy who bought that the section of that eight hundred grand for the tax deduction, was he able to go after that property manager for that portion of the judgment to ever get collected on it?

Matt: I didn't think about it because just the property manager was totally insolvent. I mean, I think he's even out of business. So I don't know, think it's kind of.

Pace: But you could you could chase him around, right? You could. You could.

Matt: Yeah, you could. But shoot I mean, when you have that type of you know, I guess you got to just weigh the pluses and minuses and what your time and effort is worth.

Pace: So I think that that's such an interesting topic. You know, that's a completely different level. Right? You're your attorney client has that kind of money that he's looking for, a deduction that he's willing to give you 50 grand for a portion of a judgment you had so he could get an eighty thousand dollar deduction for it. So interesting.

Matt: That's most of our clients. I mean, most of them are like the pharmaceutical sales reps. Their attorneys, their doctors have really high their high employee incomes. So they need those tax advantages because they pay the most. And so they come to us from the real estate. So that was just like a perfect fit.

Joe: Well, this is why one of the big reasons why these big corporations take over or buy failing businesses and failing corporations so they can take their buying their write offs and their losses so they can pay less corporate taxes. But I want to challenge something here. If interest rates do go up, will banks really get more aggressive in calling these loans due. Because I'm proposing maybe as interest rates start going up, prices are going to start going down and our banks are going to want property.

Pace: What about inflation? I feel like, you know, especially talking with Lee Kerney last week, talking about how the prices of homes are going to have to chase the inflation that's going to be happening. And I don't think it's going to be like parabolic inflation, but I think that we definitely are going to see some crazy inflation over the next couple of years. So do you think that we're really going to lose value of homes compared to inflation? Right. So like a

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two hundred thousand dollar home this year will be worth three hundred thousand dollars in three years just because of inflation, maybe not even from appreciation, but just from an inflationary standpoint.

Joe: And people, it's going to be harder for people to afford homes. It's going to be harder for people to get mortgages. Let's say inflation does go, rates are going up. It's going to be harder for people to afford homes. So the banks are in the business of lending money. I just don't think it's a one for one where if rates are going up, banks are going to be calling more loans. Do I think there's more involved in it than that? And I don't think the banks are going to be aggressive in calling them due. They want that money. There's a huge cost with foreclosing on a house and trying to put it back on the market and resell it. There's a big cost in that.

Matt: But if it means they do, they get double the payment for them for the remaining for another thirty years. Right. And the cost is going to be worth it to them.

Pace: So going back to this YouTube video, so he talks about utilizing a land trust purchasing in a land trust so that people don't see the conveyance, or at least it appears that the convenience is just going into an estate planning trust for that seller. Right. So it doesn't look like it conveyed from the seller to a completely nonrelated third party. Great first step. Now going on to insurance. OK, so I've got a guy named James Jenkins. Maybe we can have him come on the show. He's licensed in like 30 states. So anybody wants to use them, they can use them. He will actually physically call the bank for me. Somebody on his staff will call the bank for me and say, hey, we're representing the property manager of this of the property, the new property manager. We'd like to adjust and switch out, and so they kind of with white gloves will actually switch out the insurance policy. What we've done recently, that's what I've done for years. But what we've done recently is that if there's enough cash flow on the deal, I look at it and go, you know what? Let's get me added it as a loss payee on the first insurance. So we're not switching anything.

Pace: And then let's go to an insurance provider like James Jenkin and get that second policy just in case. And then I go to James and I say, look, here's what's going to happen if there's ever a payout. I don't want an insurance company and another insurance company fighting and saying, hey, you already have an insurance policy. That's their job to pay out. I want to completely independent insurance policy that is aware that there's another insurance

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policy in place. Charge me accordingly. If there's a loss, let's say that house floods or something bad happens, the house burns down. I want two checks, not one. I want two. And so that's the way James Jenkins has written my second insurance policies. Now, to your point, Matt, really good point is that that does eat into your cash flow. So is that important to you? Is it that important to you that you are willing to lose one hundred dollars, maybe a month on cash flow to sleep better at night? What are your thoughts on that process?

Matt: It's going to depend deal by deal, right? Because sometimes one hundred dollars might be a deal breaker.

Pace: Yes, 100 percent.

Matt: On the cash flow, you know what I mean? So it's kind of the same deal for a deal.

Joe: If a hundred dollars a month is a deal breaker. That's might not be a good deal, period.

Pace: You know, that's an interesting thing, too, because for me, there is a couple of deals we just bought. Right. So I almost want to show you this screenshot. So we just bought nine properties on seller finance. There's a lady here named June and we're just gobbling up all of her property. She had ninety-one houses. We're just going through them one by one. My contract price states, Zillow price plus twenty thousand dollars. So whatever. The day we close escrow on that deal, she's going to look at Zillow and she's going to add 20 grand to it. OK, so but she's giving me two percent interest carry. So I look at that and I go, look, I know I'm aggressive. I'm in my thirties so I can be a little bit more aggressive than somebody maybe in their 60s. Right. So I look at that and go, I'm going to be aggressive on some of these seller carries. So some of these properties are only cash flowing, a net positive, like fifty dollars. OK, so one hundred dollars would make a significant change on that deal. Yes, because I'd be in the red.

Pace: But the reason why I would buy a deal that low with that low of cash flow is because I look at the rent rates in Phoenix where I'm buying most of my deals. Every two years, I can add two hundred dollars to my rent rate. So can I hold on to that property? I can get my depreciation, which is great. I use a lot of depreciation. I grab my depreciation. So I saved a ton of money in taxes that first year. Then by month twenty-four I raise my rent and now

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I'm cash flow positive. Two hundred and fifty dollars rather than where I was at fifty. A challenge with that is if you're not in a market that doesn't have rent rates climbing like we do, that will be a challenging strategy for you.

Joe: And if you don't have the reserves, the reserves are so important because huge vacancies can kill you.

Matt: I would also look at that that hundred-dollar number. Right. If I have properties that I break even on just because I like the area and they're easily managed. And some of them, I haven't done this a whole lot in my past, but I'm doing a little bit more now because I'm in a position I can do it financially to bet a little bit on appreciation. And I look at also the one thing about rental property that it gets discussed. But I don't think it gives us it gets as much weight as it should. And it's really what distinguishes the difference between an income property being a great investment and your primary residence being an "eh" investment. Right. And that's that you have a tenant in there buying this asset for you. It's not you buying the asset like you buy your house or like you buy a stock. That's your money you work for and earn and pay for. This is somebody paying for this for you. So I like that that I'm OK with those small little margins.

Matt: The other part of it is, is I've had up to three hundred and fifty units in my portfolio and I look at like the numbers, like as you'll analyze a property that's, you know, in the Midwest or the South as a fifty, sixty, seventy thousand dollars property and it rents for nine hundred bucks, a thousand bucks a month. Know, like, oh my God, this price to rent ratio is amazing. Give me that. Yeah, right. But at the end of the day, at the end of the day, when you're, you know, you're doing your taxes, you're doing your accounting, those they don't perform as good as in real life as they do on paper. So when I get now that I've kind of shifted and liquidated a lot of that stuff in upgraded my portfolio into that sweet spot of like one hundred and twenty five, one hundred and fifty thousand dollar properties, that might be just a seven, eight, nine percent cash on cash return, but they actually perform two seven eight nine percent cash on cash return when that other house at a fifteen percent cash on cash return on paper. All of a sudden that was probably maybe I might have been lucky to break even on the cash flow.

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Pace: Matt, I don't operate in those markets. Why is that? What's the big difference between the fifty, sixty thousand dollars to the one twenty one fifty. Is it the quality of the tenant? Is it the area? What is it?

Matt: It is the quality of the tenant, I don't know. What I would blame it on is the property manager's inability to manage that type of property. So I think it comes down to the tenant. But, you know, every time I've ever lost in real estate has been directly or indirectly associated with property management or a contractor. The real estate part is easy. The numbers are easy. Right. Evaluating a property and buying right. That's all the easy stuff. It's managing that asset and profiting from that asset after you own it is where that comes into play. And I've always said, you know, real estate is the safest investment out there. It's the people involved that make it risky. And so in that area, those areas like I put more money into Cleveland than I ever took out because I could not find a good property manager and saying, listen, I'll break even in your neck of the woods there, Joe, but I'm coming up now like we're surpassing it. And then I kind of had the same type of experience. But I go to Indianapolis and Birmingham and Huntsville, where I have amazing property managers in the same type of markets. So those are fairly well worked out for me. So I think it's really all about the property management.

Joe: I'm a big, big fan of self-managing your properties. I don't know if you guys agree with that or not, but like, here's my point. And I say this all the time, and we do need to wrap this up because we're coming to the top of the hour. All right. Why not just hire an assistant to manage all your properties for you?

Pace: I have an answer for that.

Matt: I do, too. But go ahead.

Joe: Go ahead, Pace.

Pace: So my wife did ours for a long time. My wife is our listing agent. She also lists like all of batches, properties, everybody in town. My wife just does it for like a flat twelve hundred bucks. Right. And twelve hundred dollars in Birmingham. It would be a full three percent. Right. But for our market, the full three percent would be like eight or nine thousand bucks. My wife's doing it for twelve hundred bucks. Right. Just because she's friends with

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everybody. And so we're trying to have more kids and build our family and that's challenging. We've got it healthy and two-year-old. So I go, OK, let's actually because what are we all trying to do as business owners? We're like, let's go start a new business, let's go start a property management business because we own so many houses that essentially if we pay ourself an eight percent fee on all of our management now I have employees I can have overhead paid for and I can slowly grow that and then at some point within 18 months, go out and collect other clients.

Pace: Here's the problem with that. So we have it. We just hired a girl. She has fifteen years property management experience. She's calling me on everything. So now it's like I got to train her to remind her, like, look, you need to treat me like a client. I don't want to be bothered. You need to just manage this stuff and take care of it. So with an assistant, the challenge there is that now it's still in house and you're still hearing all the bullcrap and the this and the that and whatever else. And they want to bend your ear about every problem that they're dealing with. So I think obviously that's a training thing. That's a company policy thing that I have to overcome, but still going to match. Point is, if I just went to a property management company, I would be bothered a lot less.

Joe: Well, I would I would say, yeah, you don't want to be bothered. But the problem with the property management companies is they don't bother you and they don't care enough about the problems and the vacancies and the maintenance. They're just taking their sweet old time. Yeah, right. So there's sometimes we. Can you save this for another time? Because I think it's real important.

Matt: I think the question to ask, though, is how many properties do you need. Yeah. For to pay for the employee and then how many more do you need for you to actually be making a profit, whether it's worth it for you? And is that a realistic solution for the average real estate investor?

Pace: That's the real question, right, because Joe and I were talking the other day about having a whole conversation about how many houses do you need in order to truly get that financial freedom that most people that are in our audience are going to be looking for. Right. So if you say, OK, well, do this and do that now, you've got to go get thirty properties just to cover your nut. Now you've got a problem. Right. So that's a great conversation for a whole day of like how in five years I know that you did in three and a half. Right. But how

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do you do it in five years as the average person utilizing whatever strategy and what does that look like financially to you, for you to truly say, OK, I'm free, doesn't mean I'm a billionaire, I'm free, and now I can do what I want. That's a great conversation for another day.

Joe: I agree. I agree. And we should also talk about what to do if and when with if or when your house does get called due on sale. If it gets called, do what do you do. Right. And we can talk about some strategies with raising private money, the importance of digging your well before you're thirsty. Right. Because people freak out about it. But it's really not that big of a deal if you know what to do. So I think we should wrap this up because I'm sorry, I've got to go. I got another webinar to be on. This has been awesome. I'm excited and looking forward to these podcasts with you guys. Yeah. We're going to be going there live every week about the same time, I think. And I think well, I don't think we have already agreed to that. So anything else you want to say? How can people get a hold of you?

Pace: They can get a hold of me. Just reach out on Instagram. I'm really active on Instagram, actually. Answer all my DMs. You guys have a question. Hit me up there. But what I would love is I'd love to just see people bring a handful of questions if you hear something right. Because what happens when you get three guys like. That have been doing deals for a long time, Matt and Joe doing deals longer than me, but you get high level guys, what happens is we get around each other and all of a sudden it gets really technical and it gets like sometimes it goes over people's heads. So write down words, write down terminology, write down a sentence or something that Matt brought up something I never heard of before, which was selling a portion of a judgment that I got to somebody.

Pace: That's a great creative strategy to get yourself paid on something that you were basically like. It's impossible. This guy is insolvent. I'm never going to get this money. Super creative. So if you guys run into these things, listening to our podcast, write them down and then come to the live show and we will pop your question on the screen and we will answer it live. That's the stuff that we love to do. But that's all I got. And I'm very happy to meet you, Matt, again. You've been a hero of mine. Joe's been a hero of mine for a number of years. And this is going to be a lot of fun.

Matt: I'm looking forward to it.

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Joe: Matt, how can people get a hold of you?

Matt: Oh, I just got kicked off of Instagram for the second time and I'm not sure why. Yeah, I don't know. They said I violated the terms and policy and then they said, here's a link, read the terms of policy and see which one you violated. I don't have time for it anyway. So I'm just maintaining my presence on YouTube in the podcast. So you got to Epic Real Estate Investing here on YouTube. I'm pretty active in the comments and there's little contact thing on the about page as well.

Joe: Nice. I got a podcast, Real Estate Investing Mastery. Check it out. You can also go to PartnerwithJoe.net. It's my new my new thing that I got going on, and it's pretty awesome. And I got some cool things I want to share with you guys later in a future episode. This calculator that I've built that helps you create multiple offers to give to sellers. And it's pretty ninja. And I want to talk to you guys about how to add some subject to offers on this thing. And maybe we can give it away for free to folks on this call. Absolutely. Appreciate you guys. Thanks for being here. I think we should sign off. All right.

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