Is The Market Crashing? And What To Do About It...

Hosted by*: Joe McCall*
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Joe: Welcome. This is the Real Estate Investing Mastery podcast. Hey. What's going on, guys? Joe McCall. Gavin Timms. How you doing?

Gavin: I'm good. How are you?

Joe: Awesome. This is the Real Estate Investing Mastery podcast, and we're going to be doing a quick little video here talking about the economy. This is something that everybody's talking about right now. People are kind of hyperventilating, freaking out. What am I going to do? What am I going to do? And we're here to try to bring some sanity and norm normality, I guess, if you could say that into the current situation, because people don't need to panic, they just need to be smart. They need to understand the right principles to survive in this economy that's coming in, right?

Gavin: Yeah, absolutely.

Joe: So we are not freaking out. We're not panicking. Some of us have been there, done that. Right. Gavin's not been investing that long. I have, I guess kind of started in 2006. So I've seen the market go up, I've seen it crash, I seen it come back. And I'm not saying that we're seeing Gavin the same thing that we saw in the recession before. I think it's going to be different. I don't think it'll be as bad, but it will be bad for some people who are ignoring these kind of fundamentals that we're going to be talking about.

Gavin: Yeah, absolutely. And I think you have to learn, even if he wasn't in the last one, you have to learn and listen to the people that were. And there's a common thing that was happening, right? People were overleveraged. They were lending too much money. They had too many flips. They were probably like, had they owe too much on their rentals. So when the market went, asset sales went down. Obviously that flips. They owe too much. They couldn't even get out of them. They were they were they had hundreds of thousands of millions out long go. And if you don't do them things and you buy right, then you should be fine.

Joe: Yeah. And let me be super, super clear. There will always be opportunity out there in this market if you know how to find deals and you don't ignore these fundamentals. So we got six points that we're going to be talking about here on how to survive and profit in this recession that we're coming into. And I really do believe we are coming into a recession. And some of you may say we're already there. I mean, inflation's at a 40 year high. Interest rates are at a 12 year high. Interest rates have almost doubled in the last year and a half for mortgages. So the average median price home, the payments are $800 more per month than they were about a year ago. So a lot of things are changing. Houses are still selling, though. Right. And here's the crazy thing. You could rattle off all of these stats about how the housing market's going to crash and whatnot and we're going to be in a long, deep recession. And inflation is super high, gas is real expensive and the world is falling apart. However, Gavin I was playing cards Saturday night with some friends and one of them is a rehab here and he just finished a house within the last week, had 2025 showings in the first day and over seven offers and he sold it. Forget the price of the home, but he sold it for about 20 grand over asking price still even now in this kind of economy. So here's the thing. There is still a huge demand for housing. You people always need a roof over their heads, right?

Gavin: Yeah. That's never going to change is. No, I mean, that that's always going to be the case and you've just got to get good at finding deals.

Joe: Yeah, well, and here's what we're going to be talking about in this little video here. You got to be good at finding the deals that your buyers want. And so there's a lot of things we're gonna be talking about down here. I just want you all to know, like, if you look at this generation that's coming into the peak homebuying age and I forget which generation is called Y, Z, X, millennials, whatever, that group, they're in their twenties and thirties now and they're getting married, starting families, they're buying houses. It's the biggest generation of that age that we've ever had. Right? So we have a strong demand for housing that's not going away anytime soon. I mean, unless the interest rate goes to 15%, I don't know. But if you look at historically the last 5000 years or whatever, interest rates are really still at a very low rate. Now, it may still go up, but here's my point. There's always going to be a strong demand for housing. So if you want to prosper as a real estate investor, it's real simple. Find out where that demand is going and then race and get ahead of it. So Gavin and I recently created a PDF Guide Roadmap to how to and how to survive and thrive in this coming economic recession. Because obviously we're seeing inflation that's not going away anytime soon, higher interest rates, that's not going away anytime soon. So how are we as real estate investors going to pivot and adjust? I can promise you this. The things that worked a couple, three years ago are not going to be working tomorrow. And we need to be. Very aware and cognizant of what's going on. So Gavin and I created a free resource for you guys that you can get it at RTI proof dot com. And it's a guide roadmap to surviving this coming economic recession. Okay. And so it seems like we're getting mixed signals. The economy going down. Is the economy going up? Is housing going down? It doesn't matter what we think. We're not going to be in the predicting game. Right. But what we are going to do is we're going to show you some really simple, basic things that you need to understand to survive and thrive in this coming economic recession. So if you want a free PDF, a road map of what we're talking about here, and we're going to do a lot of content over this next week about this. Go to RTI proof dot com. It's 100% free, no strings attached. And we've got some sites that we're going to share you as well. Let me see if I can open them up. Boom. There we go. All right. So you already got ready for this. Okay. Let me see if I can change my thing there. All right. Now, here are some important keys to profit. We're going to be diving more deeply into this stuff in the coming days here, because I think this is important to understand. And Gavin, you brought this to my attention the other day when we had a mastermind with some of our coaching students. And it was amazing, by the way, we had students from all over the country come. We have students there that we're doing over 120 grand a month, wholesale fees averaging over 100 grand a month. But talk about this a little bit, Gavin. Never buy a property you can't wholesale. What does that mean?

Gavin: Yeah. So this is one of the main the biggest mistakes new investors make, right? They got a contract on a property and their attitude is, well, if the buyers aren't going to buy it, then I'll just we'll just buy ourself. And it's like, no, absolutely not. Right. You should only buy what you can wholesale. Okay. So if I get a price and everyone wants it and I can make 25,000 on the wholesale deal, then maybe it's the one I should flip. If I can then go make 75 or 80,000 on that deal. Right. Because I'm buying so low that your margins are there that really you can't go wrong. Even if things go wrong, you should still be able to make money in the worst case scenario. So you don't want to be trying out. So if you go to three buyers and they all say, no, I'm not interested, I'm uninterested, you've got to find out why. And if it's down to the price, your attitude then can't be, Well, I'm just going to buy it. And it happens all the time. Okay. And then that's when people say, I hate flipping. We lost 40 grand on this deal. And it wasn't because anything that they probably did wrong in the flip is because they didn't buy. Right. Because you make money when you buy, not when you sell in this business. So people need to be aware of that.

Joe: Well, and it's also a matter of, you know, if a hard money lender will not lend on your deal, it may not be a good deal to buy. And if a hard money lender won't lend you money on a deal, it may not be a good deal you can even wholesale. So I've always liked partnering with hard money lenders and other successful investors because, you know, they may be more familiar with a certain market than I am. And if they say no to my deal, no, we're not going to lend on that deal, then that's a deal that I need to go back to the seller and renegotiate a lower price. So it's important to have somebody on your team, the coach or mentor or another investor hard money lender that can look at your deals and say, Yeah, I would partner with you on that. Or No, I wouldn't even lend you money on that because it's not a good deal. Right. So and what determines a good deal? Well, that is changing. That is changing now as we go forward. I mean, it depends if it's a you know, if you're in a medium priced area of like 250 grand and you're trying to wholesale a $500,000 deal, well, maybe the rehab is are going to be a little more cautious now. Are they going to be thinking, man, I don't know. Costs are going up. Labor is going up, materials and all of that. Right. What's the market going to be like in 6 to 8 months when the rehab is done, our interest rates are going to be higher or is there still going to be a demand? We're coming into the fall. So if you cannot wholesale your deal, do not buy it. Do not think that you're smarter than everybody else and you can rehab this house and make money on it. Right. It's not worth it. You could make 20, 30 grand in six or seven months on this rehab that you were hoping to make, by the way, 70 or 80. But during that time, all of the stress, the hassle, the pain, the managing adult day care with your contractors, the inspectors take you, realtors pick you, buyers, annoying realtors and picky buyers like and the lenders and all of the money you have at risk and the liability, even after you sell it, there's the liability you still have for something that might go wrong and whatever. Right? During that time, you could have a wholesale five or six deals and made more money than if you would have kept it in rehab. Now, I would say, listen, until we figure things out in. Tell the market like we know what's going on. We you should probably wholesale everything you have. Okay. We're going to talk about this later, about having multiple exit strategies. But I would also add to this, don't buy anything that if and then rehab it unless you know that you can actually hold on to it and it'll cash flow, you can actually hold on to it and you can keep it as a rental or an Airbnb. And so you need to have multiple strategies. We're going to talk about that in a future point here now. This is going to be important as the market kind of shifts as we go from a seller's market to a buyer's market. And maybe it's going to be flat, maybe who knows, right? But there's always a gap. Whenever the market transitions and moves, there's always a gap from when sellers, they think their house is worth this, but really it's worth this. And sometimes that gap can be 6 to 12 months of patience that you need to have to be able to kind of weather the storm, ride it out for sellers expectations to come back down to reality. That makes sense. And I remember seeing this back in oh eight and nine. You know, we were making offers. We knew that house was worth because we study the market every day like we know what's going on. We talk to realtors, we talk to investors, we know what buyers are buying and the seller thinks their house is worth 500, but we know it's only worth 350. Sometimes it takes sellers 6 to 12 months. So what do you do during that time, Gavin?

Gavin: Follow up.

Joe: Right? Absolutely follow ups, because sometimes sellers just need time to cook. They just need time to like come to reality, let reality come to them and figure out, you know what, I guess I couldn't sell it for that.

Gavin: And we already know. We already know if they're going to sell it. I mean, you look at it, if it's a great house, it's price, right? They're going to put it on the market. We know if it's going to sell. And but when, as Joe just said, if it's worth 350 and they want 500 grand for it, it is going to move. So I know in my next conversation it's not going to move, even though they think it will. So you adjust, but we're not going to tell them that you're just shadowing them in the follow up and you're just basically, oh, hey, Mr. Seller, so you're super confident about this move in? I'm surprised. It's a great house. Why is it not move yet? Yeah. Then you'll see the motivation change slightly from is definitely going to move. This is 100%. It's a great house in this market. So then I'm really surprised it's not moved. I thought it was going to move. So what's happening is you're seeing them soften and I'm not saying they're going to be ready now to sign at 350 or whatever number you need, but you're going to be able to start shadowing that and you're going to you're going to see over a period of time that motivation change, especially when you start sprinkling in some creative finance in that to get them a higher price. So the cash offer.

Joe: We're going to be talking about that also creative financing. It's really important to understand that. All right. Now what else? I'll make sure you're picking affordable markets to invest in. This is really, really critical when, you know, the markets that get hit the worst are the speculative markets. The markets that see rapid price appreciation homes are way out of most people's price ranges. So you need to be careful with those areas. Now, this is one of the reasons why I love wholesaling so much is because even if you do get a property under contract that's maybe too expensive outside of the median price range, you can always renegotiate or cancel your agreement if you have to as long as you're within the inspection period. Right. But here's the thing. If you're investing in big apartments, multifamily, especially, this is especially true. You need to focus on the demand. So if you were to take all of the houses that you've either sold or rented or whatever and ranked them from medium, from low to high, rather the prices from low to high, you'll see what's called a bell curve. All right. And the bell curve is where most of the homes are either bought or sold. And that's the area that you want to focus on. That's where you're going to find the biggest demand from retail buyers and from tenants. Okay. So I think as the economy starts to soften, my one of my predictions is going to be, which, by the way, I forgot to even mention this. And this is something a lot of people aren't even thinking about right now, student loans that people haven't had to make payments on their student loans for a couple of years now. And those are now starting to be required to have payments being made in August this summer. And so I don't know what that's going to do, but people's cash flow is getting squeezed. Their spending is getting squeezed. They're getting I heard on the news radio this morning they're interviewing somebody and she was really upset about it was like at the gas pump and they were interviewing her and she said, I'm done, I'm just done. I'm so sick of this. Like, okay, you're done now. What are you going to do? You're going to ride your bike or you're going to ride a horse to work you're done with. So what now? So people are spending a lot of money on stuff like gas, right? Well, they're going to be moving out of those 20 $500 a month. When that lease is up, they're going to be moving into the 1500 dollar a month apartments. Right. They're going to be selling that $450,000 house and then buying $250,000 house. You understand? So you want to follow the demand. And very well, again, like we said before, people always need a place to live. They always need a roof over their heads. So if you want a safe, smart investment in real estate, take the median home price markets. Take the areas where right in that middle of that bell curve. And it's really easy to find you can find it, you know, on perhaps dream or list source go in to see where is the activity. And this is one of the things I really also love about real estate is it's not like the stock market where it just drops on a dime and all of a sudden the next day it's down 50%. Real estate moves very slow and so you can start to see the trends before they become full blown whole thing with the gap. All right. So you can watch what zip codes do you see most investors buying at properties in and you want to focus in on those zip codes or those parts of the country where the most demand is when anything to that game.

Gavin: You're exactly right. And don't overthink this either, because you can spend a lot of time on this. This is just a quick way to research. And then it's now down to obviously taking action, executing the plan. There is no such thing as well. Which market would I pick? These loads the markets just eliminate the ones is almost easy to eliminate where not to go to than where to go. Right. So you going to say the probably the California is right. Not going to the New York, Boston, Phenix, where it's going to cash flow as well as some of like the Midwest markets. South markets. Sure.

Joe: Yeah. Okay, cool. What's next? We got to hurry up. Create appreciation. Don't count on it. What does that mean? Well, people who got in trouble back in 0809. What are the speculators now? We all do it certain to a certain extent, right? We we invest. But you want to create appreciation. There's several different ways you can do that, right? You create appreciation by buying it. Right, by buying it at at a low wholesale price. Right. You create appreciation by rehabbing the house, making it nicer, maybe adding a bedroom if it's a multifamily, updating the cabinets, you know, updating the flooring, getting rid of the trash, getting better tenants. So there's a lot of things that you can do to create appreciation, which is another reason why I love investing in real estate as an asset class as compared to the stock market. Okay, there is AB, if you were to buy a stock in test, so there is absolutely nothing you can do to create any value to Tesla stock. There's nothing you can do, right? Can you go and donate some time? Can you go and rehab anything at Tesla like no, you can't do anything to increase the value of that stock. But with real estate, you can there's a lot of things you can do. Maybe it's vending, adding new getting new vending machines at your your multifamily or getting covered parking if you're in Phenix or if it's a house, maybe adding a porch to the backyard with or, you know, what's doing really hot right now. Gavin, are these new I forget what they're called accessory dwelling units, 80 use or something like that, like out like other little sheds, sheds that you can put in your backyard. Right. That does a tremendous value increase to your property. So create appreciation. Never count on it, never speculate. I remember back before the market crash and I had a bunch of homes and I lost a ton of money. But I remember looking at the market thinking then real estate never goes down. Looking back at the last 50 years, real estate appreciates at an average of 8% nationwide. I'm going to be conservative and I'll I'll figure out count on 4% appreciation or whatever it was. Well, I got burnt. So that's really important to understand. Never count on appreciation, never expect create appreciation. You should always go into the mindset of creating appreciation. And you know, we're going to talk about this next with multiple exit strategies. Even if appreciation never happens, you should still be profiting on your deals. Why? Because the next point here is always buy for cash flow. Always buy for cash. If you're going to be buying and holding on a property, always buy for cash. Because let's say it doesn't appreciate, let's say it's depreciate. So let's say it loses half of its value. But guess what? Because you're buying within your buy box, right? You have your set firm criteria. It's always going to cash flow, which means you've got to have multiple exits whenever you buy a property, if you're going to rehab it or whatever, make sure you have multiple exits or be prepared to write it out. But you're not going to be losing your shorts. You're going to be investing for the cash flow.

Gavin: Yep.

Joe: Cool. Yeah, we got one more. Gavin, you ready? One more step. If I can get it to click. Here we go. Know how? To do creative deals. This is super important if you want to prosper and profit in this coming recession. SELLERS You're not going to be able to pay them cash for the price that they want anymore. Right. You're going to have to like well, maybe I can get you I can pay you cash for this. But if you want that price as higher price, I might be able to get you that if whatever the maybe maybe you can lease it to me for a year or 2/1 and then I'll buy it. Maybe you can carry back some of the financing so you'll be able you'll be able to offer more to the sellers when you know how to do creative deals, creative deals like lease options or financing subject to's. Especially now as interest rates are going up, you better learn how to do subject choose if you're interested in cash flow because rents are going up, right? Guess what else? Interest rates, they're not. If you find a seller that's motivated that lost their job, people are starting to get laid off, too. By the way, Tesla just laid off 10% of their workforce right in the strong economy. You see all these help wanted signs everywhere and companies are laying people off well. So as people become motivated and they can't make their mortgage payments, they still have a really good mortgage. You need to be able to offer sellers creative deal structuring to fix the problems, to keep them from foreclosure, take over their mortgage for them, get them their equity. But later, while you take over their payments, rent it out, create really good cash flow on that deal. So everybody wins, the seller wins, you win and then the tenant buyers win that you put into those homes. So when anything to that game.

Gavin: Yeah I mean and I think that back to the gap Joe you were talking about with the 6 to 12 months because the seller's attitude is going to be all we should have sold. We should have sold when the market was high. And they want to wait for that number again. Right. And because they want to wait because they feel like now they've lost all this money, because the market's gone down, if you get it on the right terms, you can give them that price potentially on the right terms. So they still win. And that's going to be a massive value add to them and to you because you're not worried if it's a, let's say, a seller finance deal, you're not worried what you pay in them as long as you have a long term. And as Joe said, you cash flow in every single month.

Joe: Yep. All right, so, Keith, let's review them one more time. Never buy a property you can't wholesale, so stay in the wholesaling game. This is especially important. Now watch out for that gap that 6 to 12 months when sellers don't realize that their properties are worth less than they actually are. Make sure you're staying in the median price. Blue collar neighborhoods. There will always be a demand for housing. There are strong, healthy demand for housing in that median price range. Create appreciation. Never count on it, never speculate. Always buy for cash flow. Make sure you have multiple exits. Be prepared to ride it out. If you can't have that house and sell it for what you want it to, you'll be able to at least rent it out for good cash flow or Airbnb it and you got to learn how to do creative deals. We're going to be talking a lot more about these things in future episodes this week, but if you want more information, we have this PDF road map called REIT proof. You can get it for absolutely free. Just go to area proof dot com. It's a legit pdf you can. It takes you maybe an hour or two to read it. It's going to be really high level. We're going to show you recover these things in more detail. We're also going to show you the three or four or five things that you've got to be doing, like talking to sellers and what to say to them, how to make multiple offers, how to do the follow up, the tools and systems that you're going to use. So go check it out right now I proof dot com proof dot com. We'll be teaching you a lot more this coming week as we go through the stuff, but get the PDF right now. All right. Thanks, Gavin.

Gavin: Thanks, you guys. Thanks, guys.

Joe: Bye bye, everybody.