Automated 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 Diamonds Show. I'm your host Dan Breslin, and this is episode 204 on investing in hotels with Mike Stohler. 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 used to create millions of dollars more in the business of the real estate.

Today's guest, Mike Stohler, is a former commercial airline pilot, Navy veteran, and co-founder at Gateway Private Equity Group. Including apartment complexes, houses, and hotels, Mike has owned or operated over 13,000 units. Seeking value-add opportunities and higher returns, Mike then pivoted from multifamily to hotels and now focuses exclusively on this niche. Investing in hotels is really a two-fold investment. First, you're investing in the real estate where the hotel is located. Second and maybe more importantly, you're investing in the business that is running that hotel successfully. Because of this dual nature, hotel investing can be riskier than other real estate investments but at the same time offer larger and faster returns when executed properly.

Ready to begin? All right, welcome to the REI Diamonds Show. Mike, how are you doing today?

Mike Stohler: Doing well. Thank you, Dan.

Dan: Nice. Location stamp, I'm in Chicago recording live. Whereabouts are you? Maybe what markets you also focus on, if any.

Mike: Yeah. I'm in Scottsdale, Arizona. I'm loving life. It's finally under 100 degrees. We're in the fall. I do mainly Arizona. We do some things midwest and then the southeast.

Dan: All right. To give some background, maybe you just want to start with the evolution of your real estate career and what your business looks like today.

Mike: Sure. Yeah. I'll try to keep it quick. I'm a little bit older. I got started, I caught the PG days, the pre-Google days, and absolutely failed. I did probably what a lot of you did is I read Rich Dad, Poor Dad, got excited, bought some tickets to seminar land, and then bam! Okay. I'm in small-town Indiana at the time. Buying was the easy part and then I didn't know how to be Atlanta[?]. I'm like, "Okay, wait, there's the paperwork? What's the least- get out. Oh, I need a 5-day notice[?]. I didn't know anything, right? I couldn't google anything. I failed and failed miserably just because I just didn't know what to do. We don't have podcasts. We don't have mentoring. We didn't have any of that back in the days.

If I needed a tenant, it's like, what do I do? Put an ad in the newspaper, and it's the old day of doing things old way. Fast forward, now, what I did is I learned. I was like, "Man, this is the way that I need to do it. This is how you make money. Real estate is it." I actually went to work for a property management group because I was like, that's the part that- the buying was the easy part, but how do I get experience? How do I get a mentor? I actually went and worked for them and I learned that end of it.

I learned how to be a landlord because there are two parts of [inaudible]. You're an investor, but then once you get the asset, how do you become the landlord of someone who wants to stay in your asset? You have to learn both sides of it. That's what I did. Then I started in 20- about ten years later, this is probably 20- during the recession time period. I started getting back into it because I was like, "Okay, there's going to be some deals. I now have money. I have some cash. I have a good job. Let's get back into it."

Fast forward, I went from fourplex to 2 hotels, to 20 homes. I owned, managed around 1300 units of multifamily, and I did that within about a 7, 8 year time period.

Dan: Nice.

Mike: I just went overboard, just went, "Okay, now, I've got the experience because now, in my investment 2.0, I had confidence, right? I knew what I was doing.

Dan: I read in your profile that you were a Navy pilot, was it? Then a commercial airline pilot too, Mike?

Mike: I was Navy.

Dan: Okay. Thank you for your service.

Mike: This didn't allow me to be the Navy pilot.

Dan: Okay.

Mike: But I wanted to be the Navy pilot. I watched Top Gun when I was little; I'm like, "Whoo." I got the ninja part down, riding the motorcycle, but they wouldn't let me in. I went into the Navy, served in the first Gulf War. Then after the failure of the first time period, my dream was to become an airline pilot. I did stick with the pilot, became an airline pilot, and that was what allowed me to have the money to get back into real estate investing.

Dan: Nice. Thank you for your service, Mike.

Mike: Thank you very much.

Dan: I'm curious about that lead in there for being a pilot. Every time I fly, I'm doing these risk versus reward calculations, right? It's like we're 30,000 feet up. I've flown small planes with a copilot, who did all the work, and I was toying[?] with the idea of getting my license, but I think we turned the engines off during that training and we'll just feel the silent flight to the ground. I feel like there's this risk calculation that must... I hope this risk calculation is going through the minds of the pilot that I'm in the plane flying, right?

I'm wondering, do you have a certain view toward risk? Is there anything from flying a commercial airline that suddenly makes you view the risk in a different fashion than someone whose feet has always been on the ground when it comes to real estate investing?

Mike: Man, I'm getting chills with that question. That is one of the best questions I've been asked in a long, long time. I'll take it one step further. It's also the military part and the airline pilot part. In all three, the risk assessment... Now, the military and airlines are more of a life-and-death type thing. In doing that, yes. Nothing is emotional in the military and in the airlines. If there's an emergency situation, if there's any type of situation that I'm looking at, I don't look at anything emotionally. It's a checklist. It's a risk analysis.

You're just going through bullet points and you have to understand that the amount of training that we do in the military and the amount of training that we do as an airline pilot, as an airline pilot, they don't put me in a live sim to see how I fly. They all know that we have thousands of hours. They actually put ascend[?] and try to kill us. They do. They put us in those situations over and over and over and over again to where if we ever get that in the real-life situation, you're just clicking buttons and you're just going through the checklist.

If you ever watched the Hudson River thing, how calm his voice was because he's just like going, "Yeah, we got to go. Yeah, we're doing this." That's the way that we do things. You translate that into real estate. Again, I look at things non-emotional. I go through my checklist. I don't care how great this asset looks, where it's at. If it doesn't cash flow or if it doesn't do what I intended to do, I'm not going to buy it. I don't care. When you get in real estate investing, it's not emotional. That's what I learned from talking with those two things and coming into real estate is I go through my checklist.

Especially with the hotels, if 8 of the 10 things are check-marked but maybe 2 or 3 aren't, I'm not going to do it, and you have to stick to that checklist or else you're going to get bit.

Dan: Hotels are like a first on this show, and it's an interesting topic. We've all stayed in hotels just like we've all, a lot of us. Most of us have probably been on commercial airlines, and we're happy that someone who's up front, who's been through this endless number of scenarios to accommodate for any of the risks that we all have when we're in the air. I think a lot of people, probably even myself and maybe you, Mike, have blindly taken on too much risk early in our careers with real estate, right? It's like, "We buy this house because it's near or we can drive by, self-manage it."

I've lived in a house. Therefore, I know houses. I've rented a house, therefore, I know 10[?] and blindly taking on risk we just weren't aware of, but I'm curious. We've all stayed in hotels, right? I was just literally thinking this over the weekend as I was in a hotel out in Seattle. Who owns this? What are the economics? What are the risks? I mean, hotels are everywhere. They can't all be owned by the REITs in these public situations. In fact, I get the auctions for hotels on my mailing list and I've been eyeing them up as an asset class personally.

Little hotels that are probably 2 or 3 story walk-up, maybe there's a small elevator in there. They're probably motel 6 styles. I think I saw a Hilton come through in the 4 or 5 million dollar range right around Covid. I'm wondering like what are the economics? What are the risks? Before we get into talking about the parameters of deals that you've done, maybe you could talk about the transition. How did you find a first hotel deal and decide that this makes sense and I'm going to move forward? What was that path like?

Mike: The path was, I've gotten all this multi-family. Finally, I had this person here in the Phoenix area in the valley. The real estate market for the last 5 or 6 years, it been nuts, crazy. Blindly, this person wanted to buy one of my complexes, and I didn't want to just meet too much money. They kept coming and coming and coming and coming. I'm thinking just like, "Man, these people from Idaho or somewhere just blindly calling me." Well, it finally got to the point where I was like, "I'm a fool if I don't sell this thing because I had this asset for ten months and I made $860,000 off this complex."

Dan: Wow.

Mike: I was like, "Oh God, I've got to sell it." I mean, it's like I can't do this, but then I was like, "Oh no, what am I going to do?" I didn't want to pay the tax and I was going 1031, but then I was like, "Oh man, am I going to now buy something a 4 cap or something like that?" As real estate investors know, it's about networking, network, network, network. Whatever your meetups, your real estate investment groups, always get to know, always go out to the meetings and meet and greet anybody and everybody.

One of these guys, just kind of in the back of my mind, had about fifteen years of the hotel investment. I'm like going, "Hotels, kind of the same as everyone else." Then I was like I remember him telling me that they're still like a 9 cap, 10 caps. They're really doing well. Commercials, we don't really look at cap rates like that. We do more of a gross income multiplier type of thing, but he was telling me that there are just really some great opportunities in there because not a lot of people were in the hotel space.

Well, what I did was I reached out to him. I said, "Hey, I want to get into the hotel space, but I know zero about it. I have the money. Can you find me a hotel? I want you to run it for me." I just threw it out there because I'm not going to run it. I don't even know how. That's what he does. He has all this experience. I said, "I'll give you a little property management fee," but here's the kicker, I said, "If you teach me everything you know, if I go through Day 1 on through, I will actually give you a piece at the back end." I'll actually give him a percentage of ownership, that when we sell it or if we sell it, he actually gets that.

That's where his... Now, I have someone that's running the operations that has an invested interest because the better that he does it and if we ended up selling it, he actually gets something for it without putting any money in.

Dan: Is that percentage something you're allowed or feel comfortable sharing with us?

Mike: Yeah. I am actually giving him depending on the parameters, and it's a lot. To me, it was well worth it because, with property management groups, there's no vested interest. If you have a property management group in hotels, they don't care. They're just paying bills. They're just doing this and they're not looking at it because they don't have any ownership. On this first deal, I actually gave him 20% of my deal, and it's a lot. If you look at what it's allowed me to do and know how much, I would have paid that 20% in seminars and learning and mistakes. I would rather pay that much money to learn the right way instead of paying that kind of money in seminar land and all these other things and maybe not have even bought a hotel yet.

Dan: Yeah. It probably doesn't even exist, right? How many seminar invites do I get for the hotel industry?

Mike: Correct. Well, maybe that's my next...

Dan: That's your niche.

Mike: My next niche. You don't do hotel seminars.

Dan: Is there a performance metric tied to that ownership? "Hey, you have to hit this benchmark. We need these kinds of values and then that triggers?"

Mike: Well, it's not like a performance benchmark, but what it is is he has to stay on as the operations group. The performance benchmark is I get all of my down payment, plus a percentage up front, first thing. There's not a lot of-

Dan: That's a preferred return?

Mike: Like a preferred return I get, plus all of my down payment.

Dan: Okay.

Mike: All of my costs are automatically returned back to me, plus a preferred. Then it's okay. If we sell it for $6 million, there's not a lot there. If we sell it for 8 million, there's a lot there. If we sell for 10 million, there's a lot there. It's basically, you're doing a lot of work for 4, 5, 6 years, 7 years for that amount of money, or if you want a lot of money than he has, it's like, "Okay, let's do it." It's right now valued around three and a half million dollars more than we bought it for, so it's working. It's doing its job, and he's doing his job.

Dan: Can we talk parameters on that deal? How long ago did you buy it? Maybe what was the cash flow, the gross income multiply? What were the parameters of the deal? What made it attractive? Why did you think that the operations in the cash flow could be increased? What was your mindset, and when was the purchase? Let's dive into the beginning of that deal.

Mike: Sure. This purchase was in the first one was in 2017 and a couple of things that we liked. It was an absentee owner, which is always a plus. It was in a smaller town outside of the Phoenix Metro area that we saw there's going to be a lot of growth. There's going to be a lot of things or there was already some things that were planned. The current management general manager, it was being managed not properly. We saw a lot of this guy with fifteen years' experience. A lot of missteps, a lot of things that could immediately be fixed. The guy had just converted it from one flag, which is a franchise to another, and he was seeing some decrease revenues because of the change we called the flag.

When we look at things on where to put hotels and where to buy hotels, we look at what's called drivers. Drivers are what drive people to stay at your hotel. Why did you stay at that specific hotel on the West Coast? There's a reason you picked these areas. Number 1, we picked this one because it was the only one in town that had truck driver parking. Now, this is a limited-service hotel. Limited service hotel means you get your free breakfast, your free Wi-Fi, and then you leave, okay? It's just like what you were saying, a couple of stories, a lobby, and an elevator. It's just one of these simple hotels which we love.

Only one of the truck drivers parking. It's off of a major highway, which we like, but it's not inside the metro area of Phoenix, which we like. It was right across the street from a hospital, so that's another driver that people will have. That's another thing. They're coming to visit people at the hospital. They're going to stay at our hotel because we're the ones who are right across the street. That's another thing that they're going to have.

Another driver was all the construction that's going on. There's a big electric car company [inaudible] that came in and built this huge fab. Because there were all these different drivers and it was a fairly good-sized hotel, for the price, we said, "Okay, we're going to do it because we know that there's a lot of potential for growth. With those drivers, that's why we did it.

Dan: Got you. What kind of money was being made on the purchase price? Was it a cap rate, something we would be able to understand and relate to in real estate investor economics as opposed to hotel economics?

Mike: Yeah. What we do is on gross income, roll it quickly, where it's at, what type of hotel. Everything in areas is based on gross multipliers. If you go by in a different business, you don't say that "Well, I'm going to buy a textile company. What's the cap rate?" You don't do that. It's usually, well, it sells for 2 times gross or 2.5 times gross. That's how you do it. That's the difference between multifamily and hotels is hotels are considered a business that sits on real estate, okay?

Multi-family's just real estate, so you can go cap rating and do IRRs and all that sort of stuff, cash-on-cash. The hotels we look at, if it's worth 3.5 times the gross, let's try to get it for 3 times. It's like the same play with cap rates in a wise and things like that. Then we looked at what we thought it could do. We thought it could do 1.4, 1.5 million gross. It was only doing about right around a million and he was doing like 1.4, 1.5 with it being a Best Western, but because he changed it, it really sank. Well, just like in multi-family, he was trying to sell it on pro forma, right? Well, it's going to do this, and I'm like going, well, cold[?] it could happen.

Dan: Yeah, right? We just saw that coming.

Mike: We just saw that coming. We buy things on actual so he grumbled and so we were able to get it for a lot more. It is now doing... It only lost about 10% during Covid, so it did really, really, really well. It's going to do probably 1.9. We're maybe hoping 2 million by the end of the year.

Dan: Nice.

Mike: We've expanded it, and the way that things work in the hotel and in the commercial industry is as you go up hundred thousand dollar increments, that translates into a higher gross than a higher price, as far as what it would appraise for, and that you can sell it for. As you go up in that revenue, that's how you can go from 5 million dollar purchase to an 8 to 10 million dollar purchase or selling price.

Dan: What flag do you guys fly, if any? I'm going through my mind; I'm like, "Yeah, I'd rather stay at the Best Western than something whose name was just picked from the local area," right?

Mike: Yeah. Dan and Mike's Hotel or something like that.

Dan: Yeah. No, I'm going to tell you, I'd keep driving.

Mike: Or the sign says, paid by the hour or something like that or [crosstalk] right? Yeah, sleep here. Yeah, this one is a choice, Brandon. That one is.

Dan: Okay.

Mike: We have some Radisson. What did really well in Covid, completely changed my attitude of what we're going to buy is that limited service hotel, the no-frills I called the blue-collar hotels. Those are some other questions about how we survived Covid and things like that and what I learned about Covid.

Dan: Yeah, well, why don't you riff on that a bit. Covid happened. I'm sure everyone's like, "Wow, I would have hated to buy a hotel in 2017 then be hit by Covid," but at 10%, dip[?] sounds reasonably survivable. If not, even a good thing coming through Covid, right?

Mike: It did. Here's what I learned. Everyone has even in the multifamily world, all these investors, all of us have this aspiration of I'm going to buy this big, bad, cool... I always had this dream, I'm going to buy this hotel that I'm going to sit in the bar in my hotel, have a scotch, and look around at all the coolness, right? Well, who're the first ones that closed down during Covid? Where all the cool hotels. The reason being is if you have a lot of restaurants, a lot of conference spaces, a lot of overhead, you have a lot of rooms, you're in a downtown area or this kicking place, you couldn't survive because your business is around people coming in for happy hours, people coming in for businesses.

What survived that one down in that small town, outside of that metro area, who was the lifeblood of our existence during COVID? That was the truck driver. Those were the first responders. Going along the highways, people didn't want to stay in the big cities because of Covid. They wanted to stay in the small towns just outside. I can still sleep in the... Plus in the small town, that same exact hotel, maybe $20, $25 cheaper a night just because it's not in the big city. That changed my attitude of like, "Okay, this hotel only lost 10% because we had all these people still coming in." Truck drivers still needed a place to sleep.

When the nurses and doctors couldn't go home from the hospital because of Covid because they didn't want to maybe infect their children and their family, they stayed at our hotel. It's like, "Okay, it's kind of changing." I don't want this flashy thing because when- I'm not saying if, probably went Covid 2.0 and 3.0 or things happen down the line in years to come, that type of hotel and those specific type of drivers are very important. The other one that really did well is the extended stays because maybe the nurses and doctors and things like that, they say, "Well, let me stay in an extended stay for a month." Those really did well.

The ones that we have that didn't do that well still stayed open, but we're the ones that I thought were just going to rock. They're the ones that were in the business park. They're in the tech centers. The Radisson brand new stuff, that is just, man, this is going to be great. I'm 2 miles from all these big companies. Well, when no one was traveling, no was showing up, those [inaudible], so we had to switch gears a little bit on how we marketed those hotels.

Dan: How did you find that first deal? Was that something in your partner's network that he had found? It was just for sale and then lingering on the market? I mean, what constituted your ability to get that deal done early on?

Mike: Yeah, it had been on the market and then fell off because the guy just wanted too much money and nobody was really analyzing it, I think, properly when they're looking at... You can go into a house and you lick it and it's like, "Oh my God, this is ugly this house." If you look beyond that, say, "Well, if we take this wall down and we rehab it, it could be a very cool place." That's what we're looking at.

The guy, the operations partner that I have, just knows all the different brokers that know the areas that could really give us an idea of what that market was like in that type of hotel. They're the ones that said, yeah, we went to the chamber and it's like, okay, what's coming in the pipeline? What are some of the things? With all that research we did and we reached down to some of the actual business people in the community down there and said, "What do you see? I noticed that you opened up another little grocery store. Why did you do that?

We looked at who was growing down there and asked them. It's like why are you growing? They gave us some really good feedback, and luckily, the banks looked at it and appraised it. What's another thing about the hotels that are graves[?] were able to do SBA loans because it's a business. That's another reason why we survived Covid is that we're a business. We've got all the PPP to keep our employees involved in the hotel. We got the EIDLs.

My biggest job for the last year was to look for every grant possible, and we were able to get those, where a lot of the multifamily people, they're not able to do those things because these are small business grants keeping small business owners open. You heard all that in the last year, year and a half about keeping local businesses open, and that's something we were able to do.

Dan: What are the return structure, the profit, I guess, however you look at your own return as the operator? That's one question and then a second question would be if somebody were to passively invest in your next hotel deal, what would the returns look like for that person?

Mike: Yeah, well, I'm doing air quotes on possible returns because we don't know how long Covid and just things are going to last, but I can tell you on my last syndication, we actually were able to give a 15% preferred return. What we're looking at for the in plays, it's around that 2.3 multiplayer. You're going to make about 2.3 times your investment. The reason why we can do that is that it's a business because it's a flag. We look at areas like for instance, that one that's in the business park, it's not doing that well now, but that area, just the land itself is going to be worth so many more millions of dollars just because of where it's at. When you look at hotels, you look at 2 things, the land appreciation, but then because it's a flag, you look at that business appreciation.

Dan: It could be that one or the other might be the more valuable exit strategy?

Mike: Yeah, it is. It's like one of the hotels we have in a small town because so much is being built up around it. This is a hotel that was built in the late 80s, I think, outside the corridor. It's a nice hotel, but there's a brand new grocery store, brand new 300 houses, and bungalows. We have all this brand-new stuff going up around it. Someone's [inaudible] will probably just be going to come and say, "Here's $8 million," and they're just going to plow the hotel down and build some big thing. The one next to the hospital would be a great one. Someone comes and says, "We're going to do an assisted living, or we're just completely redoing it and take the hotel away and do something else with it." Those are other places we can do, but that's what you have to look at.

On my side, you're talking about some of the fees. On most of the commercial properties, unless you do a CMBS loan, which no one's going to do now. That's going to be my next play as far as buying are the ones that had the CMBS loans. I may have to personally guarantee the loan like a 5 million, 6 million, 8 million dollar loan. I get a fee for managing that, just for taking that risk. We also get a fee for managing all the investors, okay? Now, a lot of those fees I go into like paying people, but those are some of the fees that we get. Then once the waterfall hits and yeah, the preferred returns, then we split 80% of the investors, 20% to the ownership.

Dan: Twenty-five percent to the operator and then maybe you as probably putting some cash in for the 80% too?

Mike: Yeah. Sure.

Dan: Okay.

Mike: Yeah. If I put in half a million dollars into the hotel, then I get part of that 80%. Then I get 20% just by being the owner. If then there's a waterfall, you get like- if I happen to do 15% on top of what we've done, then it flips for that period and then flips back. So there are some waterfall structures in there if I just really kick the button. The investor would say, "Yeah, I'll give you the 80% first because you just made us a lot of money."

Dan: Got you.

Mike: There are some other things in there.

Dan: [inaudible] deal by deal, and the waterfalls probably get the prospectus and then look into it, but you're probably looking at a 15% preferred return and then the 2.3 times the capital invested. Does that 2.3 return like I put 100 grand in and it was 15% for 5 years straight out of cash flow and then we sell it and I'm getting 230,000 back, or would that also have counted in the 15% preferred return as well?

Mike: Right. Yeah, that's the total. That's the end. At the end of the 5 years or 7 years, you're going to make 2.3 times your money.

Dan: Altogether, okay.

Mike: Altogether. What that doesn't include is that 80/20. That's just cash. I mean, that's just money.

Dan: Got it. There still maybe a little extra if there's more profit on there, you're saying.

Mike: There's going to be because you get the 15% preferred return and that goes towards the 2.3. Then at the end, you're going to make sure that we get the 2.3, but then you get that...

Dan: Final distribution?

Mike: The distribution's twice a year or whatever it is from the 80/20 split. That's just slush.

Dan: Got it. Got it. That makes sense. Do you guys do renovations on every single room going in? Is there typically a repositioning on the front end and what kind of a risk? Or maybe dive deep a little bit on that renovation, piece of the component time-wise. Is this a year-long, year and a half? How does that work when you guys take the property over?

Mike: Yep, great question. If we keep the property, let's say, we keep it a choice hotel. We keep it equality in or comfort in. The franchise choice is going to say they're going to go and inspect the property. Then they're going to give us which is in a hotel world's called a PIP. It's a performance improvement plan. We're going to know this prior to close. They're going to say this needs to be done in order to get that hotel up to the GIN 4, GIN 5 quality standards, okay?

In the hotel world, every 5 years, every 7 years, they do a refresh. That's just kind of keeping all the hotels the same, everything looking good because Marriott and Hilton, all these, they have pride in their product, right? They don't need a rundown hotel with their flag, their name. We're going to know what that is. Because of our vendors, we're going to know, okay, this is going to cost us half a million dollars to do this or whatever it is. Then it's like [inaudible] seller, guess what? I get a discount because you can either do it or if I have to do it, you're going to take it off. It's just like the same thing if you're going to rehab multifamily, right?

Then the flag is going to give us twelve months in order to do all that sort of thing. They're going to give us a time period. Some things, maybe twenty-four months, just depending on what it is.

Then every couple of years, they're going to say, "Hey, you have to change this. You have to change the swimming pool chair," just stuff. I think people just have to keep their jobs, so they come up with stuff that we have to replace. Some are really costly. It could be just the sign. Now, the big marquee sign.

Dan: Thirty-five [?] grand?

Mike: Sixty grand and all they did is instead of a straight thing, they made it a little S.

Dan: [inaudible] refresh.

Mike: [inaudible] It's a refresh. I'm like, "Well, that refresh cost me $60,000 for that sign," plus all of my stationery. Every little, you got to change it. No one's ever going to notice that stuff.

Dan: Gotta love it.

Mike: Gotta love it.

Dan: Gotta love it. Are you able to stay open during that initial renovation? I mean, is construction going on while there's-

Mike: Mm-hmm.

Dan: Okay, so it's now [inaudible]-

Mike: Yeah.

Dan: All right, got it.

Mike: Yeah, what we do is whenever we do a PIP, even if it's a major one like the one of the Radisson we had, they didn't even do any of the JIN 4 improvement plans. What we did is, okay, we're going to do the top floor, everything left of the elevator, do that. Then we just move people around and then we come here then it's kind of just shuffling things around. Then we just go floor to floor. Well, yeah, you have to keep...

Dan: Yeah, you got to keep it over[?], right?

Mike: You got to keep it open. Yeah.

Dan: Is there any cost segregation, accelerated depreciation on the front end? Is that like part of the strategy year one?

Mike: Absolutely. Cost segregation is the way to do it. One of the hotels, I'll tell you, I won't name the company unless you want me to, but the guy's a big LinkedIn guy, big podcast guy too, and his cost segregation companies, it was almost 1.2 million dollars, first-year cost segregation.

Dan: Nice.

Mike: Then all the investors on that first K1, they were like, "Whoo!"

Dan: They [inaudible] a 100 grand. What was the K1 loss if you had to guess?

Mike: I don't know.

Dan: Seventy, eighty percent of the [inaudible].

Mike: Yeah, it was. I would say it was right at that. Yeah, so it was 1.2. Well, no, it was, our absolute down payment on that one was 1.29 million.

Dan: Geez, like 97%, 100% or more.

Mike: It was like 97 almost and it was almost 1.2 million was the cost segregation savings. It takes them a long time. If none of you have ever gone through the cost segregation, my gosh, every stapler is advertised[?] and depreciable. It's amazing. Especially when you have a business like a hotel, it's probably a little bit different than doing the multifamily, but you just have so much. Every skillet, every waffle maker. Then we have, how many beds, how many little mini refrigerators? How many toilets? It's just compounded out because we just have a lot of it, right?

Dan: What about the exit strategy? Are you going in with a 5 to 7-year flip mentality? Is there a scenario where you would say, "We got to refinance this thing and keep it. It's just too much of a cash machine." How do you make that decision? Is it a deal-by-deal? Or is it made later in the... Maybe you can just speak to that a little bit?

Mike: Sure. Yeah, it is always a deal to deal. Given economic circumstances, when I do the syndications, I could do it within 5 years because if someone came up said, "Mike, can we give $10 million for this property?" I'm like, "Yeah, okay. Yep. Here we go," or whatever it is. Most of them are 7 because again, hotels are businesses. When you have a business, it's not something I can just slap lipstick on, make it 100% occupancy, and then sell it. You can't do that. The multi-family's maybe 2 years, 3 years, something like that. With the business now, we have just a lot of economic-type things. We have comp sets. We have the business that we have to bring up and revenue that we need to bring up. There's just a lot of strategies, a lot of time to bring a business up like that.

It's usually 7 years, but then if something like Covid happens, I have the ability to bring it up to ten years is the max. On some of them that just kind of took a hit, we may have to do a couple of extra years. Most of them will sell. I have some investors that say, hey, Mike, because one thing is that I have the opportunity to do is refi, pay off the investors then I get it. I could do that. I have that option. I could keep it and pay off the investors, but then I also have some investors that don't want any that they just want long term. They'll say, "Mike, I want to stay in it if you refinance it." There are just all these different things that we could do, but generally, it's just 7 years and then either cash out the investors, maybe keep a couple but maybe refinance. If I could refi and keep it under my portfolio, then I could do that.

Dan: Nice. Mike, I know that from your profile, and checking out on LinkedIn, you also have gateway VAs and have leveraged virtual assistants. Would you double-click on that topic for us here and how you've used them yourself and then maybe provide them for other people?

Mike: Yeah, and I can keep it quick. For all of you people that are investors at some point, you're going to say, I'm working too much in my business instead of on it and growing it. You're paying the bills. You're doing all of these things. I got to that point and I was like going, I'm not looking for my next multi-frame. I'm not looking for my next deal. I'm too busy taking tenant calls and I'm doing all this sort of stuff. What I did is I ended up getting a virtual assistant, and this virtual assistant happened to be out of Mexico. I like that because she was in my same time zone, college-educated, but all of a sudden, it's like, "Oh wow, okay, I can give her all this work, all this stuff that allows me to stay on top, the high-level stuff." Then I got another one.

I was a panel expert at the seminar, and everyone was asking me, "What point do you have employees?" I said, "Yeah, I utilize virtual assistants and kind of went into it." I had a dozen people come up and say, "Hey, can I get a contact for this virtual assistant company?" and I'm like going, "Hmm, guess what, give me 2 days." LLC operating agreement da da da da da because we're entrepreneurs, right? I saw a need. I contacted my virtual assistants to say, "Hey, do you know anyone just like you, college-educated, wants to work real estate based that can handle all this sort of stuff?" All of a sudden, bam, reached out to all those people, and Gateway Virtual Assistant Company was born out of their need. It's fantastic.

They'll do basically anything. We can set them up with a VoIP phone so they have an actual phone that has your area code in it, and they're one-on-one. It's not like a big company. They're one-on-one. It's basically like your employee. We've had some VAs, just them for years, and it's really worked out well and it's allowed us to really expand. There's like a buy-in type of a 45 day trial period, but you're only paying them not very much money. When you look at it for what they want, you can give them an upper middle-class living and it's basically half of what we'd be paying an American worker and you don't have any tax withholdings. You don't have any of the payroll tax, Social Security, Medicare. You don't have any of that. It's a way to expand your business, and it has really saved us a lot of time and money.

Dan: Yeah. It's a really cool time that we live in where we can have worldwide talent. I mean, you can get computer programmers. You can get website development. You can get people who speak very fluent English from Mexico or several other places around the world. I have several friends just like you who kind of put together very similar business models from Eastern Europe to the Philippines to Mexico, and it's really a cool time to be able to provide opportunities for people all the way around the globe.

Mike, I guess we get to our wrap-up questions here. I'd like to ask you for the crown jewel of wisdom. I would define that as what you would go back and tell yourself back in Indiana when you were buying that first property. What would you say?

Mike: The most important thing that I can tell any investor is don't do it alone, okay? You need to do it, but in today's technology, in today's world, build a team and get a mentor. This is why you're listening to this podcast. This is why you're listening to this and all the episodes that Dan has. Learn and ask questions and learn from our mistakes that you don't make them. That's what I would have done.

Dan: Yeah. You and I came up with the error before Google. I remember 2006., 2007, there were no BiggerPockets, there were no podcasts. It was a very dark time to figure stuff out, and we are blessed to be at a completely different time where knowledge is so available almost challengingly so. I would wonder, is there 1 book that you feel like making an impact, maybe besides Rich Dad, Poor Dad that you look back and say, "This was one that was particularly useful for me," and it may not be the usual suspects, business or real estate related, but something of that nature?

Mike: Another thing that I learned is once I started making money, I love to spend it. I'm making, now, I can do this. Man, look at me. There's this book, one of my mentors wrote it, and it's basically the money secrets of the rich, okay? What you realize is the millionaires next door, why are they still in that house? Why are they still in these types of things? Why don't they have any debt? What's the difference? Because you can start making hundreds of thousands of dollars and still be as in debt as you were when you made $30,000. What can you do to transition yourself to where you have no debt? I'm talking about personal life, and we're going to have asset that, right?

Well, what can we do to change the way that we think that will get us actually to that next level to where we can actually build... I have something that's on my office that I look at every morning, and it's a piece of paper that I wrote, build a life that you don't need a vacation from.

Dan: Nice.

Mike: That's my mantra. Well, if I make $500,000 a year and I have $600,000 in personal debt, I'm not building that vacation lifestyle because I'm still stressed. That book will teach you the next step. It's not real state-based, but it's that change in the mindset of how the rich go about their lives, not the pretend rich but the actual rich. It's really good.

Dan: Do you have the title and author there if anyone wants to hunt it down?

Mike: Yes. Money Secrets of the Rich by John Burley. Good stuff.

Dan: All right, Mike, how can listeners get more Mike Stohler, find out some information, potentially invest in one or more of your deals?

Mike: Sure. Look me up on LinkedIn. It's under Michael Stohler, S-T-O-H-L-E-R. Let me know that you found me through this podcast, and I'd love to answer any of the questions you have. Website's gateway as in Private Equity, gatewaype.com. On there, you can look at some of the projects, what we do, and there's a tab up there for the virtual assistant pages.

Dan: All right, cool. Good stuff. Hey, Mike, I had a blast. I got several pages of notes. Great conversation and a very interesting and unique topic. Appreciate you coming on the show.

Mike: All right. Thanks, Dan. Take care everyone.

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 2 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, the lending home offers the most competitive rates in the market, currently as low as 6.49%, which is good for fixing 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 1 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.

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Back in 2020, my house-flipping business, Diamond Equity Investments, bought and sold 283 houses. We're just about at the end of 2021 right now as I record this and we've done 344 so far. We may have a couple more to go through today. Mostly houses, a few were apartment buildings, and we currently have 142 other deals in our inventory, either under construction or under contract and awaiting closing[?].

Share those numbers so that you can hear the growth because I have 3 ways that you and I can do business. Number 1, if you are interested in having access to real estate deals that you can buy, fix and flip for profit, go to accessrealestatedeals.com. Number 2, if you are an accredited investor who is seeking double-digit returns on your money passively, 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 3, if you are interested in a fulfilling career with my company, Diamond Equity, the nation's premier real estate investment organization, I invite you to check out our open positions at careers.diamondequity.com. We have several openings available throughout the US. If joining a winning team with high expectations and high earning potential sounds exciting to you, please go now to careers.diamondequity.com.

We are at the conclusion, my friend. Next up, we have Gale and Hair[?] joining us to discuss the nuance of buying property insurance and how to make a claim correctly in the event of a catastrophic loss. I like to call this a real real estate investing topic for those of us who are actually buying, holding, buying, flipping properties, and concerned with things like long-term risk. This is the topic you will not want to miss. I'll catch you next time.

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