Recorded Message: 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 199 on the iCandy Realty fix and flip model with Steve Budzik. 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, inviting them on the show, and then draw out the jewels of wisdom. Those tactics, mindsets, and methods, used to create millions of dollars more in the business of real estate.

Steve Budzik is the managing broker and founder of iCandy Realty. A boutique real estate brokerage in Mokena, Illinois, serving the greater Chicago real estate market. Steve is also an accomplished high-volume fix and flip investor. Long-time listeners will remember Steve's past REI Diamonds episode where we discussed his high-dollar house flipping strategy. Since then, Steve has developed the fix and list program to help his brokerage sell houses faster and at a higher price. The experience and contacts he developed flipping houses along the way have dovetailed neatly into this new program. Steve has built both his brokerage and real estate investing business with a priority on high-level service to the marketplace over high-volume advertising. Our conversation begins with Steve's evolution into the fix and flip business model, his views on how to mitigate risk both as an investor and as a real estate agent, as well as a few reasons he believes every real estate agent should offer a program like this. Let's begin. All right, cool. Welcome back, Steve. How are you doing today?

Steve Budzik: Good, good. Thanks for having me on the show, Dan.

Dan: Yeah. Absolutely. I guess it's been maybe what? 2017 or something like that? Maybe in 2016? One of the early guests of the REI Diamond Show is returning.

Steve: Yeah. Absolutely, man. I love it. I love it.

Dan: Nice. Rather than start with the origination, since we have that on the previous episode and we'll make a link to that, maybe you can kind of give in the last, let's say, 24 to 36 months or whatever timeline you think would be more appropriate than that, the evolution of your business model and the reasons why you've evolved that business model. Which I'm going to assume had to do with market conditions as they've significantly changed certainly in the last 18 months, but we're kind of already progressing in that direction before COVID even hit. So, I'll turn that over to you.

Steve: Yeah. Cool. I would say, if I just backtrack the last three years, I really was coming from more of a position of just being on the agent side, and over the last three years, we did rehab heavily on our own. Like, we were buying our actual deals, did a little wholesaling here and there, bought and sold some rentals. So really, kind of tapped into a lot of different, I guess, ways of investing other than just being a traditional real estate broker. But really, the number one option that we've really been pushing right now, and that's just because of value, and like you said, market conditions is our fix and list program. The program very simply is where we will actually flip the seller's home. We'll come in, we'll analyze what repairs need or should be done, we'll then pay higher, manage the whole process, and then we'll list and sell the property, get reimbursed any of the construction costs when the property closes. It's a real win-win for the seller. It makes for a much quicker sale. Were selling the property for more money which means that they're putting more money in their pocket and it's a win even for the buyer because as we've seen this market shift, there is many less buyers that want to fix up the home or put any sweat equity. You have the investor side or the as-is buyer who wants it at a discount, or the retail buyer that really wants it move-in ready.

Dan: Nice. Before we get into that, I want to take a little bit of a diversion just like philosophically if we could, Steve. We get a lot of fix and flip investors. We get wholesalers listening to the show. I start out wholesaling, flipping, back in 2006. You are kind of coupled with the iCandy and you guys were doing these million-dollar flips I think when we first met when I got to Chicago a few years back. I think you had your license at that time. I've gotten my license since then but I'm kind of noticing this trend maybe it has to do with the licensing board looking for investors to be a little more regulated in getting the licenses. I guess, I think it's a good thing to have the license and I don't run out and list property all the time. But at least, it shows at every level of people who are investing. I mean, you got to kind of understand what agency means. You got to understand what a mortgage is. You got to understand kind of what title issues are and think it's key to have a little more of the background in real estate even if you are an investor. It's like, "Look, you go to some seminar, and then you're kind of unleashed but maybe you should also understand kind of how the professional aspect of being licensed and real estate agents also works." I think it's a good thing for people to level up their professionalism and get a license. I'm curious if you would kind of share that same thought process or maybe you have something different to add.

Steve: Yeah, 100%. I mean, I can see why they did it. I do agree that it is a good idea as it kind of regulates the space a little bit more. It raises the bar at[?] entry. You're going to have less people that are kind of fly-by-nighters or just really taking sellers for-- taking advantage of them. Where I've heard plenty of stories where investors would lock up properties only till the day of closing, they would disappear. I really would say that it has definitely raised the bar for barrier entry and really given much more of an understanding of the actual transaction to investors, wholesalers, anybody that's in the market that wants to do real estate to any more than one deal per year.

Dan: Yeah, true enough. True enough. Cool. With that, let's talk about the fix and flip program. You talked a little bit about doing some renovations, kind of preparing it for the market. I've done a number of, kind of more joint venture, not really a fix and list so we might put significantly more work. It might be swapping a kitchen, might be whatever. Changing a bathroom, putting a roof on, changing the air conditioning unit, getting the property ready to be sold on the retail market. So, it's probably similar to the fix and list but we kind of felt like we're taking a risk on our construction cost. Five, ten, $20,000 worth of construction. I don't want to be in a position where I'm chasing somebody around and I've been kind of taken for a ride by sellers where we did the work, then we get to the point of putting the property on the market, and all the sudden, they change their tune and don't want to do it. I'm just concerned[?] that we're out the money, in those instances where that happened, it's a risk that we took. We were trying to get them out of a situation that they were in that house. They wanted to be out from under the mortgage, we prepared it for sale, and we're just beat for the money. I prefer, now, if I'm going to take a certain amount of risk with my construction, my time, and my effort, I kind of want a little more of the upside than just the listing personally. That's kind of how I feel about the risk versus reward on a joint venture deal. You're now doing something different where you're okay with that risk of the seller kind of going AWOL and disappearing on you and causing problems, or maybe you have a balance. There's a certain amount of repairs and fix and list, the fix portion, there's a certain amount of fix we're willing to do for the agent side and I don't know. I mean, would you consider more fix for like a JV? I mean, what does that look like when you're kind of measuring the risk going in as an agent versus maybe it's a joint venture investor kind of a deal?

Steve: Yeah. No, it's a good question and we've also done that where we've actually done a joint venture with the actual seller. The biggest thing that has really helped us is having a specific contract in place that literally outlines every single term, right? So, they're agreeing to it in regards to the list price. What do we do if the property doesn't sell in the first two weeks? Will there be a price drop? Having all of that in a contract form, that's then recorded on title, has really helped us a lot. But in regards to your question, we like to keep the threshold under $20,000, right? Our commission is on a sliding scale. The more money we put in, the higher the commission. Once we tip the scale over $20,000, it then does start to become more of a joint venture. Where we're actually starting to take some of that profit that we're creating by doing the repairs. For $20,000, maybe if there's a retail seller or somebody that's not in real estate listening, all of our pricing is much more geared towards wholesale pricing so we can do a lot. In fact, we just closed on a deal. It's just a couple of days ago in Oak Lawn, where we put $20,000 into the home. We were literally able to do touch everything. Painted the whole house, refinish the floors, outlets, switches, cover plates, vinyl flooring, landscaping, tuckpointing. We're able to get a lot done for that $20,000 and our timeline is very short. That was a three-week project for us. Put it on the market, sold in seven days. So, our out-of-pocket doesn't really get to be that long of a cycle because our projects are super fast. We have all of our team in place and we're able to execute. We mitigate our risk by a couple of things. One, keeping the threshold of work lower. I always tell the seller, I want to do the least amount possible but get you the most amount in return. Again, keeping that threshold at 20,000, once it tips the scale over and above that, we'll just have to structure and be creative on the deal, and with the terms in different ways.

Dan: Nice. What would the commission structure look like? You said you had this like sliding scale of a commission structure.

Steve: Yeah.

Dan: This question is probably less geared toward investors that are listening, right? And more toward real estate agents who are listening. It's like, how do I, as a real estate agent, approach a fix and list, let's say, with someone else? To me, it's like I'm going to do $20,000 rehab for two and a half percent in commission on my seller side of the listing. I probably have better things to do with the time and don't want to risk the $20,000 in a court case enforcing the recorded contract. The arguments with this maybe seller-- I'm fearful for the seller that goes AWOL and disappears and maybe that just doesn't happen very often or you're able to measure the character of the people you're doing business with. But you're in a relationship with that seller, Steve and that relationship I believe has to come with a commensurate reward for the risk you're taking. Is two and a half percent it or what does your sliding scale look like?

Steve: The sliding scale is both based on how much money, time, and effort, as well as the price point, right? If we're going to sell a $400,000 house at 6% and get three and a half percent and maybe put in 10 or $15,000, which we can get in and out in two weeks, makes sense for us. Keeps our guys busy. All of that process is pretty much ironed out so it's not a lot of time for, say, for me, and then I'm able to continue on and go after new business. So, yeah. If the house is $400,000 listing, and again, our threshold is depending on the money and the price, the higher the sale price, obviously, the more commission. It's a balancing act between the price and how much time, energy, and money, we're putting into the property to really determine. But we want to make it a win-win but we also don't discount our services. Our goal is always to get the seller a 100% return. Meaning, if we're going to put $5,000 into the property, we have to be able to resell it for 10. $5,000 that it's going to be paid back to us for the repairs or updates, and $5,000 for them.

Dan: Why? [crosstalk] Why that target?

Steve: Why? Because that's the incentive for us to really maximize the seller's value. We know that the things that were doing, paint, carpet, outlets, switches, the basic cosmetics, will always get us a minimum of that return.

Dan: Makes sense. Is it kind of a risk mitigation thing? I mean, what happens if I put $20,000 in and then I was a little off on my value or the market softened, and the interest rates went up by a quarter-point, or whatever happens? COVID occurs, the shutdown, again, I mean, what about in those instances and it sells for like, I don't know, significantly more than you thought on that initial opening offer? Are we making sure there's equity there? How do you protect that risk of prices changing once you've done the repairs?

Steve: Yeah. I mean, it's twofold, right? We know that we need to be working with a sane seller. We need to know that the financial of the actual property is in a good position. Meaning, if the property is worth 200 but the mortgage is for 160 or 170, that's too tight. We want to see a percentage or a dollar amount in equity. Ideally, honestly, a lot of the clients that we work with, their homes are owned free and clear. So, there's really not a risk there in terms of like, if it sells for a little bit less. Okay, not the end of the world. We can still close the sale. We watch that and we have a list of questions that will ask the seller on day one to make sure that financially, the property is in a good place.

Dan: Are you guys pulling title before you start any of the work to make sure that they can actually convey the deed when it comes down?

Steve: Yeah. It's on a case-by-case basis. But let me tell you, we've run the red line on that one. We've never had a problem. We're doing, on average, once a week right now and we've never had a problem. But it's really just being educated and even like on remine[?], which realtors have access to. You can see a lot of the history of the property. But every time we run into a situation, we're basically adding that to our checklist of questions. Were you ever married? Were you ever divorced? How did you inherit this property? We will get the attorneys involved on day one. If it's like a probate situation because as you know, that can be pretty sticky. Who's the executor? Let me see the trust docs. When you know the right questions to ask, you can mitigate 90-plus percent of your risk.

Dan: That makes sense. I mean, my next question, before I get to it. I'd[?] frame with talking about our own business and we have a lot of sticky titles in usually not highly valuable neighborhoods and that doesn't matter to us. We're trying to do-- we will do the heavy lifting. A lot of times, the heaviest lifting for us is clearing title. Tracking down five different people, getting signatures, [inaudible] and getting them all on the same page, in a neighborhood where the place is going to sell for 35 grand and it's worth like 140. It's like a very difficult deal to get done and we do those deals as part of us providing the service. Of course, when we get a deal in a $650,000 neighborhood, the title is often, most times, much cleaner and easily passed than the lower-priced home. Probably a professional experience of maybe the seller, the history, the family, college-educated and really paid the bills and kept files, and then not so much in the lower-priced neighborhood. That said, looking at title risk for me, I feel like there are certain areas where I have much higher title risk a lot of the time versus areas where it's not really as high. Do you select your geographic operating zone very intentionally? Are there areas where you're not going to go on a fix and list appointment? Maybe because of the values, maybe because of the high crime in the area, the contractors may be, or[?] geographically located. So, if you could kind of describe the strategy behind site selection and market selection for you as an agent doing a fix and list.

Steve: Yeah. I mean, that's a really great question and I agree 100% with you. Actually, the one that was a borderline deal that actually turned short sale on fix and list. Because there was a mortgage that the husband, who passed away, took out that nobody else knew about. That was in the south shore area. So, this is more of the south side of Chicago. But to answer one question, so, price, we really won't go below $100,000 on a fix and list because it just starts to not be worth it. We're not going to take our guys in our team and a neighborhood that we just feel unsafe. I'm not going to say specific neighborhoods but you can get a good idea just by driving down the block. If there's more than one house that's boarded up, we're not going to go into there. I use a lot. I've got a fireman and a cop friend in the city of Chicago. I'm always texting them addresses and the amount of information that those guys can give me, honestly, the firemen are just sometimes as resourceful as the police because the firemen are the ones going into those specific neighborhoods and they've been in, sometimes, more houses than the police have. It's honestly really interesting. Oh, that's a great block. Tried[?] of ownership. There are not a lot of renters in that area. Everybody's older. So, it's a pretty cool little side tip.

Dan: Nice. I would probably frame that, right? We're talking about kind of listing and agent business and we're addressing some risk, and you have this really unique niche offering with the fix and list program. Then a lot of us on the other side of the business, being more investor-driven, buying, fixing, selling, redeveloping properties, I think it fits very good need. Like in the city of Atlanta, when I went to the area around the belt line when the belt line was just opening, it's kind of like the 606 trail that we have here in Chicago. Belt line is very similar. Old train tracks that are now biking paths and everyone loves it. There are pop-up beer gardens and restaurants and it's a really cool vibe. It's a great catalyst for redevelopment in that neighborhood. When I got there in 2016 and first walked, the beltline wasn't done. It was dirt and there were literally cranes dropping off like pallets of brick that we're going to be used as pavers. We snuck on, we walked it. I couldn't believe my eyes. Oh my God, there's so much opportunity here. We fast forward, four years later, that was the kind of neighborhood where there were board-ups everywhere. There were potentially shootings occurring. There were a lot of risky situations that could unfold there and a lot of the properties were cheap. They were 20, 30, 45, 50 grand. You probably have to overpay to pay 55 for that property. Now, there's very little board-up inventory. Every house occupied, nearly all of them are renovated. If you did find one, you're going to pay a 150, 160, $180,000 in cash, just four years later, if you're going to get your hands on that. I guess, the point or the moral that I'm making is that, even in areas that can be rougher without spelling them out, like here in Chicago, and Philadelphia, Atlanta, and I imagine in other places around the country, we have this maturity that we're reaching due to lack of inventory and due to the need of housing. It's a really great thing I think for the US, for the city, to now have values in these neighborhoods to justify people as investors who are going in, taking the risk, redeveloping, making a profit, and giving somebody a home to live in. Like that one board up on the block with seven board-ups, suddenly, there's like one board up left if you come back two years later. So, a lot of that inventory that's really distressed is being bought up and I think, the other side justifies the higher profit because of the higher risk that somebody's going to take in there. Even for the retail buyers who buy on that block, when there are still seven more board-ups, they're going to pay a lower price than when all seven of those board-ups are finally renovated. I mean, barring any unforeseen market changes, that neighborhood will mature and those prices will continue to go up and that person will have more equity once that whole cycle is done and then be rewarded for kind of taking the risk on that unknown block, to begin with. I mean, Lincoln Park originally had that same kind of dynamic and we're talking like ten million dollar homes there now, you know?

Steve: Yep. Yep. Yeah, that's super cool. Yeah, it’s all true.

Dan: Yes. We have kind of the two aspects of the business. We spoke, I can't remember if this is actually before COVID set in. You and I were on the phone, we're talking, and then you're like, "I'm done flipping property," You're like, "Call me [inaudible] I'm done like[?] rehab. I’m done flipping property. I'm doing this other thing. I'm focusing on this other stuff." Can you talk about taking off the investor hat in a sense and really embracing and putting on the agent hat? I feel like that was a big shift and you did that. Maybe there's a different combination of the two that you have now. But there was a point when you were done. You pulled the plug on the fix and flip stuff from what I remember and made the shift. Would you mind kind of touching on that, Steve?

Steve: Yeah. Yeah. I mean, when COVID initially hit, I think it was an interesting time for a lot of people and as a real estate investor, which I would consider myself an agent and a real estate investor, you're always watching the market and making moves based on what you think is going to happen. I honestly would definitely admit, I would have never thought that the market would have reacted the way it did or the way it has been. I think it is starting to cool off and level off and as we will head towards a more normal market, we’ll have to see the repercussions of all the decisions that were made over the last year. But as an agent or an investor, the goal always is to mitigate as much risk as you can. That's number one and I would tell any agent out there that your goal also is to expand your income streams. So, if you're doing just one thing, let's say you're just the traditional agent, I would advise you to look at other ways that you can provide services or products to your clients and make income. Because if one day, one avenue dries up or slows down, you have other avenues to go to and that's just something that I've really pushed ever since COVID, is expanding the income streams which is going to expand my sphere[?], expand the people I can reach, and ideally, help more people.

Dan: Yeah, a lot of good stuff there. I just think back to when I had no money and I was like flipping houses and I was trying to figure out which direction to go, and a lot of conflicting advice, in a sense that the advice is in books. The books are written and it's static. What I mean by that, is the book doesn't really know where you are at personally, right? So, you pick a book up it doesn't know, oh, Dan Breslin is not an architect. The guy who wrote the book was an architect making $180,000 a year, or 150. I don't even know what they make, right? But they made a lot more than Dan Breslin was making back then. They're talking about buying and refining[?] property and putting 20% down. I'm like, "Oh, well, rentals must be the way to wells," but I neglected to take inventory and didn't have the insight to think like, "Oh, shoot. I got to actually expand the income stream first. I got to figure out how to build that income up, become bankable, get good credit before I can actually even look at kind of the rental thing." So, I feel like that's my advice when people ask me, “Oh, how do you get started in real estate?” Like, find a way to generate a ton of cash. Do a bunch of deals. Whether that's doing deals as a real estate agent, probably a listing broker side, or whether that's figuring out how to find wholesale properties that had[?] good enough prices that you could JV with people who are going to flip maybe but maybe not. There's a lot of flips that I've done where we've lost money on the flip. There's like something to be said. Flipping houses can be a great way to generate a ton of cash but you also want to acknowledge the risk that you're taking on in the purchase, in the cost of the supplies doubling during the course of ownership. Hopefully, the prices will hold up long enough to recapture the profit on the flip side and that's been the case for most of the people with our 6 to 8 months worth of inflation that we're in the middle of now. But flipping houses and being an investor does not necessarily come without risk and I think that probably the biggest challenge for people with lower experience that I ever encounter, Steve is actually understanding the risks that they're taking on. I think a lot of people are completely blind just like I was to the levels of risk that we're taking along the way and like thank God I'd done, I don't know, 10, 20, deals before we had one that broke even. I probably did 100 deals or more. Maybe even 500 deals by the time I had done 2, 3, deals that lost a 100, $150,000 apiece. Like, you do business long enough and you're allocating more and more numbers where a risk of .05% or whatever it is, you're going to encounter that kind of unusual situation and properties don't[?] sell for as much as you thought. There's a break-in, there's a flood, there's a-- whatever. The list can go on, and on, and on, and on. The answer is to do way more deals than you need to, make sure to expand that income stream, and then you can kind of cover some of that stuff to help mitigate the risk.

Steve: Yeah, 100% I agree. Focus only on income. People focus on all the non-income-producing activities and they get static and stale.

Dan: Yeah. I mean--[crosstalk]

Steve: Oh, one other thing, Dan. I just wanted to mention in regards to the fix and list. A lot of our clients right now are actually landlords who have owned rental properties, which now, they want to sell because obviously, they know they're selling for a premium. So, that was just something that I wanted a tag on there. It's not all retail business. We're working with a lot of investors. In fact, in the last few deals that we've done, we've even raised the money for them to purchase it, us to rehab it, and then we list it, and we resell it. Now, those were quick, quick, small deals in terms of renovation. But I believe it's just-- as anyone listening, it's all about providing value and service to as many people as you possibly can and you will always bring an income.

Dan: Yeah. I'm glad you brought that up because I wouldn't have had the insight to know your business enough for you to suggest that. People who are listening in Chicago and have rentals are probably going to pick the phone up once they're done listening and, “Yeah[?], Steve, come on. [inaudible] fix and list my property for me.” What other ways and methods--So, you're on a podcast, maybe there are some landlords listening who are ready to participate. There are probably agents who are listening like, "Yeah, I know the contractors. I'm going to go get on such and such as a podcast. I'm going to talk to my landlords too and see if I can kind of be the Steve Budzik in Atlanta."

Steve: Yeah.

Dan: But what other methods do you have intentionally, of developing the flow of deals for your fix and list agency business?

Steve: I would say it's more or so, me, marketing myself as just the go-to person. Like, if you need cabinets, call me. You need countertops, call me. You need windows, you need roof siding, call me. All of that, I have all the contacts. I can help anybody because I know that if I save them, for instance, my sister-in-law, saved her 60% on her windows. She's just never going to forget that. People will never forget that and they will always refer your business because they feel like they almost have to. But in terms of the other options, it's really going wider. When we meet with the seller, we can give them a cash offer. We can do the fix and list. We can sell it as is. We can do a JV. We can do mortgage assumptions. We can structure. We can rent the property out for them. It's more or so about giving them a ton of different options. As each one of those is an income stream. And so, I'm not really sticking to maybe one or two areas but I'm always looking to see how can I go wider, wider? How can I provide more to my clients? I don't work with a ton of buyers but I worked with a buyer and we help them do the rehab after he bought it. So, just more value. This one person has referred me probably five other people in a matter of a year. Just from doing that one thing, I believe that the relationship with the client really begins when the transaction closes. That's when the real relationship begins because most people just drop it, cut it off, and don't talk to that person again. I think that's when you need to come in. Hey, what do you need? How can I help you? That was kind of long-winded but that was me just giving a lot of examples of how to go wide and you could do this in any business. Real estate, it's generally easy or easier because there are just so many different pieces that people will need, or services, or products that you could offer them. But I mean, I could go on a list a mile long of services and products that agents could offer their clients, both beginning, during, and at the end of a transaction.

Dan: Yeah. It's funny. If you can hear the hammers in the other room here, literally, the contractors that you referred me to, Steve are doing my condo right [inaudible] [crosstalk] other rooms.

Steve: Nice. Nice.

Dan: What are a couple of those, let's just say, what are the top three to five things that agents should have a very strong referral contact that is a value add for their clients? Seller side, buyer side, whatever the case is.

Steve: I would say like and I'm biased to this because it's easy for me, but contracting. Everybody needs a painter, a good handyman. I mean, "Hey, can you install my new appliances?" "Do you have anybody for flooring?" But I would say number one is a painter and a handyman. Because, let's be honest, homes break, right? If you can be the go-to, solving your past client's every problem they have, you're going to be like God to them. Their water heater went out, "No problem. I'll send my guy over" and everything's my guy. You're just solving their problem. So, I would say a painter and a handyman. If I was the agent, what I would do is I would take your strong points of who you already know and use and market those. If your uncle has an HVAC company, well, market to everybody you know. "Hey, if you guys need your unit serviced, if you need anything at all, call me. I can get you a much better deal with my uncle's HVAC company." That's just a simple example. Because HVAC should be serviced every year.

Dan: Yeah. Yeah. We buy houses and the freaking-- the filter's like sucked into the fan and it was a $12, $20 filter. The HVAC company probably charged you a 100 to $125 to come to swap the filter so it seems like a lot. Anyone who watches a YouTube video can figure out how to go to Home Depot or order the filter on Amazon for 10 or 12 bucks and slide it in there. But if nothing more than changing the filter, you avoid a 450 to $500 fan motor problem when the filter sucks in there and kind of seizes the fan up and it might even freeze the rest of the unit up. It's like such a minor incremental thing. I love the value add of being the go-to person for a real estate agent because I get these very, the market is this. Here's a moving tip that and it's this very fluffy top-level kind of all the Keller Williams agents are sending out the same newsletter because I get the same from four people at the same time versus this little bit more custom-tailored. I'm picking the phone up a month, two months, maybe even after I sold the property to such and such a buyer, checking on them, see how it went, and have a reason for the call because I'm touching base to see if they need any painters, contractors, whatever it is that I might have. In cue, maybe I'm reminding them of the HVAC thing or whatever but I've given a realistic reason to pick the phone up and call and follow up so that when that referral moment does happen, there is that actual personalized touch versus just the generic newsletter version. I think that the hesitation most agents would probably have is that, like you said, taken for granted. You know contractors who give a good price. You've tried contractors I would assume, and they failed and didn't pass Muster[?], and you probably had a bad feeling, and hopefully, not a bad referral on your name, and had a little bit of a customer service cleanup kind of thing. But for an agent who is listening right now and is like, "That's me, Steve. How the hell do I find a couple of contractors and then risk my reputation and name by referring them out?" Is there any quick solution for something like that overtime for that person to build a Rolodex into something valuable?

Steve: Yeah. I mean, the easy way is to just ask for a referral. Go on Facebook and say, “Hey, can you guys refer me a painter?” Then call what you feel are the top five painters and literally, interview them and tell them what you are, and who you are, and what you want to do. “Hey, my name is Steve Budzik. I wanted to give you a call because a lot of my clients have asked me if I know a painter and I don't and so I want to ask you, can I refer you? Can you send me some of the past houses that you've painted and can you send me some references?” Literally, interview them. Make it simple and it's the relationship with that painter. That guy will be like, "Wow, that's really cool." You're not calling him up and asking for something. You're asking to give him business and in exchange, you need to tell him, "Listen, if you know anybody that has any real estate questions or is looking to buy or sell, equally, give me a call." But it's like a bank. You can't take a withdrawal when you haven't made a deposit. So, I believe that you need to make a lot of deposits and then you need to start making or asking for some referrals as withdrawals. That way, the relationship is very even and exchanged.

Dan: Yeah. I mean, in a sense. Not that it's transactional. I know you're the kind of guy that just plants the seeds regardless of whether they grow. I think some people early in their career are going to come down and plant the seed and they're going to yell and howl and scream at the ground until nothing happens and it's like, you weren't supposed to plant one, you were supposed to plant a thousand, 5,000, a whole field full of seeds that your harvest would actually be full. That's like making the phone call to the painter, having the conversation, demanding the referral right off, and wondering why the guy didn't remember. The same guy, who is the painter, who has done your third or fourth client, he's like wondering how he can repay you at that point. Maybe trying to press money in your hand, maybe not. At that point, when you're mentioning the client thing, you've made the deposits and you like justify the withdrawal, I guess or being top of mind but kind of keeping money in his pocket.

Steve: Yeah.

Dan: What would be a disqualifying answer to the interview if someone, an agent has this painter on the phone, they ask for references. What would be an example or two that you’ve not called the person back, not felt qualified, that you don't get the warm fuzzies about their service?

Steve: The number one disqualifier is going to be the timeline in which it takes them to give you the information that you asked for. If the guy sends it to you right away, I get it. If he's in the middle of painting a house, he's not going to send it on the spot. But if he doesn't send it by that, the end of the business day, that day, and you don't have to remind him, that's a disqualifier because that's how he's going to treat your client in regards to the customer service level. But as the agent, when you do refer your first person to this new painter, you should also equally show up to the job. It's your responsibility. I know it sounds like a lot of work, but when you're brand new, you got to do whatever it takes, whatever it takes to get more business. You need to show up. You need to follow up and continue. It's just a rinse and repeat. You keep doing that and doing that, that person will probably send you one to two referrals that year and if you can continue to do that, you can be a brand new agent closing two deals a month. No problem. For free. [inaudible].

Dan: Yeah. I'm sure there are agents, maybe they have been lucky enough just starting to listen to a podcast like this one, Steve.

Steve: Yeah.

Dan: But they would be thrilled to show up and talk real-- I think about like the first like, how's your time? It's like, wow[?], this guy's going to take a meeting with me to potentially fund my deal? Holy crap. This is like, the gods have smiled. They did actually smile and that guy is still a business partner to this day. I remember just preparing for the meeting and everything, like looking forward to the meeting, and there's a great way for you to add value. Yeah, you're not going to probably collect the check at that meeting but you are showing face and building those relationships and putting in the work. So you said, zero cost. Are you telling me to do no advertising at all? Do you do a little advertising? I mean, is what we talked about the extent of your lead generation strategy, Steve?

Steve: I tell myself and all my agents, you need to completely exhaust all of the free and low-cost ways to market yourself before you think you're going to start to spend $1,000 or $1200 on a Zillow campaign and so I continue. Now, I do spend money on print work and things like that but my budget is pretty low. I send thank you cards. Starbucks thank you cards. Hey, thank you here, thank you there. But in terms of actual like-- I did try some Facebook ads, didn't have a ton of success but I really don't spend a lot of money in terms of gaining new business. It's all referrals. Everything. I do have a marketing budget. I take 10% out and I allocate that for marketing. So, you could say that I spend roughly about 10% of my income on marketing, that would be pretty safe to say.

Dan: Got it. That includes the Starbucks gift cards and the all that--[crosstalk]

Steve: All that stuff. That even [inaudible] include some of the marketing and some of the properties as well. So, kind of an overlay there.

Dan: Got you. Got you. That makes sense. It reminds me, so your philosophy toward advertising is different. Mine is to do huge advertising budgets and that's kind of like a big part of our business model and that's good. It works and we've gained scale. We have a good thing going to get our service into a lot of people's life if you will. The beauty or the highly attractive value rating of let's say, Microsoft as a stock, comes from its ownership in part of LinkedIn. LinkedIn is a valuable asset because it has a network effect in the business. What that means is, the more people that join the network, the more people that are on it, it's more valuable to the people on it, and to the people. So, it's this self-fulfilling cycle and the network effect of LinkedIn or Facebook also works the same way. Like, I can't just decide you know what, Steve? I'm going over to this other social media thing and everyone's going to go over there. The experience is horrible because the network doesn't exist there. The beauty of owning that network business, a Facebook, or a LinkedIn, and Microsoft's example, is that they don't have to recharge this network. There's not like gigantic LinkedIn advertising campaigns. You don't see LinkedIn ads on Facebook. You don't see Facebook ads on LinkedIn. They don't need to advertise to keep that network robust. We might see some propaganda Facebook advertising out there when things aren't going their way, but it's not in a sense to try to keep the network robust and what that allows is the owner of that network to now, monetize that network nearly indefinitely and nearly at a zero cost. Facebook's ads, pay out in large percentage, all of that revenue to Facebook. LinkedIn pays out in large, the revenue, to LinkedIn, to Microsoft, and that owner, which is a little bit different. Google's network is very similar but Google also has the AdSense campaign where people have affiliate traffic and they're paying this one for their search presence and this one and so there's actually a huge network and payments going out from Google to serve their ads on different sites, which is kind of the advertising model. So, you have described putting together a more network effect type of real estate business that has a lower risk in a sense that, there's not a huge advertising budget that if it came in and you just drop $20,000 on advertising and something happened, you got an accident you couldn't work for the next two months, it would have been a waste.

Steve: Mm-hmm.

Dan: So, you do have this way to mitigate the risk by building the network and I think that personalized touch, the thank you cards, the handwritten notes, the Starbucks $20 gift card, whatever it is, like that personalized touch can be so powerful in building and maintaining that network at such a high level than you're ever going to get by putting together Facebook ad campaign. I think it's just like, really, really, really solid that you described doing a business and that you're successful at that.

Steve: Yeah. Yeah, and I appreciate it. I use the percentage, it's really like an 80-20. Eighty percent of my business should come from my referrals, but you need to go wide. I'm not a conventional agent that's just doing traditional listings or working with buyers, right? I'm offering to put windows in their house, paint their house, right? So, I went super, super wide so I can get many, many, more referrals. But it's 80% should come from referrals and 20% should be new business. Like, I got a call today. I sent out a just sold postcard and the guy called me, he has two vacant lots that he wants to sell. One in Melrose Park, one in Schaumburg. So, that would be new business. That would be that 20%. I didn't know about him and that was from a $150 postcard distribution that I did.

Dan: Nice. What did we not talk about? What question didn't I ask that listeners are wondering or that you feel like we need to add one more bullet point here to our conversation?

Steve: That's a good question. Man, I could really go down a long rabbit hole. I think the number one question that people ask is, how do I get started? How do I get started as an investor? How do I get started as a real estate agent? I'm in my nine-to-five job. How do I make the transition? I think that's really the number one question. I'm sure a lot of people probably call you and ask you "Dan, how do I get started in real estate?" Or yeah, "How do I get started in real estate as an investor? I want to be a wholesaler. I want to be a flipper. I want to be an investor. How do I get started?"

Dan: Yeah. I wrote the book on that. When people sign up at reidiamonds.com, they get the book on exactly how I started with no money. I think I did that to systematize the 30 to 40-minute conversation I would have. Not that I'm cold and I don't want to talk to people but I found myself having the same conversation over and over and over. I found also that people who are listening to the show right now, a lot of those people are doing stuff and a lot of people are doing stuff now. When they started listening to the show, 3, 4 years ago, they weren't. They were just getting started. So following this podcast, this podcast is like the answer to that question of getting started at a variety of levels. We talked about agent. We talked a little bit about investor. This was more geared toward agents starting with zero marketing budget, like no money trying to get in people's living rooms and just talk about real estate. So, I think we laid a really good bread crumb on the path here for that scenario and we talked-- A lot of them are getting started in apartments indications. The list goes on and on. I did one that's going to be released. Well, it would be released I think a week or two ago and people are listening to this on franchises. So, someone could go into a franchise business and a lot of real estate investors are plunking down 100, 150 grand, getting these different types of businesses, and adding this other more reliable income stream to the channel as opposed to relying on fix and flip, which you and I both know, the fix and flip comes with that risk. That it's good, it's good, it's good until it's not good anymore and you're wiped out of a year's worth of income in one deal, and it's not good anymore and that doesn't necessarily happen with the driveway, or the handyman, or the cleaning business.

Steve: Exactly.

Dan: Have a bad month, you still made-- at the end of the day, it's something more reliable. Yeah, I do the podcast to help answer that question and I direct people to go read that book. It's a 165-page PDF and I tell them to come back and let me know when it's done. I'm happy to answer any questions and it's very, very rare that people ever circle back around after they've been given the homework, which is fine. A lot of them have gone on and found other avenues and ways. It wasn't specifically just to follow Dan Breslin's path or maybe work with our company. They become highly successful in a variety of things. From engineering, computer programming, flipping houses, contracting business, and the list would go on and on, and on, for people to find the path that's really right for them versus just the real estate. Then we've had a handful of people who did the homework, listened to the podcast, tons and tons of episodes, and who are now business partners of mine like running markets and who are highly successful. So, that's kind of my task, my first thing. I'm happy to give you the time but you've got to invest some time in a relationship first. Let me know you can do the homework and pay attention long enough and then I'm happy to take it from a real estate investor 101 to real estate investor 102, 103, 104, 105, 106, 107, and we'll go to like 120 or 130, I'm sure all of us together here over the course of our career. But yeah, that's my very complex answer to a very complex question that the answer may not actually even fit for a lot of the people that ask the question. So, if it is in fact, the question someone is asking right now to get started, the other question is, evaluate the position that you're in. For the architect making 90 or 100 grand a year, the answer is going to be very different than it was for Dan Breslin who was broke. People are coming from a lot of different backgrounds where some people are going to be passively investing in yours or my deals. That's it. They're never going to take title to a deed. Some people are going to flip. Some we're going to wholesale. Some going to be an agent and many, many others are going to go on to do plenty of other things they were already on track to do in their life and they were kind of curious and tire kicking at the time they ask the question.

Steve: Yeah.

Dan: Yeah.

Steve: That's good. That's good.

Dan: Cool. Well, we're about at the top of the time, together[?] Steve. My final couple of questions here is, any recent book recommendations that you would make that might put some more color to the conversation that we had today or just stuff that you found impactful recently?

Steve: I mean, my always go-to book is just the basic, Rich Dad, Poor Dad. It's really what got me started and I think it's important for a lot of people who are brand new. I think somebody who is experienced they're going to-- there are so many books out there that they're all great in their own way. So, that would be my go-to.

Dan: Nice. Yeah, my daughter is reading it. She worked with us for the summer and I remember my dad gave it to me when I was 17. I can't remember if I read it then. I read it when I was 26 and then got in real estate and kind of did the rest shortly thereafter. But my daughter had it for at least a year or two, I gave her the book. When I speak, when I do like a nonprofit speak to kids and see[?] what[?] the best way to describe it. Well, we did some work with the LUV Institute and I would be invited to speak there and kind of share my story, my history, my background, with kids who are a lot of them in the system, a lot of them living in a lot of these challenging areas, and they're trying to-- not really trying to avoid a gang life but they're certainly not looking to get into that, [crosstalk] and get into these kinds of programs that teach life skills, interviewing, applying for college.

Steve: Yeah.

Dan: A lot of things that quite frankly, I had to figure out on my own growing up. They help with that and I always give that book out. I have dozens of Rich Dad, Poor Dad that I give out when we speak, and we kind of tailor the talk around that.

Steve: That's cool.

Dan: A very colorful interesting story that goes along for another day that podcast listeners won't catch now. It was cool because the guy who runs our research division at Diamond Equity had my daughter working for him, and he made it like a book study. Like, we're studying Rich Dad, Poor Dad. We're going to have our meeting on Friday and she's like, "Well, I got to read it now." She's like, now, putting all these things together. “What are assets?" "Oh, who gets the rent?" "Does the city get the rent?" "No, the city does not. They get the taxes off the top. They do not get the whole rent check. That's not how it works."

Steve: Yep.

Dan: It's been pretty cool to see her connecting the dots from Rich Dad, Poor Dad, which is probably what happened to you and me both when we read it. The first time we got exposed to that different way of thinking about life and income. So, cool. Good recommendation there. Any closing thoughts before we do our contact info here?

Steve: I mean, the one thing I always say which is probably leading right into that is if anybody has any questions ever, I'm always happy to help in any way I can. I get a lot of people that reach out to me. “Hey, here's the situation. What do you think I should do?” I'll help them out as quickly as I can. So, I would say don't hesitate, always reach out and I would tell that to anybody listening. Reach out. If you have a question, reach out. I'm not saying call me or call you, or maybe you can call me or Dan, but just reach out, period. Don't get stuck. Don't let that be your barrier. So, communicate. I mean, that's living.

Dan: Yeah. I would probably cap that with curiosity, right? My mentor, Dan Kennedy, told me a lot of things, and one of them, that he was very big on is that, becoming wealthy, creating a business that's successful, something that's reliable, a lot of that has to do with the personality type that's like behind the creator of it, and the curiosity. So, it's the same thing you're talking about, Steve. It's like, how does this work? How can I do it better? How do I figure out this other thing? He also said that the people who he knows, he mentors tons of people with businesses doing ten, twenty million dollars, million dollars a year, whatever. Lots of successful business owners through his career then[?]. Dan Kennedy would say, the person shows up and does business like they do everything else. In his case, he's like, "I want to know everything about my copywriting business and how this affects branding and all these other things." But he said, “When I got into horses, I wanted to know about the wheels on the little cart thing that he has." This horse runs this way and if I give it this nutrition that way and sort of this whole thing. I think about like, me[?], let's say, with weightlifting. It's like, okay, now, if I tweak the carbs here, and a protein there, and if I do this set this way and there's like, an endless variety of variables are always being tweaked as a result of the curiosity of a successful person and they're doing that with everything. Whether they're renovating their own house and their kitchen. Whether they're evaluating a tenant to move into their property. Whether they're engaged in a negotiation buying a property. Everything is done with this very curious methodology behind it just like wanting to discover everything. I think that is kind of exactly what you said, reach out, be curious, ask the questions, figure out, get to the bottom of it. There's so much information out there. So many people out there. Even at no charge on the internet, you can learn a whole lot and then you get to a point where you find the right people who you maybe want to attach the chariot to a little tighter. I guess, in closing, Steve, do you want to share some contact information or a website where people can get more Steve Budzik?

Steve: Yeah. Yeah, I mean, very simple. Google Steve Budzik. My cell phone's 630-935-0700 and you can check out icandyrealty.com, that's our website. Thanks for having me, Dan.

Dan: Nice. I appreciate it. Thank you, Steve.

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. 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, LendingHome 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. 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 reiIlineofcredit.com, you'll receive a free iPad when you close your first loan. That's reilineofcredit.com.

Thank you for tuning in to the REI Diamond Show. Remember to review and subscribe to 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 199 episode archive. Again, that's reidiamonds.com.

Last year, 2020, my house flipping business, Diamond Equity Investments, bought and sold 283 houses and we've done 269 so far this year. Well, mostly houses, a few actually were apartment buildings and we currently have another 149 more in our inventory, either under construction or awaiting close. Here are three more ways you and I can do business. Number one, if you are interested in having access to real estate deals you can buy, fix, and flip for profit, go to accessrealestatedeals.com. Number two, if you are an accredited investor who is seeking double-digit returns, you can sign up to receive my private mortgage investment opportunity emails at fundrehabdeals.com. That is how you join my network of private lenders to potentially fund my projects. Number three, last but not least, I am always buying houses that I can flip and occupied apartment buildings with below-market rents[?]. If you have a deal that fits that description in either Atlanta, Chicago, or the Philadelphia region, please send me an email with the details.

Next up, we have John Soforic, the author of The Wealthy Gardener joining us. The Wealthy Gardener is a book that teaches the mindsets that I've personally developed over a variety of sources over the past 15 years to build Diamond Equity Investments into where we're at today. Many have called John's book, The Wealthy Gardener, the Rich Dad, Poor Dad for the next generation. I look forward to seeing John and you on the next episode, my friends.

Recorded Message: 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.

[END]