

Get Real

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Get Real Podcast Episode: 056

The Lunatic Phase of Real Estate

Host: Ron Phillips

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, powerpreneurs Angela and Ron. It's time to get real!

Hey everybody, welcome back to another episode of the Get Real podcast. I am Ron Phillips, and man, I'm excited that you guys have joined me today for this podcast. I think this topic is going to be... Well it's kinda been all over the internet recently and I'm going to talk about a couple of different things, but man, I think that this topic is pretty important. So I'm going to talk about business. I'm also going to talk about real estate today.

If you haven't done so already, please subscribe to our podcast, share it with everyone out there and give us a little bit of love in the comments section. You guys have any questions or anything like that that you think you'd like me to cover on the podcast? Just put it in the comments and we'll keep doing it. And we'll try to get you guys everything that you want to hear about real estate business and how those intersect with our lives.

So today's topic, man... I'm going to call this topic today 'entering the lunatic phase of the real estate market'. And what do I mean by that? A couple of things, man. I am routinely hearing either on the radio, on podcasts, on, you know, just people on Facebook live. I'm all over the place. There's people out there talking about real estate and there's a large percentage of them that just don't know what the hell they're talking about. And now there's this big thing online from people who do know what they're talking about, and they're saying, man, we've got to get out there and call these people out. We gotta save people from the morons or from the lunatics in real estate. And generally speaking, I agree with that.

There was a Facebook post I think about a week ago and it was on one of my friend's pages. He was saying, Hey, we've got to call people out. And I believe that things need to be called out. But I disagree with calling individuals out, and here's why: it never ends well. It just is not something that, A, it doesn't make you look good and B, a lot of the times you get things wrong.

So on this guy's post where he's saying that we should, you know, call people out. Well one of his friends does exactly what he suggests and calls somebody out. The problem is the guy he called out was also a friend of the dude who put who made the post, also a friend of mine, and also a friend of a whole bunch other people who came to his defense. And this dude doubled down, like he kept going because he disagreed with, you know, one thing about how this guy promoted himself, which you know, in the grand scheme of things to get yourself all wadded up about, that's not really a very good one.

How about content of both character and also content of what you're sharing? Do you, do they know what they're talking about? This guy obviously knows what he's talking about and you know, he's out doing real estate in a very, very big way. And so this dude just, he just straight didn't know what he was talking about, but that didn't stop him from calling this guy out. Right? And in business, man, I've had lots of opportunities to call people out. And I think what does you, the listeners of anything that I produce, the most good is to call out the behavior. You can clearly see the behavior.

If you agree with me that certain behaviors are wrong or certain content is wrong, then when you see that content, you can go, Oh, well I'm not going to follow that person or I'm not going to believe what this guy says. Because what they're saying is, you know, I agree with Ron or with this other guy or whoever it is, that what they're saying is not accurate or I shouldn't listen to them because of X, Y, Z.

Wherein if I actually called out an individual, now I'm going to have people on both sides of that individual. And what gets lost in the translation is what you actually want... so what this guy wanted to call this particular guy out on, was completely lost in translation. I disagree with what he said about this guy, but his main problem was with how he positions himself in his videos; not with the content of what he puts out, but with the way he positions himself in his videos. Which is perfectly fine. If you've got a problem with that, then don't watch his videos.

It would have been just as easy for him to get on there and go, Hey, I have a problem when people do videos that are positioned like this, because then somebody can go, Oh yeah, well I agree with you, or I disagree with you; but now we don't have an individual who we're supposed to be, you know, leveling... I dunno. I mean, anytime you do that, it just, it makes you look bad. It doesn't necessarily make the person you're trying to look bad, look bad; and it, and it doesn't really affect any change at all. So if this guy wanted him to change his behavior then he's less likely to do that now, and he certainly isn't going to look at it, he's not going to look at this guy's opinion with good light because the guy was a jerk.

And so outing people, quote outing people is not a good idea. But we have entered the lunatic phase of real estate. And so we do, those of us who know a little bit about real estate, we have to kind of police what people are saying. But I can do that in a way that that doesn't, it doesn't necessarily call out individuals. Right? So let's keep that in mind as we're out there. And I have that in every business, right? So if I go to the Ford dealership and the guy starts telling me that the, you know, Chevy's are a piece of crap because of X, Y, Z, I would prefer that the Ford guy just tell me what's really cool about the Ford, and then say, Hey, just in general in automotives, you should look for these things. These are the things that I believe are most important.

And then when I arrive at the Chevy dealership, I can see that either the cars have what that guy thinks is what should be in the car, or they don't. And I can make my own decision. But he didn't smear Chevy, right? Because it's not necessary to do that. And so what I'm going to attempt to do today is to do everything I just said and leave everybody's names out of it. All right?

But sometimes I'm listening to the radio and to Facebook and you know, just reading generally speaking articles. And I get a little pissed off about some of these things because they're misleading. For instance, I just read an article the other day about... And generally I know that this is what's going to happen because the people who are posting these things don't, I mean there they don't know what they're talking about, right?

So here we have the headline here is a '10 best places in the US for to invest in real estate'. Okay. '10 best places to invest in real estate'. Now in the first part of this, you can tell that there's challenges with this, right? So to establish this list, this is what they did to establish this list of best markets. I'm going to leave the name of who did it out. They evaluated metropolitan areas on four datapoints: current medium home value, strength of home value appreciation... So the forecast of appreciation, which we'll get into that later, but the size of the current inventory and the current percentage of listings with the price cut. Okay. In nowhere in this... The way that they determined any of this is cash flow even... I mean it's not even suggested in here as a part of a real estate investment.

So right out of the gate, I know these people don't know what they're talking about. All they're talking about is speculating on real estate. They're saying, Hey, we think that the house prices are going up. And the way that we came to that conclusion is that in the past several years, home prices have gone up really strong. We have a forecast that says that they're going to continue to go up, and the size of inventory tells us that there's not enough inventory which says that the forecast is probably right. And because there's not a whole lot of listings with a price cut. All of those things only taken into consideration one piece of the real estate investing. And if you guys have been listening to this podcast for any length of time, you know that there are four, and the one that you give the least credence to is the one that these guys are talking about.

So how in the world are we going to come up with the "10 best" if we're not even taking into account the most important one, which is cash flow? I mean, come on, this is ridiculous. I don't even need to tell you what they are. But every one of these places, the first thing that they say is how much the appreciation rate has been, and what the appreciation rate is, is supposed to be. I mean, it's just sad. It's really sad. And the challenge is that people actually out there, they read this stuff and they go, Oh, this is great. So if I'm going to be making my first investment, then I should make it in the number one area, right?

I mean I should make it in the number one area. Maybe you should, but only if you follow the rules that we have already said. Right. And the number one rule is positive cash flow. And it gets worse, guys, it gets worse. Because there's articles like this all the time. I heard on the radio the other day, this guy was saying some really crazy stuff and obviously he's been real estate for a long, long time, but I don't think he's been in investing for a long, long time. I think he's, he's a realtor and I think he's sold a lot of properties to people who invest. But I don't think he himself actually knows it very well. And here's the thing:

If you're listening to someone who claims to be an expert about a certain part of real estate, and in their show they themselves are talking about, I dunno, six or seven different types of

real estate from industrial real estate to single family homes as an investment, I guarantee you they're not an expert in any one of those things. It is impossible to be an expert in the single family home market; the small multifamily market; the large multifamily market; the industrial real estate market; office space real estate market; retail space real estate market; land real estate market. You can't be an expert in all of those things. You can't. And then if after you get done talking about all of that stuff, your main pitch on your show is that you can help people sell their real estate, not their investment real estate, just a regular house real estate. I'm sorry, but you are not an expert. You may be an expert in retail sales real estate, but you're not an expert in investment properties. And even if your whole show, about investment properties and you were trying by yourself to talk about all of them in the same show, it's confusing to people.

And let me give you one specific why: when you flip back and forth between commercial and residential, the rules change entirely. So this guy starts talking about, he's talking about values of properties. And he's talking about homes, and then he talks about that he has, you know, that he knows of a few homes that are for sale and that they are under rented, and then all you really have to do is increase the rent, and because of that off of your non-operating income, then you can increase the value of that property immediately. Well that's patently false. It's 100% not true. Because Fannie Mae, Freddie Mac, and nearly every other lender that lends on one to four family units does so based on an appraisal that has nothing whatsoever to do with the income of the property.

So the guy's right, one of the three or four different methods that you can use for an appraisal is the income approach. One is the cost approach, but they don't use either one of those. What they use is comparable sales. So people, I don't care what you put the rent at on a single family home, the value of a single family home, it is what the comparable sales around it are. Now, you might find a person who has absolutely no idea about real estate that would pay you more based on the income, but not if they're going to go get alone, because the lender is going to order an appraisal and the appraisal is going to be based on the comparable sales around that property.

So we have a clear cut definition right here of lack of expertise. Because what he'd said absolutely holds true in the commercial real estate space. So if I have a multifamily property and I'm getting ready to buy one, and I know that the rents are way under market value, he's right, I can go raise the rents and right after I raise the rent and I increase my net operating income, that property is 100% worth more money. It is worth more money. But those are different loan products.

Those different types of real estate are sold entirely different and you can't conflate the two. Now, the other thing that really pisses me off is that this guy starts talking about risk in real estate. He starts saying that if you think that real estate's risky, then you're just not talking to the right people. He said it's safer than CDs. He said it's safer than, I mean, look, people... You guys know me. I'm a big proponent of real estate, but to suggest that real estate doesn't have risk associated with it is lunacy. It's a lie! Real estate does have risks associated with it. He went

on to say that... the risk is so small that putting a loan on real estate is still as safe as or safer than CDs and every other kind of investment. And that's just patently false. It's not true.

Things can happen in your real estate that cost you money; that can eat up your cash flow for a year, even two years, even three years. And those of you who have lived long enough to hear horror stories from people about their real estate holdings know that things like that happen. Now, that's not to say that that happens all the time. It's not to say that that happens frequently even, but you can't portray yourself as an expert and then jump on a radio show or on Facebook live and tell people that real estate doesn't have any risk associated with it. Real estate does have risk. They're called, it's called tenants. Tenants. They move out and create vacancies which costs you money. They can tear your house up, which costs you money, man. People, I hope that you are aware enough that when someone says something so crazy that you can recognize it and know that that just is false and you should quit listening to that person.

Now note, I didn't have to say this guy's name. Anybody who now listens to that show is going to go: yeah, what's he talking about, no risk, less risk than a CD, gotta be out of your freaking mind.

So we're starting to see this lunatic phase of real estate really, really start to happen here. Now, that doesn't mean that there aren't great deals, and that there aren't experts out there that're doing it right. There absolutely are. And there's a lot of them. Let me just talk about one more thing that really irritates me. I think I've mentioned this on the show before, but I'm gonna spend just a second on it. Because back, most people who are in the real estate market now, in the investment real estate world right now, were not around. Were not in this business during the last crash, or before the last crash. Most everyone in the business now is a product of the crash because it was easy to go buy properties from 2009 on. Right?

So I have some money in a money market account at a bank. That is not an investment. I mean that doesn't even pay... the money I make on my money market account doesn't even pay the fees. Yeah. I mean it's not an investment. It's a parking lot where I don't necessarily lose a lot of money. Right. It's a parking lot. And there are other things that are parking lots for your money and some of them are better than other ones. But let's not call them investments. In investments when the word guarantee is used, you should probably think a couple of times about that one because investments shouldn't be guaranteed, hence the word investment. Right?

So back in the day, people started guaranteeing everything. They would guarantee tenants, they would guarantee rents, and they would guarantee everything, everything. Right? And then they started playing games with numbers after the fact. Right. If I'm the guy selling the real estate and I'm the guy who owns the property management company, then it's easy for me to, at the outset, just say, Hey, I'm going to guarantee everything for like three years. You know, everything's going to work great for three years. You don't have to worry about anything. I guarantee everything.

But what happens if the economy turns and you're losing tenants right and left? That guy's guarantee is only as good as his ability to pay the guarantee. And what happened in 2008 is these guarantees were worth basically nothing because these guys were upside down because they were paying all of these guarantees out. You can't do that for an extended period of time.

The guarantee and a warranty or different things. You can warranty your work. Now you can call it a work product guarantee. I would prefer you call it a workmanship warranty, right? Not a guarantee. But man, we've now entered this phase again where people are doing and saying really, really crazy stuff. And I just hope that you guys out there use your brains and don't get caught up in the hype. Because when people start resorting to promising things that you know don't happen on every deal; you know when realtors are telling you that they can negotiate ridiculous things into a deal for you, like boats and all kinds of other crazy crap... I'm sure that at some point they probably did do that once. But that doesn't mean that that should be a something that you advertise your skillset based on how well you, you can negotiate boats into deals for people, right?

So let's recap. We're in this lunatic phase. It's going to get crazy out on Facebook and social media. It's going to get crazy. People are going to be calling out their neighbor and their brother and everybody else about how horrible they are. And keep in mind, anybody can say anything about anybody when they're behind some kind of a name and a computer. It's a little different than saying it to somebody in their face, right? So take that with a grain of salt.

What I would prefer that you guys take a look at is when people are calling out behavior. And if it sounds like that makes sense... So if today you've been listening to this and you go, yeah, yeah, that article where they're saying the best place to invest is all about appreciation and I know that I need cash flow, then I'm not going to listen to that. Right?

So as you're going down through the things, you may agree with me on everything except for one point. If you don't agree with me on that, that's fine. But then take the rest of what I say and go, 'okay, that's what I'm going to look for then when I'm out here looking through all the lunacy'. And when someone guarantees me, you know, five or 10 different things, and when I'm buying a piece of real estate, I'm going to look twice at that or three times at that, or maybe not at all, right? Before I actually do something. Somebody tells me something so asinine as to suggest that there's no risk in real estate investments, I'm going to stop listening to them. They may have some merit and other things, but they've lost all credibility when they say something that's stupid.

And finally guys, I don't know where it is you get the job of an expert after having been wrong so many times, and you still get to keep your job as an expert. But watch out for them because they're all over the television and media. All of these experts, real estate, financial experts, and they're all wrong all the time. Anybody tells you they know what's happening in the real estate market in the next year or the next two years, they're lying to you. They don't know. They may have a forecast, but they don't really know. Okay. And for the love of God, anybody who tells you there's no risk in real estate, run the opposite direction.

It has been fun going through this with you guys today. I hope you learned something from it. If not the least of what you learned was to not personally call people out online. I think it's tacky. It doesn't do any good for anybody, and ultimately you likely don't know the people as well as you think. And then you're going to be made to look a fool after you've done it. So let's keep the calling out to the content rather than the individuals rather than the human beings themselves. Let the content sort the human beings out.

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