Over 100 Rental Properties, over 3,500 deals done, with Nate Armstrong

Invest Four More Podcast - Episode 19

Mark Ferguson: HI, everyone. It's Mark Ferguson with InvestFourMore. I'd like to welcome you to another episode of the InvestFourMore Real Estate Podcast. I'm super excited today. I've got an awesome guest, Nate Armstrong, who is the CEO of Calhoun Ventures and also the co-founder of Midwest Equity Partner. Nate has been an investor for a long time. He's fixed and flipped homes and had really an amazing career path. I'd love to get some insight from him on how he's started out from college to where he is now and just built some awesome companies. Then we'll talk about what those companies do, which many of you might be interested in as well who are interested in rental properties.

Nate, great to have you on the show. How are you doing?

Nate Armstrong: Awesome, Mark! Hey, thanks for having me, man. You've got a great fan base. I love connecting with you guys, so thanks.

Mark Ferguson: Yeah, no, thank you for being on the show. For those of you who don't know, I've known Nate for a while now. He's really a great guy and a stand-up guy, so glad to have him on the show. Nate, when you first got started in real estate, you took a different path maybe than some people. You went to college, got a job at Target, and then somehow you went from Target to flipping houses. How did that work?

Nate Armstrong: Yeah. This was the era of the mid-2000s when every other TV show on TV was Flip This House. I became addicted to those TV shows and I'm like, "Oh, I just want to do that. I want to do more than just my job. I want to flip houses." I started basically flipping houses on the weekends. I bought my first house, used a credit card to pull the cash advance on the cash that I needed, and then I found a bank that was willing to lend the rest of the money, and that's how I got my first house done. 100% financed with a credit card and bank financing. I did pretty well my first year, but this was right when the market was going up and up and up, and so I ended up doing maybe 12 or 13 deals my first year, but I had the wind at my back, so to speak.

After I had a good first year run, I took those profits and I invested into one big deal, and the big deal ended up being a total sham. The guy that was selling it, it was 17 rental properties in a package. He was running what's known as a Ponzi scheme, if you've ever heard that term before, and he stole my money. I can laugh about it now because it was an incredible experience, like, just learning. I hit one of those spots in my life where I hit probably the lowest spot I've ever been in. If you've ever been in one of those spots where financially you feel the burden, all the money you had saved up in your life was totally gone, plus you had some debt from the experience. I was so embarrassed I didn't even want to tell my mom and dad.

I had friends at the time offering me to help get my job back at Target, and I ended up saying no, and I said, "You know what? I just want to fix this. I want to make it right." I had a couple other people that co-invested with me in that project, and they had lost their money. I said, "I want to make it right with them." Then number two, I had this pulse inside my head of hearing my dad saying, "I told you so." The reason is is because my dad said, "Hey, you should keep your corporate job." He went through the mentality of go to school, get a good job forever. I kept hearing my dad say, "I told you so." I said, "No, I'm not going to live with 'I told you so' forever."

Then what I did is I just went home, got educated. I started basically reading posts like you put out there. You've got such great content on the internet for anybody that's getting into the investing business. Started grabbing that free stuff, that's what I did. I grabbed all the free stuff that I could and then I started shadowing really good people that were actually doing real estate deals every day. I didn't shadow the people that were talking about doing deals. I shadowed the people that were doing deals. If somebody said, "Hey, I'm working on a rehab, or hey, I'm going to a closing," I would say, "Hey, can I come?" Any spare amount of time that I could scrounge up, I was there.

I became a student of the business and I just kept learning and learning. We've been blessed ever since. It was a rough second year in business, but since then we've done a little over, in Minnesota alone, we've done over 700 properties and we've taken the same model to a few different cities and states. Between my partners and I, we've done over 3,000. It came really because we went through that tough time, so I can tell you now, because of that tough time, I learned how to really do due diligence on a property. Any property that we're doing with our investors, we're going backwards and forwards to make sure that it's a solid property. I would not have known any better unless I had gone through that tough time. That's what got me [inaudible 00:04:45].

Mark Ferguson: That's a crazy story. I'm curious. Sorry to stop you. Did the Ponzi guy go to jail? Did they catch him? Or did anything happen to him?

Nate Armstrong: He is. He is in jail. Like, two or three sentences right now, and then after he gets out he's got to serve more time, so yeah. Justice was served, as it should be in those cases.

Mark Ferguson: I'm sure you didn't get any of your money back, but I guess that feels a little better knowing he's in jail.

Nate Armstrong: No money back. The life lessons from it, had I just buried my head in the sand and taken my job back at Target, then I would probably still be living with that regret inside. Instead, just plowing forward and all of us have done this, you've done this. I've read a lot of your stories on your blog posts. You've had stuff that didn't go quite perfect as planned, but when that plan doesn't go perfect, you figure it out. You figure out Plan B or you figure out Plan C. As real estate investors, it's important that we do that. We just sometimes, when something doesn't go right, we've got to figure out the next plan. If we sit still, that's where we get hurt, but if we keep moving, we're going to do just fine.

Mark Ferguson: Yeah. That's a great point. I know I'd say 50% of the people I interview, successful investors, lost money on their first flip they did, or their first rental property they tried to buy, just because when you're first going at it, even if you educate yourself, it's so hard until you actually do it to figure out everything that goes into it, the intricacies, and figuring the costs right. I think those people that are worried about losing $5 or 10,000 in a flip can learn a lesson from you, who lost a lot more than that but kept going, learned from it, and much more successful than they would have been, had you never done the real estate deal.

Nate Armstrong: Yeah, exactly. You're exactly right. Along the path, I've learned some things too. The old world of real estate's a little different than the new world of real estate. We're in this era right now where you figure [inaudible 00:06:48], but we're in this world right now [inaudible 00:06:52] on the internet right now, and what's happening is there's more people joining the internet every single day now, than in any time in world history. It's anticipated that we're going to have about 75% of the world on the web within the next 5 years. As real estate investors, what that means for us is that we've got to have some kind of web traffic out there. We've got to be online. If we want to raise private money, or if we want to get partners for deals, or even if we're just looking for deals, to have some kind of spot online that your website, it's going to make a big difference.

Two weeks ago I literally had a client fly in from Paris, France, that came to come look at real estate with me in Minneapolis, Minnesota because of a YouTube blog that I put out there. When that happened to me, I'm like, "Wow, really? You wanted to come in and meet us because of a YouTube video?" It blew my mind, but I think it's important that we're out there. The real estate world is changing right now.

Mark Ferguson: For sure. After you went through the whole Ponzi scheme, you started shadowing investors actually investing, educating yourself. What were your next steps? Did you start flipping again? Did you go into a different area of real estate? How did your career progress?

Nate Armstrong: I did flips for a little while, but the market really changed. This is all the way sliding down the curve, basically, from 2009 to 2013, really, and depending on the zip code that we're talking about. Values were going down and down and down, and so what I had to figure out is a model that I could do regardless of what housing prices were doing. That's when I discovered rentals. Equities, per se, comes into play, but more likely than not, a landlord's looking for cash flow. If they can find a really good deal, and it's got to be a little bit below market value, then they'll buy it, whereas a flipper, they need to have equity no matter what, even if the market's going down, then they need more equity. If the market's going up, they still need equity because they're counting on a quick resale, whereas a landlord's counting on cash flow.

What I figured out is a business model where I could buy houses. I could fix them. I could rent them out, and then I could help landlords that were too busy to go out and do all that stuff on the ground, to actually go find houses and hire contractors and things like that, where I could do this turn-key rental and give [inaudible 00:09:17] at the end and say, "Hey, your tenant is [inaudible 00:09:21], this one's good to go." That business model for me really took off. It's still really powerful today. I was speaking at a live event about 2 weeks ago, and I asked the audience. I said, "Hey, how many of you here are doing wholesale deals?" I had about half the audience raise their hand, and then I said, "Okay, how many of you here are doing deals that you're buying, fixing, and selling?" I had about maybe a third of the hands go up. I said, "Okay. How many of you here are doing turn-key rentals, where you're buying them, you're fixing them, and you're selling them to landlords?" Not a single hand went up. Zero hands out of the entire audience.

I looked around at the room at everybody, and I'm like, "There's something missing here, guys. You've got to tap into this. This is a booming income stream right now. For you as a real estate investor, especially if you're already wholesaling or especially if you're already doing buy fix and sell on the retail market, why not have another income stream set up where you can serve people that are too busy to go out and do real estate themselves?" I get a ton of people, like the clients that I just met from Paris, France, that they have no resources on the ground here, so they want to hire a local real estate investor who can just serve them and hand them properties that are already cash flowing. It's a totally untapped income stream. There are people out there that are doing it nationwide, but if you go to any specific geographic market, there's usually not very many in each market that are doing it.

Mark Ferguson: That's a great point. I know you've been doing turn-keys, and I know people even ask me if I have turn-key rentals and I could sell them, but I don't do it myself. Honestly, to me, it seems like a lot of work to actually sell a turn-key. Maybe you can talk about that. If I was going to be an investor who's going to, I was thinking about flipping houses, but instead I decided, sort of like a flip, but just to a different end user. You've got to find a property manager. You've got to find a contractor. Then you've got to find that landlord. I guess it's all mostly about building up your business and finding the right people you trust. How's that work?

Nate Armstrong: Yeah. Great question, Mark. If you've already got the team set up to do a buy, fix, and sell, you've got 90% of the structure that you need to do a turn-key rental. The only part that's missing- In a buy, fix and sell, you've got to find the house. If you're doing buy, fix and sells, you've already got that figured out. Then you've got to find contractors. If you're doing buy, fix and sells, you've already got contractors set up. The missing component is a good property management company. If you're a flipper, all you do is you go out, you find a good property manager, and then now what you're doing with the asset is you're buying it, you're fixing it, and then you partner with a property manager to place a tenant and manage the tenant, and then you sell the asset, and instead of selling it on the [MLS 00:11:57], you're selling it to someone that's just looking for passive rental income.

A lot of people might ask the question at this point, "Well, where do you find these people?" I know that might seem like a daunting task, but I actually find it to be easier than sometimes selling houses retail. What I do is I set up at real estate investment clubs. I go to REI club and I go out there and I shake hands and hand out business cards and then oftentimes I'll have a booth at the back of the REI [inaudible 00:12:27] name on it, and then I shake hands with people, and I just tell them as they're coming in, "If you're looking for someone else to do all of the minutiae of real estate investing and you just make a passive return, here's my name and number. Give me a call. I handle everything on the ground so that you can be an investor and you can still make income on properties without getting your hands dirty." That's where I generate the majority of my rental buyers.

The advantage of having both a turn-key rental system in place, plus the fix and sell, is that when you get it, typically you need a 30% equity. All that means literally is the house is $100,000. The most that you can pay for a property is about $70,000 all in, purchase price plus renovation. You need to have a big equity spread to do a quick fix and flip. As a turn-key rental provider, you might get that same deal on your plate, and you might be able to say, "Well, you know what? It's not quite good enough. I can't buy it for 70%. I've got to pay a little bit more for it, otherwise the seller won't accept my offer." Oftentimes I can go up to 80% buying a turn-key rental, because my end buyer doesn't need a 30% equity spread. My end buyer, the landlord, they only need it at 10% equity spread.

I'll give you the big difference. On a fix and flip, when you sell that property, you've got to have a real estate agent or a broker list it to help you sell it. Right there, that's usually about 6% that's going out for commissions, rightfully so. The agent's got to work hard to bring a buyer and all that stuff and get it sold.

Whenever I'm selling on the open market on the multiple listing service, I've got to discount in my mind at least 6%. Nowadays, a lot of the buyers are actually asking you to pay closing costs, so it's really more like 9% or 10%, whereas when I'm selling a turn-key rental to a fellow landlord, there's not another broker fee in the middle, generally. I'm able to provide a good deal to a landlord but I don't have to discount it an extra 5 to 10%. I can buy deals at a higher price. More deals that come across my desk, I can accept in my system.

Mark Ferguson: Very cool. That's great information. It's something I've thought about but at the same time, I don't need to do everything either. I've got a pretty full plate right now. I thought it was interesting someone from France flew out just to meet you, to look at rentals. Is it just because you can't buy rentals in France and Europe right now, that cash flow? I don't know much about that market, but I've heard it's pretty touch.

Nate Armstrong: Yeah. What he explained to me is this. Number one, Europe has a couple of countries that are either, they've filed bankruptcy like Greece, or they're on the brink of bankruptcy. There's two countries in Europe that are basically pulling the weight for the entire European Union. There's actually talk of disbandment of their dollar. Their dollar is called the euro. If they disband the euro, it's going to create chaos in their markets, might go down significantly. What their, a lot of wealthy Europeans are doing right now is they're trying to find hard assets worldwide where they can stick their cash where it's not going to be as volatile. U.S. Real Estate is one of those spots right now. A lot of French people are buying U.S. Real Estate. No different than there's a lot of Chinese that are buying U.S. Real Estate right now as well.

Mark Ferguson: Yeah, I've seen a lot of that. Tell me, I know most of my listeners or readers are from the U.S., but there are a few from other countries. How does it work for somebody trying to buy a property in the U.S. if they live out of the country? Is that difficult? Is there a bunch of hoops they have to jump through? What's that process look like?

Nate Armstrong: Really, most of the clients that I work with that are from different countries, they set up a local company inside the United States. Most of them choose a limited liability company, or an LLC. That's really easy to do. You just contact any attorney inside the United States that does limited liability companies. The majority of them do. You have them set up an LLC. Once that's set up, you want to make sure you have it set up in the area that you want to do business. There's 50 different states inside the United States. Choose the state that you want to buy houses. Have a local attorney there set up a local limited liability company. Once that's set up, it's really simple. Then that company can [inaudible 00:16:52] tax-wise, it all works the same. There's always a state income tax and there's always a federal tax. Those are super simple to set up. We just partner, typically what we do is we partner any buyers that are out of country with our attorney and with our CPA. They're our tax advisers so that we can get them set up for it. Really simple to do. Then after that's set up, there's no difference between you and me buying a U.S. property or someone from China buying a U.S. property.

Mark Ferguson: Okay, very cool. I don't know if you know this. Are there different laws in different countries for taxes about how those people, if those people buy properties in other countries, like, for instance, if someone buys a property from France, do they have to pay taxes on profits if they live in France? Do you know anything about that?

Nate Armstrong: I do. I'm not a tax professional, so I'm only going to give my friendly advice that I've heard from my tax guy. Typically everyone's situation's unique, so it's best to always have them partner with a tax professional so they can walk them through what their benefits would be. I've got a lot of Canadians that buy houses. If their entity structure, like, for example, they don't have a limited liability company in Canada. They just do not exist. That's the [inaudible 00:18:04]. They have to set up a C corp. or an S corp. that owns an LLC inside of the United States. I know that's an extra layer, but what that does for them is that helps them avoid being double taxed. Paying tax here in the United States and paying tax in Canada. What I like to do is I like to partner them with our tax professional and then have them look at their unique situation, have them look at what their local government recognizes for taxes and legal structure, and then I have the tax professional give them advice on what they should or shouldn't do. There's ways to avoid being double taxed.

Mark Ferguson: Great advice. Yeah. You're not an accountant, you're not an attorney, no legal advice given, but thanks for the information on that. Your primary market is in Minnesota, correct?

Nate Armstrong: Yeah.

Mark Ferguson: Right now, and then you've branched out to different markets as well. I know many people, California, New York, they can't buy rental properties where they are and make much money. How do you pick your markets? How do you decide what markets to go to?

Nate Armstrong: We're working right now in Milwaukee, Wisconsin, and Davenport, Iowa, really heavily. Why'd we choose those markets? Number one, the economics look good. Jobs are being created. The unemployment of Milwaukee went from 13% in 2010 down to 5% today. Why? Because jobs are coming back really strong to Wisconsin right now. Yet, there's still affordable houses to buy that makes sense as a cash flow for cash flow investors. The other city that we're doing, Davenport, Davenport's having a really good year. Since the bottom of their crash market, so to speak, they're up about 12% off the bottom, so housing prices are rising. [inaudible 00:19:50] Market with unemployment statistics. Both of those cities just from an economic standpoint, we're still able to buy good cash flowing properties that have good numbers in the economy, housing price wise and employment wise.

That's the surface scratch, but more importantly to me, when I'm looking at an area, I want to know that I've got reliable teams and reliable systems. I've done a lot of consulting for clients. I was paid to go down and do some consulting for a private client down in Alabama, and when I got down there, she could buy houses for 5 to 10 grand, all day long. Great little three bedroom ranch style houses, 5 to 10 grand. Not in that bad of areas, either. I was surprised. Her biggest problem was that she couldn't get reliable contractors to do the renovations on them. I literally spent a week of my time down there sourcing the best of the best that I could for contractors. It was tough. Even though she could buy those houses super cheap, she couldn't get them fixed. When you look at the whole system, when you're trying to buy, fix and sell properties, if you don't have the fix in there or if you don't have the sell in there or the buy in there, if you're missing one of those components, the house isn't really worth anything. Even though you can buy it for 5 grand.

I've done this now in 5 different states across the United States where I personally bought houses and I've developed the systems, and I've had really good experience in some cities, and then in other cities I've struggled. One that I've struggled in was St. Louis, Missouri. That was a really tough city for me just the, I couldn't really get the contractors working right with me, and after a while, after about a year, after I bought about 70 houses or so, I said, "You know what? I can provide better value and better service for my clients if I stick to the areas that my system is really good." I've gone back now just to Milwaukee, Wisconsin, Davenport, Iowa, and Minneapolis, Minnesota.

Mark Ferguson: Okay, very cool. I'm curious, too. How much taxes play a role in where you're looking at? I know in Colorado where I'm at, our property taxes are really low. On $100,000 house, I probably pay $500 a year in taxes. Places like Texas, you'll pay 5 or 10 times that. Places like Chicago, the same way. Are taxes pretty decent in the places you invest in as well?

Nate Armstrong: Yeah, great question. Illinois, I've done a lot of deals in Chicago, too, and Illinois is outrageous. I don't like to buy Illinois anymore, but Milwaukee, they're okay. They're not as cheap as some areas, like Colorado, but they're okay. Relative to the price points that we're buying these houses at, we're buying nice neighborhoods, all in, for $80,000 in Milwaukee, Wisconsin, that rent out for $1200 per month. Even though the taxes are about $2000 per year per property, they still cash flow like no other. It's really good price to rent ratio. I do look at taxes as well, property taxes specifically.

Mark Ferguson: Yeah, those are great ratios. I know most people would love to have properties with cash flow like that, especially, I'm in Colorado and we've seen one of the highest depreciating markets in the company, and it's been very tough to find cash flow lately. I'm still buying a few properties, but our average price is about 120, 4 years ago, and now it's about 220 right now where I'm at.

Nate Armstrong: Wow.

Mark Ferguson: Yeah. It's a completely different market. Our rents have skyrocketed, too, but they haven't jumped up nearly enough to make up for that huge price increase. Has Milwaukee been seeing any price increases, or are they pretty steady?

Nate Armstrong: Yeah, this year they're starting to come up. They hit bottom in 2012, and they came up about 5% in 2013, but then they plateaued until this year, and now all of a sudden this year, it seems like every month they're going up a half a percent or so.

Mark Ferguson: Okay, very cool. Appreciation plus cash flow, always like that. Very nice. I'm curious. Do you own personal rentals yourself in your own portfolio? If so, how many do you have?

Nate Armstrong: Yeah, great question. I have 107 rental properties and then I've also got some small to mid size commercial stuff like car washes and some office stuff. My rental properties are my favorite of all, so I've got 107 of them, single families and duplexes. I started buying those maybe 6 years ago and then I just kept adding to the portfolio. Believe it or not, I didn't do it with a lot of cash. I told you my story when we started the conversation, but I didn't have a ton of cash after I got wiped out, and so what I did is I borrowed private money for most of my purchases, and then I'd buy them, I'd fix them, I'd rent them, and then I would refinance with local banks to stabilize them, and now I own those properties with local bank financing, essentially.

Mark Ferguson: Very nice. I like to talk about private money a lot because I think it really helps flippers, rental property owners, even wholesalers can use private money. What tips do you have for finding private money, and for people who are looking to get just that extra boost besides the bank?

Nate Armstrong: Yeah. Let me give a few. Private money is something that I get pretty passionate about, because I agree with you. It helps you a lot more, it gives you the edge in real estate, that's for sure. Everyone used to think that private money lenders would only lend to people that had decades of experience, and that's an old world myth of real estate. It's not true at all. What people want nowadays is transparency and honesty. When you are your genuine self and you sit down with someone and talk about real estate, if you can tell them, even if it's your first deal or if it's your 10th deal, if you can be honest with them, it actually goes a long way.

I'll give you an example. One of my private lenders, he's my former boss from Target. He knew me from working under him for 6 or 7 months at Target, and then when I resigned, he said, "You know, if you ever get into real estate deals down the road that you're looking for more people, then give me a call." I never thought about it at that time, but then fast forward a year later, I'm like, "You know what, my boss. He always said he wanted to do real estate deals, so let me give him a call." I called him and I told him where I was at. I hadn't done a ton of deals at that point, but I just said, "Hey, this is where I'm at. If you're looking to do real estate deals, you can put up the money and I'll pay you a 10% interest and then when can start doing deals together." He did the first one and now fast forward 8 or 9 years later, I've done probably 40 or 50 houses with him, and he's got money in projects even today as we speak.

Little conversations like my wife's chiropractor, is a private lender for us. My dentist has done a lot of deals with us in the past. Literally, you know how you go to the dentist every 6 months and you're getting your [inaudible 00:26:27] done, and the dentist does the small talk with you and he always says, "Hey, how's that real estate stuff going." That's the conversation used to be.

Any time that you put enthusiasm and energy into something that you're excited about, and I'm excited about real estate, so I spit his finger out, "Real estate's awesome! You wouldn't believe this. I just bought this house over here for this much and it's going to be a rental for this much." Then after the second time of him hearing me talk like that, he said, "Well, how do I do that?" Then I'm like, "Well, great! Let's have coffee. Let's talk about it." We had coffee, which turned into a dinner, and it turned into him doing 14 houses with us, year 1 together. You just never know where you're going to meet that next private lender, but you've just got to be honest and transparent with people and let them know where you're at.

The other thing that I give people advice on is that it's kind of like dating. The first time that you talk with a private lender, it's not like you walk up and say, "Will you please give me money?" Same thing when you're dating. You wouldn't ask someone to marry you on the first date. If you asked someone to marry you on the first date, they're going to say, "Oh, okay, that's weird, that's awkward." With private money lending, it's the same as dating. You've got to take it slow. The very first interaction with them, you just say, "Hey, I'm glad that you're interested in this. Why don't we do this? Private lending has a lot of advantages, but I really want to talk about both the risks and the rewards so you fully understand it. Do you have time Tuesday at 2 o'clock for 25 minutes to go have coffee? Okay, great."

Even when someone says, "Oh, just tell me now." I always stop them, because I have in the back of my mind. I'm like, "Okay, this is like dating. I can't ask someone to marry me on the first date. I've got to slow down." Then I tell them, "Hey, I just want to make sure that, I don't even have the documents with me. I want to go through what a deed of trust looks like, and what a mortgage looks like, and I really want to explain them to you. Let's just carve out about 25 minutes Tuesday at 10 o'clock and I can walk you through all of that."

Then you come to that Tuesday at 10 o'clock appointment. You've got those documents in hands. That's the second date. Then date number three, you want to actually take them out and show them some houses, even if you've never done a house before. What I used to do is I used to call my real estate agent and say, "Hey, can you line up some houses for us to go look at? I want to bring out one of my potential investors to go see them. Can you walk us through them?" Then I would make that date number 3. We'd go out with the realtor, we'd go look at houses. Then usually, my logic tells me with private lenders, you don't ask for marriage until date number 4. After you've spent some time together and really built some rapport, then the 4th date is when you can actually just start doing private money lender deals together.

Mark Ferguson: Wow, that's awesome. That's fantastic advice. I think not only with private money lenders, but with most business relationships, you can use that same advice. You're not going to get a big deal or solidify a great relationship the first time you meet someone. You're going to have to build rapport, build up trust, and really, the more someone likes you, the more likely they are to do a deal with you, so if they can see you're a real person and doing real deals, that helps a ton. Great information. You've got 107 rental properties. Do you have a goal to buy more, or is that where you're at right now? Do you have an end goal on what you want to do with your investments?

Nate Armstrong: I'm good with single family and duplexes right now. What I want to do next is I want to start to get some bigger offices. I bought this one office. I've got a tenant in there by the name of Mutual of Omaha, a financial services company. It's a corporate signed lease, guaranteed for 5 years. Like clockwork, every month on the first, I get a wire for $5,000 on that building, and I just love it. In my mind, I'm just like, "I want more of those." I don't have to worry about the maintenance, the taxes, or the insurance, because the tenant pays it, so I want to start getting more of those. I could not have done one of those, though, until I did a bunch of single family houses, to really learn the systems to it, to learn how to understand how do you get a cash-flowing unit? What do the numbers look like? On commercial, it's big reward, but also big risk. I'm glad that I got the experience. Now that I've got it, I want to start to get more of those properties.

Mark Ferguson: That's one thing I've always liked in commercial. You get those big corporate clients, and they pay like clockwork, like you said. They have long-term leases, 5, 10 year leases sometimes. My biggest concern was what happens when that lease comes up or when that lease is getting close to coming up, and I've seen commercial places be vacant for 1 or 2 years before they find a new tenant. How do you deal with that?

Nate Armstrong: Yeah. That's where you've got to have good liquidity at that point. I wouldn't advise people to do commercial right out of the gates, and I'm glad that I never did, because I was able to work through single family houses to build up good cash reserves, so if I did have a tenant that left, then I could afford to go vacant for a year if I needed to. It happened with my car washes. Literally, about 2 car washes in the previous seller literally got to a point in life where they let them go, they'd let them get distressed. The bank was foreclosing on these car washes. The guy stopped putting soap in the dispensers because he was just broke and couldn't afford anything and whatever. I bought these car washes basically out of foreclosure, and they had been so wrecked that nobody in town wanted to come back and actually use the car washes. I had to do a bunch of promotions and run specials and put up signs and banners and all that kind of stuff to get traffic to come back, but it took a while. I went through probably 4, maybe 5 months of 0 cash flow, negative. Putting money in every single month, even though I paid a ton to buy them, I had to put money in to get them stabilized.

Now, fast forward a year later, I've finally got them stabilized where I'm bringing in positive cash flow. With commercial, it's big risk, big reward, but if you want to analyze them right and you've got good cash reserves, then they can be good deals.

Mark Ferguson: Yeah, for sure. I'm curious, one more question. What's the most often way you buy properties? Are you buying from [MLS 00:32:24] when you're looking at properties? Are you buying from wholesalers, or doing direct marketing, or is it a mix of everything? How do you guys find all your properties?

Nate Armstrong: We do a mix of all of those, but the best, the biggest hitter right now is direct mail done right. I'm not talking about just buying a list and then sending out a bunch of spam to people. Direct mail, the secret is is you need to get the person that's getting the mail piece to open it. I'll give you my silver bullet here to direct mail. It's literally hand-written letters with a Batman stamp on them. I laughed as well. It was actually one of my team members that came up with that idea. Dave said, "Hey, we should do this, let's try this." I'm like, "All right, let's try it."

What we're doing is literally hand-writing them, or now we've found a printing press in town that has a machine that does handwritten, and we're putting a Batman stamp on them because what it looks like to the recipient of the letter is it looks like they're getting a letter from their nephew. For the return address, I don't write my name at all. I just write our address. It doesn't look like it's coming from a corporation or an entity of any kind. They see that Batman stamp on there, they see that it's handwritten, they're twice as likely to open it because it looks like something that's a personal piece of mail.

Then they open it up and then the ones that want to call us will call us. If they don't want to call us, they don't call us. I literally took my conversion rates in direct mail from about 1 and a half percent up to 5 percent, just by doing that big move right there. That number might not sound like a lot to people that don't do direct mailing, but think about this. When you do a direct mail drop, even if you only do 100 pieces, if you only get 1 percent to call you back, you went through the time, energy and effort to send out 100 pieces. You only got 1 phone call. Usually you don't land a deal off of one phone call. It takes a lot of phone calls. Usually takes 15 to 20 phone calls. By converting, getting your conversion rate from 1 and a half percent up to 5 percent, that means that you took it from 1 person to 5 people. You're 5 times more likely to get a deal than if your conversion rate would have been stuck at 1 and a half percent.

I would advise to everybody, switch your direct mail up to make sure you're putting the Batman stamp on it. That's the deal killer, or deal getter, I should say.

Mark Ferguson: That's awesome. That's really good. When I open mail, if it's got a printed label on there, and I usually don't open it, because it looks like a credit card offer or something like that, I'm not going to open it. If it's handwritten, I'm like, "Oh, who's this from?" I always open those, because you think someone put effort into it and they're actually a personal letter. That's great advice. Awesome. Well, I know you've got your rentals, you've got your company, so you sell these turn-key rental properties to investors all over the country. Tell us a little bit, if somebody wants to get involved with your company and buy these rentals, how would that work? How easy is it, how difficult is it to buy a property if you live in California, and you want to buy a turn-key rental in Minnesota or Milwaukee?

Nate Armstrong: Great question. It's really easier than you'd imagine. What we do for our investors is we YouTube video properties now, so people can actually see what the neighborhood looks like and see the physical property. It gives people a really good peace of mind on what they're actually buying if they're out of state or out of country. The other thing that we do is we hold open houses once a month in each of the cities that we're buying in, so if anyone ever wants to fly in and come actually kick the tires and shake hands with the team members on the ground, then we always have an invitation. It's the third Saturday of every month. We invite people to come in from all over the world to come look at what we're doing. It's a lot of fun and I do encourage people to come do that. If the individual's a busy professional and they just don't want to have to do that or don't want to take the time, then we'll just continue to do our YouTube videos so they can see what's going on.

The other thing, too, is that for due diligence, nowadays the internet tools that are out there are incredible. Number one, you can use Google street view to literally walk up and down the street and see what's going on in the neighborhood. I personally, if I can't make it to one of the properties that we're taking through the system, I walk the street. I want to know what the cars are. I want to know if the neighbors leave trash out in their yard. It just gives me a vibe of the neighborhood. The other tool that I use is Trulia. Trulia.com, if you enter in any address in the United States, what it will do, if you scroll down about halfway down the page on Trulia, they've got a crime map, a heat index, I should say, and what it does is it downloads the local police reports, and you can actually see the police reports right on the map as in pertaining to where your subject property is. What it will do is if it's high crime, it'll populate it with red. If it's medium crime, it will be yellow, and if there's low or no crime, it will be green.

I like to buy in areas that are green, which are low or no crime. I find that I get better tenants and longer term tenants in those kinds of areas. For investors out of state or out of country, there's a lot of tools online that will help with due diligence, and then for us and our process, we just try to make it really easy for the out of state or out of area investors.

Mark Ferguson: Very nice. Another question I always get to, is, how can someone, is it possible to finance a property like that, when you're buying from out of state? It might be tough for conventional lenders to do it. Is there ways to finance these turn-key properties?

Nate Armstrong: Yes. Financing, it's part of what helped lead me to my 107 properties myself, so I've had to figure out the banks backwards and forwards. I work with credit unions or local banks. I don't work with the big national conventional lenders. When I work with these smaller banks, I find that they're more apt to lend to out of state investors as well, as long as the property's within a half hour of their bank. What I've done is in each of the cities that I work in, I call all the banks. I call them all, I check in once every 3 to 4 months, and I just say, "Hey, how are things going? Are you still doing loans for out of state or out of country investors?" Then I pair my investors with those banks.

Typically what the bank wants is they want to see 25% down on a purchase loan, and then on a refinance, and this is the way that most of our investors buy, they'll buy with cash coming in, and then what we'll do after- make sure that there's a tenant in place and whatnot- after that, then we'll help them refinance with the lender. Then at that point, the lender will actually give 75% of the appraisal value back, so if it appraises higher than the investor bought it for, which usually happens, then the investor will actually get more money out of the deal than if they would have bought it with financing coming in.

Mark Ferguson: Very nice, very nice. That's always a hiccup for many people wanting to invest out of state, how they do that. I know how important working with a local bank is where I'm at, and you said you call every local bank in every market. What do you ask them? How do you have discussions with them to see if they're going to be good to work with for doing those portfolio loans, those local loans?

Nate Armstrong: Yeah. First question, and I have just a list like this, and I just call and I keep my conversations under 2 minutes on every single call unless the bank is going to be a good fit, because 3 out of 4 banks are not a good fit for out of state or out of area investors. First and foremost, I simply say, "Hey, may I speak with whoever is in charge of business loans?" I don't want to get paired with a residential broker because the residential broker is going to try to put you inside of one of those national conventional loans, and I don't want those. I want the business banker.

Sometimes, depending on the size of the bank, it might be the president of the bank himself. They'll transfer you over to the business banker, and then as soon as that person answers, I say, "Hey, I just want to verify, is this the person that handles the business loans? Okay, great. Let's go forward." Then I say, "Hey, I've got myself and my clients are out of state investors most often. I'm local here, but most of my clients are out of state. I like to have loans for them for real estate. Do you guys do out of state investor financing for their business loans?" If they say "no," I say, "Okay, thanks for your time," and I go onto the next one. If they say, "yes," then I go to the next question.

Next question is, "Do you do cash out refinances?" If they say, "no," I go to the next bank. If they say "yes," then I go to the next question. Next question is, is "How do you base the cash out refinances? How do you determine the dollar amount the investor gets back?" If they say they've got this thing where it's the lesser of this and that, I don't like that word 'lesser.' It's just a bad word. What that means is that they're going to either give appraisal value, a percentage of the appraisal value, or the lesser of cost. Cost would mean what you actually paid for it. I don't want them to do anything to do with cost. I want it to be appraisal value only, because that gives my investor a better chance of getting more money out of the deal.

If they say, "Hey, we'll do it based on appraisal value," then I say, "Okay, great. Let's have the next question." Then my next question is, is "Do you have a title seasoning period?" What that means is that "Do you require the investor to own it for any specific length of time?" Sometimes banks want you to own properties for six months or a year before they'll even put a loan on them. I don't want that. I want the banks that say, "No, we don't have that. You can refinance a property the day after you buy it with us." If they say that, then I'm like, "Okay, great. How do we do business together?" That's just the lineup that I run through.

Mark Ferguson: That's awesome. You said, what did you say? 1 out of 4 banks that you call maybe will fit that mold, or is it less than that, even?

Nate Armstrong: If you're dealing with credit unions and small local banks, you'll get 1 out of 4 that will do those things that we talked about except for the out of state investor. The out of state investor, it's probably more like 1 out of 10.

Mark Ferguson: Okay. Great information. Wow, that's awesome.

Nate Armstrong: What I try to do, though, you've got to picture these small banks. What they do is, they have a lending committee meeting, usually once a month or twice a month. That's literally, it's usually 5 or 6 of the board members or the bankers that sit together and they talk about each of the applications on their desk. You've got to set whoever's taking in your application up for success. What I try to do on that phone call is I build, once I know that there's even a chance, then I build a relationship with that person, and if my investor's from New York, then I'll call the banker and I'll say, "Hey, this is my client from New York. I know that they're out of state, but here's the thing. I'm watching everything. You know me, I'm in your backyard, I borrowed from you before and I've sent such and such clients to you. There's never been an issue. This client won't have an issue either because I'm handling everything for them on the ground." I try to set them up for success before they walk into that committee meeting.

Mark Ferguson: Very nice, very nice. That's awesome. One other thing. People can also invest from their IRA as well, right, and you help them buy rental properties with their IRA?

Nate Armstrong: Yeah, and that's a powerful vehicle right now. A 401k can be converted to a self-directed solo 401k and a Roth IRA or a traditional IRA can also be converted to a self-directed IRA. Once it's converted to self-directed, that money can actually be used to buy real estate or lend on real estate. Yeah, we help a lot of investors with both of those and if you don't know how to do the conversion process, we can refer people that do the conversion process as well.

Mark Ferguson: Yeah, no. I bought a rental property from my IRA and it's been, it was an easy process, and it's so much better than having it in the stock market. I just can't stand the stock market and it's much more fun, too. That's for sure.

Nate Armstrong: I had a client last week that lost a million bucks in the stock market. I'm like, "How on earth do you do that?" He's like, "Well, I had every penny of my IRA and I had it in some stocks that I shouldn't have, some higher risk stuff, and it just totally got wiped out." I'm like, "Oh, my goodness, terrible." He wants to buy some real estate now.

Mark Ferguson: I wonder why. That's great. Then also, another thing I know, you can help people buy the turn-key rental properties, you can help them buy with their IRA, or at least refer them to a company that can at least get their IRA set up right, and you're still looking for private money, too, as well, right?

Nate Armstrong: Yeah, we take private money in our deals. Sometimes the people that buy properties from us, they want them totally renovated and already tenants inside, so what we'll do is we'll borrow private money on that house, for the [inaudible 00:44:46] to buy it and then sell it down the road to the person that wants it totally done already. We do take in private money for those projects.

Mark Ferguson: Very nice, very nice. You've got private money, turn-key rentals, you've done an awesome job with your own personal rentals, giving us all kinds of great information on the direct marketing, on how you buy properties, really a ton of information. I think that's all the questions I have for you. If someone wants to get a hold of you, what's the best way to talk to you? Should they email you? Should they go to your website? How can people get in touch with you?

Nate Armstrong: Yeah. My book webpage would be the easiest way, and it's literally regoldrush.com, so R like real, E like estate, goldrush.com. If you go there and subscribe, then you'll get in contact with my team immediately and you'll get in contact with me there as well.

Mark Ferguson: Very nice. We'll send a link to that and make sure people can get in touch with you from the blog as well. Any other extra tidbits, any other advice you have for people looking to get into rental properties, looking to flip houses, before we end this?

Nate Armstrong: Yeah. Even if you're brand new in real estate out there, don't stop because of your newness. The new world of real estate that we're in right now, we're so interconnected with people. I know in the past people always used to think, "Oh, I've got to have so much experience, or I've got to know this or know that." Totally false. Start following people like Mark, start getting information from the web. Right on your smart phone you've got more contacts through Facebook and LinkedIn than I did when I first started in this business, by a long shot. Attorneys, contractors, CPAs, etc. Don't let your experience be the hurdle that's holding you back. Get in the game and start reaching out for knowledge when you need the knowledge on demand.

Mark Ferguson: That's awesome. Hey, we're all new at one point. None of us were born with a bunch of rental properties and flipping houses, so we all had to start at some point. That's great advice. Well, thank you very much, Nate. Really appreciate it. There's a lot of great information in that. I took a bunch of notes for myself, so I appreciate that as well. Thanks a lot, I really appreciate you being on the show.

Nate Armstrong: Awesome, Mark. Hey, keep up the good word, man. Appreciate your blogs.

Mark Ferguson: All right, thank you, Nate. Take care.

Nate Armstrong: Talk to you later.

Mark Ferguson: Bye.