1290 – The Market for Land Is Changing Dramatically... Follow These 5 Rules to Survive in 2024

Hosted by: Joe McCall

Joe: Hey, what's up, guys? Joe McCall here, Real Estate Investing Mastery podcast coming at you live from the Golden Mics Studios in my office. I was trying to. Sorry. I was trying to imitate the Rush Limbaugh. I used to listen to him. And you remember back in the 90s? Am I old? I would listen to him back in the early 90s when talk radio was just kind of taking off. But he would say these things like, you know, the opinions or the things expressed on this radio program or the are not necessarily the opinions of the, the ownership, the station staff and all of that. But then Rush would say, but they should be anyway. Hey, what's up, podcast listeners. Doing a podcast just for you guys. Sometimes, you know, I take the audio from a video and I turn it into a podcast. I just want you all to know I love you guys and I still want to create content that's going to be helpful for you, just for you. And I want you to know I don't want you to think that I've forgotten about you or that I don't appreciate you, because I really, really do. You guys, I started my podcast in 2011. You've been listening to me. Well, some of you are right now. How do I know you're listening to me? Well, I've got my ways. I know. You know, big, big, big tech is I've got the insider scoop. I know who's listening to me and who's not. I'm just kidding. But I know you're listening to me because you're listening to me.

Joe: And I was thinking about something here today on an earlier coaching call that I had and that I thought would be really good for you because the market is shifting, it's changing. And a lot we're going to see a lot of different we're going to see a lot of changes over the next year as we're coming into 2024. And I think it's going to be dramatic, but it's not going to be like super dramatic. We're not going to see a crash like we did 2007, 2008. But things are changing and they're changing rapidly. And one of my favorite books and it's been probably 20 years since I read it, was Who Moved My Cheese. And so I'm always thinking about where is the market going, where's the next? What's the next wave? I've already been hearing rumors from people that short sales are way up again and banks are starting to foreclose and people are starting to get behind on credit card payments, car loan payments and house mortgage payments. So short sales are seeing a big increase. People that are doing short sales. I'm thinking about interviewing somebody on my podcast soon to talk about short sales and how can investors, you know, profit in a good way? You know, I don't mean like taking advantage of people in bad situations, but if you know how to do short sales, you can make a lot of money right now and you don't even have to be the one doing the short sale. What if you just gave the deal to somebody who knew how to negotiate with the banks, handle the short sale stuff and they just gave you some of the profit. So there's a lot of opportunity coming in. The cheese is moving. That's my whole point. The cheese is moving. And so what are you going to do about it? So I've got some rules here that I'm going to be giving to you and I'm going to be giving you first my rules for vacant land, because that's a lot of what I'm doing now these days, and what I talk a lot about with people. And then I saw a post recently from John Cochrane. Some of you guys know John Cochrane. He's been doing teaching and doing real estate for a while, and he had this post that I thought was really, really good and he's got some predictions, some pretty big changes that he's already seeing happening and is going to just keep on happening in the future as we come into 2020 for someone to talk about that.

Joe: But regardless of what direction the market is going, it's always important to understand the fundamentals and it's important to understand your buybacks, like what are the uncompromising rules that you should be having that you should have in your business? Are you doing land or houses? What is you need to have you need to know what these are and you need to have them written down, whether you're doing houses, maybe if you're doing houses, you need to have at least, you know, 15% equity in the deal or you need to have 25% equity in the deal. And when you're looking at comps, you only need to be looking at comps in the last 3 to 6 months instead of 6 to 12 months. Or maybe it's cash flow. You need to have a minimum cash flow of $200 net a month where before a couple of years ago, you could, you know, fudge on that a little bit. But now you need to be more strict like net at the end of the day, after all, vacancies, maintenance management repairs, taxes, insurance. Future capital expenditures like future water heaters and things like that that you have to fix and replace. After all of that, your net should be $200. What else? You know, like stay in the median price range, don't go above ten, 15% of the median price range. So if you're doing deals in Dallas, Texas, depending on which county or whatever you want to stay in the median price range, you need to write that down. So you need to have these rules written down because then you will always be successful, pretty much. I mean, I can't guarantee it, but like, how about always have multiple exit strategies on every deal that you do? Maybe you could get away with, All right, I'm going to buy this house and I'm just going to do Airbnb on it. Well, what if you can't do Airbnb? What if the city changes ordinances? Or what if Airbnb softens up a little bit? Do you have another way to get out of that deal? Can you just rent it out on a month to month? Could you do a mid term rental? Could you and rent it out by the room? What do you have as. There are options if you're if you're fixing and flipping. Okay. Worst case, you can't sell the house after you rehab it. The budget, your rehab budget doubles. Can you still rent the house out and at least break even for a couple of years until things, I don't know, maybe rebound or whatever? So you need to have multiple exchanges. What are those rules for you? Well, I can tell you, for vacant land, these are some very important rules that I've always had, but I think I need to reemphasize them to you guys. If you're doing vacant land and I need to emphasize this more and tell you that you need to make sure you are doing these things always and forever without compromise, without budging. Okay. Because as the market softens and it is, we're already seeing cities across the country where prices are declining 10% in the last 12 months. Big markets, prices are declining 10 to 15%. So if vacant land, how do you protect yourself? What are the rules that you need to have? Well, I've got 4 or 5 of them here. I want to tell you what they are for vacant land. And there's again, there's some for houses as well. So you need to define what those are. But for me, mostly doing vacant land deals right now and this is kind of what I've been teaching my students mostly about, But number one, uncompromising rule number one is three months to close. You want to make sure you're not locking yourself into a deal and closing in 30 days if you don't know for sure if you have a buyer or not. Sometimes we think a property is worth X, But you know what? It doesn't matter what you think it's worth. It doesn't matter what the realtor thinks it's worth. Who is the only person that matters in this game of trying to figure out how much a property is worth? The only person that matters that you should care about is the end buyer. The market needs to tell you what your vacant lot is worth is that little quarter acre lot in the suburbs really worth 20 grand? Is that ten acre lot out in the hills for recreational land that maybe has road access? Maybe not. Is it really worth 50 grand? Is that road, that thing that looks like a road on the satellite image? Is it is it or not? Is it a wetland? Maybe it is. Is that a big deal or not? Because, you know, other people are buying there regardless if it's a wetland or not. So when markets go down, you know, people are more conservative with their money. And so you may think a property's worth X, but what if it's not?

Joe: So you need to make sure you have at least three months to close, because guess what? When you start marketing the deal, your buyers will tell you, the market will tell you what the property is worth. It will tell you if it's a sellable deal or not. They'll tell you if, hey, I can't even get to the property because it's on the side of a cliff, right? Like you just don't know. Sometimes you just have to do the best. Guess you can get it under contract, put it out there on the market and see within a couple, 3 or 4 weeks you should know whether you have a good deal or not. So the seller's pressuring you, Hey, I'll take your price, but I can't do three months. I can do 30 days. Don't become a motivated buyer. Your don't become a motivated buyer. It becomes tempting when it gets, you know, you need the money. You're getting hungry. You want to do more deals, and you start getting tempted to become what the motivated buyer. You start compromising on these rules. You're going to get in trouble. You're going to get in trouble because you're going to get that property under contract and it's supposed to close in 30 days. And it's been three and a half weeks and it's been crickets. You haven't had any buyers express any interest. And you're wondering now how when should I close it? And then you're embarrassed to say, I don't Should I tell the seller, Should I cancel the contract, renegotiate a price? But now is supposed to be such a good deal and then you close out it anyway, or you keep on stringing it out? No, it's either. Listen, Mr. Seller, I understand you want to close sooner, but this is my offer. Take it or leave it. Why don't you think about it? Listen to it. Maybe I'm not your guy. I'll give to you names and numbers of five other realtors. Maybe you can list your property. You should probably just list your property on the MLS with the realtor. Second rule Minimum profit. You need to have a minimum profit target on all of your deals. The same for houses, but for vacant land. Mine is ten grand. When I'm making my offer, I'm shooting for a minimum of $10,000 profit on my deal. So how do you come up with offers on land? It's very easy. You figure out what you're going to sell it for. You subtract your wholesale profit, ten grand, you subtract realtor commissions of 10%, you subtract closing costs, couple of grand be conservative. You subtract any unpaid taxes that might be due. You subtract photography, 500 bucks for drone photography or whatever, and that's your price. Okay. But you've got to factor in your minimum profit. Ten grand, maybe it's 10%, 15%, maybe the greater whatever is greater because obviously if you're selling a $500,000 piece of land, you want to make more than ten grand. So I shoot for ten sometimes, you know, at the end of the day it works out. I only make five. Dang it. Better than a poke in the eye with a stick. I'll still take five grand. In the last 12 months, our average profit on a deal was $10,800. Okay, so always shoot for ten grand. And guess what? You'll get it. Some deals. You know, one of our deals we wholesale, we made a $36,000 assignment for profit on the deal. Some deals are bigger, some deals are smaller. All right.

Joe: Third rule, by the way, back to that minimum, how to price your deals. This is now a more than it's going to be more important than ever to be conservative on the values that you're placing on the property. So in other words, you get a property the seller says they want to sell priced. This is my data provider price. They say it's worth 30 grand. You know, you look at Redfin, you look at Zillow, you look at active listings, you look at sold listings and you think, oh, you know, maybe it is worth 25 to 30, 25 to 30,000. All right. You talked to a realtor. The realtor says, yeah, you can sell it for 40, maybe 30 to 40. You know, you're thinking, oh, okay. Be careful. Be on your guard against your greed glands because you'll be thinking, oh, yeah, I mean, I can listen for 40 and make $20,000 in profit. This is one big, big mistake that you should not be making in a slowing market like we're in. Okay? In the in a slowing economy, you want to be more aggressive, you want to be more conservative on your pricing. So if an agent tells you can sell it for 30 to 40 listed for 25, I'm telling you, for vacant land, it's a house. And you think you could sell it for today? Do you think you could sell it today for 200 to 220? All right. Listed for 185. I'm just telling you, start from there and then work your numbers. Calculate your offer based on that. Because again, you got to think if you're going to rehab that house, it's going to take you think it's going to take you three months, it's going to take you six months. You think it's going to cost you 15, 20 grand. It's going to cost you 35 to 40 grand to rehab that house. It's always going to you got to figure on doubling your budget, doubling the time, going to take twice as long. It's going to be harder to sell. And we're seeing this across the board. I'm going to have some notes here from John Cochrane. Now I'm going to show you that I think we're I'm seeing this all across the country right now. So, again, sometimes these realtors, especially with vacant land, they're like they're used to property sitting on the market for 6 to 12 months. Right? They don't care. The more a hired sells, the more commissions they make. So, yeah, they're going to push that number up a little bit. It's not their money that's sitting out there doing nothing for six months, 12 months, it's yours. Right? So and I've always done this for years too, by the way, with houses, if you think the rents are going to be 1000 to 1100 a month in your offer and your calculations, use $1,000 a month. If you think the repairs are going to be 25 to $35,000, do $35,000 for your estimate in repairs. If you think the House might be worth 282 to 90, go with to 80. So use the more conservative number. Always underestimate and overdeliver. So again, with vacant land, do you think it might be worth 25 to 30? Because that's you know, you're looking at and the realtor says, well, you could sell it for 35 to 40. Go with the lower numbers. Right. Then work backwards from there in coming up with your offers, work backwards, take out your wholesale fee, take out realtor commissions, and be generous with your realtor commissions to by the way, that's not the thing that you want to skimp on and try to be cheap on. Just build it into your price.

Joe: The realtors, they pay for themselves, they sell the deals faster and they will sell you. They'll sell more of them for you. They get them on a bigger platform than you could ever get on your own. And a good realtor will do most of all of the work for you. Okay, So as you're calculating your offers, my third rule is never go for vacant land. Specifically, never offer more than 50% of what you think you can sell it for. So if you can sell it for 20,000, never offer more than ten. If you think you can sell it for 100,000, never offer more than 50. Okay. Very rarely will I break that unless it's a smoking hot deal and I already have buyers. It's a smoking hot market. I already have buyers. I'll go above that 50%, maybe to 60% max. But for vacant land, you need to be more conservative than houses with houses, you know, you take the RV times 70% minus your peers money, you're wholesale profit. So you're leaving 30% margin in there. Okay. Well, that 30% margin, half of that is going to go to carrying costs, holding costs, purchasing cars, closing costs and all of that stuff right now, all of that, those extra overhead admin costs outside of rehab, which gives the rehab or 15% margins, which is fair and reasonable. If 15% profit margins on a rehab is pretty good. Okay. So with a house, you can get away with having a larger percent of the max value that you would offer, but you need to figure out what that what that is for yourself. What with land, especially now as the market is slowing again, never offer more than 50% and never allow less than 33 months to close. Okay. Now another rule this might be number four, I think is you need to have some kind of rule if you're selling your land on owner financing, there's different ways different people measure it. Maybe it's some it's a monthly cash flow, you know, and you got to determine what this is for yourself. 300 bucks a month, minimum cash flow payment could be what you do. Maybe it's I like to use this number called cash on cash return in Cash on cash return is basically I'm just going to Google it for you and I'll tell you what it is so that you so I sound smarter than I am, but it's basically the return on the cash that you put into a deal. And Google is not working. So if you put in $100 into a deal and in one year you get $100 back. What's your cash on cash return? It's 100%. So it's my favorite kind of metric. So here it is. Your cash on cash return equals the annual before tax cash flow divided by the total cash invested. So it's the amount of cash flow you get in a deal annually in the first year divided by the total cash you invested in the deal. So for an example, let's say you put down I'm going to get my calculator out here since nice. Normally I do these audio podcasts when I'm in my car and I can't do this kind of stuff. So let's say you buy a deal for $10,000, All right? And you sell it with owner financing.

Joe: All right, So let's say a piece of land. Three acres in the middle of nowhere, Georgia, three acres. It's worth about 30 grand. And you're going to make an offer for maybe ten grand. 11 grand? Let's say you make an offer for 10,500. So bear with me here. So it's worth 30,000. I'm buying it for $10,500. I'm going to turn around and sell it with owner financing and a little premium. Maybe I'll sell it for $33,000. Okay. With owner financing. If I'm selling it for cash, I'm going to sell it for $27,000 because I sell it at a discount so I can close on it quick. If I wholesale that deal after all my costs and everything. Realtor Closing costs, photos, whatever, I'll make about a 10 or $11,000 profit on that deal. Wholesale profit. Not bad. Right? All right. So let's say I sell it with owner financing going back to my minimum rules of cash flow and cash on cash return. Remember what cash on cash return is. It's your cash on cash. It's your annual before tax cash flow, annual cash flow divided by the total cash invested. You're doing good with houses. If you're getting 10 to 12% cash on cash, return on your money in the first year. All right. So with vacant land, let's say you're selling that piece of property on owner financing, and I usually do five years, 10% interest. Okay, So you're selling this vacant lot now at five for five years. At 10% interest, you're going to get 10% down from your end buyer and your monthly payments. If you're selling this deal for 33 grand on owner financing, your monthly payments at 10% interest annually is going to be $631, $631. You're all in under this deal. After closing concept to realtor commissions of selling. If you use a realtor, whatever your total money into this deal that you're buying for 10,500 bucks is about 14 $15,000 when you then add back. So that's your cash invested into the deal. Let's say it's $15,000. Okay. I'm writing this down. If it's $15,000 cash into the deal, you what's the cash that you're getting back that first year? Well, you're getting that $3,300 down payment money, plus you're getting $631 a month times 12 months. You're getting $10,800 back. So your cash flow in is $10,872. Your cash flow out is $15,000. What is your cash on cash return? Well, it's 72%. So let me think about this. What's better? 10% must be generous. 12%. Now, see, let's be really generous for houses. Let's say you get 15%

cash on cash return on your first year, 15%. I mean, according to rich dad, poor dad. That book, that's where I learned that rule from. Man. You're going to escape the rat race, baby. You just need to get, you know, 300 of those homes and you can escape the rat race or 72% cash on cash return. What better? Where else could you get $630 a month in cash flow? Cash flow? Net cash flow from about $13,000 out of pocket, $15,000 out of pocket. You can't. This is why I love vacant land so much, right? So what is your minimum rule? Maybe your minimum rule is it has to be at least I got to get at least $400 a month cash flow. I need to be at least 500 a month cash flow on the deal. Maybe your first year cash on cash return, let's be conservative. Is 50%. 75%. What if your cash on cash return? You made it a goal to get 100% cash on cash. That means you get all of your cash back in the first year when you sell it with owner financing, that's up to you. So in this particular deal we're looking at, it'll take me 1.4 years to get my money back. I don't know how many months that is, but about 1.4 years. I'll get all of my cash back if I sell this deal on owner financing. Now, that's your minimum criteria.

Joe: So number one, we're talking about make sure you have three months to close. Number two, make sure you're making a minimum profit if you're wholesaling a land deal at ten grand. Make sure number three, that you're never offering more than 50% of what you feel like. Not some fairy tale pie in the sky value, but what you can sell it for. You want to never offer more than 50% of what you can sell it for, and you want to make sure your cash flowing at least $400 a month or maybe 75% cash on cash return. I'm going to give you one more really important minimum criteria. Okay. And this goes maybe I should have even done this first, but this is in the markets that you're targeting. So when we're doing land, we always follow the demand. We want to follow the money. Success leaves clues we don't want to. There is no secret magic county or list that nobody's ever heard of and nobody knows about yet. If you go into that market, you're going to lose your shorts and you're going to wish you listened to me. There is no market and competition's good. If nobody's doing deals there in that county, that's a bad sign. You don't want to do deals there. Don't think you found some hidden gem and some sweet pocket of riches and wealth. There's a reason why nobody's doing deals there. Ding a ling. Don't do deals there. All right. Go into the areas where there is a lot of demand. All right. So then here's what I'm gonna tell you, because I'm wondering, Lane investing, right? We're usually in 2 or 3 different states. We're targeting at least 5 or 6 different counties at one time or something like that. So I want you to have some rules for like only do minimum counties that have at least maybe a hundred sold in the last 90 days, maybe more. Depends on you just got to look at it like some counties are good counties, but they're real small and they might have 80 sold in the last 90 days. So maybe a better way to look at it is look at the top only do deals in the top 25% of states. They have the most vacant land activity. And in those states, only the top 25% of the counties in those states that are doing vacant land. So how do you figure that out? Zillow, Redfin, it's free. Just go online and search. Sometimes I start with Land Watch and see the most popular states on land watch based on the certain price range that I'm in, you know, And then I start looking at the most popular counties in those states from Land Watch dot com. And then I look at, All right, well, of these 30 counties that I just wrote down on this piece of paper, let's go in one at a time in each of those counties and Redfin or Zillow, and look how many sold have happened in the last 90 days in those counties. You could do all if you can, if you can figure out a way to do this, do all of the sold for all of the counties in that state. But again, you only want to focus on the top 25% of the counties. And if you even wanted to narrow it down even more, maybe some of those counties, you know, the lists are really, really big, Maybe just target the top 25% of zip codes in each of those counties. So I want you to only focus on the top zip codes in the top. I'm sorry. I only want you to focus on the top counties in the top states. That makes sense. All right. Very good.

Joe: Hey, I got more stuff I want to share with you, but I got to do it on another podcast. Okay? I'm going to let it rip. I'm going to let it go. Kind of sounds weird. I'm gonna let this one end right here, right now. But write those minimum criteria down. What are they? And make sure you live and die by those things. Because if you don't, you know what? You're going to be listening to this podcast in a couple of years thinking, I wish I would have listened to Joe. I wish I would have stayed out of that bad deal. I got a little too greedy. I was too afraid to let it go and you're going to be paying for it. And there's going to be a lot of investors out there are going to be in big, big trouble because they don't have multiple exit strategies. There are got to like there wasn't enough margin, there's not enough. You got to make sure you have room for error, margin for error. You know, you got to make sure you have minimum cash flows. You're not ignoring the fundamentals. It's not okay any more. I'm telling you this from experience. There's people out there that have been buying deals and it didn't matter if it didn't have any equity. It didn't matter if it didn't have any cash flow because the rates, the interest rates are so low. I'm telling you guys, that is one of the dumbest, stupidest things I've ever heard. Now, you could argue till you're blue in the face, but you'll never convince me. You could show me spreadsheet after spreadsheet of how it makes sense, actually to not have any equity and not have any cash flow. If you have a good interest rate because you're building up equity, you're getting the tax deductions, you know, blah, blah, blah, blah, blah. Listen, you can get a spreadsheet to tell you anything you want, but when that house goes vacant and you have to replace a water heater and you've already spent all that down payment option money that you got up front, Right. What's going to happen now when you've got 2 or 3 months of vacancies and you've got a 5000, $10,000 repair bill, and once you get it fixed, it's going to take another 2 or 3 months to find another tenant for the property. And you're going to have to pay that property manager and four months rent as a tenant finder's fee. Where's that money going to come from? So all the only way that these no equity, no cash flow subject to deals work telling you guys, listen to me here. The only way those work is if you have a large stockpile of cash and you can weather the storm because when you need the money to put into that house to make that seller's mortgage payment, when you don't when you don't have any rental income coming from it, when Airbnb shut you down, you get delisted or whatever. You better have cash reserves to make those mortgage payments or you're going to give yourself a black eye and you're going to give the industry of real estate investors who do a lot of creative financing deals, a big, fat black eye, you're going to bring more regulation in the industry. You're going to make it worse for everybody. So don't be that guy.

Joe: All right. All right. I'm out of here. I'm going to do another podcast on this topic because I think it's so important. What should you do if you want more information about me? Hey, listen, how about this? Did you know I have a YouTube channel? I do a lot of videos on there. This content that I'm doing right now is just for my podcast, but I want. Go to my YouTube channel because I do podcasts videos over there just for my YouTube channel. And the cool thing about YouTube is I can show a lot of this stuff. I can create mine maps, I can show you how I do things on the computer and you to see my pretty face, whatever. So go check out my YouTube channel. Just go to YouTube to search for Joe McCall, subscribe to my channel and get a lot of other extra good content over there as well that you can listen to while you're driving and not watch it. You turn your phone upside down and you can listen to me from my YouTube channel while you're driving and working out. Yeah, okay. Appreciate you guys, we'll see you. Bye bye.