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1223 - Ground Up Cashflow Development

Hosted by: Joe McCall
Guest: Daniil Kleyman

Joe: Hey, how you doing, guys? Welcome to the Real Estate Investing Mastery Podcast. Hold on a second. First, I got to get a drink of water here. I mean, coffee. Oh, you see my video? If you're listening to audio, I'm sorry you're missing out. I got a coffee mug here that I did not buy for myself. A student bought it for me. It says Best coach ever. And as I said, my delicious coffee at the bottom of the cup. You're going to see a number one. Best mug ever. All right. Anyway. Welcome to the show. We got a good guest on Today's name's Daniil Kleyman. Known this guy for a long time. He's been in masterminds. One of the smartest guys I know in the business. And we're going to talk about how he generates cash flow from the ground up. He's doing some really cool things. Been in the business a long time and he has an amazing software. We'll talk a little bit about that as well. So stay tuned for that. Also, I want to let you know this podcast is brought to you by my book right here, Simple land flips dot com. This is a book I wrote about how to make 10K in 10 hours. Now, does that sound spammy or what? 10K in 10 hours? Well, okay, maybe it does a little bit, but the point of it is how to flip vacant land and make ten grand a month working just 10 hours a week. It can be done. We're doing it. So if you want to learn how to do it as well, go to simple land class dot com. You see the URL right there, simple land class dot com and check it out after you sign up for this little class that I have at that website, I will give you this book for free PDF of the book. You get it for free. And listen, even if you decide you don't want to get my class, you will learn a lot from just the webinar on how to do deals. In the webinar I show you and in the book I show you how I find my leads, how I what I send to them, how I make my offers, how I sell the deals. I love vacant land right now because it's just so much easier. And a mutual friend of ours that we'll talk about here in a little bit. His I got to we have two mutual friends that are doing vacant land deals right now, and they are three mutual friends. Oh, wait till Daniil hears about this. I just think of these three different guys we know that are doing land based on what I've taught them using the strategies in this book. So go get it. Simple land class dot com. Should we bring Daniil on? Let's do that. Daniil Kleyman, how are you?

Daniil: What's up, man?

Joe: Did I pronounce your last name right?

Daniil: Kleyman. So it's weird when you say you've known somebody for a super long time and then you mispronounced their last name, it's OK Joe. You know, this might be a good time then. This is awkward, but I actually have a book coming out how to make $11,000 in 9 hours.

Joe: And yeah, I knew Daniil would give me a hard time about this title. Anybody that I know would give me a hard time. It would be him.

Daniil: It's just a weird coincidence. But my I mean, my book also talks about land, but otherwise it's totally different. So.

Joe: Oh, so our mutual friends, Rob Swanson. Okay. His son and daughter are flipping vacant land. They just did like 25 grand on one of them just to flip. It didn't do anything to it in they're in Denver. Right. They did this one in Tennessee. They're doing some more in Arizona. Cameron Dunlap and his daughter are doing some land deals. And, you know, Caleb Pearson in Charleston, by any chance. Okay. I thought he was a mutual friend. See, I really know you so well. I know who our mutual friends are.

Daniil: Most just shocked you got Cam to work.

Joe: Well, he's not.

Daniil: Or Swanson, for that matter.

Joe: Very. Oh, they're. They're not working.

Daniil: Me. They're making their children work. And it all makes sense now.

Joe: Yeah.

Daniil: My kids are a little young for that, but I can't wait. How? Well, I can make them do all the work. That's why we. We have three of them. So that, you know.

Joe: How many kids do you have?

Daniil: Three.

Joe: Three? How old are they?

Daniil: Five, four and one. So can't quite put them to work yet, But we'll get there.

Joe: I love your pictures of you and your family on Facebook. You're always smiling and on every picture that you post.

Daniil: Yeah.

Joe: You're so happy.

Daniil: Genetics are an incredible thing. By the way, I'm hearing feedback.

Joe: Oh, let me bring my volume down a little bit is that better.

Daniil: The listeners are not hearing feedback. Yeah, the genetics are an incredible thing. Like you, you definitely know when the kids are yours because they literally just how did they do the same stupid things that you do? Yeah. My kids don't smile for pictures. It's hilarious. Like we all just look like an 1890s photograph of like a Russian family that, you know. Anyway, it's funny.

Joe: Speaking of Russia, talk about how you came here to the States or your family. What was it.

Daniil: When we came in 1982. So we immigrated were Russian Jewish refugees. We immigrated here. I was 12 years old and came here legally, but it took a long time to get the ability to leave the Soviet Union. But we left just as the wall fell. It was 92. It was crazy hyperinflation in Russia. It just stopped being Soviet Union like six months before. And it was it was a I mean, I was old enough to kind of remember most of it. I was 11 and a half at the time, and it was definitely an interesting experience. But yeah, my parents packed it all up, came here, they were in their thirties and forties and started over completely like, like all immigrants do. And they're very successful in their own right now. My mom became she was a doctor, She had a Ph.D. in Russia in internal medicine. She came here, she started all over. She went through with exams. Yeah. I mean, she learned I couldn't become a doctor once. There's just no way. She became a doctor twice. She now in linguistics, she didn't really speak very well. The time went through board exams, went to residency again, and became an M.D. again for the second time in a foreign language, which, you know, it's like she's not the only one that's done that. There's lots of other immigrant doctors and even in her hospital. But to me, it's always been hugely inspirational because, I mean, just imagine starting all over again in your mid to late thirties and starting over something as complicated as becoming a an M.D. So she just retired a month ago finally. And well, now my she's just my dad's retired. So now they're just traveling the world and babysitting my children. So we were kind of like, hurry up and retire, get a lot more free time. Not being selfish, but come back and watch these kids.

Joe: And I'm sure you make your mom and dad really proud.

Daniil: You know, Occasionally. Occasionally. Sometimes.

Joe: All right. So how was your English when you came here?

Daniil: I had kind of a foundational knowledge of it. We studied in Russia, and so did my parents. It was easy for me to learn because I think 14 that's kind of that age where if you if you're under 14, you really absorb a language very quickly. And I feel like that's kind of like the issue. If you if you if you try to learn a new language at 15 or older, it's harder. You can still do it, obviously. But so I picked it up really quick once I moved here. Okay. You know, there's still some words that confuse me, Joe. So don't throw out any big English words on our call today.

Joe: All right. So how did you get into real estate, Daniel?

Daniil: I had a corporate job. I always kind of had an interest in real estate, but didn't really know how to get into it. Yeah, I studied. I took, like, a real estate class in college, but it was so theoretical in the abstract at that point. I mean, we I had an amazing professor in college and he was an experienced investor, but we wanted to like, immediately learn about doing big gas station deals, like buying out chains of gas stations and building hotels and to a 19 year old kid there was just unachievable. So I moved to New York. I worked in finance, I worked in Wall Street for about six years until the crash in 2008. And during that time, I started reading books about real estate and I started picking up a couple of rental properties back in my hometown with a buddy of mine, because I realized very quickly that I wanted to build assets. I was I was somebody that that worked in finance and got paid very well. And I was leaving nothing. Meaning I wasn't saving, I wasn't building. I had no backstop. I you know, I was one of those people that was making six figures and living paycheck to paycheck. And so I realized very early on that even if I kept working a corporate job, I wanted to build an asset base. And then in 2008, they let me go, which, you know, in hindsight was wonderful. Yeah. Now, otherwise I probably would have stayed there for a while longer because the money was good and they kept giving you more money every year. And that's how they trap you. You know, this is the golden handcuffs. So luckily in '08, I got let go. I moved back to my hometown and then I just down to real estate full time at that time.

Joe: Who are some of the guys you were learning from back then?

Daniil: Fortune Builders was one of them. Yeah. They had this $97 a month program. I think it was focused on wholesaling.

Joe: Was it Wholesaling U?

Daniil: Yes.

Joe: Like university.

Daniil: Yes. So I subscribe to that for a few months. And then I, you know, I just absorbed a lot of knowledge at that time just by buying blogs and forums and scanning forums and, and just a couple of random courses.

Joe: We part of flipping homes at the time. Remember flipping homes dot com?

Daniil: No, I don't think so. Yeah. I mean, I, I got into it basically. Right. I'm full time. I get into it late lately and honestly, most of my learning at that point came from doing because I end up buying with a buddy of mine, a couple of vacant shells that we end up I mean, gutting down to the studs and redoing and renovating. And I was the guy swinging the hammer for like six months and I learned a ton about. Sort of the nuts and bolts of real estate and especially rehabbing right then and there. And then a lot of my deal sourcing knowledge came from just little bits and pieces online. Yeah, just learning from different people and learning from different educators.

Joe: And you were learning by doing, which is the best educators in it by far.

Daniil: I mean, but by far and I've always told people that I think I think real estate education courses has immense value, but only if applied. I mean, you and I are both. We both have education businesses and I have a ton of people that, you know, we educate that I see year after year after year. And no matter how great of education we're giving them, those lifelong learners that are still waiting to kind of pull the trigger and do a deal. And they always kills me because they'll learn far more by making doing a bad deal and making a lot of mistakes than they will buy by taking 20 more courses. Yeah. So. So, yeah, I got in the trenches pretty quickly. I swung the hammer on these two houses for literally six months, night and day, doing almost everything myself with my buddy. And they learned three important things. They learned one, how to rehab and how to estimate repairs and what things cost and the order of and the sequence of events that should happen. If you go into a house that needs a full renovation. I learned that very quickly. And the second thing I learned there is never to do it again. Meaning, I learned very quickly that six months. Swinging the hammer and doing nothing else, not lifting my head up was not a good use of my time. I should been out there hunting deals and doing deals. So it was great because you can't manage things until you know how they're done. And so that experience, those six months taught me a lot about. Then it gave me better ability to manage contractors because it was harder to, to bullshit me because, yeah, I did a lot of those things myself, you know? Yeah. And they had a basic understanding that otherwise they wouldn't have had. But they also realized very quickly that I'm never picking up a hammer again, because that's not, that's not my superpower or where my, my time should be spent.

Joe: So were you were you married at this time?

Daniil: No.

Joe: Okay. So your living expenses were very low.

Daniil: I lived with my parents.

Joe: Well, you were living with your parents.

Daniil: I moved. I moved back home. I went from making 200 grand a year on Wall Street and living in, like, a $3,000 a month apartment on Upper East Side Manhattan to getting rid of all my expenses. And that was very fortunate to be able to do it because I didn't have responsibilities, I didn't have a family, and I swallowed my pride and I moved back home and I lived with mom and dad for a year and a half. Wow. And but that pressure off me, right? It was it you know, it was you had to. I had to stop giving a shit, right. Like my friends were still had jobs and, you know, their own houses and they traveled. And I literally moved in with my parents. I did nothing but work for almost two years without taking time off, but being able to cover my living expenses down to nothing gave me freedom to make the right decisions. Yeah, right. I didn't have to be engaged in in very short term minded thinking where I was worried about how to pay my rent next month. And I was very fortunate to have that opportunity. Yeah. So, yeah, I was like a 28 year old bum. Lived with my mom. She did my laundry. I know. It's wonderful. I go back to that now. I don't care. My 40 plus year old girl, man, I would go live with my parents again. It's great.

Joe: Well, would you? That's interesting, because I thought about that. My boys are 19 and 17 right now and both living still at home. One's gone to school full time and working full time. The other one's working full time. Who's still 17, so. Mm hmm. Try to figure that out. You know, they want to do real estate, and my oldest wants to go to chiropractic school. And I often wonder, like, how long do I let him stay at home? And if they were to go out when I let him back, I don't know. I guess it's different for every family. Every kid is.

Daniil: Well, I, I, I think it depends on what they're doing. Right. If, if they're doing something productive and you're creating room for them to learn and build something, that's one thing. If they're like just smoking weed on your couch for two years.

Joe: That'll never happen. Would not last for 2 seconds.

Daniil: Not the same. Right. So I think I think if you have ability to do that, I mean, I get it. If you have ability to give them room to do to do something productive, it's not a bad thing.

Joe: All right. So during this time when you were living off your were living off of your parents for two years, a year and a half, you were rehabbing. Is that what you're doing? Is that when you were you were actually.

Daniil: Yeah. And then I got into wholesaling. They I did some wholesaling, but I didn't do much of it because I my, my interest from day one was assets interest. So, so the houses that we rehabbed, we then rented them out, refinanced them, went with a local bank.

Joe: How did you get to make money while you're doing this?

Daniil: Took out a little money on the refi. Okay. You know, at that time, I mean, that was a great time to do better because you can buy properties way below replacement cost. But the appraisals when you renovated them were still good enough to where you could pull out your cash and even pull out some money on the refi and still have a very healthy cash flow on that deal.

Joe: Just so everybody knows, the BRRRR strategy you're talking about is BRRR buy, renovate, rent, refinance. Is that right?

Daniil: And then repeat. Yeah, exactly. Some insights I built probably the first night seven or $8 million of my portfolio just through BRRRR and single family houses and duplexes. But I also again, I made some money wholesaling at that time, but being able to have that, that pressure taken off me to pay bills and having that time to build a baseline portfolio. And then eventually the portfolio was cash flow in a couple of grand the month. That was enough for me to live off, at least, you know, not extravagantly. So, you know, my, my, my, my goal when I left Wall Street was to build a rental portfolio. They gave me five grand a month. I was like, Man, if I can just, you know, replace my replace my living paid from my living expenses and get to like five grand a month. Cash flow like that was like the Holy. That's how small I was thinking at the time, right? Yeah, but I got there within two and a half years. Yeah, There were all my. You know, I could afford my own rent. I could afford. I could afford to go out, I could afford to do some travel. But let's talk about how you that's how small I was thinking in the beginning, right? That was like the Holy Grail. If I can just get the five grand a month. That was the dream.

Joe: Can you. Can I ask you some questions about how you calculate cash flow? Right. Sure. Everybody has a number way to do it. And some people, they think they have five grand a month in cash flow. But after vacancies, future capital expenditures are things you have to refix to replace that quickly disappear. So how do you calculate cash flow.

Daniil: That's a great question. I'm glad you asked me that. Rent we take immediately off of rent an 8% management fee. Right. So right now I have an in-house property management company. It's a separate company, both in-house. It's my company and it only manages my assets. So we take off an 8% management fee. We take 10% of gross rents and put them into reserves for maintenance and capital improvements, minus all of our operating expenses real estate taxes, insurance, landscaping, legal marketing, minus the mortgage. So even if I have a brand new property right now, something I've built from the ground up, they want, I'm putting 10% of rents there. They're going into reserves. I'm putting them away because I will use them up one day. Yeah. And that's mean that cash flow and that and that figure is reliable because I never. Yeah. The first couple of properties that we bought Right. That I bought, I bought some duplexes back when I still had a full time job. I bought them back in 2006 from. From those first few purchases I learned that lesson because we bought things we just wanted to get in the game. And so we bought, we bought things off of MLS at the top of the market pay top dollar and these properties came with through all. There were 100 plus years old. We had a lot of deferred maintenance. They learned that lesson very quickly because I was doing what you're saying on paper. These things were cash flowing fabulously. I did not for ten years of managing those properties until I sold them in 2016. I did not pocket a dollar. Yeah, off of them. Literally everything that we cashflow went back into. Replacing heat pumps, patching the roof.

Joe: Yeah.

Daniil: Just playing Whack-A-Mole with repairs. And so I learned that lesson very quickly on those first few properties that, you know, the cash flow on paper, is that what you're going to end up putting in your pocket?

Joe: I want to ask you, like I want to stay on this, the reserves, because I got big trouble in '08 and '09 with the rental properties that I had because I thought it was cash like 200 a month and but I really was. And I got in big trouble now where I had vacancies and no money to pay for the mortgages and all of that. So how many doors do you have now approximately.

Daniil: Including what I'm physically building right now, just under one 170, 180, something like that.

Joe: All right. So you're getting you're are you still taking 10% of your gross rents and putting them in a separate account today? Yeah, we're on the books. At least on the books.

Daniil: Yeah. And the way it ends up working is newer properties and subsidizing older properties at times, right? Because I manage it like a portfolio. But yeah, every single month we take 10% off the top from each property and put it away into reserves. So wondering for the last 12, for the last 12 years, let me put it this way I've never had to make a capital contribution back into the portfolio to fix something or to make up a shortfall in paying my mortgage. That's always been the goal, right? Like when they take an owner draw cap, which is the same as cash flow, I take an ordinary draw every month. That's what I pocket every month. I've never had to make an owner contribution back to those properties.

Joe: Okay?

Daniil: We've always had the funds, you know, and things happen. Like I need to replace a roof, heat pump goes bad. We, you know, we built a bunch of duplexes with just concrete slabs and we stain those slabs. And after three, four years, it just looks like crap. So now on the bunch of those as we turn them, I'm spending four or five grand at the time to put leaky floors on top of them, and I'm just writing big checks and that's okay. We've set money aside for all of that stuff. Yeah. So that's how I gauge like the success of whether this is working or not. Yeah. Is whether I ever have to make a contribution back to those properties from my personal checkbook. And that's, that's yet to happen.

Joe: Now you have your own in-house property management company. What led you to that point? Did you hire outside property management companies and get frustrated with them or.

Daniil: No, I've always had a distrust of third party management companies. And that's not to say that there are not good ones out there. There are there are good ones. I would say that there are more bad ones out there than good ones. But even the good one, even if I went to the best third party property management in town management company, the best one cream of the crop, they would never care as much about my assets as I do or the people that work for me, because the people that work for me, their only job is to manage my assets. They sit in my office, I talk to them daily. I, I perform sort of the asset management function, right? The asset management managers, the property managers. But there are there's no comparison, right? Yes, I can you know, I can go to my senior guy who works for me, who is who runs the property management company, and he's phenomenal. And I can say I can name a unit in off the top of his head. He can tell me how much it rents for how many square feet of this right when the lease expires, I mean, when. And so we've put in place incredibly tight procedures around management that we created. And we don't have vacancies. We haven't had a vacancy in ten plus years. We have incredibly stringent screening procedures in place and we haven't had to evict somebody in over ten years. Well, as a matter of fact, we don't have delinquent rents. There might be out of whatever number of units we manage, there might be in any given month, maybe one person, dozen paid by like the seventh or the eight one, and they usually catch out by middle of the month. Okay, so I don't have delinquency, I don't have vacancy. And that's largely attributed to the quality of our management, the quality of our leasing rate, because it all starts with leasing tenant screening. You know, when we take it back, it starts with the product. We have shitty product, you can attract shitty tenants. That's why there's so many land tower landlord stories because. If you have a low quality product and it's cheap, you're going to attract that that clientele.

Joe: Yeah, yeah, yeah.

Daniil: Then there, you know, we so we have a really good product. It attracts really good tenants. We have really tight screening procedures in place. And I've always told my property management employees like how well you screen and who you put into the property determines how the rest of the year will go. It dictates everything. So, you know, I trust that model. I don't trust passing that off to somebody else.

Joe: What would you say to somebody who is just getting started and they've got, you know, three or four little small rental properties, They're growing and expanding. They're buying a couple properties a year, whatever. When do you tell them, Hey, you need to start managing your own properties, maybe hire a part time assistant, maybe hire a virtual assistant, somebody to manage your properties for you and not use a management company.

Daniil: You know, I would say, first of all, you should definitely manage them yourself for a year or two and learn, learn tenant screening, learn leasing, learn tenant screening, learn how to handle turnover yourself. Right. Learn how to handle and deal with maintenance issues.

That doesn't mean you need to be fixing things yourself, but you should be taking in maintenance calls and directing the right contractors to it. Because if you do that, your ability to manage somebody else and oversee their work when they manage your properties is going to be that much more competent. Yeah, I again, it's very hard to manage. You know, I don't know the first thing about being a doctor. So all of a sudden that I took two, took over a medical clinic and I was managing a bunch of doctors, I'd have absolutely no idea how to evaluate their work. If I bought a car mechanic shop right now, I'd have. Having never been the car mechanic myself, I would have absolutely no idea if my car mechanics are doing a good job or not. Right. This is no different. So if you have a couple of rentals, you should manage them yourself for at least a while and learn the nuts and bolts of it. And then you should scale quickly to the point where you can hire a full time employee. And how do you figure out when to hire a full time employee? Well, let's say you need to pay them $60,000 a year. Right. What kind of rent role every year do you need in order to take 8% or 10% of their rent role? And that will give you $60,000 a year. And for most people, that's somewhere between 30 and 40 units, 30 and 40 units. You can afford a full time person that works for you whose only job is to manage your assets. I hired my first property manager when I was at like 20 units and I couldn't afford them yet, so I took cash and put it into the management company in order to be able to pay that person's salary. But then they freed me up from so much crap that I was able to scale up quicker to the point where the rent girl now could afford that fulltime person. Let's go. So, you know.

Joe: Every very successful landlord I've ever met always manages their own properties. They have their own assistant or their own team that manages their own properties. And there's a lot of frustrated landlords out there.

Daniil: You know, the $200 a month cash flow that you were talking about that you thought you were making, but you weren't. That's the difference between good man. And I'm not saying that you're a bad manager, right. But like the margins, the margins in, in, in landlording are actually fairly thin, right? Yeah. On our units net clean, we make between three, let's say in $500 a unit, but that can be wiped out with bad management or negligence or a month or two of vacancy. Yeah. So. So subpar management literally takes you from having a profitable, awesome portfolio to bleeding. And that's a very thin line. Yeah. And I think a lot of people don't realize that. So, I mean, so we watch our numbers carefully. That doesn't mean we don't fix things that need to be fixed and don't spend money. But we watch we watch everything very carefully because that makes all the difference between having a profitable portfolio and not.

Joe: That's very interesting what you're saying there, because good management can make or make you profitable or make you unprofitable. And yeah, that kind of leads me to the question I wanted to ask you about in terms of debt. Obviously, you can't get to $170 as quickly as you have and the kind of numbers you have without using bank financing leverage. But what do you are you of the philosophy of the camp, you know, refi til you die. Just take all your equity out, keep on refi, refi, or are you trying to pay off your debt? Do you have a goal to pay off all your properties in, you know, 20 years or something like that?

Daniil: I think what you do with financing and with leverage depends on your goals and the stage of life that you're in. I would say, you know, if you are trying to grow aggressively, then one of the ways to grow aggressively in scale is by using your balance sheet really in a. Your balance sheet can be a great tool. Right. So buy by refinancing at opportune times, you can take equity out and use that equity a lot more efficiently in new properties and how efficiently it's working for you stuck in that property that you refinance. So, you know, do I believe in refi till you die? No, but I do believe in smart use of your balance sheet because I know guys that build larger portfolios than me just by playing the balance sheet game for the past ten years, you know, appreciation, rent growth, all cash out, use that cash, buy more, more deals. So and the same time, I believe in balance sheet management from the perspective of not overleveraging, because every time I go to a bank to get more money, they look at my global balance sheet and they look at my global loan to value. They look at my global cash flow, they look at my global debt coverage. So if my global debt coverage is, you know, barely there already, if my current loan devalues 80%, that bank is going to look at me differently than if I show them, hey, I have a conservative portfolio. My portfolio is leveraged that's 50%, 55% of today's value. So it's a balancing in, right? Yeah. If you want to grow, you need to use your balance sheet intelligently because your return on equity here may only be 3%. But if you pull that equity out and deploy that equity in the New Deal, now that same cash offering ten, 12, 15%, but you don't want to take it too far and lever yourself to the point where you can't get new finance. Yeah, that makes sense.

Joe: Yeah, that's very good. Very good answer. Now, what's your philosophy in terms of are you going after Class A, Class B, Class C type of properties? Or are you in the middle of the row? Because I'm thinking recession, you know, what's the economy going to get worse? I know you're a huge Joe Biden fan. Oh, yeah. Like but if he runs the economy to the ground and everything falls apart, then, you know, are you going to be okay with the properties that you have right now because of where you're at? That makes sense?

Daniil: So yeah, I only develop class product, okay. These days in order to develop, in order to pay and justify the cost of construction, you basically have to develop class product because you need class rents. If I were to wake up tomorrow and say, I want to develop class B-minus product and build something that's more affordable in my area, I can't without getting low income housing tax credits or some kind of major other major subsidy.

Joe: Interesting.

Daniil: For me to justify what the things cost to build right balance.

Joe: Because the cost of construction also high.

Daniil: Cost of construction is so high, I have to target Class A rents basically. But even if I didn't, I'd still target class A probably because again, it goes back to we build really nice things and they attract really competent people that make good money, have no trouble paying their rent, take great care of our properties, stay for a long time, don't cause us problems, don't destroy things, don't cause drama. You know, I had the Section eight house back in 2009 and there was a SWAT team raid there. I got pulled out of the movie theater by the police, because they were like you need to. They called me. They were like are you the owner, you need to come here. There was a SWAT team raid because it was like a drug house. They recovered every drug under like, I'm over that. Yeah, I don't have those problems anymore.

Joe: Where if they, if the economy continues to soft and then it gets worse. Are you concerned that because you are at the higher end, your class, your rents are higher, that are you going to have a harder time surviving than somebody who's Class B or Class C?

Daniil: I think what we are paying attention to is again, cash flow and margins. Do I have room to cut my rents a bit if I need to? Well, that's what I'm not really concerned about a recession. I do not I personally and I'm no economist, actually spend very little time thinking about this stuff, but I am personally not concerned about a deep recession, a lot of layoffs or tenants losing their jobs. I am paying more attention to is the construction pipeline, the multifamily construction pipeline, because nationally in Q2 of 2022, I believe it was Q2, there was more multifamily construction units started than in any period since like 1940s, I believe. Right in locally here now, there is a tremendous multifamily construction pipeline that's going to add a lot of supply to the market. And guess what? It's all class A. So that concerns me more than any kind of doom and gloom and impending recession.

Joe: So do you think you could be overbuilt? You think there could be too many new apartment buildings being built?

Daniil: It's very possible. So. You know, then then you look and you say, Am I like tippy top rents or am I competitive? Do I have room to bring my rents down? Do I have a product that's unique that will continue to compete against? You know, what I build is more of like boutique style buildings. So between two and, let's say 50 units, right? I've got some hundred plus 200 plus projects I'm developing like slowly. But most of what they build are more kind of boutique properties where my, my, my, my apartments are bigger than the big box apartment buildings that are being built there. They're in really good locations.

Joe: Let's talk about that.

Daniil: We have a lot of what they built are duplexes. Okay. And then my in my duplexes, these apartments are much larger. They will they will compete against the massive multifamily product that's coming in the market. They will compete all day long with that, probably because I have 30% more space in these apartments. They will have to park in the parking garage. They can literally walk out of their door, their sparking right there. There is a yard. We give them huge balconies, an outdoor space. So a lot of what they build is a product that's very competitive against sort of the, you know, your typical big box apartment buildings that are coming out.

Joe: Yeah, this is cool because when you send the pictures of the projects you're working on, they're just really cool to watch and look at. Nick is they're very you're right. Boutique is a good way to put it about the market that you're in. What city are you in again?

Daniil: Richmond, Virginia.

Joe: Yes. And so talk about how your properties are different than a big apartment building. And are you buying and building like are you renovating existing building?

Daniil: I've done some renovations lately. I'm basically building ground up. And so, you know, again, my bread and butter. And when they love to build and they build larger projects and I'm working on three or four larger right now, but I love building duplexes. They're cheaper to build. You can build them by residential code, insert commercial, which saves us in construction costs. It's, you know, it's like a single family home. Only I have an apartment on the first floor. An apartment on the second floor. Right. So it's a much more efficient use of that sort of architecture because I'm amortizing the cost of roof walls, foundation utilities over two units instead of one. So the economics are much better than the single family rental. But they're very easy to build and in and they rent and they stay rented because we, you know, let's say in the big box apartment building, a typical two bedroom apartment is somewhere around 900 square feet. My apartments and these duplex on average are 1150 to 1300 square feet.

Joe: And what do they rent for.

Daniil: 18, 1900 in my market can We can probably push it to 2000. Big walk in closets, huge kitchens for two bedroom apartment. So it's a very unique competitive product. I build larger apartment buildings where our units are smaller, but there are still those are usually mixed use product. And so we have commercial businesses downstairs or in the corner, really great commercial tenants. And so again, that's attractive to live in those buildings because you can walk downstairs even if your apartment is only 600 square feet, you can walk one flight of stairs downstairs and there is a juice bar. There is there is a restaurant, there is a coffee shop, there is a yoga studio, which you don't always get in these larger apartment buildings where it's like 200 apartments and then, you know, a parking deck. So I love building that kind of product because we get to kind of develop walkability in neighborhoods, right?

Joe: Want to ask you a couple of three more questions. We will wrap it up in about five, 10 minutes or so. Sure. How are you finding deals right now?

Daniil: Mostly off market. I love buying from wholesalers. If anything comes my way from wholesalers, lately, it hasn't been very much. A lot of most of the projects developing right now as we speak, I'm building nine townhome development and building a 12 loft development with a bunch of duplexes, single families, some building a six unit apartment building, four unit building, bunch of duplexes. Almost all of those deals came from my network. They were off market deals where people came to me and they said, I know somebody looking to sell this, or in a couple of scenarios it was, Hey, I own this big property. It's got this excess land. Would you want to take a look at it and we can carve that land off. So like the six unit project I'm building now came from, we carved a piece of land from a retirement community. Owners of that retirement community were people I knew they bothered. There was just a big chunk of land sitting there that wasn't being used. I wrote him a check for 230 grand. They made some money. They're happy. I'm happy because I've got a piece of land. The great location, completely off market. Same thing. I'm building a nine townhome for sale developing now that was carried off from another retirement home from a totally different owner. Somebody I know, actually, I had breakfast with that person this morning. Same thing came to me, said, we've got we've got the side lot that nobody's using anymore. There is piece of this parking and our older residents don't need all this parking. Would you be interested in looking at this incredible location directly across the street from a 20,000 square foot mixed use development that I just finished? So, yeah, absolutely. I'm doing Developer now where we took a medical office building and that one was actually on the market. I put on the contract for 12 months while we got a reason and they split it into 12 separate lots. As soon as we got approved to split into two separate lots, I closed on the medical office building. We tore it down. Now we're building gate for sale homes and then four duplexes in the middle, so eight rental units. So most of us coming from my network could be people that I know. I'm not doing marketing campaigns, not doing mailers.

Joe: Yeah.

Daniil: Which is not a bad way to do it. I just. I haven't had the need to.

Joe: Let's talk market predictions. What are you predicting the market to do in the next six months, a year or two years?

Daniil: Man, you know, I try. I try not to make predictions because almost every time any of us try to make predictions, they're wrong. I think I think rates are going to stabilize over the next six months. Given what's happening in the world now, I think I think rates will stabilize. I you know, what we're seeing is our for sale market as well, because I have a homebuilding division where we build for sale product and sell it. The remains resilient, everything we're building and putting and listing in the market continues to sell. We're just being smart about how we price things. So I expect that to continue. We're building a bunch of houses now and as I mentioned, townhomes that are going to be for sale, and I expect that to remain strong. I again, I can make predictions for other markets. Our rental market will remain, I think, strong. But the time of rental growth where you were seeing ten, 15, 20%. That's over. I think our rental rates here throughout this year are going to stay fairly flat. That's about that's about as much prediction as I can make. You know, I'll.

Joe: Nationwide. I know you don't like making predictions and I appreciate that. I got to get something out of you. Do you think nationwide rents are going to start dropping a little bit at least?

Daniil: I, I think I think it's regional. There are some markets that are going to be oversupplied. If you look at construction of pipelines in certain, you know, the Sunbelt southeast there, that's already happened. Right? That's already there's already been decreases in market rental rates in certain markets from sort of to call it peaks. And then that will continue happening. I do think we have a lot of multifamily supply coming. It's in the construction pipeline, I think.

Joe: In 2002. Is that right? 2002, 2003. I was working for a construction company and they moved me down to Dallas to help with this project. We were finishing it up, it was a school or something like that, and I was just a project engineer and but I remember at the time we moved down and I needed to find a short term place to rent. And this is before HomeAway or VRBO or Airbnb. And so we just found an apartment that was willing to do it month to month. And then we paid a company, we rented furniture from them. But I remember as I was looking for apartments, how much different it was in Dallas, Texas than it was in St Louis or in San Francisco where I lived. Also, at the time, it was very easy to find really nice apartments in Dallas, Texas. And I started digging into why, and the rents were way much, way less. And I started reading about it that there was in that period of time, late nineties, early 2000s overbuilding, too many apartments that were being built. And a lot of the big developers were really struggling. And it was a regional thing. Yeah, and I don't remember why that was because of the oil boom bust or what was going on in Dallas. But I was just I was impressed on me at the time thinking these are beautiful apartments and there's so much vacancies. They had so many incentives to get people in in terms of, you know, free TV's, free to market free rent.

Daniil: Yeah. And you say to yourself, well, these are really smart, deep pocketed people. How could they how could they mis-predict it? How could they misjudge the market? Why didn't they see the writing on the wall and cancel projects and scale back the pipeline? That's just how it works. So same mistakes happen throughout cycles. And they had that conversation this morning about the coming. By here because I'm in permitting now on 131 project and we're having a little bit of challenges getting the right financing for it. But the conversation we had this morning was maybe it's a bad thing to pause that 130 units given how much supply is coming, because my performance depend on being able to head to pick up rents.

Joe: Yeah.

Daniil: And if there is an oversupply, I may not be able to hit those rents.

Joe: Let me ask you, too, with interest rates going up, because some of these people that sell into big multifamily, they're counting on being able to refinance and get right and refinance to get their money out and to know more longer term financing. Is that becoming harder to do now or it does it, does not really matter.

Daniil: So from talking to two mortgage brokers and people that kind of live in that world take out financing is still there. Right. If you already have a stabilized asset, if it's something that's built, fully leased out. There is still take out financing out there. We're seeing construction financing get more challenging now. But people are still able to refi and get taken out if they already have a fully stabilized asset. Now, that may change. But again, I personally don't think at this point rates are going to go up significantly. So I think I think the take out financing will remain in place. But the way deals are being underwritten may change. Right. So if everybody right now is underwriting deals with a 5% vacancy, maybe a year from now, you're seeing banks underwrite deals with a 10% vacancy or a 12% vacancy because there is so much supply coming. And that's, you know, when your lender is modeling a ten or 12% vacancy, that reduces how much money you're able to borrow. Yeah, right. And the few all this much for your construction loan and now you can only borrow this much. You might start running into problems. So we'll see.

Joe: Yeah. I want to ask you so many more questions here, but this has been really good. We've got to wrap it up.

Daniil: I got a few minutes if you do.

Joe: Yeah, I do also. But Rehab Valuator, it's a great little software that you have. Talk about that.

Daniil: Sure. So I, I built it originally for myself when they started doing deals. But it's essentially it's a deal analysis deal, marketing, fundraising, a project management platform. So SaaS, CRM, Right. It helps you analyze deals whether you're a wholesaler, fix and flipper, if you're doing bird deals, if you're a ground up developer, even if you're doing 300 unit projects, if you are wholesaling, it has seller data, contact info, we pull public records and you have instant access to info about that property nationwide, all the key characteristics nationwide, comparable sales and then of course full deal analysis. It if you're a wholesaler, it creates marketing presentations for your wholesale deals. Very easy point to click. You can syndicate on social media, get them out to your buyers list in marketing presentations that incorporate deal analysis into them. So you're making an intelligent presentation to your buyers. You're showing them actual numbers, right? Like I when I was when I got started in this business, I kept getting emails from wholesalers with like an address and the price and nothing else and then drove me crazy like, yeah, do a little bit of work. Give me some basic information that I can look at in an organized fashion where I can decide whether this is worth focusing on or not. So that's one of the things that the software allows you to do. One of the big things that we do for our clients is funding presentations. It creates full funding proposals for private lenders, for hard money lenders, for banks, very professional, intelligent looking proposals that our clients have used for tens and tens of millions of dollars in funding at this point. And again, like I use in my business when I have a development deal to present to my bank for short term lending or permanent lending or both. I use presentations from within the software it creates a pro forma. It creates short term funding presentation, long term funding presentation, permanent funding. So that's been a really powerful feature. And then there's project management. You can create custom rehab budgets. We have templates that you can preload with costs and scopes of work pre-populated. There's a project scheduler. Like again chart. Yeah, we have in-app accounting. So I, I built a project management suite that's like, bring that simple. There is lots of great, amazing construction software out there. Construction management software. Phenomenal. Fantastic. Companies do huge business, but it's complicated in for like mom and pop investors or even for me, it has a level of complexity that is completely unnecessary. And the learning curve that is to me, if you if you're short on time, it's insurmountable. So I built a braindead, simple project management suite. You can create a budget, build a schedule, build the scope of work. You can enter your bids, store your bids. There is an incredibly simple accounting system that in real time then will show you how your project is doing compared to your forecast. Right now you can store your invoices in it and then creates really simple reporting around that. So for Mom and Pop, fix the flippers developers like that's about as much complexity as you need, but you can learn that in an hour. And so it does those things we focus on sort of four things that we do well. And we don't do legion, we don't do CRM. We leave that to two other people that are much better at it than us. If that makes sense.

Joe: Did you, say, property management or project management.

Daniil: Project management, we are not property management.

Joe: Okay. Is that the right link there? Rehab Valuator dot come. Awesome. Guys, you should go check it out. Daniil has been pouring his heart and soul into that software for years. Not sure how long.

Daniil: 2011. I feel like it's been around for a long. It started out as an Excel spreadsheet. Yeah, because that that's I build the myself, that's my background in finances, building spreadsheets and financial models. But then we filed in 2015, built like a real web based application out of it. That's dynamic. It's mobile, mobile friendly downtown. You turn on any device stories, all your data, and we have thousands and thousands of very happy paying clients right now, which is very nice because it started off as kind of an experiment.

Joe: Yeah, So go check it out right now, everybody. I know you'll like it. If anything that Daniil has been saying here has been help for you, then check it out. Rehab Valuator dot com.

Daniil: There's a free version of it, by the way. And that's also one of the things that we've always done that was very unique. There is a completely free version that you can sign up for as well that lets you do analysis. And we have phenomenal support even for people that use the free version. Again, it's just like property management, like these people sit in my office and they're full time people whose only job is to help our clients and they're out. They, they sit in my office, they're not in, in, in Philippines, Malaysia or somewhere. We have to really great support.

Joe: All right, cool. And Daniil, if somebody wants to get a hold of you, maybe invest with you on one of your projects, or maybe they have a deal in the Virginia area where you are, they can send you something and how can they reach you?

Daniil: The easiest way is to email me. You can find me on social media. I'm easy to find on Facebook and on Instagram, but you can email me at daniil@rehabvaluator dot com and I usually reply to two to their email I get unless you know that's silly. In which case I don't.

Joe: I think I'm going to get it right here now show it on the screen. D A N I I L.

Daniil: That's me.

Joe: At Rehab Valuator dot com.

Daniil: Yeah, if you've got deals in the Richmond area, send them to me. I'm not looking for investors right now, but I am, I am looking for deals, but I'm also have if you have questions that I can help you with anything, reach out to me.

Joe: Awesome. Daniil, thank you so much for the time, guys. I'm going to be. If you're on my email list, I am going to be promoting Daniil's software. It's really, really fantastic and it's very affordable. It's surprising when I look at it. You should be charging way more than this.

Daniil: And now I know we've underpriced it, but I'm a firm believer in overdelivering.

Joe: Good. Thank you. Dan's got some nice words here. Hey, Joe and Daniil, good information here. Appreciate the kind words. A lot of other comments here. I don't have time to go through them. LinkedIn is in the house. What's up, Jessica? Glad you're here now. More doing great. Thank you. All right, guys, listen, if you're watching this on YouTube or Facebook, give me a thumbs up and like it, please. I really appreciate it. Subscribe to my YouTube channel. And if you're listening to the audio podcast, thank you so much for listening to the show. Leave us a review and iTunes or Spotify. Subscribe and appreciate it very much. Thank you, Daniil.

Daniil: My pleasure, Joe. Thanks for having me.

Joe: All right. Have a good one. We'll see you guys, everybody.