TRANSCRIPT OF EPISODE 11 OF THE INVEST FOUR MORE PODCAST

Flipping Houses – With Will Banard

Mark: Hi everyone. It's Mark Ferguson with Invest Four More. Welcome to another podcast on real estate investing. Today I have an awesome guest, Will Banard, who is just an incredible house flipper in California. He's been a rental property owner, a note investor, he's doing a ton of things. California is a tough market right now, as many people know. Will is going to share with us how he has still been able to still flip houses down there and the type of houses he's flipping. He is doing some things that very few investors do and working at a price point that very few people work in. So thank you very much Will, I appreciate you joining the show. How are you doing?

Will: I'm doing great, thank you for having me, Mark.

Mark: So you got started in real estate in 2004. What first got you interested in real estate? Was it an accident or a plan from the start? How did it all get started?

Will: Real estate was always a passion of mine. I didn't really know what a real estate investor was back in the day. However, I'm self-employed since I was 19, I started my own off-site printing company and I did that for over a decade. Early 2000, I was really interested in real estate. I actually went around with agents looking at houses and my intent was to buy a fixer, fix it up and maybe live in it, then sell it, and move up and keep continuing on with that. And at the time, I didn't know anything about real estate investing, I didn't know anything about creative financing. So all I knew about was going to the bank and getting a loan and going from there. And because I was self-employed, I really couldn't qualify on that income back in the day. So I never pulled the trigger, and finally in about 2003, I started educating myself. In 2004, I got really into it when I finally pulled the trigger and started to do it.

Mark: What was your first flip like? What was the price point? Did you end up getting bank financing or was it some other type of way you bought it?

Will: My first flip was accidental. It was intended to be a buy and hold and it turned out to be a flip. I actually had two of them turn out that way. The first one was from afar, in Texas, and it was the middle of the summer when I was trying to flip it. I flew out there and did the work myself. I hated it, it was hotter than hades and this house was an absolute wreck. I actually had to run out of this house because I almost yacked right in the house. It smelt so bad in there, I don't even want to go there. It was a complete accident but I had to flip it. It was a really bad experience on flipping, but that was my first flip. But again, it was unintentional.

My first flip, intentionally, was here in California in my own backyard. That purchase price was just over $300,000 acquisition and off the top of my head, $60 to $70 grand in rehab. I ended up making, I think, about $90,000 on my first flip.

Mark: Well, that's awesome. A lot of people I talk to, their first flip or their first investment they lose money on. So that's a nice rate of return there to make $90,000 on it.

When you did your flip in Texas, when you did the work yourself, how long did that take you?

WILL: I didn't do everything with my own hands. But I did do a lot organizational, making sure that the guys do to the paint were lined up, the carpet installers, cabinet guys, etc. I did all the demo myself. I did a few of the installs, purchased all the equipment, did all of the landscaping myself. I think I was there for about a week, maybe 10 days, if I recall. The entire process, to complete the entire flip, was about 5 or 6 weeks.

Mark: That's not bad at all.

WILL: No, no. It was a small house, though.

Mark: I tried to do a flip, or do the repairs on a flip myself one time. I was replacing windows, doors, kitchen, and I think it took me about 6 months to do it all. It was one of the biggest lessons I learned in life and it was to never do the work myself on a flip because it's just not worth it.

Will: Yeah, I know where you're going there. A lot of people like to do that and that's a good thing, I mean, if you want to get into a house, flip it yourself, and learn a process then that's a good way to learn. The bad thing is if you want to make it a business, you can't do everything yourself. If you want to rinse and repeat, you've got to hire that stuff out, because times running and you want to be flipping a house.

Mark: Yeah, for sure. So the house you flipped in California that you made $90,000 on, how did you find that house? Was it a MLS deal? Was it for a trustee sale or auction property?

WILL: I bought it from the bank it was a REO property and I bought it before it ever hit the MLS. This was back in the day where you could form relationships with top REO brokers and asset managers. That was my forte and I was preaching that on forums and the internet for years. But the rules changed, and when they changed you can no longer have these REO brokers delivering to you before it went on the MLS because the banks wanted to have them listed for 7 or 14, or 21 days before you can even accept an offer. Some banks would only want to sell to occupants for the first 30 days. So there were all these rule changes that made it very difficult to have these back door, if you will, deals. So when I saw that change in the market place come, I had to adapt to that. That's when I started shopping on MLS like everyone else.

Mark: Right. I'm an REO broker and hud listing broker myself. I see that question so much from readers, you know, "there's a property that's vacant, bank of America has a property, how do I contact them so I can buy before it's listed?" Back in the day, maybe you could do that, especially if it was a local bank. Anymore, you're just going to waste hours of time and bang your head against a wall, because it's not going to happen. Their policies are so strict, they just won't sell them before they are listed. I've been stuck on MLS, a little bit of direct marketing myself. Do you do any direct marketing at all, or just strictly MLS right now?

WILL: You know, I have always intended to do that and I've talked about doing it and I've talked about doing it again, and I've never gotten around to it. So to answer your question, no. Is it because I don't want to or because I think it's not good? Absolutely not, I think it's an excellent strategy particularly for those who are starting out. Shopping on MLS, the spreads are very tight. You have to make a lot of offers, and you have to really know what you're doing. Because if you don't, one little mistake, you go from profit to break even; 2 or 3 mistakes and you go to negatives in money. I feel like investors just can't afford to lose big amounts of money when they're just starting out. So, direct marketing is the way to go, get a motivated seller, get it before an agent gets their hooks into the seller and try and work out the best deal possible and create the best spread possible. That's where you're going to find a new deal when you're a newbie.

Mark: Right, for sure. You started in 2003-2004 with your first flip, so you've been flipping 11 years now, at least. What does your business look like now? Did you do one flip at a time for a while? Did you start growing it right away? How did you grow it to where you're at right now?

WILL: Sure, well to correct you my first investments were buy and holds so I didn't start flipping in 04. All of my investments were buy and hold and then I actually got into land development. With the exception of the accidental flips, I was doing building single family homes, duplexes and four-plexes out in Texas. And in 2009 is when I started flipping because I saw the market change. I said you know what, there's a ton of money to be made right here in my own backyard, I've got to sell what I have. That's when I sold my portfolio because I wanted to get that capital back and invest it here because I knew I could make a ton of money with it. So from 2009 on, for the past 6 years, I started flipping one at a time. Then I would go shop for another one, get another one on contract and so forth. Then I started doing two at a time, then three at a time. Then from there I moved up from the $300,000 to $500,000 acquisitions to higher end properties and now I do multi-million dollar acquisitions.

Mark: Nice. So you told me about a house you're doing in Beverly Hills right now. What was entailed in that purchase and rehab? How long did it take you to do that?

WILL: Well I purchased that in November of last year and it took about 6-8 weeks to incline into development stages with general architect designs and engineers etc. When we finally started lifting the hammer, I finished in July, so it took about 6 ½ - 7 months to complete the rehab. The original target was $350,000 on that rehab, and I went a little bit over that. I had several little problems that happened that were unexpected and that always happens. But all-in-all, I did it really fast, which really helped. It's on the market now for 3 million. I already have one offer and hoping to get another one soon from a foreign buyer. Hopefully, with the activity I've had on it, I'll have more offers after that.

Mark: If you don't mind me asking, what did you pay for that property?

Will: I paid $1.8 or something, I forget the actual number.

Mark: That sounds like a huge spread to a lot of people. But when you're looking at the actually percentages, on a percentage base.

Will: It does, it looks like a big, big spread. I just had a conversation with somebody the other day about that. I'm getting a lot of these whole sale deals in my inbox all the time. Messages like "Oh I got this really great deal with this huge spread! And you see a $400-500 thousand spread and they think that's big, but what they don't realize is the percentage on everything and the cash return. Because you've got huge holding costs between your financing, your taxes, your insurance, utilities, maintenance, it's weighing that profit. That 500 turns to 200 or 100 really quick. So a $200,000 spread on a 2 or 3 million dollar property is not a big margin, you're talking about 10% or less. That's a small return.

Mark: Right, if the market turns at all, drops 5%, you just lost almost all your profit. If it changes even worse, you're in the negative. Those types of rehabs, any rehab really, you're going to run into things you don't know about once you run into the walls and tearing things out. Unexpected expenses can kills your profit so easily. So I like the fact you pointed out that it needs to be percentage based not just, "Oh I'm going to make a thousand on this house"

Will: Exactly, spread is one thing but it's that percentage that you really have to have in that spread and if you don't have a 25-30% spread, especially on a big property like that, you're holding costs will just eat you up.

Mark: Yup, exactly. So you have 3 flips going right now, is that correct?

Will: I have 3 on the books right now. I'm about to sell one and acquire another, so I'll remain with 3. Then I'll be in the market for a number of million dollar properties. So the problem with doing multi-million dollar properties for me is that I got away from the small stuff. In doing so, it takes a year or a year and a half before you see that paycheck from a big flip. With the small stuff, I can flip those in 3-4 months and I get a paycheck. So even if it's just a few grand, that adds to the cash flow and going a year without any cash flow is tough. So it was one of the mistakes I made in getting bigger and going with the big properties, I shouldn't have gone away from the small stuff. Even though the spreads were tighter, with my abilities, my experiences, my team, and my systems, I could have kept those running on the side because I could literally do those with my eyes closed.

Mark: You're in southern California, which is one of the hottest markets in the country. Everyone I talk to says you can't flip here, there's too much competition. If you're able to flip and buy these properties, is it just a matter of putting in a ton of offers? Is it a matter of looking for the right properties under the right conditions? How are you finding these flips?

Will: It's all of the above. I'm finding them on the MLS, but I have systems in place to do so. I have people out there looking, I have agents who go out and shop the MLS or possible bring me a listing before it hits the MLS, even though it's going to be on the MLS, I can find out about it ahead of time. Perhaps around ta deal with the listing broke before they even list it. That's not something that happens a lot but it's does happen. I'm making a lot of offers but I'm making the right of offers on a lot of properties. A lot of people say "Oh you got lucky on this one, or that one" and one thing that I believe is that you create your own luck. By putting yourself out here, by being in the right place at the right time, by hustling, you're creating your luck. If I was just sitting back waiting thing to happen to me that luck isn't going to come to me. So call it lucky, call it what you want, I call it hard work and dedication being out there.

Mark: Right and I think if you do one flip and make $90,000 and never do it again and never do it again, maybe call that luck. But when you are able to do it over and over again, then you start to see there's a reason besides luck that you're successful. I have a lot of properties on MLS, and I see a lot of investors in my area who will make an offer at 50% of list price on every single REO that comes up. They don't even look at them, they just make offers hoping that 1 of every 1000 offers gets accepted. Really, it gives them a bad reputation because other agents don't even want to see their offers anymore, they get sick of it. I do make a lot of offers but like you said, if I make a low ball offer maybe it's on one that's been on the market a while, just needs so much work, it's obvious. Or they're new listing, you get in there right away and be very aggressive. I assume you do a lot of the same things.

Will: Yeah, I agree with that assessment. I think that these people that are making blind offers and just taking a percentage off the list prices, whether its 50% or 60% and just blowing offers out, then you're making a bad name for yourself and pretty much wasting your time because most of these brokers aren't even going to look at them, because it's going to be so low anyways. What I do is I do make a lot of offers sight unseen, but I wouldn't necessarily say they are blind offers because I'm actually analyzing each deal, I'm looking at the numbers and then I'm going to see okay, in my mind the best offer price is X, if X is within the percentage of the list price, let's say 85%. My offer is only 15% lower than what they're asking then I'm somewhat in the ball park of at least getting that agent to look at it, perhaps give me a counter, or if I'm lucky enough, get them to accept it. If they're asking $500,000 and I'm offering $300,000, I'm not even writing it, it's not even worth their time. So when I make these offers sight unseen, I'm not going there, but I'm certainly looking at every picture they have, I'm going through the details of what the agent specked out on the MLS listing and what they have described needs work, needs a new kitchen or whatever they're saying and then I go through the pictures. Then I can ascertain how much approximately that rehab is going to be and then I make my offer accordingly based on that.

Mark: When I say low ball too, that's a good point, I'm not talking about 50% or even 60%. My idea is low ball is 15%, maybe 20%. Even on the properties I pay they may be $100,000-$150,000 where 15-20% isn't $100,000 difference. So your flipping business is awesome, you're obviously doing a great job with that. You said back in Texas you had a portfolio of properties. What did that portfolio look like? Then you ended up selling it to get into flipping, so how were your rental properties in Texas, and how did you end up selling them?

Will: I listed them on the MLS. It was not a huge portfolio by any means, it was 9 or 10. So it was a very small portfolio they were all single family homes scattered throughout San Antonio and the Dallas/Fort Worth area as well. I basically listed them on the MLS and sold them. A couple we had to do some light rehabs on them to get the MLS list ready after the tenants moved out and I'd liquidate them that way. That was not a fun process either because I bought a lot of them wrong. I overpaid for them, and I wasn't cash flowing like I thought because that's what you do when you're a rookie you make mistakes and you learn from them. The good thing is that that makes you a stronger, wiser, more savvy investor as long as you realize the mistakes and don't repeat them. So I listed via MLS through an agent. I sold them all, cashed them all out. One of them, I kept in a note and I still have that note and that worked out very well.

Mark: Texas has a lot of good numbers from the outside when you look at rental properties but I noticed that their taxes can be super high in some of the areas. Did you notice that with some of your properties? Why didn't they cash flow as well as you thought they would?

Will: No question, taxes are absolutely one of the highest in the country. One of the reasons is that they get a lot of their state taxes from property taxes because they don't have state income tax. So if you're a Texas resident, you're ahead of the game because you're not paying California 10% income tax, but you're paying that property tax. I had properties that were as high as 3.1 and change % of the value of the property and that is very high. Is that the reason they didn't cash flow for me? No. I knew the taxes were high, I knew what the rates were going to be. I knew what my insurance was going to be. It didn't cash flow because I overpaid and underestimated vacancies and how many there would be. I underestimated repair costs and that's just a rookie mistake.

Mark: I did it myself when I first started. You assume you'll have less vacancies and you assume you'll have less repairs because you buy good properties. But it doesn't matter how new your properties are or how awesome your tenants are, you're going to have vacancies, you're going to have repairs at some point. So great advice to always make sure you've got percentages for what you feel vacancies and repairs will be, even if you have properties in great shape.

Will: Exactly. The other problem I had was with property management. The management started out great and just declined and declined and it was eating away at my profits. Trying to manage from California across to Texas was difficult. So for a newbie, a lot of people were looking for out of state investments, return investments. While those can be good, I do warn, make sure you have a good team, make sure you have somebody with boots on the ground that are there and that you can trust. Without that, property management companies can eat you up alive. I had a tenants running over the sprinkler heads with their cars, not intentionally, but it happens and they're sending me the bill for it. Wait a minute, this is a tenant fault, why are you charging me for it? Go after the tenant. That's just the laziness of the property management company not wanting to deal with it. It's easy to charge the rich guy, and who's the rich guy? The land property owner. What people don't realize is that is completely false and half the time, us landlords are just trying to scrape by and mange $200 cash flow a month per door. It's not a lot of money, and one big expense and boom, there goes half your year's cash flow. So property management is absolutely key. I highly recommend having boots on the ground either a partner or somebody you can trust, that has some type of financial investment in the property where if repairs escalate then that hinders their profits. So then they are on the same team as you.

Mark: That's great advice. I know there are property management companies around there, you know I've been in the area my whole life. You drive around certain areas and you know what their properties are because the lawn is dead, the roof is 30 years old and leaking and it's the same property management team every time. They don't do anything until the house is about to fall down and then they go through and do a complete full rehab on it. It's a mess, they don't rent for as much, they don't get rented. If you live in California, you don't know that stuff, but if you have somebody here you can look at the property and know that it's not being taken care of.

Will: If I was investing out of state, in your state, I would want to hook up with someone like you who has their boots on the ground. Maybe, I come in with the money and you come in with knowledge of the area and the property management. You can keep an eye because you're there all the time and I'm not, that would be a good joint venture.

Mark: You mentioned you did seller financing, owner carry on one of those rentals. I know you're investing a lot in notes now. What got you started in investing in notes?

Will: I was looking to build more passive income. When you flip, that's a job, not a passive whatsoever, by any stretch of the imagination. Even landlord-ing is what I call semi-passive. It's not fully passive because you're managing property managers, you're managing tenants. There's a lot of active activity going on. With notes, the only really active activity is the initial due diligence on the house and on the borrower. After that, the servicer, who collects the payments, deposits directly into my bank account, there's really nothing for me to do. Unless they stop paying, and even there the servicer handles that. They start putting all the notices and work forward from there to work it out with the borrower. So it's literally 99% passive and that's what I'm looking to build and I still am.

Mark: How many notes do you own now?

Will: I currently have 5. I had a bunch of them pay off, unfortunately, and I was making a really big return on those.

Mark: How did you buy those notes? Online selling company? Was it a connection through other investors you know?

Will: Both. Several were through a broke that I know and the other ones were through word of mouth through other investors. An investor friend of mine here locally, his father was selling a couple out of his IIRA and I bought those two. That's how I've acquired my notes. I'm definitely looking at other processes where I can market myself and continue to build my passive income.

Mark: You had rentals before, are you looking to buy any more rentals?

Will: It is, but not the single family homes you know scattered all over the place. What I'm really looking for are apartments. I've been searching for all of 2014 and a little bit in 2013. I was still going in early 2015 and I gave up. Prices are literally so tight on apartments, everyone wants apartments. So I've just really been concentrating on getting through my flips and building some more systems here. I think I'll wait for the next market turn and then I'll go after that. And obviously, if a deal falls across my desk that I can't turn down, I'm certainly all over it.

Mark: Right, I was going to ask you about the market too. Colorado, where I'm at, we actually had one of the highest appreciating market in last year or so. Very little inventory, prices are going crazy. You're kind of in that same situation in California. What do you think about the market? I know nobody can predict what's going to happen. But prices are so much higher out there than they have been. Can the average person afford a house out there? Is it going to keep going up or is it going to correct soon?

Will: I think that the only reason that we have affordability currently and that the index isn't just off the charts unaffordable is because of the level interest rates. That is the only reason keeping this market alive. If we were to get back to the normal 7% interest rates, which is somewhat pretty standard back in the day, everyone one of these houses would be way overpriced, nobody could afford them. If we got to 7% interest rates, obviously that doesn't happen overnight or even a year, it's pretty tough for an interest rate to go from 4 – 7, and that's almost double. It could take a couple of years. I think they have nowhere to go but up. There are signs of slight increases and as they get back up closer to 6 or 7%, all of these houses are going to be unaffordable, there's no way. The only way to offset that is for income to go up. I'm not seeing that at all.

Mark: It would have to not just go up a little bit, but have to be huge increases in income for people to be able to afford those houses.

Will: Exactly, not a little bit, a lot a bit.

Mark: Very cool. Let's talk a little bit more about your business. BanardEnterprises.com, that's your main business correct?

Will: That is correct. That is my California unit and I do all my flipping out of that. My consulting services and all my rehab projects run through Banard Enterprises.

Mark: I know you're very active in BiggerPockets, been a big part of that. I've seen before, you're looking for partners on some of your flips, or money partners. Do you still look for partners or are you still looking for people to invest with you?

Will: Absolutely, I'm always looking for private money lenders. I don't JV partner with people too often and when I do it's typically people that I know, people who are here local that I trust and I've worked with before. So you know, the stranger from Minnesota comes and tells me they want to JV with me on this deal, well it's probably not going to happen until I've had a relationship with you, so that's going to take time.

Mark: Totally understandable. You mentioned consulting, what kind of consulting work are you doing right now?

Will: I have other rehabbers and flippers who need advice. I had someone who did a loan on a flip that went bad and I was consulting him, trying to find a way to get his money back. Basically, I can go in if you're a flipper and let's say you have a day job and you still want to flip. You're trying to manage you're project and you just don't have the experience or the time, then I can jump in there and offer consulting services. This would include design, layout, here's what you should put in this house, here's what your budget should be, etc. I can also do project management services where I can come in, I can bring in my team, bring in my team contractors for you and all my subs. A whole variety and range of services I can offer here in Southern California.

Mark: Nice and like I said we will send a link on the page here where people can find you. I think that's about all I had to go over today. I really appreciate you taking the time. Do you have any advice or a few tips for someone who wants to get into flipping, doesn't really know where to start? What's the first couple of things they should do?

Will: First step if you are starting and you want to get into flipping or wholesaling, which is the popular topic, I high recommend to get educated. That is number one, and where you are going to get that education. So there are a ton of books you can read, you can go to a library and read them for free, you can buy them. I highly recommend, if you aren't already a member of BiggerPockets.com, get on there and create your free profile, stay active on the site, and engage with the community. If you're not active in the forums and asking questions, and reading questions and answers, then you are not taking advantage of a valuable resource that's right in front of your face for free. So I highly recommend that. I highly recommend attending real estate club events in your local area. Stay away from the gurus, stay away from that where they're trying to charge you tens of thousands of dollars to do stupid education stuff that you can likely get for free or a lot less. That's number one. You've got to know your market too. If you don't know your market and your numbers, you're not going to be successful. So if you skip that part, it's like going out there blind and trying to fish without a fishing pole really. So you've got to know your market and know your numbers, so how do you do that? You have to put your boots on the ground, get out there, and drive around in the neighborhoods. Go to open houses, look what's out there, look what things are selling for. When you know what a property that's already fixed up and out there and you know what it's selling for because it's on the market, you can see the close sales as well, you kind of get a feel for what your exit values are on some of these properties. Then you go in on something that's a listing that needs some work, go into these properties, and take your notes on what needs to be redone. Say "okay, this house needs a new kitchen, a new bathroom" and go back home and practice pricing all that stuff out. Eventually, you'll be able to go into a house, come out 10 minutes later and know within a thousand or two what that rehab is going to be. If you don't know how to do that then you are hindering yourself in your potential success. Last, but not least, get out there and do it. Don't let feat stop you. There will always be fear, I was fearful when I first started. Well what if I make this mistake? What if I lose money? What if this is a bad deal? What if, what if, what if? If you let all those what ifs stop you, well then you've already lost. So get out there and go ahead and do it. I just read an exchange on BiggerPockets about this girl who just completed her first flip, she made a small amount of money, and it was a really nice story, she admitted all the mistakes she made and yet still cleared a profit, good for her. Yet the most valuable advice added in that thread that I got was that she got out there and did it. She just got a most valuable education and got paid for it. Even if you were to just breakeven, think of it as your education cost. Even if you lost $5,000, I rather you flip a house, lose $5,000 or even $10,000 on it, because that's just paying your education. You're going to be so much more educated than someone going to those guru camps.

Mark: That's awesome, I don't think I can add much more to that. I agree with all those points. Paying $30,000 to learn how to flip a house from someone who probably never has flipped in your area, or you can make some money, or lose some money, doing it yourself and learning the whole process is pretty much a no brainer. I really appreciate your time, loved having you on the show. I will send links out to your pages so people can get a hold of you if they want to talk to you about maybe investing private money or if they want some consulting work. Loved have you on the show, and hopefully we will talk again soon.

Will: Thanks for having me, Mark. Take Care.

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