1376 – Land as a Cash Flowing Asset

Hosted by: Joe McCall

Joe: Hey, what's up, guys? Welcome to the REI on the Treadmill podcast. Normally when I'm recording podcasts on my phone, it's REI in your car. But today I'm in my office. I actually got this really cool podcast studio right where I do a lot of videos, you know? And so I'm just at my desk, just finished a coaching call with my apprentices, which was really cool. We looked at some deals. And so this kind of relates to what I want to talk about. Just so you know, I take on occasionally some one on one clients and I call them apprentices and we actually I do the marketing for them. I give them leads. Basically, I do the marketing for them, I give them leads and I partner with them on deals. And so instead of me having to hire a huge acquisitions team and manage all these people, I just work with apprentices, which is really cool. But anyway, so he has a deal that he it's in North Carolina. He sent an offer to the seller. He sent a blind offer to the seller for about 6500 bucks and it's worth maybe 15,000 bucks. Right. So his, you know, his offer is too high on a property in that price range that you could sell for 15 grand. You know, if you're going to make a 5 or $7000 wholesale fee, am I minimum that I always shoot for is ten grand. But if you're going to make five grand on that deal after closing costs and paying a realtor commissions and the all pictures and all that, you're in need of, you need to be in it for like $2,500. And this is an area it's in an HOA. It's, you know, not a lot of activity.

Joe: So, you know, he offered too much on this blind offer. But what was interesting, as we were talking about this is I was telling him, you know, you could tell him, hey, I can give you that price. But with payments over time, that wouldn't work for you, would it? I can't pay you cash for that. If I'm going to pay you a cash offer. Unfortunately, I'm going to need to be a lot less than that. Maybe like 20, 2500 bucks. But I could get you the 6500 if you want to do owner financing. Now, whether the seller would accept that, who knows, Right. But I started thinking about that and we started looking at the numbers. And if he bought, it's going to be hard for me to explain this to you. But let's say it's worth I'm just putting my numbers in here. Let's say it's worth $15,000 and give him a cash offer at $2,500. That's about 17% of what it's worth. Right? So and that would give him a wholesale profit of about $5,000 after closing costs. And in North Carolina, you have to use attorneys and all that. So if he bought it for 2500, sold it for 15,000 after all of his costs and everything and a little bit of cushion, he can make about 5 or $6000. Right. But what if he offered I'm looking at the numbers here. What if he offered $6,500 to the seller and that's about 43% of 15,000? Right. But he offered here's a cash offer for 2500 for cash. Here's an owner financing offer for $6,500. And he gave the seller 5% down, 5% interest for five years. Okay.

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Pretty cool. Now, his payments to that seller, just bear with me here is payments to the seller would be $116 a month. He bought it six 6500 bucks, 5% down, 5% interest for five years. His payments would be $116. Now, he could probably, if he could sell it 15 grand for cash, he could probably sell it for, you know, $17,000. Are the owner financing in this neighborhood. I did see some sales, you know, around the $20,000 mark. Right. So let's just say he listed it for sale with owner financing for $18,000. And let's say he got 5% down and he financed it at 10% interest for five years. Now, usually when I sell a property with owner financing, I've every one call I get from a cash buyer, I get 4 or 5 calls from an owner financing buyer.

Joe: Now, is this a neighborhood that if I were to sell it with owner financing, would I get calls on it? I don't know. That's why I usually get 90 days in my contract. Right there is in an HOA. The HOA fees are $600 a month. So that's a year, $600 a year. So it's about $50 a month for HOA fees, which sometimes makes properties hard to sell, even with owner financing. So I told Scott, my apprentices said, you know, you still have to make sure even if they take your owner financing offer, you still have to make sure you close in 90 days. Because what if you can't find a buyer for it? You don't want to be stuck with that thing, right? So anyway, if you sold it again, rewinding a little bit, if you sold it for $18,000 and received about 5% down, which is about a thousand bucks and you charge interest of 10% over five years. So you're buying it on five years and you're selling it on five years. Your payment then you receive from the buyer would be $360, $363 a month. So your cash flow is $248 month. So you would be getting about $250 a month in cash flow with using none of your own money. Pretty much Now you would have some closing costs, but you know, you're going to pay the seller $320 down. You're going to receive about $1,000 down and you're going have some closing costs. So you might be out of pocket 1 or 2000 bucks on this deal after you get closing costs, maybe after you if you do pictures and things like that. So you might be out of pocket a couple grand most, but you would be cash flowing, $250 a month. Would you pay $2,000 to make $250 a month for five years? Yeah.

Joe: Okay. So here's the cool thing if you wanted to make a hundred grand a year. How many of these deals would you need where you're only using maybe 1000 or $2000 of your own money? Now, I'm not factoring in marketing costs either, because obviously that costs something. But you're looking at if you need if you were cash flowing, 250 bucks a month, you would need 34 of those deals to make $100,000 a year or $8,300 a month. And if you did two of those deals a month, how long would that take you? It would take you about 17 months, about one and a half years and one and a half years. If you did two of these deals a month, you could probably quit your job. Now, the cool thing about cash flow from vacant land, it's not 100% passive, but it's pretty darn close. It's a lot more passive than houses. Being a landlord with a house. You understand what I'm saying? You don't have to pay

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maintenance. You don't to pay property management fees. You don't have to. Vacancies, repairs, maintenance and fixing water heaters and repairing the roofs. And then whenever it's vacant, you put a five grand into cleaning it up and getting it ready to rent again. And then you have to pay a property management company another month's rent as a tenant finder fee while you're still making the mortgage payment, all of that. So I am not backing owning rental properties, although I am, but just the cash flow is so much better with vacant land and banks will not finance little 18 $20,000 vacant lots. Banks won't finance it. So you're the only one out there offering financing on these things, you understand. So this is a deal that without using hardly any of your own money or any at all, if you buy with want to finance and sell it with owner financing, you could be getting 250 bucks a month in cash. Well, now what if you paid cash for it? What is it? You know, you offered the seller $2,500 and let's say after closing costs and everything, you're all in for $4,500 and you sell it on owner financing for 18,000 bucks. All right. You're going to be getting $216, is that right? No, no, no, no. Yeah, You'll be getting about $216 a month in cash flow. I think I got my numbers right. Well, looks like I'm doing something wrong. No. I see. Five years. Okay. Boom. No, you'd be getting $363 a month in cash flow. 360 again, if you put down if you bought something for $4,500. Do you know any other investment that would give you $363 a month for five years? Let me look at this year. First year cash on cash return is what? That the cash on cash return is the money that you receive divided by the money you put into the deal. Right. So you're going to get $900 down plus 12 months of $363 a month divided by the amount of money put into the deal. You're about $4,500. And so your cash on cash return on this deal, guys. And I'm not an accountant, so always seek professional advice. Your cash on cash, return on your money in that first year it's 117%. I mean, maybe you could do that with crypto if you're lucky or you can't in the stock market, you're going to be getting $363 a month. That is $4,400 a year in cash flow or a $4,500 investment. Now when you also factor in the down payment that you got, you're at 100 a 6% cash on cash return in your first year, you're getting all your cash back. You understand what I'm saying here? I'm saying that if you buy a property for 4500 bucks and you are getting $363 a month in cash flow from that, you're getting your money back in less than a year. You're getting all of your money back in less than a year. If you get a little down payment, you're getting about 115% cash on cash return in that first year.

Joe: I remember when I was reading Rich Dad, Poor Dad, and they talked about cash flow using leverage, using banks to buy rental property. So you're good. You're lucky. You're your goal is to get 10 to 12% cash on cash, return on your money. And that's pretty good, 12%, 15% if you're a rock star, cash on cash, return on your money. And there's a lot of ratios and metrics and financial things that you can look at. That's my favorite. Okay. What's the return on my cash in the first year for this deal? And I used to look at houses when I was doing subject tos or lease options or whatever, and I was it was happy. I was happy when I

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when I buy a rental house that I would get 15% cash on cash return. And then really in reality, that cash flow, quote unquote, that you get or the rental house disappears. Without fail, the vacancies and repairs and maintenance mean even if you're setting aside that money right into a savings account. So you're still you get one vacancy and it wipes all of that out. But land is so much better. All right. So what am I going with all of this? I just love the power of owner financing, especially with land. And when you when you buy a property vacant lot, when you're paying cash, you never pay more than 50% of what the property's worth. Now, sometimes you can offer you can offer 75% of what the property's worth if you're buying it on owner financing and selling it on an old refinance, then you're not using any of your money. There was a post my good friend Tom Krol put on his Facebook page today, Tom Krol. Go to Facebook. He's a good guy to follow. Good friend of mine, just a great coach. He was talking about financing cars. So there is a certain car you put a picture on. I don't know what it is. Some kind of tell you what to. It's probably like a 40 or $50,000 car. The payment on that would be about $500 a month. Now, someone who doesn't understand money might say things like and I'm kind of paraphrasing his post here, you know, well, hey, I can afford the monthly payments. I work hard. I deserve a nice car. I've got good credit. You know, the interest rate is at that high. You know this I would look really good in this car, right? Because I care what other people think of the car that I drive. Or it's like, man, my older car, it keeps on having problems. It may not start one day. I got to get to work. I need a reliable car. Right? I really love this car. I've wanted it for a long time. I make enough money. I earn more than my friends and they drive nicer cars than I do. I know this kind of car. It has. It holds its value. Well, I think this car is an asset. It allows me to earn a living. Listen, cars are not assets, okay? Cars are liabilities. Now, what's the definition of an asset and liability? One thing that the rich dad book did get right, a liability is something that takes cash out of your pocket. And an asset is something that puts money into your pocket. Right. But somebody who understands money might say something like, you know what, 500 bucks a month, that's a lot of money. A car is a liability. After I buy that thing, it's going to depreciate. The money will flow out of my pocket, not into it. So if a car is a liability, you should pay cash for it. Never finance or lease a liability. Right? Now, having said that, full disclosure, I did lease a car for my wife. I got her brand new Mercedes on a lease because I wanted to give her a nice car. But we prepaid for the three years, so I paid three years of payments. Now, okay, you all are going to give me a hard time. And I do like Dave Ramsey, but I just wanted to get her a nice car and I didn't. We bought the full maintenance package, so like we never have to pay for an oil change or anything. And we don't want at the end of the three years we just give the car back and we don't have to pay any difference, whatever it was. I understand. Listen, I make a lot of money and I didn't want to have to worry about any maintenance, any payments for three years. So that's what we're doing. We got a nice luxury car.

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Joe: But anyway. All right. Back to what I was saying here. Your primary role in business and in life is to multiply the money that you're in charge of when it comes to finances. Okay? Your responsibility, your role is to multiply the money that you're in charge with wealthy. The wealthy earn money, buy assets and let those assets pay for the things they want. That makes sense. So I want to challenge you to change your thinking and start using your money to buy assets that produce cash flow that can get you the cars that you want. Hey, listen, what if instead you bought a piece of land with that money and use the cash flow from that piece of land to finance or pay the payments for that car? Maybe, you know, maybe you don't necessarily have to save up $50,000 to buy land or there's nothing wrong with that. Right. But maybe you'll have to save up $50,000 to buy land so that you can get the payments to pay for the car. That would be cool. But what if instead you just saved up maybe $5,000 and bought a piece of property that was worth $10,000 and then sold that on owner financing and maybe get the cash flow, then that could pay the car payments. Does that make sense? So I just wanted to talk about that. I'm looking at my notes here because I thought this was so good. I really like what Tom said. Think of money differently, right? When you're looking at a car, you might be tempted to think, Man, I can't afford that. But what if instead you said, How can I afford that? What if instead, like my friend client Scott has got this property that's worth $15,000? He could offer a price. He could offer, you know, $2,500 cash, give the seller options. Hey, I can pay you 2500 cash or I can buy it for 6500 if you do owner financing. Right. And what if he did that 20 or 30 times? He think he might get one offer accepted from different, you know, to make it make 25 to 30 offers a similar way, right? Make a cash offer and make a owner financing offer. What if you made a cash offer at 25% at an owner financing offer 50% of what the property's worth or make an owner financing offer at 35%? Sorry. I mean, let me make a cash offer for 35% of what the property's worth. Make it owner financing offer at 70% of the property's worth. Let's say a property is worth $35,000. Okay. And you make an offer at 35% of the cash offer and 35% of what the property's worth. So your all cash offer would be 12,250 bucks or Mr. Seller, I'll pay you $24,500. If we do owner financing, the property's worth 35 grand. And you're making an owner financing offer a 24. You're basically doubling your cash offer price. You understand? What would the numbers look like? Well, the great thing about making offers to buy property and owner financing is now instead of just negotiating one thing like price, you can negotiate five things, right? You can negotiate the price. But down payment, the interest rate, the term like how long you make the payments and when the payments start. And you could even negotiate if you wanted to. And I've done this with houses before. I think I have. But one I know my friend has one of the things you could even negotiate a six thing is, hey, if I don't receive a payment one month. I don't have to pay you a payment that month. You could negotiate that. You know, if the seller is stuck on their price, it's either price or terms. You could say, All right, well, listen, what if I could get you that price? I would need some kind of I would need something that would let me not

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make a payment. If I don't receive a payment from my end buyer now, I'll still pay you. That money will just tack it onto the end of the loan so you'll still get the money. But I'm just if I can't find a buyer that pays me for 1 or 2 months and I'm not going to pay you for those 1 or 2 months, I'll still pay you those months later. At the end, you'll see what I'm saying.

Joe: So there's six things you can negotiate. Well, let's look at the numbers here. Let's say you tell the seller I can pay you. It's worth 35 grand. I'll pay you $24,500 with 0% down, 5% interest for five years. So your payment to that seller would be $462 a month right Now, what if you turned around and sold it for $40,000 with owner financing? You sold it for 40,000 for 35 today. Can you can you charge a premium when you're selling a house with owner financing or a vacant lot? Yes, you can't. And you sell a house for a premium if it has really nice high end appliances and marble countertops. I mean, I don't know if you can do marble countertops, ruinous granite countertops, you know, and really high end, expensive wood floors. Can you sell house is a premium with really nice finishes. Yes. So it's the same thing with real estate. You can sell real estate at premium with financing. No credit, qualifying financing. All right. So anyway, it's worth 35 grand. You sell it for 40 grand for the owner financing, you get 5% down. So you're going to collect two grand from the buyer and you're going to charge 10% interest for five years. You're going to be receiving $812 a month in cash flow and even payments from that buyer. Right. But you're paying for 62. So what's your cash flow? Your net cash flow, guys, is $350 a month. And how much of your own money are you using? None, because you're collecting two grand down from your buyer, which is 5%. And so, you know, maybe you have a couple of thousand extra that you're paying for pictures or for closing costs or whatever. Right? You could get that from a credit card. You can do that. Now, like I'm not saying you should, but if you can worst case, just go inside my community and you can borrow a couple grand from somebody, pay them for 15% interest over a year or give them a percentage of the deal. You can be creative. There's people in my community that will lend you short term money. All right. But anyway, you could get $350 a month in passive cash flow, buy it on owner financing, zero out of pocket except closing costs and sell it on owner financing. 350 month. Now, how many of those would you need? Let's say this car payment is $500 A using our example, right? We just need one and a half of those deals. You need two of those deals. Let's say you're more let's say you have a mortgage payment. I don't know what an average mortgage payment is these days, 2500 bucks a month times 12. So you're paying $30,000 a year on a mortgage. Okay. So that's $2,500 a month. I'm just looking at my numbers here. How many of these deals would you need to live rent free or mortgage free? Not have a mortgage payment. You would only need seven of those deals if you did one deal of this a month and seven months, you wouldn't have a mortgage payment anymore. What could you do with an extra $2,500 a month? We could buy, you know, 4 or 5 of those cars or what if you just not paid off your house but had no cash flow that made the payments to

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pay off your house? And if you did, if you had well, let's say you got 12 of those deals and you use the extra cash flow to pay extra payments towards your mortgage, you could probably pay off your house in like ten years. All depends on how much you mortgages and all that. You see what I'm saying? This is why I'm so excited about cash flow. And my point in all of this is look at cash flow as a way to on wait for a phone call. This is what you get. This is what I'm doing going on and on about this comes side and I realize I have a phone call that was ten minutes ago, so I got to wrap it up. But this is the power of cash flow by assets that produce cash flow and start thinking like a rich person, not like a broke person. Okay, stop financing your cars and use your money instead to buy an asset that produces cash flow. And then with that cash flow, get your cars with that, pay off your house with that right, eventually quit your job, Find financial freedom. This isn't a pipe dream. This isn't something that is not a get rich thing. Quick. It's not a scam. This is just investing real estate 101. Appreciate you guys. I got to go. Bye bye.

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