Introduction Man: Welcome to the REI Diamonds Show with Dan Breslin. Your source for real estate investment jewels of wisdom.

Dan Breslin: Welcome to the REI Diamond Show. I'm your host Dan Breslin and this is episode 193 on How to Rehab a House the Right Way with Van Sturgeon. If you're into building wealth through real estate investing, you are in the right place. My goal is to identify high-caliber real estate investors and other industry service providers, invite them on the show and then draw out the jewels of wisdom. Those tactics mindsets and methods are used to create millions of dollars and more in the business of the real estate.

Today's guest, Van Sturgeon, personally owns more than 1,000 rental properties throughout the US and Canada. He's rehabbed even more, picking up countless methods along the way. Rehabbing houses is a breeze for highly successful real estate investors. Buying property cheap due to the condition, then renovating those properties to force value is one of the most powerful methods for compounding wealth. The skill of rehab is crucial to the BRRRR method. You know, the Buy, Renovate, Rent, and Refi strategy is used to build a large portfolio using a limited amount of capital. During this episode, Van and I will dive deep into the renovation aspect of the real estate business along with other topics such as large multifamily investing and market selection. Let's begin.

All right. Van Sturgeon, welcome to the REI Diamond Show. How are you doing today?

Van Sturgeon: I'm doing really well. I've been looking forward to this actual podcast for a while. I'm a great fan of yours. I've listened to a bunch of stuff that you put out there. Wonderful, great content. So, thank you for having me.

Dan: Yes, appreciate it and the feeling is mutual. When we on the podcast, the booking agents alert me to certain guests, and some guests, just quite frankly, don't make the cut. I don't think it's going to be a good fit for us, for the audience, etcetera. Then others, wildly excited when I do a little background research, do the Google and get the story and you were one I've been looking forward to as well to get on the schedule here. So, I'm happy to be here and glad we could find the time. So Van, do you want to fill us in on the background story? Where you came from and what led up to what you're doing today?

Van: Sure. Well, I am a product of the 60s and the 70s. Flower power of the bell bottoms, that kind of thing. I grew up in the city of Chicago and my parents would live in an apartment, a one-bedroom apartment with my younger brother. My parents were immigrants of the country and were looking to save up their money to eventually run out and buy their first home. Live out the American dream. As they're putting their shekels together, putting their money together, they've discovered that the apartment building they were actually living in went up for sale. Instead of buying that dream home, they decide to become landlords. They put all their money together, borrow some from friends and family, and actually went in and they purchased this property and became landlords.

That happened in the late 70s, where just that the cusp of that, you're too young to remember Dan, it was a miserable time back then. With interest rates skyrocketing, 18-20%, Iran hostage situation, the economy was miserable. We began to see this beautiful neighborhood that we were living in in Chicago, all of a sudden started to deteriorate and deteriorate pretty rapidly. Drugs started to come in. People are starting to leave and it got to a point where this building that was beautiful and fully occupied, all of a sudden was suffering, 40, 50, 60 percent vacancy. It got really bad really quickly. The neighborhood started to change where you had these beautiful apartment buildings that we were surrounded by, all of a sudden,1, 2, 3, 5 would get torched. Meaning that they were actually landlords running around, out of desperation to insurance money, would actually literally torch their buildings. And so it was in that environment where we got into that, it got worse. And so as a family we had to buckle down, we had to do everything that is possible to save this investment and so we literally did everything that you can think of to keep that building up and running. Meaning, whether it's fixing a roof, replacing windows, cleaning toilets painting plaster whatever is required, carpeting removal, whatever we had to do as a family, we did it all on our own. We couldn't afford to hire experts. We could not hire. We couldn't afford higher electricians and plumbers and painters. So it's from that background that I got from doing all of this at a young age is where we went through that period, that difficult period time.

Things precociously got better. I went off to University. Graduated. I had an opportunity to go off and become a lawyer. Got accepted to several law schools, but my heart wasn't in it. And I had a very difficult conversation with my parents saying, "Hey, I just don't want to do this. I don't see myself being a lawyer. I really enjoy Real Estate, really enjoy being a junk contractor." And so, that's where they begrudgingly gave their approval, and I went off in Chicago and became a general contractor. I started knocking on doors, started to network, started to create relationships with individuals, and trying to grow this business. Thankfully, the early 90s was a period of time that I started to get busier, and one of the things I kept running into were these career Real Estate Investors. People that this was their means of business, whether they were buying and flipping properties or buying and adding them to their portfolio. I started to network with these people. Start to see what these people are doing, and then I got around to actually doing it myself.

The first property, I remember it like it was yesterday, I purchased it for $43,000 or $44,000, something like that. It was a real beat-up little bungalow. I still have some decrepit, little photographs of it for what I did to it because I was so proud of it. I bought it and I renovated it. And several months later, it cost me around $17,000 to $18,000 at the time to renovate it, I put it up for sale. I sold it for 90 something thousand dollars. All in all, I made $30,000. At that time in 1991, to make $30,000, that was a heck of a lot of beans, because the average salary was around $25,000 to $30,000 and I made that in four, five months.

So I immediately got hooked on it and I was like, well, this is something that I wanted to do. So it was sort of, it ran in parallel. I was growing just the general contracting business and at the same time doing flips on the side and growing that side of the business. I've been very lucky and fortunate in my life and through real estate, I was able to create a number of successful businesses where I've been. I've built subdivisions, custom homes, real estate developers, property management companies, and do also restoration work on commercial high-rise buildings. I've done everything that you can think of under the sun and I've been truly, truly blessed to the point where I've got over a thousand properties across North America that I look after and that I collect income from. So it's been a great ride.

Dan: Nice. It sounds into sounds like a great ride. I want to talk before we get into the rehabbing stuff and the how-tos which I know the audience is going to be looking forward to, but you mentioned being in a couple of different markets. I'm curious how you made the progression because I did make the progression and my audience is probably aware. We're in Atlanta. We're in Phoenix. Now, we're in Chicago. I grew up in Philadelphia and I ended up in all these markets because I moved from Philadelphia to Chicago so I could be near my daughter, and that led to expanding to different marketplaces. So I'm curious, what was the catalyst for you? How did you make that decision? What led to you being in which markets? And maybe you could talk about, as a part of that, what your process for selecting these markets has been or is?

Van: Sure. That's a great question. So originally I started off in Chicago just because that's where I was born and raised. When I went off to University, I went to University in Toronto. I've got a lot of family and friends and all that good stuff and I've got a history because of going up there to go to school. And that's where I eventually met my lovely, lovely, beautiful wife. Thank goodness that I met a wonderful soul. So, she, being a Canadian, kind of made me or kind of helped me transition out of Chicago and go to Toronto. And that's where, in the late 90s, I branched off to. One of the things that I quickly discovered was that Toronto or the province of Ontario is very landlord not friendly. It was a stark contrast between Toronto in comparison to the state of Illinois or Chicago, that whatever investments I made, it really kind of quickly, very quickly realized that this is not a good move. You know, we make mistakes, we learn from them. So on the construction renovation side, I had active and driving businesses. I still have a restoration company up in Toronto that's doing very well, like commercial restoration work.

But I then decided that this is not the place room so I transitioned into other markets. One of the things that I'm very passionate about is landlord-friendly areas. There are across North America that you can identify, that I'm also a real proponent, a real big proponent of cash flow. I love finding investments where arithmetic says that it's a winner and that gives you an opportunity to be able to sleep well at night. There are so many investments that I find across North America with places like San Francisco, Vancouver, Toronto, Miami, and New York. There's a lot of places out there that are so cap compressed. It's so difficult to able the capacitive cash flow, never mind achieving any cash flow. That's not something that I'm an advocate for.

Nevertheless, people did double ins[?]. Markets see huge appreciation in property value. So it's a matter of what stirs your boat or floats your boat. I'm a cash flow guy and that's what I've been concentrating on. So as a result, you'll find me in markets like in Michigan, Detroit area, Cleveland, Ohio. Great places. I've been there for years. Up in Canada, New Brunswick is a province. There's a number of places over there where cash flow is-, the numbers make sense. And also in Florida, I've been in the Tampa area. I have a number of investments over there that made sense now. Florida is starting to get more difficult but nevertheless, those are the four areas that I've concentrated my investments in.

Dan: So let's just dive a little deeper into the example. Detroit or Cleveland, let's say, you decided to go in there. Is there a specific model? Maybe I'm buying 10 with cash, doing a refinance, getting some cash out, moving on. Is it just buying them cash? Wait until I have cash flow by another one? What was kind of the entry like into playing going in if you had any?

Van: The numbers made so much sense that what I would end up doing is what you identified first. I would buy-I would accumulate portfolio cash. I would just, cash, I would buy $30,000 to $50,000 properties that require some work that is into the kids'[?] tenant and the cash flow was there. Once I put a portfolio of properties together, there were lots of people that were interested in providing financing on that. It's very difficult to find, for one individual property, financing it out on a $50,000 to $70,000 property. It needs to be up to about $120,000 to $150,000 for a financial solution to come in. But if you package portfolios together, there are definitely investors out there or institutions that are willing to put up the money. So I would kill two birds with one stone. I will buy low and also I would buy properties that had issues in terms of needing or require some rehab renovations. And then after six months of seasoning, I would go out there and get them financed and then move on to the next portfolio. Also, there are opportunities for buying portfolios. They still exist to this day. But back then, there were other guy cats who are out there doing the same thing that got to know in those areas, in those industries, and was able to create opportunities for win-win situations where I was able to prowl acquire properties out that way as well.

Dan: Nice, nice. I appreciate you filling in the holes on that piece of the strategy there. So, do you still rehab houses today? You're still pretty active or is now pretty much a different focus for you?

Van: No, we get opportunities that come about through the power teams that we've created in these networks, that we've created in these areas. On a daily basis, we get opportunities that we look at. Now whether we actually act on them or not is a different story but we get opportunities. So we never go out on MLS and try to find an opportunity. I don't know I can't remember the last time that I've actually gone on it. As a result, we are still active and we try to find opportunities and those opportunities, 99% of the time, Dan, as you, well know, requires a little sprinkling of some money and effort. So, you know, we got to roll up the sleeves whether it's a multi-family where it's an eternity to put raised rents to turn around situations. Also there, if there are opportunities that single-family I can dabble in either spectrum because of the people that I have in place. Obviously, I like larger portfolios or like to be able to purchase a 48, 62, 120 unit kind of a property, like a multi-family property. But you're finding those are more difficult to come across nowadays as prior to three years ago or five years ago because there's an endless search for return on investment, ROI. And so the big boys, you know, up in those investment funds and family offices have gone into the market and keeps sticking their toe further, further down. Where five years ago, you wouldn't find them chasing after 100-unit, 48-unit apartment buildings, now they're dabbling in those. And so now you've got to look at it as a contrarian and that's one of the things that I'm blessed with that I have that mixture of a portfolio. I have single-family as well as multifamily, where I see that there's more opportunity. If I really want to get in there and accumulate more in my portfolio, I see more of an opportunity on a single-family side than I do on multifamily because the big boys, out of desperation, they've come down and made it really more competitive for us to be able to find the deal, if that makes sense. I don't know if you've encountered that or in a guest that you've brought on. This is becoming more and more difficult because the big boys have come down and trying to dabble. They're getting into the areas that they've never used to be.

Dan: It does and I have done research all the way back to the '50s as far as economic trends and real estate and markets going up and down and kind of overlaying that with demographic data. I'm curious. I have this kind of going back and forth in my mind. Is it like we're having this real estate market cycle that we're currently in? Or is this longer and broader?

Warren Buffett was buying. I think a lot of his stocks back in the 50s and 60s at like 8, 9 PE ratio. And I think the average for the whole market is something like 16, 18. It's much higher and there's like the 30s and 40s and the crazy PE multiples to your point of dollars chasing the ROI. And so I feel like there's just a longer-term trend of smaller, and smaller returns happening. Also, perhaps it's the institutionalization of American Real Estate. I don't know the exact numbers in London, but I've had friends who say London doesn't work like Toronto if you're buying for cash flow. Maybe there's institutional money who operate and buy things and get a minuscule return on investment, which we, entrepreneurial folks like you and I and everyone listening, would find completely unacceptable and too risky.

And it's like, geez, to your point of buying the single families and seeing it an opportunity to still collect assets at some level, you can't really do that as much in the city of Atlanta. Like you could, let's say, 5 years ago and that's a result of institutional dollars pouring in. Some of the same phenomena are going on in Phoenix, Arizona. You got institutional dollars pouring in plus California dollars pouring in and everyone is doing this appreciation play game. It's like they're bidding up the properties as if they're Bitcoin or at least certainly, a few weeks ago. So in my mind, it's like, are we sitting on the sidelines waiting for better buying opportunities but missing out on the current gains and the better buying opportunities that most of us now have this frame of reference from 2009, 2010, 2011? We're like, "Wow, we could go back." But that was like a once in a hundred-year type of a buying scenario and I don't think we're going to see anything quite to that level, certainly anytime in the next decade.

Van: Dan, all I can say is, I totally agree with everything you said and the jury is out We don't know. Who could have, who would have thought that in 2004 - 2005, we would have seen what we saw in 2007, 2008, 2009. How the real estate market collapsed? What I could strongly encourage everybody, all your listeners is that you prepare for the worst and hope for the best. If the numbers make sense, they make sense and when they don't, they don't. They are deals that we had every single day and you need to get out there and don't be discouraged. There are opportunities that exist. They can exist on the street two blocks down, where there's an opportunity for somebody that you get to meet and find an opportunity. They do exist.

With regards to what you just outlined, I totally agree because what's happening is all these pension plans are forced to or mandated to have X amount of return on investment. And so, as a result, they got to get out there but they're not allowed to go on the stock market. It's considered speculative. So they got to go out there and grab real estate. I've seen cap rates at 2-3%, where you scratch your head. When you know the numbers are juiced, you scratch your head at 2-3% cap rates. You're saying there's no way that this guy, whoever buys this entity, can turn this operation to a black, and I see it all the time. It has been happening over the last number of years and we're seeing capitals getting compressed and compressed. In these types of situations, I mentioned, you got to look at it in terms of a contrarian. That's why I have a mixture of single-family and also multifamily. Whenever an opportunity comes about that makes sense, where numbers make sense, then I'm going out there and grabbing it. It may very well be that we, as private little rosters, need to look at that and try to be more nimble and I try strongly advocate that.

We know all about all these indicators running around chasing deals, but I don't know if the numbers make sense. They don't make sense. A lot of them don't make sense to me. And so God bless them. I wish them the best of luck and success. I don't wish anybody ill will. I hope they become successful. But at the same time, we're entering very uncharted water because one of the things that we also got to think about is that the influx of money is unprecedented, that the government is throwing out there. We are seeing it all around us in terms of inflation. And so inflation drives down cap rates because the cost of money is so much easier to be able to borrow and go. But eventually, there's going to be a change in that, and when that change occurs, and it will happen, I don't know what's going to end up. Something's going to happen because we got such an extreme on one hand of money being printed and being thrown out there. That's inflationary. But then again, we have interest rates at historic lows so something's got to give. One that gives, I don't know. You can make an argument that says the sky is going to fall but also same time you can make an argument that it's just going to keep going and going. I don't know what the answer is.

All I do is look at each individual opportunity, assess it, do the arithmetic, and it should tell you, it should guide you in the right direction. And again, for those individuals that run out on MLS or Loopnet to try to find deals, there are no deals there. You got to get out there. You gotta roll up your sleeve, like, you know what I'm talking about, Dan. You got to get out there in the marketplace. You got to knock on doors. You got to network. You got to find the off-market deal, whether it's on single-family or multifamily. Ultimately there are deals out there. You just got to find them. I don't know if I've answered your question.

Dan: Yeah, it does. And to your point, that deals still being out there, Van, I think of the city of Chicago where I live now. When I moved here in 2015, a lot of investors were buying on the Northside. They were buying and flipping houses in Arlington Heights, the suburbs, for 300,000-400,000, 200,000-250,000, buying them for 150-200. It's really rare that we see any deals come through in that type of area with the low inventory. However, the entire south side-, We had a deal-the mayor of Robbins, Illinois is selling the vision of Robbins, Illinois coming back. And we could not sell a house in that area. You couldn't get 10 grand, 12 Grand, it was a pass. The same house is 50-60 thousand now. Someone can renovate it. Someone can sell it to someone who's going to live there and have it fully renovated house for $150,000, $170,000, $180,000. That's a good investment for the right person to get into that house so I think it's good. What we're seeing with some of this
housing shortage that we're currently in, it's starting to drive investment into neighborhoods that did not see it over the past few years. So I think it's a good thing.

There are areas in Philadelphia and areas in Atlanta that are operating just the same. I haven't been in Phoenix long enough to figure out if there's any of them there or not yet. But to your point, I'm on all kinds of wholesalers lists and wholesalers still have decent opportunities. You'll be worn out and having to check the email and see if it's true or if it's in your area. But you know, they still exist. I mean, they still exist to get deals in this marketplace.

Well, let's switch gears now and talk a little bit about rehabbing. So you are the rehab guy. Van, the rehab man, we have him here on the show. Let's talk about kind of what your current passion and purpose are with helping investors and then we'll start doing some how-to rehab stuff if we could.

Van: Sure. The reason why I got off on this journey was that, as I mentioned, I've had a pretty fabulous but also a rough life at taking my family through a lot. I've slept on job sites, have done whatever it's taken to succeed. I've been very fortunate and lucky but I wanted to downshift on my life and I'm sort of semi-retired right now. But at the same time, I became bored and I'm not the kind of guy that goes golfing every day or grabs a block of wood and starts wiggling it and turning it into a coffee table. So I've been struggling to figure out what the heck am I going to do with the rest of my life because I'm not that old but at the same time I'm old and want to relax.

I get a phone call from a friend of mine, who's interested in doing a renovation to their house, a rehab. Like I've been doing over the last 30 years, I've helped friends, family, neighbors out, and so I helped him through the planning and management of the renovation where they didn't hire a general contractor, they did it themselves. And so after the whole experience, I enjoyed that, I was truly for all by it.
With how I helped them out and how I umpired these people, they saved a lot of money and they were so thankful. And after that, I was talking to a fellow real estate investor, a friend of mine who is also a coach, I talked about the experience. She's like, "Yeah, you would be surprised at how many people are so fearful and it's understandable, but fearful of doing this rehab and renovation." There's an actual need for somebody out there to be able to help people through the planning and execution of it, where if you act on it, not only do you save a lot of money, Dan, but you also learn a skill set that you can then apply and use for the rest of your life as you build a successful real estate portfolio.

Whenever we try to acquire proper, we're acquiring an ugly duckling. We're acquiring a property that's a diamond in the rough that needs some work in order to be able to raise the value. You need to have that skill set because especially nowadays when you walk into a property, you only have a couple of hours sometimes to make a deal. And if you're not able to go out there and do an immediate assessment of what the costs are and the time that is associated with renovating that place you're going to, you can't call your property inspector because that property inspector will take hours or days to show up and all that kind of stuff, right? So you need to be able to have that skillset and so that's what embarked me on this journey and I really enjoy interacting with people especially new real estate investors and I help them overcome their fear of planning and managing a renovation. So it's been great and I enjoy the process.

Dan: I see, I take it for granted. I kind of have a background like you, not quite exactly, but my dad was renovating houses, and one of the first toys that I remember, when I was like 5 or 6, my dad let me have like a two-foot piece of 12-2 wire, some strippers and a razor knife. I don't know what the hell he was thinking about giving a 5-year old a razor knife. And I would wire this outlet in this plug for fun, a little electrical box and that was something that I do. I'd like a bag of this random stuff and I grew up in the job. So I sweep in and kind of handing him tools and figuring stuff out.

That gave me a level of comfort being around the construction sites and things of that nature growing up. that when I started rehabbing, I kind of just, "All right, well, we're going to figure this piece out, we're going to figure that piece out." It was sort of logical because I've known the language of rehab like you. But, wow, yeah, when I see people who get into the business and they did not have any of that experience whatsoever, I commend that person when they embrace it. Husband and wife team coming from corporate jobs, they were accountants and now they're going to do this. Yeah, well done, but leaning on someone like yourself could be a really, really strong asset for someone like that to overcome the fear and get into the business. What would you say is the correct process if there were to do this, this, and this for rehabbing a house? If we were going to give some bullet points for the listeners.

Van: Sure. Well, one of the things that I strongly encourage and I'm a big proponent of, not only on doing a rental but anything that you take on in life, is that you need to create a goal. And that goal ultimately got to be, what is it that you're looking to accomplish with this particular renovation, or this particular project, this particular property and that should be written down and should be staring at you every morning when you wake up because everything that you plan out and you execute is to follow through on that particular goal.

The goal can vary depending on the particular properties. it could be that this property you're looking to rent it out and make $1,200 a month. That's a goal, write it down. Or it could be that I'm looking to flip this property and make $60,000 or profit. That's a goal, write it down. And then once you have it written down, you got to visualize and you can then move on to the planning aspect of the actual renovation or for rehab, some people call. And what that is, is that you need to grab that goal and you need to first run out and validate that. So what that requires is going out there in the marketplace and determining if that truly is what your goal is, a $1,200 to get per month or selling it for $60,000 profit. What are the comparables out there in the marketplace to be able to make sure that you can achieve that goal? Often times I see people running into things or situations where they think they could have should have would have, but they don't actually have a firm idea of what it is that they're looking to accomplish and validating it.

So once you got through those processes of actually truly understanding your market, understanding what it is that you have, the next thing that you need to figure out is budget, money. The money aspect. It's either money cash on hand, whether it's a line of credit, whether it's hard money lenders. There's a variety of places. There are even areas around North America, where the government actually can step in provide some dollars in terms of renovations or rehabbing certain things on your particular home. You got to figure all that out.

Once you've got all of that, then the next step is you gotta go to the property and literally create a needs and wants list. And what that means is, a need is something that has to be accomplished, something that has to be done. So if you got a gaping hole in the roof, if you got squirrels running around through your attic, these are things that you need to address immediately. No matter what. Wants are things, perhaps a bluish, kind of shaggy carpet from the 70s that although it's ugly to look at, might still be functional. That's for the, under the category of a want. If there's money in the budget to replace that, you go ahead and maybe perhaps do that. But if you don't have the money and you address everything that's on your needs side then you go look after the wants. A lot of times, I find new real estate investors just think that if the windows are 46 years old, you don't actually have to replace them. Well, in many rehabs that I do, I don't necessarily, as there's money in the budget, do anything with the windows. I leave them where they are as long as they're functional and they're not letting drafts in. I leave them alone. I always am a big proponent of leaving some money on the table.

A lot of people think that they're going to see the market value of an area being $250,000. Anyone wants to list their property and sell it for $250,000. I don't believe in that. I believe in that moving products, selling, maximizing the opportunity, moving onto the next project. So, if I'm in a situation where the market value is 250, I'm going to put and list the property to 30-ish to 40-ish, maybe. I want to draw offers I want to make a deal quickly so I can move on to the next project. That's the reason why the blue carpeting, the windows, things of that sort, I might knock on a cosmetic site address just so that I can price the proper little lower and let the other person come in who wants to buy the property feel like they got a deal. Dan, you're going to agree with me, there hasn't been a deal with every party didn't feel that they got a deal out of it that they were able to find value in it. Every transaction, every party feels that they got some value. So I've always tried to create situations where people when they walk in, they're foaming at the bit, they want to buy the property because they feel that's a deal. That's the best situation. You create a win-win where you're profiting, you're moving product and you create an opportunity for that individual.

So once you've got to be able to create that needs list and you got an understanding of the whole situation there, the next thing, which is the most important thing that I find that doesn't happen on the residential side is a document called a scope of work. Now if you come from a commercial site-, I'm a general contractor, I work on commercial as well as residential, everything that walks and crosses. On the commercial side, when you're looking at rehabbing an office space or a permanent building, an underground garage, you will have architects, engineers, and interior designers involved in the process and you create a document. Inside the document are all the specifications, drawings, and things associated with that renovation or rehab. There are subsections within that document of disciplines: the electrician, the plumber, the painter. Everybody has their own little section of what work is required on that particular project. So that when the eyes of a general contractor or the eyes of a tradesperson get that document, we go through that section and price it out.

On the residential side. I never hardly ever see that's the case. I don't see that unless you get an interior designer or architect involved, most new real estate investors or just real estate investors in general, won't go through a process of itemizing writing it on paper what they're looking for or what they're looking to accomplish within that renovation. As a result, because you don't have it in writing it, all of a sudden, how are you possibly going to be able to get competitive quotes, just because you just point out a property and you assume that the contractor to trace person knows what you have rolling around in your head or just calling a general contractor up and saying, "Hey I want my place renovated. How much is it going to cost?" Those are the types of silly questions that I come across in dealing with individuals, as well as trace people get frustrated, scratching their head to get this phone call. I want to fix the electricity in my place or I want to paint these walls without any-, you know how many different types of paint are there? How many different qualities? How many different finishes? How many different-, just different stuff and if you don't go through the extent of itemizing, what it is that you're looking to accomplish within your property within this renovation rehab? What do you think that painter is going to quote? He's going to quote you the cheapest lowest quality thing that he can find because ultimately at the end of the day, he knows that you're taking his price, compares it with other painters, and guess what, the other painters are doing the same thing too. But you might have had this illusion or this idea that you want this particular type of pink color, sheen quality, that if you don't write it down, how's that painter going to know? How's that electrician going to know? All those traits.

So a scope of work is one of the fundamental things that I preach that I found is a huge deficiency out there in a rental rehab land. And you know, the funny thing is we got these channels that are dedicated to renovation and rehabbing, HGTV, Renovation DIY disaster mumbo-jumbo, and none of them talk about this. None of them talk about this in such a fallacy that and it really pains me because every single day, whether it's from the internet, whether it's from the associates that I have out there in the business and industry, there are horror stories every single day of people. Just recently, a family negotiated a price, they got different quotes to knock their garage down and build it. They settled on a contractor. The contractor demands a deposit. All this money upfront. The family gives their money. The garage gets knocked down and all of a sudden halfway through the contractor realized that they underbid, there's not enough money in it for them. So they go to the homeowners and say, "Hey, we need more money." The homeowners are like, "Well, I don't have any more money. This is all I budgeted", and the contractor says, "Well if you don't have any more money, I'm just going to leave." And that's what they did. They hopped in their truck and they drove off.

And so now, you got a family who's given up all this money that disappeared. They are going to try to find and track them down. The garage is reduced to rubble and now they got to figure out what are they going to do. They got to go and reach out to another contractor, other trace people. And if I'm a trace person that got reached out to, what am I going to say? I'm going to go to that particular project and wonder, What's going on here? What happened? I won't be going to be as enthusiastic to price this up because maybe this guy's not paying. Maybe this homeowner got a screw loose. These are all the things that happened out there in the real world. Unfortunately, TV and Hollywood, 30 minutes will walk you through a whole run old rehab and that isn't quite the case. There are processes, plans, techniques, and systems you got to implement and that's what I teach.

Dan: Got you. And after the scope of work comes the putting it out to bid. Is that kind of what would be up there?

Van: That's right. You would go out there and tender it. Now, one of the things that a lot of people ask me is, how do I find good qualified, trace people, contractors? And it's very simple for me. If you are a new real estate investor, the thing you should be doing already, fundamentally, is that you need to be a part of associations. You need to be part of your local REI. You need to be a part of these meetup groups. Technology has been so remarkable. I didn't have any of those kinds of resources, back 30 some odd years ago. You know, the Internet is a phenomenal piece of machinery. Only thing is that you got to be careful. There is a lot of disinformation out there, but there's a lot of information like your podcast and others that are out there to get content information. But part of the finding contractors, good qualified trace people, is to look within your internal network of accountants, real estate agents, family members who might have had interactions with good, qualified trace people and then you reach out to your community.

I've always been a part of REI groups all over the place and one of the things I've always found is that people are helpful. People, like me, generally want to help people. If somebody were to come up to me, asked me, "Hey, do you know of a good electrician?" I would give you four. If you're looking for a painter because that's my business and I want to help people. I find that a lot of people are like that. So being part of those associations should help you find those good legitimate trace people and you need to find good legitimate trace people because what ends up happening and I've been a victim of it, you learn. Because the temptation is so, so difficult to resist. Dan, you know, when you price out 4 or 5 electricians, give you a quote, or 4 or 5 tile guys give you a quote, the temptation is so, so, so difficult to overcome to not go to the cheapest guy.

Oftentimes, that's a mistake because what ends up happening, is you go for that. You touch that stove that's really hot. You go for that cheapest guy and what winds up happening is he installs those tiles or does some electrical work which is totally horrible, it's going to cost you three to five times more money to rip it all out. You got to pay the guy because you don't want to lean your property. You destroyed all the material that he laid down, you got ripped out all out, and you gotta start all over again, which ends up costing three to five times as much. I always like to defer, when I'm finding
contractors and rendering process, to try this guy as many references or relationships that those contractors have with people that I trust. And then you got to get out there and you got to actually let them. So you got to visit job sites, you got to talk to the principles. You got to do your homework. This is serious stuff. We're not dealing with a couple of hundred dollars here. We're dealing literally with tens of thousands of dollars and sometimes we're dealing with the livelihoods of some people.

I've seen some horror stories where contractors and trace people, that don't know what they're doing, will cut out these load-bearing walls in the pre-structure, and all of a sudden the house is dangling, ready to fall in on itself. Unfortunately, there isn't a license that's required for anybody to go run out and buy a hammer at your local Home Improvement Center. Everybody can go around and buy a hammer. Maybe the government should get involved in that and license that too because there's a lot of jokers out there. Especially right now, when this real estate market is as heated as it is, you're pulling out a lot of riffraff that want to get in on the action. Lots of contractors, all they got to do is just buy a hammer and a beat-up pickup truck and there's a bonafide contract, all of a sudden.

Dan: Yeah, we have two strategies that will use on occasion for finding contractors. So one is if I'm looking for contractors that work in a specific part of the city, like in Chicago, your south side and north side contractors. Maybe two different completely organizations and won't go to the other because it's an hour-long through traffic. So, one of the things that you could do is, you could take a look at the recent cash sales in the neighborhood. I can pull like a 0.3 or 0.5 radius in the MLS, pull up the cash sales that closed in the last like 60 to 90 days, note them and then drive by the neighborhood. ake a list of them and then drive by the neighborhood. Usually, they're bought by renovation investors just like we and the contractors working for those are also reasonably priced. And hopefully, a reasonable amount of construction. When you approach them, you're kind of using your litmus test. Is this guy an asshole? Can they come up on the job? Is this guy trying me on? I don't just like trot right out that, "Hey, I'm Dan Breslin. We did 283 house flips last year." I kind of want to play my cards cool and get a feel for the person if I wanted to do business with them. Were they warm and welcoming and were they not?

The other angle that is similar to that would be to find completely renovated houses that sold in the area. Plentiful in the south side of Chicago, not so plentiful depending on the suburbs that you're in, you may have to go out two miles, three miles, or four miles. If you look through the public record and it was bought within a year or two at a significantly lower price and sold at retail completely flipped, you might be able to go down to the office and look through the permits and get the names of the contractors all for the permits, and kind of collect it that way. Like, in Chicago, we're spoiled, I have the ability to kind of lookup, new construction permits, and pull every type of contractor that I want right off of this public site that I have, that I pay a subscription fee to. That may not be as easy in certain cities with smaller municipalities, where they're pulling permits as it will be in a big city. So it's kind of two other ways to find a contract.

Van: Those are all great points and again, it's amazing what people can do if they're industrious and work hard at it. There are opportunities out there and you just got to figure it out in your area. But good, decent contractors, trace people, do exist. Unfortunately, there's a huge stigma that's placed on because of a few bad apples.
Right now, unfortunately, there are more bad apples that come out of the woodwork. Nevertheless, if you follow those systems and processes, vet them. Especially if you have a creative scope of work, Dan. When you have a document, it reads out the riffraff, because when you provide these documents, you tender it out to four or five electricians, if they're not bonafide operators, they won't bid on it, they'll just run away. Bonafide, legitimate operators will look at it and actually be thankful and want to quote on a job.

And that's where I come from as a legitimate quality contractor is that I always wanted to deal with principles that knew what the heck they're wanting to do and weren't wishy-washy. Because ultimately at the end of the day, for me, making money was a quick turnaround on the project. Whether I see that I want to be able to go in, bang it out and go get my money, and move on to the next project. I never liked projects where there are humming and hawing and construction delays because it just ended up costing money. Yeah, time is money. That's one of the things that getting a scope of work will do amazing to be able to identify quality people to do work for you.

Dan: Got you. One of the things I was checking out before the show was your Facebook page and I enjoy seeing these different tips, things to do for value-adds and specific projects, things that maybe you would stick away from. What would be one or two mistakes from a design strategy perspective that you see a Fix and Flip renovation? Someone who's going to sell that place retail. What are common mistakes that you, perhaps have seen that have dramatically impacted value in a negative way?

Van: They just spent too much money than as needed. I'm going to rephrase the question by saying I hear, I'm going to give you two tips that I think that people should do in order to maximize the amount of money that they can make on a flip. Number one, the best bang for your buck is definitely landscaping curb appeal. There was a real estate agent, an elderly lady, that I got to know early on in my life that was instrumental in a lot of great successful real estate deals. One of the things she kept saying to me is, "Van, you can't sell the steak without the sizzle. You can't sell the steak without the sizzle." What that means is that when you drive up to a property, you've got the first five, ten seconds to really make an impression on that potential purchaser. Whether it's painting a garage door, replacing the side, planting some flowers, cleaning the place upfront, curb appeal is such a huge ROI factor that it is often misunderstood and not utilized properly. People run out and nearly spent tens of thousands of dollars on kitchens and bathrooms. Yes, they do provide value, but the biggest bang for your buck is the outside landscaping.

Another thing that I also find, especially when you get to these older homes, the home is a Circa 1950s or 1960s where they have this big old room with this one, little light fixture right in the middle of the room, and oftentimes again, on a budget try to maximize ROI, simply just replacing the light bulbs in those fixtures from 40-watt, 60-watt, all the way up to a hundred twenty. Now, these LED lights, you could put a 5000 watt light bulb in there, and won't cause any harm. But just by increasing the lighting of a particular room, all of a sudden, it just gives you a different perspective on a place. And just those simple little tricks that you learn over a period of time as one of the things that I do, that I've picked up along the way are just the most, couple thousand dollars, all of a sudden dramatically increases the potential for you to be able to make real serious money. And obviously, of course, the other things you can do in the property, but those cost more money, but hopefully that makes sense.

Dan: It does. I mean, I cringe because I know that it's probably not happening in every one of our flips now. But when I was the guy who's actually inspecting each flip and going in there and kind of managing contracts and everything, lightbulbs was one of my biggest things. I would spend and get the GE Reveal bulbs because the quality of the light would make the paint pop that much more. It probably cost another hundred and twenty bucks for all the light bulbs in the whole house. And the other thing I do is when we would put the blinds in, I wouldn't have the contractor with this blind this way, the other blinds all the way down, it's just adjusted differently. I'd go and adjust all of them just perfect so that the light was always coming through at just the right angle to kind of give you that presentation value. It's like wiping the hardwood floors between showings to make sure you don't have footprints in there during the snow. There's just this attention to detail that when you're flipping houses, you must absolutely remember to look at it through the eyes of that buyer for the first time, not the rehabber, who is sick and tired of visiting the project because they've done it for three, six, seven months, eight months, whatever it took to get it done.

Cool. Are there any things I forgot to ask because we're getting to our wrap-up here, Van, that you feel like we should add before we get to our closing questions?

Van: One of the things that I find, a lot of acrimony that is created between the principal, the property owner, the trades, and the contractor, is that part of that whole process of identifying the pair of people that you want to do business with that you need to really have a serious and unencumbered conversation about scheduling and about the payment schedule. You got to get that out in the open. You got to establish that. You got to clear that up. One of the things that I find often, is this one of those things that are tucked off to the corner, swept under the rug, the principal doesn't want to talk about it, and then the contractor trace person doesn't want to talk about it, but you should be out there upfront and establishing what it is. What are the milestones that you need to reach and how they're going to get paid? When are they going to get paid? And if you don't have that conversation, having that put in writing, it's a recipe for disaster. Speaking as a contractor, I'm always trying to get as much money as I can as possible from you, upfront. So whether that is prior to starting the job and as we go throughout the processes of the job, that I really know you and feel confident we have an established business relationship. If you're new, I'm going to try to extract as much money as I can quickly as possible. You should need to resist that temptation, that pushing, and try to keep as much money in your pocket.

One of the things I struggle with understanding is that people will give so much money upfront to secure the services of a contractor trace person. The only place that I give money upfront is when I go into McDonald's and buy my hamburger. That's when you give money upfront, and then you wait around for your hamburger to be prepared. Why is it that Real Estate Investors, homeowners are giving so much money up front to a contractor trace person when they haven't delivered a service. I understand if you need to give money upfront for the purchase of material but that even in self, you should be able to do it on your own. Meaning, if these got to trade accounts, go over there and you buy the material. In terms of the legality, if you bought it that means it's your material, versus if you bought it through a contractor then there's a gray area there because you really haven't purchased the material, it's the trace person. So if they will decide to skip out and leave and grab the material, you have no right to it, you gotta sue them. But if you purchase the material with your own credit card, with your own money, then it's your material, you're the legal owner of that material. So I strongly encourage people in setting up a payment schedule and also be mindful of the amount of money you give to trace people, especially toward the end.

The last 5-10% of a rehab project or renovation project is the most difficult. You see the light at the end of the tunnel but there are so many little doodads, here and there. Trace people, contractors, if they got a lot of their money upfront already, they're gonna skedaddle, they're going to leave you. And then you're going to have to now figure out how to finish his little doodads by virtue of you keeping a lot of the money still in your pocket and forcing them or requiring them to finish everything and then paying them. That's how you keep control. That's one of the things that people stress on your head. You wonder, how is it that I keep this trace person, this contractor here on my job site. How is it that I get them to show up on time? Well, keep your money in your pocket. Trust me. If you owe them money, they will show up. So that's the only last thing that I really wanted to add because I'm really frustrated by it. Especially nowadays, there's this sort of thing now that contractors are manning 20%, 50%. I've heard some outrageous sums of money to secure their services. Wait a minute, this is not McDonald's. So that's what I wanted to add.

Dan: Is there a book or two you'd recommend to our audience, Van?.

Van: I really love the Secrets of the Millionaire Mind by T Harv Eker. It's a fabulous book and I truly recommend people to read it. I read it a number of years ago and every so often I'll read it again. I think it's a fabulous book that teaches you mindset and I strongly encourage it. Another one is Think and Grow Rich by Napoleon Hill. Another great book. An all-time classic. Again, a positive mindset, it's amazing what a mindset can do. I'm a real huge proponent of it. The last thing is The Wealthy Barber by Dave Chilton. A great little book. It really gives you an idea of an understanding of how passive income and how to look after your finances, how you're able to springboard from here to here, go up to the next level. So those are the three books that have actually made an impact. There's a lot of books out there, a lot of podcasts, and a lot of information. You just got to be willing to put in the time and effort.

Dan: Yeah, for sure, absolutely. So my final question for you would be the crown jewel of wisdom right there. REI Diamond show, for diamonds in the rough for rehab, but for us on the show, it's kind of the crown jewel, right? This is all about wisdom, that's why we do the podcast. So if you had to go back with no money, starting it all over again, 20, 30 years ago, whenever it was, what would you tell yourself then, knowing everything you know now, to kind of get started again from 0?

Van: If I had to do it all over again and what I recommend to everybody is that I would definitely be making an investment in myself first before I make an investment in anything tangible, whether it's real estate, stocks, whatever. Make the investment in yourself. What that means is that you need to make the investment in time. You need to make an investment in education. You need to make the investment perhaps in a coach or a mentor. You got to get out there.

I connect it to learning how to play a musical instrument, like learning how to play the guitar. Yes, you can grab a guitar, start strumming it and trying to figure it out on your own. In a couple of years, you might eventually figure out how to put a chord together. But isn't it so much more helpful to hire a guitar instructor? Somebody that is right beside you, show you how to hold the guitar, how to play the guitar. If you make a mistake, whack you upside the head, make sure that you know what you're doing, and show you how to do it. It is the fastest and most secure way of getting you from point A to point Z.

It's going out there and finding individuals, finding people, educating yourself, making an investment in yourself because this business is very harsh and very difficult. It can be devastating. One wrong move in a renovation, one wrong move in buying a property that you shouldn't have, could totally really devastate you, financially and emotionally. It's very difficult to overcome that. So one of the things I stress is education and invest in yourself. This is the first thing that I would be doing if I were to go into this.

Once you've got that education, if you really, really want to get into the minutiae, I think every good real estate investor should learn how to wholesale and find deals off-market. Because if you're running like the other millions of people on to MLS to try to find a deal, you're never going to find a deal. There are no deals on MLS. Money is made on the buy and I couldn't emphasize that more. Money is made on the buys. You've got to buy properly. You got to find deals and once you find a deal, it's amazing how people, if you have a network of people created around you, it's amazing how money pops up. There are jokers like me, always looking for money and to co-partnership with people if they got a deal and so you got to find the deal. Money is made on the buy. Hopefully, that answers your question.

Dan: Nice, I love it. So how can listeners get more advanced Sturgeon?

Van: Well, I've got a website that I've created, vansturgeon.com. It's a website that I've written a number of articles on that have been published talking about real estate and renovation and how to invest properly. I've also been in a number of podcasts and I've got them on my website as well. I've got a renovation calculator that I've developed. It took me several months with my team to put together and essentially what this program does is that you go on my website, you had your email, and it gets sent to you. What you do with this application is that you just enter all the things that you want to do within that particular property and it spits out a number, gives you a budgetary number. What it is that you should be looking at in terms of the renovation of a particular property. It's a great handy tool that people can use and I strongly encourage them to download it and that way, they'll be able to use it and help them through the process of figuring out how much these things will cost. It's a great starter tool.

I encourage people to go on our website to get more information and ultimately if you want to contact me, you can do it through social media. I'm up on Facebook and Instagram, as well as on my website, there's a contact page. I welcome any questions that you may have. I love working with people that really are passionate and want to learn and want to become successful real estate because 90% of the world's multi-millionaire billionaires are made out of real estate. It's a tried and true method, it's the power of leverage and is a beautiful thing, so I encourage people to go out there. There's lots of information out there so I appreciate the time to be able to share it.

Dan: All right, cool. Hey, we are at the top. I really appreciate you coming to the show. Got a ton of notes here and had a good time. Thank you, Van.

Van: Thank you very much for having me.

Dan: Low-cost capital is the fuel of any volume real estate investment business. As a real estate investor, I am sure you're well aware of these two facts. First, your business is driven by access to capital or starved from a lack thereof. And two, you make more money when you reduce the cost of said capital. Whether you're looking for hard money loans to fix and flip houses, rental, portfolio loans, or even a line of credit, the lending home offers the most competitive rates in the market. Currently, as low as 6.49% which is good for fix and flip single-family loans. I pay 10% myself at fundrehabdeals.com to my private investors. So at 6.49%, if you like that interest rate, go to REIlineofcredit.com. Even if you're not currently in the market for a loan at this very minute, I encourage you to still go through that one-minute sign-up process right now, so you can get on the email list. That way, once you're ready and you have a deal or a few, their name is Top of Mind. Plus as a bonus for signing up through REIlineofcredit.com, you'll receive a free iPad when you close your first loan. That's REIlineofcredit.com.

Dan: Thank you for tuning in to the REI Diamond show. Remember to review and subscribe on your favorite podcasting app. Just search REI Diamonds and click subscribe. Interested in receiving my weekly big idea email where I provide the most valuable jewel of wisdom that I discovered during the recording of the most recent episode? Sign up at REIdiamonds.com. At that site, you can also access the 192 episode archive for 12. Again, that's REIdiamonds.com.

So in 2020, my house flipping business Diamond Equity Investments bought and sold 283 houses, and we've done 163 so far this year. Well, mostly houses, a few were apartment buildings and we currently have another 164 more in our inventory, either under construction, or under contract, and awaiting close. And I share all that to say this, there are three ways that you and I can do business.

Number one, if you are interested in having access to the best real estate deals in your market, in other words, access to deals you can buy at low enough prices to actually profit after renovating and reselling, go now to www.accessrealestatedeals.com. Number two, accredited investors, seeking double-digit returns can sign up for a private mortgage investment opportunity email regarding the funding of our deals at fundrehabdeals.com. That's how to passively participate in Diamond, Equity, Investments deals. And number three, finally, I am always buying houses that I can flip and always buying occupied apartment buildings that ideally have below-market rent so that I have some upside. If you have a deal that fits that description in either Atlanta, Chicago, Phoenix, or the Philadelphia region, please send me an email with the details. We are at the conclusion, my friend. Next up, we have Johnny Wolf of homeroom joining us to share how you can own select rental properties in B neighborhoods that generate 70% above market rents. I'll catch you and Johnny on the next episode.

Narrator: Thank you for listening to this episode of the REI diamonds show with Dan Breslin. to receive email notifications of new weekly episodes, sign up at www.REIdiamonds.com.

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