Get Real
(estate)

Get Real Podcast Episode: 061

How To Know When To Bail

Host: Ron Phillips

Welcome to the get real podcast. Your high octane boosted in the trenches. Tell it like it is reality therapy for personal, business, and real estate investing success with your host entrepreneurs, Angela Thomas and Ron Phillips. It's time to get real.

Ron: Hey everybody. Welcome back to the Get Real podcast. My name is Ron Phillips. I'm here with Heather Marchant. Hello. Yeah, and man, we're, we're excited for another really great show. Got it. We've got, we always have a really good topic. This is really, this is really good too. I don't know that I'm going to get as fired up this time as I did last time, Heather, but, but this is, this is a really good topic that people, especially people in the real estate world need to know about, but before we get to that, a couple of things, we appreciate everybody's feedback. We've got some more feedback this time, right Heather, and we want to start off with that. You can find us at GetRealEstateSuccess.com that's where the podcast is. My other company, which we're going to talk about in just a second, is at RPCInvest.com, RPCInvest.com and man, look, look us up, reach out.

Heather: We'd love to connect with you and talk to you both about the show and yeah, just about everything else. And that's actually somebody contacted us, Heather and was like, Hey, like the show, but what do you guys do and why are you doing this show? So maybe we should tell everybody what we, what we do, Heather and who we are, what our real regular company is. So get real estate PR get Get Real show is about getting real about life, about business and about real estate. And those three things were not chosen by accident. There are things that I care about and since it's my show and talk about things I care about, we also talk about things you care about so long as I also care about them and that's how this works.

Ron: But Heather, we run a real estate company called RP Capital and, and we help our clients buy rental properties all over the country and um, facilitate a whole bunch of things that go into that, which some of which we're going to talk about today in this particular topic. But yeah, if we can help you guys, uh, if you have questions about real estate or you want to get into investment properties, specifically rental properties, both one to four units and even up into, um, some smaller commercial or larger commercial for that matter, let us know. We're happy to help you out. It's a party. Yeah, I mean, Heather, we this, this, so the reason that we don't really talk too much about that is that this show has never really been about me making money off of it. It's just, um, or that we get business. We, we actually do though.

Ron: We have people who call us up and like, Hey, we heard about you on the, on the podcast and we want to know more, know more about what you do. But this has always been just kind of a passion project for me. I enjoy this. This is fun. I get to rant about thinkgs like I did last week. I get to rant about things that I care about and I get to just, I share things that I, that I've learned over a couple of decades of doing this and running a business. And, and because I'm in business and you know, Heather, we work a lot, but we also have lives. That's a big main thing that we do is have lives.

Heather: It's our always our focus as a company that we're focused on family and being able to spend time with what, who matters most in our lives. So

Ron: that's right. And having fun. Cause that's one of our core values always. Incidentally, we're going to talk about another one of our core values today, which is, uh, which is a big one. That's not really the topic, but we are going to talk about it for sure. Let's dive into it. This is a topic I think that came up from some feedback from some of our, some of our clients actually, not necessarily podcast listeners, but what our clients

Heather: and that is how to know when to bail. Yep. When is the deal so bad that it's time to walk away and how do you know? Right. Because, or how is it,

Ron: how do you know when it's, when it could be bad and maybe it's not even really bad yet, but it could be bad.

Heather: Yes. I had a client that said to me, am I just like a pain or am I overthinking this? Like I, I'm feeling nervous that I'm being difficult to work with. I've had probably five or 10 clients. Yeah. And I'm like, no, you're not. This is, this is all valid questions. The pain in the neck clients that are over the top are rude. I don't work with them. So cause we fire them around.

Ron: We just fired one yesterday. As a matter of fact, we will leave them nameless on this show, but we fired one, uh, yesterday. So, yeah, we're not scared to, uh, we're not scared to fire clients, the ones who are a pain in the butt, but the ones who ask really good solid questions and are trying to understand, those are not people that we, we fire, we fire rude people who, who treat team members both in our company and outside of our company, less than they should. Those people don't get to work with us. So let's talk about this topic just a little bit, Heather, because this is, this really is important and I think we're going to go, we're going to go after this today as if it's just a deal, right? And it's not necessarily a deal with us.

Ron: Well, we'll give you a couple of examples of things that we've seen but as we go through, but if you're out there trying to do this real estate thing, you need to understand some of this stuff just in general, right? So that's kind of where we're going to come from today is that in general, what should you look for? And the first thing is know your numbers. And Heather, can you talk to us just a little bit about this because, because if you're trying to put your own deal together, this is really critical. We, we just went over how to run a proforma. Right? So talk to us a little bit about that. How, how, what does this mean know your numbers.

Heather: So when you are evaluating a deal on your own, um, we have staff in our office that their job is just evaluating deals. So we don't all the deals that come across our desk, most of them we don't end up doing. So the numbers that are critical obviously are your fixed expenses. You will want to obviously make sure you're cash flowing because that's the whole name of the game in our opinion of course. But taxes. So if you're buying a property and the seller got it for a song and they're rehabbing it and fixing it up, you want to make sure the taxes are accurate and they're not based, they're not going to be changed once they raise the price. $60,000, you know, so you gotta make sure your taxes are right. And that's pretty easy to do. I call the County pretty often the local County and make sure the taxes are accurate and they can tell you

Ron: a lot of counties to have them online now where you can just put in the sale, the price that you're buying it for. They'll tell you what the tax is going to be.

Heather: Yeah. Cause that one can sneak up on you. Um, you will see an estimate in taxes. If you're using a lender, especially they're gonna make sure that you're okay there, but you will see that eventually. But you'll be kinda farther into the deal, maybe pass due diligence by the time you really have an accurate number on that.

Ron: And guys, if you're buying larger deals, and this, one of the things that I think people overlook and men that is a, that is a big deal. Um, and if you miss something on a $5 million deal and you don't calculate your taxes, right, that could be a major, major mistake.

Heather: Yeah. And you're on your cashflow numbers. Yup. So then I would say insurance as your other, another fixed expense. Making sure that if there's any issues with the property, like a flood zone or something like that, it will increase your attacks, your insurance exponentially. So you want to make sure that you have that number, solid property management, that you know what your property manager's going to charge you to manage the property. So it's easier for us on our team because we have all of those relationships set up by market. So mostly we're, we have a fixed insurance cost, we have a master insurance policy at our office and so it's not as painstaking I guess as if you're putting together a one off deal on your own to vet every single one of those numbers. But last I would say to make sure, you know, if the lease on the property, if there is one that it covers the tenant doing lawn care or any miscellaneous, um, or having your utilities, any of the utilities, if the tenant is not paying it, paying them and you as the owner are paying them, that can also make or break your numbers.

Ron: Yeah. And make sure you vet the the lease amount. So if it doesn't have a tenant, make sure you, you vet the lease amounts and you know, vet it with a couple of property management companies and when you do, don't take the top number, which goes to my second point, which is don't force a deal. Yeah. So many people, especially in the market conditions like we have now where deals are really hard to come by, they are for us to folks. So I mean, you know, we're trying to, we're trying to get out there and find hundreds and hundreds of deals. You cannot force a deal that is the one of the bed is such a rookie mistake to take a deal and go, Oh, okay. I think if I just, if I could just get another $50 a rent here and I can just lower the insurance a little bit here and I could, you know, play around with these numbers a little bit. But you've got to know whether you're forcing a deal or if those are legitimate numbers. Right. You have to use legitimate numbers and not forced you.

Heather: Right now it's, it's critical because you can have a property manager giving you the top end of the rent range in February to say, Oh, you can lease this property at $1,200 and then you find out, well not right now because there's not as many people moving right now. So right now you're gonna have to lease it for 1100 or that's, that is something that is also common.

Ron: Yup. Yup. So just like guys know your numbers, okay. And if you don't understand, then you shouldn't be doing the deal. Go get some help and then do the deal. Right? So don't, don't do deals that you don't understand the numbers and never, never, never try to force a deal. Ask me how I know that it's don't want it.

Heather: And it's really easy to do when a deal looks so good. Oh, it's so easy.

Ron: Especially if you're like me, I'm naturally, I'm, I'm a, I'm a salesman. And, if any of you out there are sales people or you live with them, they can sell themselves really easily. Like we are salespeople and we can talk to ourselves and we can sell ourselves. So just know that about yourself and know that if you need a second set of eyes, get a second set eyes on your deal.

Heather: Yeah, I love that you said that. Cause our, our team, um, with acquisitions on properties, it is a two person team for that reason. One person tees up the numbers and the other person reviews them just to make sure that you're not, you're just not going to get stuck in that.

Ron: And if you're, if you're, if you are a person out there who's running a company similar to this, the, one of the other mistakes that I've seen made in our industry is setting up bonus structures in the wrong way. You cannot incent your acquisitions people to bring you the most amount of business or you're going to get the most amount of business, not the best business. Yes. You have to incentivize the right things. Right. So man, I've seen that done. Oh Heather, we've seen back before 2007 we saw that so much. It was, it was disgusting actually. Yeah. And things have a way of coming back around. So when, a few episodes ago I talked about all of the guarantees that are out there on investment properties, which, you know, that should make you bail, but we've already discussed it. So I'm gonna leave it alone.

Ron: But man, when somebody started guaranteeing you everything and then they call it an investment, it's not an investment. Right? So just, you know, be careful out there. Yeah. So this next thing is inspections and we talk about those too. Um, we were just talking about an inspection that we saw a little while ago. We see a bunch of things, right, both inside of our company and people send us and also things that clients send us that they want us to look at. In all cases, we just see all kinds of stuff. And one of the things we recently saw was, was on our no-go list, right? So we have a go and a no-go list in our office. And this was a no go.

Heather: Okay. Yeah. Foundation foundation issues are a no-go

Ron: and you can get her an inspection report back and it has, you know, let me make sure there are foundation issues that are really easily fixed, right. So long as we make the repair by a reputable company that actually will, will put a warranty on their work and their reputable company, that's fine. But when the walls bowing, when the floors are sagging, when like when you've got to jack a house up and rebuild. If I'm out, I'm out on massive foundation problems, big structural cracks, things like that. That's a no-go at our office. Yeah. I would suggest it should be a no-go at your place as well. Unless you're getting a screaming deal on that thing and you're willing to roll the dice,

Heather: you're making enough money on it that you could cover, you know, 30 grand or something in remedying a foundation if there's a spread in the deal. Yeah. Another one of our no goes is flood zone. I've had, I've had a, a seller just, uh, two weeks ago, reach out to me and say, Hey, I know you don't normally do flood zone stuff, but this property really should, it's probably shouldn't be in a flood zone. Like it's, you know, it's kind of marginal. And I said, well, go ahead and fight and get it off and then bring it to me. I'm like, we're not, we don't mess with flood zone.

Ron: Yeah, man. Just you, you don't need to. Yeah. You know, there are more deals out there. You do not need a flood zone property. And as a matter of fact, we had a package deal we bought a couple of years ago, a little over 50 single family homes and there were three or four, I can't remember that were in a flood zone. And the guy's like, well, you gotta take them or leave. And we're like, okay, we'll, we're leaving them. And then ultimately those got taken out of the package, um, because it was going to kill the deal. We just took them out. Like, you, you can sell these off yourself. Why? Why are you killing this deal over three houses? We didn't want them in our package that the cash flow got killed by having the, the flood insurance on them. And so, you know, it's not a matter of if your property is going to flood, it's going to flood. It's in a flood zone, it's going to flood, therefore you're going to have to deal with all the issues that surround flooding in your property. So don't do that.

Heather: Aerial photos after hurricanes come through. I have my property in North Carolina. I had a client reach out to me, really nervous about the hurricanes that came through. And I looked at the news and I looked at all the aerial footage of the flooding and then I talked to our property manager who said no house was affected by any flooding that they manage or anything. And I went, Oh, those are probably flood zone properties that they're shooting all the hype online with. Look at how bad this is. Like, well, those people bought in a flood zone. So, and they knew it. They knew they were in a flood zone.

Ron All right, so you know, you, you, if you want to roll the dice for those, knock yourself out, but you better know your numbers, right? You better know what, what it means to you if you're going to be there. And then anything else that's on an inspection report that's major, that's going to skew your numbers if it's not fixed, right? If you get a written inspection report and says the roof has two more years of life and you know that's going to cost you 10 grand, you better figure it into your numbers, right? And if they're not going to fix it for you, then you, and you know now that you're going to have to replace it, you better figure it into your numbers. That's that whole force a deal thing. Don't force a deal because the numbers look good. Now when you know you've got a $10,000 roof, you're going to have to put on exactly.

Ron: So after you get done with kind of all of that piece of this, there's some pieces that you just can't, how do we say this, Heather? There's some pieces that I can't put them down on paper. I can't teach you these. The next couple of these it's going to be really difficult, but I'm going to feel kind of, yeah, yeah, we're gonna we'll do it. We'll do our best and we'll give you some examples of these things. But the first one is just trust your gut. And we have a, we have something internally in our office where, you know, when our clients call up, and Heather, you know this because I've, you've called me, you know, on several occasions like, but this is such a good deal and they just don't feel good about it. I'm like, well then tell them to cancel. Got it.

Ron: You know, if your gut says don't do this, don't do it, well what the hell would you, why do you need me to tell you? Like are you calling me to try to convince you to do it? If your guts telling you not to do it and that's a good point. And we just don't do that in our office and you need to trust your instincts. Sometimes they'll be wrong. I mean, you know, sometime, maybe it's indigestion, I dunno, but it's safer to trust your gut than it is to go, man, I knew that, I knew it, I felt it. And then you closed on it anyway. You know, I'll give you a perfect example. We just had a, my wife and I just had a house under contract that we were going to tear down at the beach and build a brand new home and we were moving forward and we were excited about this thing.

Ron: So, right. So now force don't force a deal goes out the window when it's your personal house. Right? So it really doesn't. But in this case it kind of, so I have, I have mentally moved, my wife and I were, I mean, we would walk in front of this house on the beach like several times a week. I mean we, we had mentally moved to this place. Now this house was God awful, horrible. But the lot was awesome. I mean, there's a really cool lot. Well, there was this one piece of due diligence that I needed to do and I kept getting pushed. I never really felt too comfortable until I had this piece done. But it was during the holidays and people were on vacation, what have you? Well, we were like literally two and a half, three weeks from closing this deal and it was not a cheap deal as you can imagine.

Ron: It was second row on the beach. We talked to the HOA guy and he's like, Oh yeah, you can't, you can't, you can't go that high with your house anymore. So the house that was there that we're going to tear down, we couldn't build it back to the same height, which completely annihilated the deal and it killed the numbers. And I'm sitting there, we were going to subdivide the lot into two lots, build two houses, and man, it was going to be a sick deal. I mean, we were going to get into this beach house worth a few million dollars for a song really well. I'm sitting there with my wife and I start going, well, what if we, what if we cut it into three lots? Can we cut it into three lots and make the thing work? And my wife looked at me, bless her heart because I'm a deal maker.

Ron: So I'm sitting there now, this is our personal house, not a, not a, not a true, you know, this is not an investment. And I, and she looked at me, she goes, why would we do that? We don't want a tiny little lime. You're like, yeah, you're right. Cause I was trying to force a deal. Yeah. Because I had, I had emotionally and mentally moved into that house. Yeah. Can't do that. You cannot do that. Okay. And my gut, and thank God my wife's got two, she wasn't listening to the salesman. The Lord gave us spouses. That's right. We had to trust our guts. Right. And we had to go have that meeting. Had we not had that meeting, we would have been and we would have been in real trouble on that deal. I mean we, we would have ultimately built a house there, but it would, we would have never been, I would not have been in this same deal that we thought we had, right. Trust your gut. You gotta trust your gut. Okay. Yup.

Heather: And then I think you were going to talk about dishonesty if you see or feel, which is again, the feel stuff, like something like something's being withheld from you. So like if you have, maybe the inspection report is delayed and they're delaying due diligence or things like that. Right. Just to make sure if you feel any kind of inkling, something, someone's not being forthcoming with you. So I love what Ron says. He says, look for transparency. Look to make sure that you feel that they're being honest and open with you.

Ron: Yeah, I mean sometimes we're sitting, we're sometimes we're sitting out on our island, right? We don't have any idea because we're not there. Especially in our business and something seems off and I call and the story that I hear. Yeah. It puts me at ease and I go, Oh, okay, well that makes sense. Yeah. Okay. Now I've, now I feel, okay, so those, those initial gut responses, those are our warnings for us to go and actually get the information. It's what Ronald Reagan said years ago. Right? Trust, but verify. Okay, well, if I go trust, but verify in my verification process, I get a story that doesn't make any sense. Now all of a sudden that just doesn't feel right. And if I make another call and I get a different story, now all of a sudden somebody, somebody is not being above board. And this just recently happened to us, right?

Ron: I mean, and you want to talk about forcing a deal. You put yourself in, put yourself in my company's shoes here because we have a $12 million development that we're doing with some, some other folks we're doing a $12 million deal. And, and as many of you know, we, we pre-sell these, these deals, right? So we have our, our people are under contract on a, on a lot of property rand, and we stand to make a lot of money on this deal because $12 million, the, uh, the commission on that is not insignificant. I mean, that is like three quarters of $1 million. It is not chump change, right? So here we are and all of a sudden I'm getting stories that aren't making any sense, right? The construction slowing and there's only so many times that it can be weather's fault. Yeah. There's only so many times that nothing can be happening on a project and then the story continues to get altered and then, you know, we get a little more information and the information is that, well, the tax numbers were off because of X, Y, Z, and now the taxes are going up.

Ron: And you know, on a deal like this, you know, there's ways that you can manipulate the numbers to make up for that kind of a loss, right? That's not the end of the, of the, the game, but the lack of transparency. And then when the stories don't line up on multiple occasions, and I've, and, and, and you learn that someone has been now just straight up dishonest. It's not like they made a mistake and they owned up to it and said, man, we just, we just kind of screwed up with the city and it's drug on. It's a straight up dishonest statement or three in a row that don't check out with other people that I'm calling. Then what do you do? I mean, then what do you do? Right? You have to be able to look at a transaction like this even when there's a substantial financial upside for you and you'll have to look at the players and you have to say, is the possible upside here?

Ron: Or if my downside risk and what is my downside risk on this deal? Yeah, and we, I mean we had potentially people with 1031 exchanges, so thank heavens that wasn't the case, but also tax implications. I mean it was, it was not just us, it was clients who'd been waiting for this project to be completed that I had to call. Most of my clients sank. There were nine clients in there. So what's the right answer? I mean, the right answer is, is, is those guys look for, for us the downside risk was we are going to get our clients into something. Yes, that wasn't going to be good for them. Longterm, and the the two decades that I've spent building a pretty decent name for this company and reputation in the industry, it could be gone on on one deal, over three quarters of a million dollars, and I spend money too fast for three quarters of $1 million to be enough upside to screw over clients. Right? Yeah. You can't do that guys. You just can't do it. And that's, that's that whole force of deal thing. Again, once I realize there's dishonesty, you can just bet that there's a whole lot more that you don't know. Yes. So whatever the, whatever the little it's like, the iceberg, right? Whatever the little tip is, is sticking out that is saying, Hey, there's a little dishonesty right here. And people weren't transparent about it. That means there's an iceberg underneath. And so the right answer is we cancel those transactions, all of them.

Heather: So Ron called me Monday morning and said, this is what happened. And I was totally on the same page. I was a bit of a like a, Ugh, that sucks. But it's all right. It's the right thing to do. So I called these clients and so did I called other agents in our office and we all called all the clients that were invested in it and every single person, 100% all said, thank you. I expected someone to be frustrated because they've been waiting. Right? Their money's been sitting for some of them, it's been sitting for eight months and they haven't invested in anything.

Ron: Now that's, that's, that's typical for a, when we sell something at dirt, it takes months to build. Right? But, but guys, and, and let this be a lesson as well to anybody out there who is playing in the, in the real estate industry, there are a lot of people out here out there who think that is perfectly acceptable to just bend the rules a little bit over here and bend the rules a little bit over there. And you know what? There are a lot of people who will work with you, but we will not. Yeah, we will not. And I would suggest to you that it's just as easy to make money not bending the rules as it is to make money by bending the rules.

Heather: Yeah. I mean all of those clients all said, I trust you more now. I have a client that's bought 10 properties from me who said, I trust you more now, but that you would do that for on my behalf. Right. Cause they understood that we could have closed and made money.

Ron: They understand too. I mean they're not stupid. They understand how many properties there were there. It's not hard math. Right. To know how much money was in it. And when you're talking about a, I mean, think about this, right? If let's say you have a $10 million company and in like five minutes, you just cancel $1 million, that's a 10th of your entire year. You cancel. If it's a $5 million, it's a fifth of your entire year. I mean it, it's a lot of money guys. Can we replace that? Yeah, we probably can. Yeah. But it's going to take us a whole lot of work and a whole lot of effort internally, but it's worth it. And you've got to be able to do that on your own personal deals. So I had another deal that we, that we did where, um, we raised the money to make this thing happen and it was all, we were almost to close and there was some, there was some challenges with the, with the title work.

Ron: And I called two or three different people to try to figure out what the problems were. And I got three different stories and I called my attorney and I'm like, Hey, like this is what everybody's telling me. And he goes, yeah, that doesn't sound right. Let me check into it. So he does some calling and he gets a fourth story. Guys, I'm out. Yeah, I don't care. I'm not, I no longer care what you say because I can't trust anything you're saying. And since I can't trust what you're saying, it means I can't trust any of the due diligence I did. I can't trust the numbers because I can't trust anything that you guys gave me or that you told me. Right. And turns out that that project actually meant the person who actually bought it. I found out later they made quite a little bit of money and that's one of those deals where had I closed, I might have made money, but I'm not willing to roll the dice when people are lying to me. I'm just not going to do it. So, and for whatever reason, in the real estate world, people think that it's okay to do that. And I, I don't think I'm ever going to understand that. For anybody out there who's listening that may play in that space where things are gray, they're really not, it's black or it's white. It's either true or it's not. You're either being transparent or you're not. Period. End of story. Right.

Heather: I totally agree. I mean, the truth is never worth it and not worth it in the long run. I have clients that have referred so many people to me just for that reason alone. Right? They know I have their best interest above my own pocketbook. So,

Ron: okay, so guys, let's recap how to know when to bail. Probably the overarching largest thing here is to trust your gut. Now if you get into gestion, you should call and verify, right? Because if you get the right story, you can still proceed in the examples that we gave you. We didn't get the right story. We've got three or four different stories and none of them were good. And that means you, you bail, right? And then there's the inspection thing. I think we've, we flogged that one pretty good. So just, um, make sure that, you know, when you're running your inspections, you, you understand what's going on. Okay. And then know your numbers never force a deal just because, never force a deal and don't let anybody, I guess the other thing I should say about don't force a deal, Heather, is that don't let anybody just because you're almost to close try and force you to do it.

Heather: Yeah. Or losing earnest money that sometimes it's worth it to lose the earnest money if you're going to.

Ron: Yup. Yup. Okay. Guys. So if you, if you like to show, please share it with, I know I say this every time like a broken record, but please share, that's how we, I guess that's how we get paid back, right? So if you, if you enjoy the content man, make a comment, but the most important thing you could do is leave a review. I mean throw a five star review on there and write something kind, right. Uh, about this show that actually helps more than you guys know. Um, and we, we really appreciate it. Do you want to reach out to us? You can, you can find us at RPCInvest.com that stands for RP Capital RPCInvest.com you can see the show or find any of the show notes or anything like that at GetRealEstateSuccess.com and we look forward to talking to you again next week. Bye bye.

This has been the Get Real podcast to subscribe and for more information, including a list of all episodes, go to GetRealEstateSuccess.com.