

Episode 009 Rental Property, Fix and Flip, and Real Estate Team Update [TRANSCRIPT]



Mark Ferguson

Hi, everyone. Mark Ferguson with Invest Four More. Welcome to another Invest Four More podcast. This is episode number nine. Hard to believe I've gotten through that many already. It's been a great time. I'd like to thank all my listeners for tuning in and trying to educate yourself as much as possible about real estate investing and being a real estate agent, all the things we like to talk about. Today, I don't have a guest. It's just going to be me talking about what's going on in my business world, with my rentals, my flips, my contractors, my real estate team and a little bit about the blog too.

It's going to be a great show. We have some great guest lined up the next couple of weeks so be sure to tune in for those. Many of you will know who they are, great investors, really prominent in the online investing community. Stay tune for that. This show maybe I can give you more in-depth look into what's going on, how I'm operating in a market in Colorado which is really, really hard to buy in right now. Our inventory is at record lows. We have the highest appreciation rates in the country. It isn't slowing down. Everyone thinks just waiting for it to slow down and level off and it just isn't doing it. It's been tricky but I'm still buying properties, still operating in this market.

I'll tell you how I've been doing that and how it's been working out so far. The first thing I want to talk about are my rental properties. Giving update on those. Number 12 was bought this year and it still isn't ready to go yet. I have a contractor working on it who has been a little slow but it's getting close. That one should be ready to rent hopefully in the next week. We have carpet going in. It should be ready to go. That one needed a lot of work. If you remember I bought it for about, was it 127 but it was an auction purchase so I had to pay a 5% buyer's premium which was another \$5,000 or so.

It probably going to be around 15,000 in work needed on that one. We had to do new windows. It was handicap accessible before so we had to put a closet back in, change some doors and a few things around. Do some interior paint, quite a few things. If you check out the blog investfourmore.com, I've got pictures, a video, all the details on that property. It should be ready to go soon. I'm thinking it will rent for 14, maybe \$1,500 a month. It's a four bedroom, two bath and the ARV on it. Right now it's probably a 190,000. If I wanted to I could probably flip it. I'll keep it as a rental for now.

Number 13, I also bought earlier this year that one was nice because when I bought it it was already rented out. That was my first multi unit rental property that I've bought. It's an up down duplex so not a huge aberration from my single family rentals but it is two units. That one has rented for 1,300 total so it's 850 on the main floor which is two bedrooms, one bath. Then, 450 in the basement which is a one bedroom, one bath unit. However, we are doing some work on the basement apartment. We're going to put in another bedroom. Fix it up a little bit. It was a little outdated, it needed some work and will probably be able to raise the rent on that at least a couple hundred dollars.

I'm thinking we're probably going to be able to rent that for 1,500 when the lease has come up for renewal. I bought that house for a 120,000 and it has needed probably a total of 5,000 in work after all said and done so that's been a really good rental so far. Would love to have many more like that. That one is going well. Number 14 was purchase, was it few weeks ago? That one I bought for 134,000 as a short sale. It was an interesting purchase. The property was on the market for 1299 I believe. Again, all these details are on the blog. I don't have them all in front of me. Had it under contract for 126. The seller was very motivated, that was basically their break even point.

It was going through foreclosure but not through the process yet. They didn't have to do a short sale at 126. We got under contract then when we got the tile worked back we found out there were \$15,000 in city leans against the property. The city had placed a lean for cleaning up the yard. They went out and mowed the yard for the owner because they weren't doing it. The house was vacant. Then, they had piled up a ton of leans for parking a camper in either the yard or the street, I'm not sure. It was gone once I had seen the property and it was a violation to have it in the street without moving it or in their yard, however it was.

They've been charging them a \$1,000 a month when that camper was there. That turned to a short sale after we found out how many leans there were against the property. With the short sale, the bank has to approve taking less money than they owed on the property. The property had a loan with Bank of America who is okay to deal with. Not the greatest to deal with but it took a couple more months to go through that process, get everything, all the seller's information to the bank. The listing agent had to do a BPO. Another BPO [inaudible 00:04:48] so Bank of America came back and said, "We'll do a short sale but the price has to be 134. That's the lowest we can go." It went from 126 to 134 which is okay.

I'd much rather have it cheaper but it's still a good deal. That one will probably need 10 to 15,000 in work as well. It's probably worth 180, 185-ish after it's fixed up. It's a five bedroom, two bath, one-car garage. I'm thinking it will rent for 1,400 or 1,500 once it's repaired and fixed up ready to go. Number 15, I just bought this week. I don't know if you've been following the blog, you see a lot of information on turn-key rental properties and I did end up buying a turn-key rental property in Cleveland. I'll go through part of the reason why I bought a turn-key and how the process has been and what the numbers on that property look like.

I've been interested in the idea of turn-keys just because the houses are already repaired, already rented, already have property management in place. You're basically buying the property and it should be performing from day one. Similar to rental property number 13 I bought this already rented. The only difference was it didn't have a property manager. I had to take over management. It wasn't fully repaired and that's why I got a good deal on that one. I had to do a few repairs as well on that one. The turn-key ones are interesting because everything is done.

The other interesting thing is they are located in markets that typically have awesome cash flow. For people in California, New York, North West, places where it's really hard to cash flow because prices are so high. Turn-keys are an alternative you can consider. Now, Colorado is starting to become an alternative they consider because their prices are getting so high. These turn-key companies will pick locations across the country. Usually the mid west, sometimes Florida that typically have lower prices and higher rents.

Now, the downside to this is many times they won't have as high as appreciation or very little appreciation in those markets. Really, I stress it a lot in my blog. I'm investing for cash flow. I'm not investing for appreciation. I love to get appreciation, it's a great bonus but that's not my main goal because really I'm not selling my properties so the only way I can take advantage of that appreciation is to refinance and when you refinance it will increase your payments usually for taking cash out which lowers your cash flow.

I have refinanced because I'm able to use that money to buy more rental properties which in the long run increases my returns because I'm making more money on the rentals then that refinance is costing me an interest, if that make sense. With the turn-key, you're also paying a premium because it's managed, because it's repaired and it's already to go. I mean, logically it make sense although it comes to a surprise to many people, "Why would I pay more for a house then I might be able to buy on the MLS or just as much for a house on MLS when we're not using real estate agents?"

The reason is that turn-key has done the work to put a tenant in there to get it managed to do all that. If you just go to the MLS to buy a property in these areas you're not going to be able to find a property that's managed, that's in good shape, that's already to go and set up where they do almost all the work for you. They charge a premium to do all those extra services. Now, on top of doing the repairs and management they also help you use your IRA if you want which is what I did.

That was really the main reason why I bought a turn-key was because I had about \$50,000 sitting in my IRA which I had invested in some real estate investment trust, some stocks, some mutual funds. Really, I didn't pay attention to it. I don't like the stock market very much because I have no control. The prices will go up, they'll go down based on the world economy not exactly what companies are doing. To me, it just seems I like to be in control. I like to have control but with the stock market there's just no control there.

You're just hoping things go well and they usually do go well given enough time but again how much time will it take and if market drops a ton it can take a decade to make up that loss. I thought it would be much more fun and interesting to invest in real estate and I could give the experience of what I go through to my readers and listeners on the blog of buying a turn-key, how the process is. So far it's been great. I met with a turn-key company in Ohio. Talked to quite a few separate investors in the Cleveland area trying to get a feel on the market there. It all sounded pretty good.

I know the turn-key company well. I've actually known them for about six months so I trust them. I've met them in person and this property was 45,000 so very cheap property. I got a lot of email saying, "Why are you buying such a cheap property? The repairs might be more. It might not have as much appreciation." That's true but at the same time I had \$50,000 in IRA. You can get a loan with your IRA but it's very tricky and there's a lot more oversight. Got to be very careful doing that.

Plus, I'd have to find a new lender who would lend in that state and it's just a lot easier to buy with cash when you're doing a turn-key property with your IRA. If you're just buying a turn-key property without your IRA personally it would be a lot easier to do a loan, a mortgage and there are some companies out there who specialize that as well. Always welcome to send me an email, leave a comment, I can help you get in touch with some of those companies. 45,000 was the purchase price. Two story house, three bedroom, three bath, two-car garage. I can't remember for sure.

It's rented for \$800 a month right now but they feel they can easily get \$900 a month when it's released which is coming up soon. To me, that's a great deal. It's great cash flow. It meets the 2% rule of the rents, which says 2% of the rent should be 2% of the purchase price. Can't even come close to that in Colorado. Lucky to find the 1% rule. Obviously, it's a lower price zone so there might be more maintenance. Might be more vacancies but with that kind of cash flow coming in it should still produce good returns.

The projected returns on it are about 14% on it cash on cash. Now, as far as appreciation, as far as what the home is worth I did some more research on that. You can't always trust Zillow. You have no idea. They said the home was worth 60,000 which is a good sign but again you can't always trust them. The historic market in Cleveland, this house was worth a lot of money ten years ago than it is today. Many people have said, "Well, the market is going down, why in the world would you buy a house where prices are dropping." I want to buy in the down market.

That's where you get the good deals is when the market has been going down. When the market is going up it's tougher to get those good deals and you don't know how long the market is going to keep going up. I like seeing that the market had been going down. It shows that there's possibilities for it to return to go back up. I would be more concerned if it was in a small town or an area where the prices had been stagnant for 20 years and hadn't move at all because that would tell me that they're probably never going to move if they haven't moved for 20 years they are just stuck there.

It was higher before, it's showing me that there's fluctuation. Prices will go up, will go down with demand. Cleveland from what I've talked to is becoming a hot market just like many other areas of the country. I used a self-directed IRA when I bought that. You cannot just use your regular IRA almost all traditional IRA companies will not let you buy real estate with an IRA. I used a self-directed IRA, transferred all my money from my Ameritrade IRA into their accounts. They handled the transaction because the IRA buys the property for you.

I had to sign a few documents and that was basically it. A couple weeks later we closed on everything. Everything is good to go. I own myself a property in Cleveland that I've never seen and I probably never will see to be honest. That's okay with me. Like I said it's a cash flow play. It's a play for my IRA which I won't be able to touch for 20 plus years and it's an experiment to see how it goes to the turn-key companies so I can share with you guys how it all works out. So far it's been good. They've been easy to work with. I think it's a good deal.

We'll see if that proves to be true in the future and how that works out. All right, on to rental property number 16. Nobody has heard about this one yet because I just got it under contract yesterday. No information on the blog or Facebook or anything. This one I wasn't really planning on buying as quickly as I could but it was a deal I couldn't pass up. If you saw some of the articles lately I used a portfolio lender as my bank. They financed all my properties except for the turn-key which I paid for in cash and they financed all my fix and flips as well.

A couple of weeks ago they let me know I'd reach 2.5 million dollars in loans with them. That's their threshold for where they say, "Okay, hold on a second. We've got to look at you a lot more closely if we want to give you any more money, lend you any more on your properties." Does it mean they won't lend to me in the future? I've already reached the maximum at this point in time they will lend me on new rental properties until I get my 2014 taxes. They get those, I get my profit and losses for the year.

They can take it to their committee and get approval for more loans. My taxes aren't done yet. I always procrastinate on that even though I do very little work on those. Now, I've tried to outsource it but they are not done so I've got to wait a few more weeks at least until they are done. In the meantime, this property came up for sale that is a three bedroom, two bath, one-car garage house that is in great shape. I mean, new paint, new carpet, siding is good, roof is good, furnace is good, everything is in really good shape.

It's vacant and ready to go. It came up for sale for under a 100,000. I'm in Greeley, Colorado finding houses for a \$100,000 or less is really really hard and most of them are complete junk. To find this house at that price a little bit surprised. There is some downfall, I mean the house was built in 1985. Most of you know I try and tell my readers to buy a newer rental properties if you can it will be less maintenance, , but sometimes you can't choose the perfect properties to buy especially in markets like we're in.

The bones of the house are good, the furnace, the heating system is newer, the plumbing is newer, the kitchen is newer. Almost all has been redone in the last five to ten years. At that price it's probably 30% below market value so as soon as it came up for sale I went looked at the house, checked it out, made an offer, half an hour after I saw it had my team create the offer. I docu signed it. We got it sent out. The owner of the house is actually a real estate agent in town who my dad has known for years and years and years.

I've known his name but I haven't really known him personally. I made a full price offer, no inspection, no appraisal, cash. I said, "I made it as easy as possible." The agent actually called me, he said, "Are you sure you don't want an inspection? Are you sure you don't want to check the house?" I said, "Yeah, I'm positive. I've seen enough of it." If there are any problems I didn't tell him this but in my mind I'm thinking if there are any problems there's enough room in this property that I can get them fixed and still be just fine.

The house I'm thinking will rent for at least 1,100 in our market maybe a little more. We'll see. It's crazy how much people are renting properties for it right now. That one, I cannot but as a rental property. I have a few different options. I can buy it with my fix and flip flip loans and then refinance it in a year. That would cost me double points if I did that with my lender so I pay 1 point for my fix and flip loans and a point and a half I believe from my rental properties. If I do that, it would cost me more money but I could refinance it for more than I probably bought it for in a year and get most of my cash out and still cash flow on it.

That's a possibility or what I might do too, I have a line of credit available in my personal house and I could pay cash for the house. Wait until my taxes are done, my lender hopefully approves more rental property purchases and I could finance it at that point. Then, there's also some other companies I've been looking into who are doing some rental property loans, national companies. Higher rates, 6% around there. Some of them are doing 30 year fixed loans at 6% which is awesome as a portfolio lender and I'm really trying to get in touch with those companies to figure out what their programs look like.

Then, share them with the blog of course once I get all that information figured out because it's really, really hard to find lenders who will do basically unlimited properties based mostly on cash flow not your personal income and debt to income all that and will do rates 6% and do 30 year fixed loans. Really, really hard so I'm trying to get that worked out. Some of those products aren't quite on board yet for single loans. Some companies have those for five or more loans but not the single property loan. Working on that aspect too. I'll be sure to share any information I can find. That's my rental property news.

Looks like in the next month or so I'll have number 16 which will be the fifth rental I bought this year. My goal was to buy seven so I am on track as of right now. Hopefully my lender comes through and will give me more loans and I can get a couple more great deals by the end of the year. On to my fix and flips. I used to have my fix and flip update on the blog. I stopped doing that. It really took a lot of research and work to go through that and figure everything out. It was depressing to me as well to see how long it was taking me to fix my properties and what was going on.

That's the other reason I stopped doing it but I had six fix and flips going right now. I'm still buying properties in this market. 95% of them are from the MLS still, acting fast using some of these auction sites. It's how I've been getting my deals. I have three more under contract so one of those are supposed to close last week but it was a HUD property and they extended closing because they have no idea what they are doing and it's just usually a huge mess when you buy from them. That hopefully will close in about three weeks.

To handle my flip problems and my repair problems I hired one of my contractors as a full-time employee to manage all my rehabs. It's something I've thought about for a while. I've been tossing the idea around. The biggest problem was I could not find the right person that I trusted to handle that process or I thought had the right skills to handle that process. I had some decent contractors I work with but it's just none of them were good fit. It turned out the end of last year, start of this year the end of last year a contractor I used to work with a couple of years ago contacted me.

He had been working in a corporate job in a management position, really good job actually but he said, "You know, I don't want to do this anymore. The hours don't work for me and my family. The commute is too long. I'm missing out on my son's life because I'm working too much. I want to get back to contracting business but I'm scared to quit because I don't have any business. Any work would you consider giving me a few jobs?" I said, "Of course." He was always a really good, really trustworthy person. My only complaints were he's a little slow sometimes but he did great work.

It was very affordable. He's been doing some of our properties. He fix up rental property 11. He did another flip, got it fixed up but always thinking about this I had even more problems with my contractors. I have a house that I've had for over a year now where the contractor told me it will be two and a half months to fix it up. It's a huge job. I mean, electrical, plumbing, flooring, kitchen, bathroom, siding, dry wall, everything had to be redone. The house is basically gutted but we're going on six months and the house still isn't done. It's not because the contractor is being slow.

It's because he stopped working on the house for a month because one of his partners quit or maybe even two months. He was just too busy to hire someone else or to work on my house for a while. He's supposedly starting again this week. We will see because otherwise there's some other actions we need to take to get that house done and deal with him. We had that. I had another contractor, a new one we used who did some great work for a while then all of a sudden his prices doubled or even tripled in some cases and then he stopped showing up to do the work. Another contractor who I thought was doing a great job.

We actually sold the house and the inspection found out a lot of the work he did was just really bad, just was not done correctly. Had to have him go out and fix. He fixed a bunch of things. Turned out after we sold the house they found even more problems that he'd done. Not installed cabinets right. A lot of different things and he

stopped returning phone calls or talking to us. After all of that I hired this contractor who I really trust. I know he's a good manager. He's managed 40 people at his old job to be my rehab manager. His job is to handle all my rehabs.

Not do the work himself so much but hire a dry wall or electricians, plumbers, roofers, line up everybody, get every job, every house working on as soon as possible. That was my biggest problem. I was taking months to get crews and contractors working on jobs. Then, to obviously take care of problems with contractors or make sure the contractors he hired are going to be good ones. He obviously knows a lot more about the business than I do because he's in it. So far, it's been a couple of months and he's been absolutely awesome.

We've got crews working on all of my houses right now before I seem like half of them were being worked on, half of them were just sitting there. He's got new contractors coming on. He's got projects getting done much quicker and then if he's got spare time he is actually, he can do some of the work himself. I'm already paying him so it doesn't cost me any extra if he does it. Then, we can even have him do some personal work for us on our house or things like that which is nice.

Besides working on my properties and doing my rehabs, my rental properties we get to a point where he's really cruising along really got our system dialed in. We could even start a contracting business where he is doing jobs for other people, other flippers, other home owners. As a real estate agent we know a lot of people have a lot of contacts, people who need work done and we know how hard it is to find good work. I think it's a huge opportunity there paying him for his work, his time and then if he's doing other jobs we can make profit on top of that and even working on a profit-sharing plan with him too if things go really well.

Super excited about that. That I mean literally changed my life and free up so much time and money because we'll get these properties done quicker. All right, there's rental properties, the fix and flips, my real estate team. The team is going awesome. My primary job is a HUD and REO listing broker. In Colorado, HUD and REOs are virtually dead like I said our market is going up so fast that there's very few foreclosures because people who get behind on their loans can just sell the houses and make money. Our market has gone up probably 15 to 20% each of the last two or three years.

It's ridiculous. Houses you could buy for \$100,000 a few years ago or \$200,000 now almost. I've had much fewer listings than I've had in the past personally because HUD is down so far because REOs are down so far. It's not because I'm doing the worst job it's just because there aren't any. It's been awesome that I have my team behind me because we're selling just as many houses it's just it's not me selling them it's my team selling them. I hired back in September of 2013 I took over the real estate team.

End up hiring my best friend from college who's in the corporate world. He's my team manager. He got his license. He became an agent. We're planning for worst case scenario going from a job that's paying him \$150,000 a year to maybe, "We hope you make \$50,000 this year. We're not sure." He hadn't making over a \$100,000 his first year mostly because of the houses he sold being a real estate agent. He's been awesome for the team too and he helps out a ton with the blog. He's much more tech savvy than I am. We ended up hiring another agent who's just killed it.

I have to check the numbers again but \$50,000 in commissions in June total. He split that with me because he's on my team but he had eight closings. It's crazy what he did. He's going to make well over a \$100,000 his first year. It's just nuts. We had a plenty to go a couple of our other agents who were performing as well who I had inherited from my dad's when he ran the team. Nicky who's my assistant has been doing great. She's an agent too but most of her time is spend helping me.

She's still selling houses it seems like every month. Then, we hired another new agent this year who got a few houses under contract and he's six weeks into it I believe. He's doing awesome. He just got his first listing, he's super happy. The team is doing great. So nice for me that they are selling house. They are making money, they are making me money when they make money. I'm not having to do so much work as I used to have to do. It's a great feeling in return I'm paying for a lot of advertising. We're giving them a lot of leads. We're doing happy hours.

We're doing all kinds of events to try and build our business, build the database, get them clients and people to sell houses to. Team is doing awesome. Actually, did get two new HUD assignments this week which is rare and for anybody who's in the Northern Colorado market and looking to buy some rental properties, one of my new HUD listings coming up is going to be a side by side duplex in Loveland. It's just east of downtown Loveland. Three bedroom, two baths on one side. Two bedrooms, one bath on the other side.

House needs a lot of work, paint, carpet, rotten trim but it's probably going to be great for somebody who wants to live in one side, rent the other. If you know about HUDs, there's an owner occupant period where only owner occupants can buy the home either in the first five or first 15 days depending on how much work is needed. If you're interested in a great investment in that area I don't know what the price will be at. It's always a guessing game with the HUD appraisers but that will be coming up probably in the next week or two.

If no owner occupants buyer it will go to the investor period where investors can buy it. It's very rare to see a duplex with HUD but they do come up once in a while. All right, just one more thing to go over and I'll finish up this podcast. We have been having some great conference calls with some of the products I put together. I just want to mention a few of them. I brought out the six figure real estate agent success system earlier this year. It's been a ton of fun. We had an awesome conference call on a rent to own program couple weeks ago.

We're going to do another call this week. Actually when this podcast is published, it would have been last week but I'm doing another conference call in a lot of participation. Really it's been a lot of fun, a lot of questions. I think their last call was almost an hour-long because there's so many questions. That program has been going awesome. If you guys are interested in it, I've got links to it. I resource this page and I can get you a \$100 off since you listen to podcast.

Just shoot me an email, ask me about it, mark@investfourmore.com or you can always reply to comments on this post, in the blueprint same thing. Complete blueprint for successful real estate investing. That's more for rental properties, people looking at fix and flip, those conference call has been going great as well. Not sure how many were up to but we've been doing it for over a year now. All the calls are recorded and you have access to them when you get that system. It's been a great time again I can get you a \$100 off that one too. If you're interested let me know.

Shoot me an email. Tried to be as personal and in-depth as I can on those programs and help people out as much as possible. That's all I've got for this week. Rental properties are going awesome. Flips are going really good. Team is going good, hiring a contractor has been good. Obviously my own listings have been down a ton but the team is made up for that. Next week, we'll have a guest on again. Very, very great guest and thanks for listening. Talk to you soon.