Get Real
(estate)

Get Real Podcast Episode: 045

Real Estate Investing Q&A – Lightening Round #1

Hosts: Ron Phillips & Angela Thomas

Welcome to The Get Real Podcast, your high-octane boost and in the trenches tell-it-like-it-is reality therapy for personal, business and real estate investing success with your hosts, power-preneurs Angela and Ron. It's time to get real!

Angela Thomas: Hey everybody, welcome to the Get Real Podcast. I'm Angela Thomas and I'm here with Ron Phillips. Say hi Ron.

Ron Phillips: Lightening round, baby.

Angela Thomas: Yeah, today's lightning round. So we asked you guys to send us any questions you have about anything. Most of these are real estate related, which is cool. If any of you did not get a chance to send us in questions, you can email us questions to invest@RPCinvest.com and we may do another one of these here in the near future. So let's get right to it.

Ron Phillips: How many did we get on, how do you make your hair look like this, Angela or Ron? I mean, how many did we get?

Angela Thomas: I didn't see any about hair. If you have any questions about our hair, you know, just send it on in. I'll tell you how I turned it purple. Ron will tell you how he lost his, it'll be good. So yay. Let's get started. So Ron, I'm just going to start reading through these and yeah, I think these are all for you. Somebody sent in a question for me, please come on.

Angela Thomas: Okay, so Ron...

Ron Phillips: I don't know. I think, I think we can both handle... We will tag team these questions.

Angela Thomas: All right, so the first one, he specifically said, I'd like to know how Ron evaluates a purchase.

Ron Phillips: So wait a second, wait a second, wait, so when you guys send in your next questions, that's really messed up because Angela sitting here and it's...

Angela Thomas: I am hurt.

Ron Phillips: You should be deeply cut right now.

Angela Thomas: Deeply cut.

Ron Phillips: Should we just take a moment? Angela, are you gonna be okay?

Angela Thomas: I'll be alright. I'm tough. I'm okay.

Ron Phillips: Maybe we should skip this dude's question. That was really insensitive.

Angela Thomas: If anyone has questions about skydiving, just send them on it.

Ron Phillips: Cause we just did we not just do a show about you know, the softening of the nation. And here we are talking about your sensitivities. Hey. Woman up, Angela, we got this.

Angela Thomas: I was trying to be real here. Okay. So this first question is for Ron, like I was saying. So he wants to know how Ron evaluates a purchase you've already made. What metrics do you use to analyze if you made a good decision or a bad one? So you've already purchased this property. Okay.

Ron Phillips: We might be able to do a whole episode on that actually. How to evaluate... Okay, so this is lightning round, so I've got to get into the mode of lightning round. How do I evaluate everything? I evaluate every single real estate deal I do based on my cash on cash return period. End of story. Hard-Stop. How do I know if it was good? If the cash on cash return actually goes into my bank account, I did a good job. If it doesn't, then I really sucked it up.

Angela Thomas: I think that's pretty good answer. Nice. I like it. I like it. Okay. Number two. So how do you know when it's time to sell?

Ron Phillips: Easy. Go back and listen to our episode on return on equity. But it's a very simple calculation. Return on equity is the same as return on investment except for you use your entire equity that you now have. So if you've held the property for two years and now you have an additional $50,000 worth of appreciated gain, then you would take the 50,000 plus whatever you put down on the property, add both together, and you would do a new calculation of return on investment using that entire number. And if your new number return on equity is so substantially low that you can get a better return by selling the property and buying a new properties, then you should do that.

Angela Thomas: Yup. And I think I, I know you guys heard it, but it's really important to point out that some people miss, including when they do this return on equity, they forget to include their down payment. Make sure you include your initial investment in that calculation. So cool. That was great.

Angela Thomas: Okay, the next question, I'm interested in finding out the best way to invest in real estate with the least amount of my own capital. Are there other financing options? I'm only laughing because man, I, you know, if I had a nickel for every time people said, how do I invest in real estate with no money? So.

Ron Phillips: Well, so I'm going to answer... Angela, you chime in too, but what I'm going to say is that you probably shouldn't, like if you don't have... Let me start over again. If you're asking that question because you don't have money then the answer is, then you should not invest in real estate. What you should do is do what I did when I first started, which is wholesale, because that's not actually investing in real estate cause you didn't ever really buy it, right? You're going and you're negotiating a deal and then you're selling your contract to somebody else, and you're taking the spread, right? Then you can get money. When you get enough additional money, then you have money and then you can ask a different question, which is how do I actually invest this money? Which is the question the other guy asked, right? How do you evaluate, how do you know when you got a good deal? So if you don't have any money, then you shouldn't be investing in real estate because in order to do that, you're going to have to use everyone else's money. That's not really the way it should work. You should be using, you know, some of your money and a lot of other people's money.

Angela Thomas: No. And I think a quick side note on this, I know this is lightning round, sorry, but if by invest, if you mean make money in real estate, not invest in real estate, those are kind of different things. There's passive investing and then there's doing real estate as a job. If you're talking about, you know, getting into flipping and wholesaling it is possible to get started in real estate without using much of your own money. Right? Cause that's how Ron got started. But you guys can listen to that story in another, in one of our past podcasts.

Ron Phillips: Yeah. I mean and you can even do it, you can buy property subject to the existing mortgage, which means you probably don't have to use any of your money. But the problem with that is if you don't have any money and you do that and then something goes wrong and you have to fix it and you can't...

Angela Thomas: You are in big trouble.

Ron Phillips: You've screwed the person you bought the property from, which you shouldn't be doing.

Angela Thomas: Yep. Okay. Perfect. Thank you. Okay. This next one says, my understanding is that you can't hold your rental property in LLCs when you go through lenders that sell into the secondary market? To use LLCs, you need to go into smaller local lenders who typically can't offer as competitive of rates or terms. Is this correct?

Ron Phillips: No.

Angela Thomas: Yeah. What?

Ron Phillips: How's that for lightning round?

Angela Thomas: I know. That was good. I haven't heard that.

Ron Phillips: I think what you're talking about since that probably begs a little bit more of an answer... I think the reason that you're asking that question is because they will not let you close the loan inside of an LLC. You have to have a personal name. After that though, it's very common to transfer it out into an LLC and, or a trust.

Angela Thomas: And we have lots of people that do that.

Ron Phillips: So yes, you can do that.

Angela Thomas: You don't need to find a lender that will let you close the property in an LLC. You can just move it into the LLC after.

Ron Phillips: Yeah, I mean that said, if you own like 20 houses and you want to consolidate them all into one loan, then you can do that in a commercial loan and then they will only allow you to close in a name of an LLC. Isn't that crazy?

Angela Thomas: I know that was probably more than anyone needed to know, but that's awesome. Okay. Yes. And bring the thunder. Next question: how can we obtain comps for properties that we're evaluating?

Ron Phillips: Oh, easy. Zillow, right?

Angela Thomas: Zillow is so accurate. Checkout Zillow. You just look at the Zillow Zestimate.

Ron Phillips: Listen, the Zestimate is Ruth, always.

Angela Thomas: Yes, it is. God. Okay. No, not really.

Ron Phillips: Get comps. You can get comps from a realtor. If you're buying a piece of real estate, like if you're buying a rental property and you're doing it with a loan, you're going to get comps because there's going to be an appraisal that's going to be done,

Angela Thomas: Make sure there's an appraisal. Those are your comps.

Ron Phillips: I mean, if you're paying cash for it, then you don't necessarily need an appraisal, but you can certainly opt to order one. And then you'll get comps as well. So on every transaction like that, you're going to get comps. If you're out just buying something to rehab it and you need comps, then that's what realtors are for.

Angela Thomas: Cool. All right. I like this next one. This is fun. How do I know that my properties won't be upside down in a couple of years?

Ron Phillips: You don't.

Angela Thomas: Thank you. Lightning round. Ah, yeah. We have no way of telling you that they won't be upside down in a couple of years. But if you buy for cash flow and not appreciation, you will be okay. Just don't sell when you're upside down. Right?

Ron Phillips: Listen, get real. This is the Get Real show, not the make you feel good about everything show. The real answer is no one knows and you're going to have to just be okay with that.

Angela Thomas: And all the experts out there are guessing. So, best of luck.

Ron Phillips: Expert. The only job you can get and be wrong constantly and still have a job.

Angela Thomas: I love that. All right, next thing. What are three things a neighborhood must have for you to consider buying rental property there?

Ron Phillips: Neighborhood...

Angela Thomas: Yeah. Three things that a neighborhood must have.

Ron Phillips: They must mean like city neighborhood.

Angela Thomas: Yeah, I know. Like good, nice trees.

Ron Phillips: Here's, let me just tell you what my brain said, right, They said neighborhood and I'm thinking, I'm automatically, I'm thinking about what house I want at the beach and what I want the neighborhood to look like. And I'm thinking, yeah.

Angela Thomas: Oh yeah. A beach neighborhood. You don't want to invest there.

Ron Phillips: Yeah. I mean it would really be nice if, I mean, there's tons of things that I really like, but they said three. So let's just...

Angela Thomas: Get your head out of the beach, Ron. Come on.

Ron Phillips: Okay. Three things that in the, I'm going to say area... That's a different, that's a whole different question. That's way different. So an area needs a positive job growth. Diversity in the jobs, right? So they can't all be one... It can't be Detroit. Right. It can't be all sitting around the auto industry or, you know, North Carolina or an, excuse me, North Dakota, where it's all centered around oil. Can't be like that. Right? So the growth in jobs, diversity in jobs and commercial development, right? So positive growth in in the economy. That's the number one thing to look for.

Angela Thomas: All right. And then I think this is the same person also asked, outside of cost and business diversity, what makes an area in a good rental market? And I think they're asking for like, you know, other things in that area. So I would say like, you know...

Ron Phillips: Are we live right now? I said my answer and they're...

Angela Thomas: They just sent in two questions. I thought I should include both. So I think that they're asking, you know, what other areas, what else makes you look at a specific area? I know we like boring, boring markets, right? And places that aren't a one horse town that have, you know, like you said, diversity of businesses.

Angela Thomas: But yeah, we also look for boring markets. We don't go for the, we don't try to buy an areas that have crazy appreciation because with that you have the crazy depreciation, right? So we go for the boring, boring, low risk markets. So there you go.

Angela Thomas: And then the next one is does cash on cash return include closing costs to buy in?

Ron Phillips: So if you want to do... If you're not doing one that's just a very simplified version, then yes, you would put every cost you have to purchase that property in. Right? So let's use an apartment complex because there's a lot of costs to go into that. Okay. So I'm going to have my attorney's fees to create the entities. Usually there's, you know, the appraisal is way more expensive. There's sometimes there's extra reports that have to be put in there. There's lender fees. I mean, there's all kinds of stuff.

Ron Phillips: So when I'm doing my return, yes, I have to take the entire amount that I'm actually investing into the property, which includes all of those things. And that's what I would figure my return on. And you know, you can do one really simple. If you're looking at a single family home, you can do one really simple and just say, I'm going to put 20% down. And then if you want to include your closing costs, just bump it up a couple of percent. You know, because you're probably not going to know those immediately going in. And there's, you know, I've got 90 days to close a, a commercial property where you probably only have like 30 days to close a house. So you won't know all those costs until the end, you know, because you're not going to get all of those costs upfront. So anyway.

Angela Thomas: Okay, cool. This next person asked, I see maintenance on a pro forma, but do you also include capital expenditure in your pro forma?

Ron Phillips: Yeah, well we dump it all into the maintenance bucket, but if you wanted to separate them out, you certainly could.

Angela Thomas: Yeah, it's all in there. Okay. That was short and easy. And the next person asks, would you recommend buying houses spread out in different markets versus buying in the same market?

Ron Phillips: Okay. Timeout. I just want to make sure everybody understands the difference between maintenance and capital expenditures.

Angela Thomas: Okay. Go back.

Ron Phillips: Two separate things. So I answered that guy’s question, I realize maybe...

Angela Thomas: Maybe someone doesn't know what that means?

Ron Phillips: So capital expenditures are the things that you set money aside for, like a new HVHC in 10 years where you say this thing's got a lifespan on and I'm gonna have to replace it so I'm going to set some money aside for the next 10 years so that when I have to replace it, it comes out of my cap ex budget. Right. That's different than the toilet got stopped up last week. Maintenance request done. Okay. All right.

Angela Thomas: And we include all that in maintenance on our pro forma, so. Okay. So the next person said, wouldn't you recommend buying houses spread out in different markets or buying in the same market?

Ron Phillips: I would not recommend either one of those. I would just recommend do what you want. Cause there's a case to be made for both of those. And I'll just give you the pros and cons list really quickly. If you're buying all in one area, then you have one management company that you're dealing with a whole bunch of properties.

Angela Thomas: And that's a big pro usually.

Ron Phillips: Yeah. That makes life a lot bit easier for you. Right. So that's a, that's a really big deal. It also cuts down your costs too because you can get some economies of scale with all of them in one area, right? The big, big drawback to that is that then you're pretty much entirely dependent on that one area. So there's no diversity. You're in one area.

Ron Phillips: So it's exactly the opposite with the other ones. You have diversity which spreads your risk around and you know, gives you more opportunity for some appreciation to offset maybe some depreciation that you have in other ones. But you're going to work with a bunch of people and its way... I say way, it's more difficult to manage cause there's a bunch more people. I don't think one of those answers is right or wrong. I have a lot of...

Angela Thomas: It's what you're comfortable with, that's what you like. You're in more than one area. And then, I mean we have...

Ron Phillips: But I'm very heavily invested in two areas. And one of the reasons for that is because I have a really solid property management in one that can handle a lot more properties. So I do more properties there.

Angela Thomas: Okay. All right. So the next question is do you generally prefer single family homes or multifamily? Small multi-families or is it better to, you know, do single families have less turnover or versus, you know more units? Does it matter?

Ron Phillips: No, it really doesn't. One is not better than the other one. It, again, this comes down to planning, so, but that, and that's the reason we do a wealth plan with people is to try to figure out what's gonna work best for them and what's gonna work best for their plan. So it's impossible for me to answer that question. I have both. And you know, sometimes my single family homes treat me better and sometimes my apartments treat me better and you know.

Angela Thomas: Okay, fair enough. This person asked about population demographics showing less and less births to replace the aging baby boomers. What's your opinion on how this will affect the future of real estate investing?

Ron Phillips: Yeah, so I'm gonna just take this opportunity right now to tell all of our listeners to have more babies.

Angela Thomas: Come on guys, have more babies.

Ron Phillips: Help the population.

Angela Thomas: Yeah. In Utah it's not a problem.

Ron Phillips: I literally just saw something on Facebook the other day where someone was advocating for abortion and for... What do you call it when you kill old people? I forget what...

Angela Thomas: Oh, yeah... Oh, no, no, no. What is it? Oh my gosh. I can't remember. Oh sure we're blanking.

Ron Phillips: The way the whole point of it was because there's too much population right now, so we needed to kill off at both ends. We kill the babies off and we kill the old people off, because then we'll have less people on the earth to use all the resources.

Angela Thomas: Yeah, no, I actually saw an argument that we should kill off old people instead of abortion because they've already lived their life and the babies are going to contribute more. So it makes more sense.

Ron Phillips: I guess if you're into killing people off there's really not a really positive answer to either one. I jokingly, neither one of those are really funny topics. I jokingly say that to tell you that I don't really think we've got a massive crisis on our hands with respect to population decreasing to the point where we're not going to need housing.

Angela Thomas: Especially since less people are buying, renting numbers are going up, which is only good for us.

Ron Phillips: The person who made these comments was obviously super studied on this topic. I think they were all of like 19. Obviously a trusted source.

Angela Thomas: Hey, 19 year olds know a lot more than the rest of us according to them. So. All right. Next person asked if you can briefly talk about pros and cons of cost segregation in your experience.

Ron Phillips: Yes. Pro.

Angela Thomas: Pro, always pro. I know, I saw that on Facebook where Corey Peterson had negative like 2 million something on his taxes from cost segregation.

Ron Phillips: So if you didn't, if you didn't catch his episode, he's back a few episodes and he did, he posted a picture of his tax return and it was negative 2.3 something million.

Angela Thomas: Yeah, that's nice.

Ron Phillips: Heavy pro on that. Here's the con. If you buy a property and you cost segregate it and you accelerate the depreciation and take that and then you want to sell it next year, that's a big cost to pay for because there's all this recapture that you're going to have to have. So if you're planning on like flipping a property or short, long-term flip, you know, one to two years, it's probably doesn't make a whole lot of sense. Well, I mean you can 10:31 that money and then just kick that can down the road a little further. But at some point, yeah, you're going to have to pay the Piper on that deal. So if you're planning on doing cost segregation, it's more for properties...

Angela Thomas: Long term hold. Rental.

Ron Phillips: But man, huge, massive heavy pro on that deal.

Angela Thomas: Okay. And we have an entire episode on that. If you're curious about cost segregation, few episodes back. Earlier, or sorry, this one said that you mentioned buying condos can be tricky and they're wondering how so? Would you recommend buying condos as a rental property?

Ron Phillips: How so? Yeah. Well, yes, if the numbers work they are tricky. Okay. And the reason that they are is because they always have an association and seems like a lot of them have problems with their associations. So you've got to check that out. In addition, and by problems with the associations, I mean financial problems with the association. So you need to check that out before you purchase a condo.

Ron Phillips: Secondarily to that, the financing is tricky on them. I mean, it just is. The secondary market doesn't like them as much. You're going to get hit on your rates. I think I talked in previous episodes about the ones that I've tried to buy when they were fractured. Fractured condos are almost impossible to finance. So they are a little bit tricky, but that doesn't mean that they're, that they're not a good investment. We just sold some and they were fantastic. But the, the condo association is really solid financially, no problems there. And we got a really great deal on them. So even with the, we even with the association fees, they were really, really good cash flow.

Angela Thomas: So this next one kind of goes with that. This person asked, how do you vet HOA is for financial viability?

Ron Phillips: You just ask for their financials.

Angela Thomas: Easy enough. Will they share them with you before you buy? I know they share them with us, but will...

Ron Phillips: Yeah, absolutely.

Angela Thomas: Okay, cool. All right. And then this person said, isn't an IRA still tied to the stock market? So can't that money still drop with the market? And they're asking about buying real estate in their IRA.

Ron Phillips: Okay. So no, if you take the money, so... If you've got your money with Schwab, I always use Schwab just because that name is...

Angela Thomas: It's just the front of your mind. Schwab, its fun to say too.

Ron Phillips: It's kind of fun. Schwab. So if you got your money with Schwab and then you're moving into a self-directed IRA, you're going to sell the assets that you have with Schwab right now, which we're are going to be stocks and mutual funds and stuff like that, right? So you sell all that, it's going to be now in cash. Cash is going to get transferred to the self-directed IRA. And that money is going to sit there until you tell them what to do with it.

Angela Thomas: Yep.

Ron Phillips: So if it, then it's going to sit there in cash until you tell them what to do with it. So it is not tied to the stock market at all. It's tied to cash. And if you buy a piece of real estate, then you're gonna have cash and a piece of real estate. If you in stocks inside of there, right? If you decide to go get an Ameritrade account and then attach it to link it to your self-directed IRA account, and then trade out of there, you're gonna have cash, whatever stocks you own and real estate in there. So then the stock piece would be tied to this doc and the rest of it would be tied to whatever is tied to, right. So no, you're 100% in control of what you tie your money to.

Angela Thomas: In an IRA, your money is tied to whatever you invest it in.

Ron Phillips: Yeah. Even with Schwab, I mean, if you sell all of your stocks right now and your money's sitting in cash, it is no longer tied to the stock market. It's tied to cash. Right? Or if you buy bonds with it, then it would be tied to the bond market. If you buy gold with it, then it's going to be tied to the gold market. Right. So all that stuff.

Angela Thomas: Cool. All right. Next question. Is there a book that you would recommend to learn real estate industry fundamentals?

Ron Phillips: Millionaire Real Estate Investor by Gary Keller is a great one because it has a bunch of different topics in there. He covers a lot in that book. It's really good. Actually most of Gary Keller's books are really good. Yeah.

Angela Thomas: Next one. This person...

Ron Phillips: Do I keep going with books. He said one book, right?

Angela Thomas: Yeah. Yeah. Just one book. I don't know if he'll be able to remember multiples. We can give more in another time. All right. This person asked, I'm thinking about buying an Indianapolis, but the appreciation seems to be very low. If I hold it for five years or longer, would I still have the equity by the time I do a 10:31 exchange?

Ron Phillips: No one knows the answer to that question.

Angela Thomas: I don't know. That's, that's asking us to predict the future.

Ron Phillips: Yeah. So... Again, there's four returns to real estate so you can't look... And if you're buying a property in Indianapolis for appreciation, that's a bad play because it's the Midwest and Midwest...

Angela Thomas: It's one of our favorite markets. It's a boring market.

Ron Phillips: It's a boring market. So you buy there for cash flow. The appreciation is a bonus, right? If you're buying for appreciation, well we've been on a solid run now for over 10 years. So if you're buying for appreciation, you might have missed the window on the big appreciation gains. And if you, I mean everybody can tell you whatever they want to tell you about the market. I don't really think the market's going to crash this year, but I'm no quote expert... I'm no expert on the real estate market. And all of the experts, they don't know either. So anybody who tells you they know exactly what's gonna happen with the real estate market this year is lying to you. And since they can't predict it and we've already had 10 years' worth of run, you got to assume at this point that you're going to get little to no appreciation. You might, who knows? I don't know. The real estate market this time around may go for 20 year run. I don't know.

Angela Thomas: Yeah, we have no idea. But if you bought for the other returns, you still very well could have the equity to do a 10:31 in five years depending on your numbers.

Ron Phillips: I would not buy a property after a 10 year bull run on the off chance it will appreciate. As a matter of fact, I just turned down an apartment complex for the same reason because the dude was trying to sell this to me and he was saying, these are these can all, they were all built as fourplexes. You know, these fourplexes will sell for this, and next year they'll sell for this, because the, because we are on pace to appreciate for this. And I'm like, dude, are you kidding me right now? You want me to pay for future appreciation? You're out of your mind. No way in hell I'm doing that.

Angela Thomas: Okay, cool. Okay, so the next one: what are your thoughts on HELOCs? Do you recommend them? Have you used them? What's the best approach?

Ron Phillips: Yes and yes. And it depends because it really depends on you all. So when you use it, when you use a home equity line of credit, which is what a HELOC stands for, home equity line of credit that's tied to your asset that you live in. And so you've gotta be really careful when you use that money that you buy something that can make both payments, right? You have to, you, because now you have a home equity line of credit payment and you have your mortgage payment. So you have to be able to make both of those and still cash flow on top of that after all of your expenses, including maintenance, maintenance and vacancy.

Ron Phillips: So yes, if you can find a deal that's good enough to support all of that and still cash flow really well, then certainly you can use your home equity line of credit. We've had plenty of people do that. There's nothing wrong with it, but you really need to make sure the deal works to do that because you're putting in jeopardy your home to be able to do that. So you just, you just need to think it through. Right.

Angela Thomas: Big decision only you can make. So, okay. Well, I think that's good for this lightning round. Thanks Ron. We're gonna save... We have a few questions left. I think we're going to save them for lightning round two. And we have, we have room for more questions. So if you have questions we didn't answer, please email them to invest@RPCinvest.com

Ron Phillips: Somebody for the love of all that is Holy, send a question that is specific for Angela next time. Not specifically for Ron. That's really, I can't believe anybody did that.

Angela Thomas: It's really not cool.

Ron Phillips: Yeah, I mostly just wanted to bring it back up so that Angela's voice can go low again.

Angela Thomas: Go low again. Aww. It went back to the emotional. So yeah, you can distracted me. So send in any questions you guys have, check us out at getrealestatesuccess.com. Give us any comments, feedback you have, like our podcast. And also check us out on Facebook at Get Real Podcasts and we'll look forward to seeing next time. Thanks Ron.

Ron Phillips: Sweet.

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