Automated voice: Welcome to the REI Diamonds Show with Daniel Breslin, your source for real estate investment. Jewels of wisdom.

Daniel: Adam Zach, welcome to the REI Diamond Show. How are you doing today?

Adam Zach: I'm doing fantastic, and I knew just from our brief introduction, here I'm excited to chat with you more, Daniel. Love what you got going on.

Daniel: Yeah, you and me both. Let's start this with a little location stamp. I'm traveling to Philly, which is one of our main cities right now. My home is Chicago, unless it's the wintertime home is Florida. Whereabouts are you recording from now? Did you grow up there and how did you land there?

Adam: Yeah, I am in North Dakota, right now I'm in Fargo. I grew up in the western part of the state in a town of about 10,000 people. So now I moved to the quasi-big city here in Fargo, which is 100,000 people, which is pretty much one square mile around you. It's probably about the same density spread out over 500 square miles here in North Dakota. I've been here my whole life and that's where I first started doing investment properties and now have investment properties in 57 cities in 25 states, doing some long-distance investing, and just love everything real estate.

Daniel: Nice. I think from your bio, what's it been like 13, or 14 years? It's been a while since you've been doing this.

Adam: Yeah. The first property I ever owned was a house hack in 2012. Took a little bit of a hiatus, but didn't start gearing up then until 2016, or 2017. The last five years were probably the greatest growth. So I've been doing real estate I could maybe stretch it and say a dozen years but since that was the first property. But I would say mostly it's been the last seven years.

Daniel: Okay. You've been buying, let's say in the last 36 months since 2021. You've bought a few properties in this period?

Adam: Yeah. So I would say in the last 36 months, we have bought, I don't know the exact number in the last 36 months, but I would say probably 52 homes. We're probably averaging at least one a month and now the goal for 2024 is one home under contract per week.

Daniel: Nice. I asked and couched that because a lot of people pushed pause in 2022 and a lot of people are sitting here, we're on the sidelines, we're hanging out and we're waiting and we're not doing the business. Here you are still trying to put one per week into the portfolio in March of 2024, if I'm not mistaken, housing prices have notched the highest they've ever been. Congrats.

Adam: Thank you.

Daniel: So we have 100,000 people and I make a joke about myself. I grew up in the Philadelphia region and there are probably 5 million, 6 million, maybe 7 million people in what would be our metro area. Then I moved to Chicago and I think that's like 8 million to 9 million in the entire metro area. I haven't checked the exact figures, I just know these are huge markets. Then I spread out a little bit back in 2015, 201616, and 2017 and tried to do Baltimore and tried to do Denver. We had an office in Tampa for a little while. We were in Miami for a little while and we pulled back out of those markets and I always was looking for the largest volume of people, like the highest density. When I hear something like a hundred thousand people like Fargo, it's amazing, but I feel like it would be tough to scale and do a deal a week in Fargo. It sounds like you've dealt maybe with that challenge and that was why you built the current business model that you're working on now. Maybe you could elaborate on what that business model is.

Adam: For sure. I feel like everyone's sitting on something extremely unique to them. It might be that they make a good income. It might be that they know somebody. It might be that they happen to be in a good location or you could take the potential negative of a low population and see that as a reason to not get into real estate. But I feel like everyone listening has some unique advantage that they know like they know a specific housing market better than someone else. They may know a capital lender or they know how to analyze a deal. I feel like that's what the person needs to leverage the most to get into probably their next deal. You're strengthening on that because I feel like everything's just a calculated risk to reward.

It's like everything's risky and so all you're trying to do is convince yourself that the calculated risk is worth the reward. A lot of times that's easy to do in your strength zone. That's what I started with. It was just whatever was easiest and most accessible. Because otherwise, if I was searching for the perfect deal or if I just threw up my hands and said, this isn't going to work, I would've gone from zero to zero and never done anything. So it's like going from zero to one, going from one to two to three, and I'll say my deals two through five have made me zero money. I probably lost money on them. I was getting in the reps and I wanted the single base hits to what I thought was a good deal. So I was acting my way through it. But for every single deal I came up with, well, I'm never doing that again. It was, I'm not going to buy a home from 1910 and think I can renovate it for $15. It was, I'm not going to buy a turnkey rental with tenants that I haven't screened before. Again, it's that I'm never going to buy a fourplex again. That was off of the Facebook marketplace. Every deal that came up with me I'm never doing this again, but it was probably smaller deals that I was able to absorb being a past civil engineer. But then every one of those stacked up to be like, I'm sick of buying properties. I don't have the capital. Then that's where we slowly pivoted into version one, which was where we told college kids, go pick a house for rent and I'll buy it and you can rent it at the 1% rule.

That was my way of cash flowing. It was, go buy a $300,000 house and you can pay $3,000 a month in rent. At that point, that was enough for me to cash flow about a 10% to 12% cash-on-cash ROI. The college kids picked out a home, and then I just got a home off the MLS and paid close to the asking price for it. Nothing sexy, nothing off-market. But then I had a tenant on day one because I hated the turnovers and I hated the vacancy because I was like, one-month vacancy just crushes your entire year from an ROI standpoint. So we started doing that a little bit and then it was like, well then they leave after a year, and market rent isn't $3,000. Turns out the market rent is $2,000. So I was like, well, alright, so I'm not doing that again because it'll generally appreciate, but I want cash flow.

That's where I first stumbled into Chris Crone and then took Joe McCall's course and found Winnie Patton and these others that were doing lease option models where they were buying or they were actually doing sandwich lease options where they're leasing a home, have the option to buy, and then they were selling it on a lease with an option to buy. For the listeners who might not know what that is, it's probably in the creative financing space. You have the rental, you have the normal mortgage, and you can do seller finance, you could do a land contract, you could do a lease option. A lease option is probably the closest thing to a rental from a contractual standpoint and you can get a land contract closer to a mortgage. Then seller financing is typically true in a debt position loan where the seller's carrying it back and you get to go on title, but on a lease option, the tenants are not on title.

In Texas, you have to file the option agreement, but in all the other 49 states, it's typically just a lease with an option to buy. So what we started saying is the same concept. People go buy a house, we'll buy it for you, you rent it, and then you have the exclusive option to buy anytime in the next three years. So my whole goal was, I wanted to get that same cash flow from day one, but then I didn't want to have to turn over the property and I wanted them to buy the house. So that's all we do every day, all day now here at Home Equity Partner. We're just buying homes for people who want to rent it and have the option to buy in the next three years, which happens to be a lot of people that either are moving, can't get a bank loan, don't have the debt to income, maybe are self-employed. So there are some big players like Divvy Homes and Home Partners of America doing this in the larger cities. We just figured out that there's a lot of room because 110,000 people are searching for rent-to-own homes every single month on Google. We just tapped into that niche and are serving those individuals.

Daniel: Wow. That's interesting. The least options, I mean, Wendy Patton, I remember these names from way back in like 2007, 2008, 2009, back in that time. In 2011, I created a real estate brokerage and our whole thing was going to be these lease options similar to what you're doing. It never really gained traction for me. It wasn't my sweet spot and we never even closed a single deal to get it done. On paper, these look great. What Divvy Homes is doing, I have a friend who works there, Home Partners of America, what you're doing, looks great. You get the tenant buyer in the property and then they cash you out at the end of that and that's like super clean and gets it done. Is that how it works out in reality? Have you had many go full cycle on buying the property at the end of the three years?

Adam: Yep. The biggest risk is, are they going to buy? That's the first question that everyone has to come up with. We've had the pleasure of seeing 28 deals going full cycle. Some bought, some didn't. We were at 80% buyback, then we started trending down towards 50% with people not buying. Now we're changing some different processes to make sure that no one wants to evict someone out of a home. It's just like, it's a loss for the investor, it's a loss for us. It's a loss for the client. A couple of different things that we used to stack it up, which was underwriting them at the beginning, but the idea is what is stopping them from getting a mortgage? That's probably the biggest thing. Or are they using this as a test-drive vehicle?

Because I've seen people do a lease with an option to buy where they just say, if you got a 700 credit score and you pay me market rent and you just give me a three-year lease, you can rent it or you can own it. I don't care which one you do. So that's kind of the Home Partners of America model, which is they don't take any rent credits, they don't take a high option fee, it's just you get to rent or own and it's a clear year, one through the year five monthly rent in a set buyback price that appreciates probably at like five and half percent per year. For us, our target audience is I don't want the home back. I'm doing this in a different city every single time. So I'm not just concentrated in Atlanta or wherever it's any home, any city, assuming that someone has the income and the down payment.

One way that we've used to protect our investors is the rent guarantee policy because a lot of these. I was always wondering and scratching my head, how do the banks with three and a half percent down in a 580 credit score, not just get crushed? Because you would think that if they defaulted by 10%, the banks's like slow and moving. We're a group of real estate investors. We're pretty savvy. A tenant's not paying, it's like cash for keys. You can do the eviction, you could re-list the home as a rental. You can sell it, you can play the market. Whereas like a bank's like, nope, we go through the REO, it's gone. We're just liquidating the asset. We have no other options. Here's our system, here's our process. I was like, they do private mortgage insurance and they make the tenant pay for it. So what we did is we just did the same equivalent and we found rent guarantee insurance. So there are the guarantors, there's a leap, and then a single key is now breaking into it.

So we make every tenant pay for rent guarantee insurance and all the factors cover. But that was again the same way a tenant moved out and I was like, now we lost this high rent, now we're screwed. So these companies will guarantee their rent for X amount of months until you re-rent it or you sell it. We found that's been one of the few insurance policies that I don't mind paying for, or I guess that we make the tenant buyers pay for depending on their risk profile because that significantly helps the downside of what if they don't buy or what if they move out or what's that scenario. So happy to share more about that, but if you know about those, I'm happy to share just for listeners that maybe don't know about that.

Daniel: Yeah, that is interesting. What if you do make the claim, have you made some claims? Do you become like normally if you claim your property insurance, you get dropped the following year, and your rates go up by 50%?

Adam: Yeah. So what happened when you made your first claim to LEAP?

Adam: I was shocked that they paid it out. So I went with LEAP and I was like, not that I wanted someone to move out because that was the last thing, but it was like, We have all these insurance policies, but it's like homeowners insurance. Just kidding. On page 53, subsection A, it says we don't cover anything with water seepage. You're like, well that's everything. What LEAP does is they have a monthly premium and then they have a deductible, went through it, submitted the information, and cut us a check for two and a half months of lost rent and hit our bank account. I couldn't believe it. LEAP went through that and went through the full cycle. I like the guarantor bond policy a little bit more just from an overall coverage.

We have not had to, and they have their underwriting criteria. LEAP anybody can get. You can just say I want coverage on this one, and they don't do any underwriting. At least at the time of this recording, the guarantor screens everyone. Then they're issuing a rental bond policy for that duration. Their play is like, you don't need to collect a security deposit because here's this bond saying that we're going to pay it. Now again, it's insurance, whether or not they're going to pay it is kind of suspect. But that's the intent.

Daniel: Okay. What type of cost is associated with that for your tenant? If the rent is $2 in a month through LEAP or guarantors, what do you estimate that tenant now has to pay for that policy, and for how long?

Adam: For leap, let's say it's $2,000 a month in rent, roughly $83 a month and then call it one month's rent as a deductible. So it's like, if you lose them, their thing is like, maybe it takes you 60 or 90 days. For us, since we're selling the home, like we're not re-renting it out. For them I could see like, well they're hoping everyone rents it out in 30 days and just never does a claim. Similar to when you get in a car wreck and if your deductibles are $1500 they want the cost to be right at like $1499 so that you don't have to do anything with it. So it's about $83 a month per $2,000 a month. Then they have that first-month deductible. The guarantor is paid upfront at roughly one to 1.51% month's rent and it's all paid up in front and that's it. At least that I know of, no premium, no deductible, and no different things that you're paying after the fact.

Daniel: Okay. All right. That's interesting. So 28 deals have gone full cycle and the tenant buyer has cashed them out. You have a handful of people that leave. You mentioned that you can't re-rent the same property for that same rent. So you're falling into a little bit of the buying that you faced with the college kid rentals, Adam. When you sell that property, you said we're usually going to sell them and it seems like you're forced to sell it at that point. Is that regardless of whether you're in a profit position or a lost position, you're taking it and it's playing a numbers game with your portfolio? Walk me through that sell, re-rent decision, and maybe some of the results if you don't mind.

Adam: Sure, happy to do that. So we started this business just by buying and holding all the assets ourselves. We created an LLC and this is what we used to get out of both my business partners were in construction, and I was in civil engineering. We did 20 to 30 of these deals. It's like, great, we got it. It was the financial independence and that was all the track I was on. There wasn't a whole lot of mission. It was just Adam wanted out of his job and it was extremely selfish, but mostly because I saw my first child get born and I was like, I want to spend a ton of time with them. To this day, this week I'm going to spend probably 45 hours with my six, four, and 1-year-old and it is phenomenal. I love that.

That was the freedom I was chasing with this. Then once we did that, it was like, cool, how can I retire my fellow engineers? So then we started assigning it and turning it into a business. We'll still hold some deals, we'll assign deals to outside investors and then we create a syndication for investors who don't want to take on a deal. They can get 5% off 20 deals. So then we're either holding them, assigning them to individuals or most of the time now putting it into our syndication fund just to guarantee that we have capital to buy these homes for people. There could be some logistics when we're buying a home in a different city every single time, lining up the debt financing, lining up the investor, making sure that what we promised the tenant-buyer and gave them the equivalent of a bank pre-approval letter. But it's our rent-to-own pre-approval letter that no matter what we're guaranteeing to get them a house, whether we do it ourselves, outside investor, or the syndication. So of the homes that haven't gone full cycle, we've had probably half that have made us a lot of money and half that have not. In general, my business partner, his rule of thumb is we bought this property for a reason and that reason has no longer served its purpose. We took the calculated bet on red. Turns out we were right, sometimes we were wrong. His point is, that we probably could rent it out and you could probably ride the wave because All of our loans are in a five-year term, 25 years am on a commercial loan. So we want to be in and out of these deals in less than five years.

We do have that five-year window where for sure we're going to rent it or sell it. I guess depending on what interest rates are we can always stretch it out and do a different term. But that's why we do a three-year lease option that gives them three years to buy it if we need to, we can extend it for another year. But then by year four, it gives us a year to either liquidate it or extend our terms with the bank. So in general, real estate goes up. We've seen some markets where the tenants unfortunately left and we're going to make a lot of money on it. We've had others that have been more rural that we bought at $265 and we just said to list it at $240 and we'll just take the loss and that's what happens and we'll go.

We've had other investors that are like, Nope, I'm keeping the property, it's in a good area, I'm fixing it up and I just have a property manager and we're just going to rent it and keep it. Our general philosophy I guess my business partner who's the savvy brains behind it, because I'm always like, can we do this? Can we do that? He's like, just keep it simple. If they're no longer in the home, we don't want the home. We bought this for a purpose, and now we are adding on the rent guarantee and different things. So the whole idea is to head we win tails, we break even. That's our model.

Daniel: Okay. Yeah, I remember when I was working on my brokerage alternative decision was the name of that. You can scroll back to 2011 and see some of the brokerage signs and some of the old basic posts that I put up back then. But part of our strategy was if that occurred to us, we wanted to have this list of willing tenant buyers. Now we were working in the Philadelphia market, so we were looking to have this focused brand power. I guess what Divvy would've tried to do where now we can relist this as the lease option, ideally collect some option payment retain the property, and keep it moving. Again, I don't have any closed deals to show for that and we walked away from that. So it's interesting to hear a level of discipline that's required for you and your business to say, okay, anyone on this call who's ever lost money on a flip, usually prices it at first where their profit and then they're lower the price and you're holding costs suddenly exceeded.

Now we find ourselves at the listing price and accepting an offer where we're taking the loss. That's usually six to 12 months' worth of marketing time for us to come to grips with taking a loss on our property. I'm speaking from my own experience there now, but for you to go on at $240 and you're willing to instantly take that loss. There's something to be said for that because you're skipping this six months' worth of extra carrying costs and this is like mental gymnastics I think. I'm sure it's not just me. I see these properties listed on the MLS where people paid too much for a flip, spent too much in construction, and then listed too high because they were trying to break even or make some profit. That's probably the cardinal sin in that scenario that ends up costing them 20%, 30%, or 40% more loss than had they made the more disciplined decision that you did.

Adam: In addition to the Home Equity Partner, it reminds me of the story of some homes I bought in Bishop Texas. Not in that model, but where I'm a money partner on a joint venture for doing flips where I bring the capital, they find the deal and then we split the profits. I was like, here's an awesome way of doing this. As I was going through it from the marketing side, it was, this is what we're going to do. We're going to be the money partner and we're going to go through with this. Yet it went like, this is awesome. It's easy, it's uninformed optimism. You just do it and then you get the one deal where I've been holding it for 13 months and I'm like, never again. I am not holding this property. It's liquidated and we are done and we're going to get out of this.

Daniel: Uninformed optimism. I can see that in my history here. Sure, it won't be the last time. What a great term for not a great situation.

Adam: Yeah. I learned it from a few other people, whether it's like, you know what, everything just looks great. Where it's like, call it from anybody investing after 2009, maybe 2010 to roughly now. It was pretty hard to lose money. There are probably a couple of markets that with COVID things probably went a little bit crazy and a little bit back, but in general, it was a holy cow. Like a rising tide just lifted all boats.

Daniel: That's right. So let's step back to the syndication fund now. How's that set up? If I were an investor in this fund and I'm assuming I'd have to be an accredited investor and I'm going to put $100,000 in that fund, what should I expect? How long, what kind of return, and what kind of risk do we have in there if I'm an investor?

Adam: Sure. So for syndications, we did our first syndication last year and we did a 12% preferred return with a 70%-30% split. This essentially means that the first 12% of the profits of the capital. Let's say that we raised a million dollars. The first $120,000 of profits goes to the individuals and they typically call them limited partners. That's their right of first access to the profits and then everything after that is split 70% in favor of the limited partners and then 30% to what would be called the general partners. We did what was called a 506B, which means that we couldn't publicly advertise, but when we filled our last fund, it was, hey, we could have as many accredited investors as we wanted, and about 35 sophisticated investors. Then there are some different rules that the securities, attorneys have you follow for verifying or doing the questionnaire. So then we took that model and basically said...

Again, we were just hitting base hits all day every day. It was just a single, not to the number of MLB hits that you're hitting in a year, Daniel, from a volume perspective. But that was having never done anything bigger than a fourplex, it was just a single-family home at a time. It was like there were no grand slam deals, it was just the consistency and the volume of doing it. So now this was just like, okay, well how can we do this same thing faster? That's why I think a lot of people in single-family eventually graduate to commercials. They're like, I can do this. Well if I'm going to make the same level of effort, can I just do it bigger and go on bigger deals? But there's a little bit of complexity that comes with it.

What we did is we found a good securities attorney, and a good CPA, and said, we have a group of 13 investors, and we want to raise $1 million. What would it look like if we just did all the work? You put in the capital, you get a preferred return, and if we make you over 12%, we get a share in that. Instead of them just taking on one deal where they get a 20% return or maybe a negative 10% where there's more volatility, like a stock market on whether the tenant-buyer buys. But we just said, well what if we just put 20 homes into that and so you own 5% of 20 homes? Now we're doing the same thing with our second fund, and we just want to prove the concept. Securing debt financing is tricky when you're going into multiple markets. So oftentimes you have to bring someone with a really big balance sheet, let the banks feel comfortable, and now we got local banks and credit unions. They're like, cool, you're good for $8 million. Go buy a home anywhere using this model. As long as it's a 75% LTV, we get a third-party appraisal and it meets the 1.25 DSCR, you're good to go. Which was like, sweet. So now we can go buy $8 million of property, not having to worry about the debt, not having to worry about the capital. It's all about the deal flow then, and we don't have to match the capital.

We're doing a staggered capital raise versus the traditional multifamily route, which is, here are 190 units, we're going to buy it for $53 million, put $12 million into it and it's going to be worth $80 million. They know this, here's the single asset. Well, we go to the bank and they're like, what homes are you buying? Like, don't know yet. They're like, where are you buying them? We're like, don't know yet, and they're like, and you want how much? It's like, well, trust me. This is our model and it was a little bit of back and forth. What we're doing is, we're having investors commit capital but then contributing it over some time as we do our call just to match the capital with the deployment schedule. So we're saying, our goal is to buy let's say it's three homes a week, three homes a month. Whatever the number is, if we go less, if we go more, we can just accelerate our capital raise schedule or decelerate depending on the deal flow. But we've had, we at least have the structure, the security filings, and everything intact to make that happen. Hopefully, I didn't go too far off the ranges, but happy to explain more there.

Daniel: Yeah, it's a great roadmap there. How long would syndication fund number one run? Is it going to be here we take the million, we buy 10 assets, and then as each of these 10 sells your investor capital is distributed pro rata or however much you put in Pari Passu and that's the end of it and it might only run 24 months? Or are you guys like, we sold asset number one, and now we're buying asset number 11? We sold asset number three, let's buy asset number and then it runs for 10 years. How do you define the term of that fund and I guess each fund going to go forward?

Adam: Sure. So the first fund, we said, once we hit our raise, that was it. As the tenant buyers either bought or left, we're liquidating the asset and then we're going to dissolve the fund, which was like test run number one on a syndication realm. So we've done full cycle deals and we are helping manage roughly 75 lease option deals going at one time. So it's like we understand the various pieces, but this one was like a clear start, middle, and end. It was raise, deploy, exit. Now we're going, okay, great, we figured out a little bit of the pieces, we got a little bit smarter, what works, what doesn't work. So now the plan was, let's do this 10 times bigger. We'll buy for the first five years, then we'll return all the investors' capital in the next two years. Then after that, we're playing with free money and we can either dissolve the company and liquidate it and end at roughly 10 years, or depending on what our investors want to do, since they've got all their capital back and all their preferred return. We're splitting the profit share on the upside. So we could turn it a little bit more evergreen, which is where securities attorneys love to drill up the time on all these what-if scenarios of if someone dies, if you do this if you do that. I feel like attorneys are just trying to make things complicated. I get that they're trying to protect us, but a little bit of a personal grip where it's I feel like the interests are misaligned. We're a results-oriented workforce where we pay for results versus paying them for their time, so as much time as they can bill.

So I feel like it's a little bit disincentivized, but overall, having a good securities attorney, having a good you know, CPA is going to save you a bunch, but it's been very interesting being right in the trenches of like, here's our operating agreement and our private placement memorandum and here's the 97 different scenarios that can come out. I'm so much for the let's go. Luckily I've got some general partners who are a lot smarter than me. They understand a lot of this. My quiver-the-arrow to get things started matches well with their ability for stability and understanding the long-term play.

Daniel: Now the securities attorneys are probably $350 to $550 an hour. Aren't the civil engineers like $350 to $550 an hour?

Adam: Yeah, maybe we could just trade time for money there.

Daniel: Yeah, I'm sure you guys are going through all those scenarios. Well, what if we have 24,000 cars per day here? Are we going to need this alternative turn lane or the slow-down lane? What about if this other fire hydrant is a little too far from this shopping center, we might need another...

Adam: Yeah. Have you thought about this and what about that? Would you like a cost proposal on this?

Daniel: That's right. I digress. That's interesting. It sounds interesting. Are there any tax benefits for the syndicator? Do you guys pass along any depreciation of any sort to people going into the fund on the front end?

Adam: For sure. Yeah. We've done, I guess this is our third technically securities filings. Our first one was unsecured promissory notes, which was strictly just $1099 interest that the investors would get not secured, which is a whole nother interesting way of doing it. Most of them just don't do securities, give them a first position. You don't have to deal with the securities attorney, but ask me how I know, I have a fun story behind that and talking with the North Dakota Securities office on Adam, just trying to figure out life and calling them up and being like, this is what I'm doing. They're like, you shouldn't be doing that type of thing where it's like, I probably should know. So it's like you can do the securities unsecured where it's not even tied to any debt.

It's just a business loan where they're just saying, take the money, go do with it as you want, as operating capital. Super flexible from a business perspective. If they're in the syndication, we're issuing K1, so everyone's getting depreciation when they're a limited partner because it's essentially just an LLC with different units or different members in it. For ours, it's just one LLC, one operating agreement, and two different class units. All of the tax benefits get passed on. On this first fund we've paid out money, but they're going to show a paper loss on their K1 because we were acquiring assets in a year. There were acquisition fees there, you get the depreciation. But they're still getting the cash flow from that asset.

Daniel: Okay, that makes sense. So let's switch gears one more time. We have the finding of the tenants. It seems, I don't know, interesting, maybe even somewhat odd to me that you have 52 different either 57 cities or 25 states. It's like, well, why not just go deep on one particular market and codify your brand there and maybe get some momentum and you probably have a much broader better answer and reasoning for why and how you guys now own in 57 cities in 25 states. Would you mind touching on it? Because tenants must be one of the core strengths of what you're doing. This doesn't happen without the tenant-buyer being interested and having faith that you're going to do it. You said you're going to do it and then ideally they're doing what they said they were going to do.

Adam: 100%. The short answer, Daniel, is if I were a better business owner, I would be able to knock this out in a state. That's what the big boys are doing. Home partners and Divvy, they're like, I'm picking my market. I'm picking the top 25 metros with the highest population and I'm going to own those cities. Adam being the scrappy North Dakotan that I am, I was like, how can I get tenant buyer leads? I tried in Fargo, okay, I didn't get anything. Well, now I have to go long distances, so what do I do? I was like, what's the most effective way? Just because there wasn't the same volume here either from Adam's, a poor marketer, or just purely from a numbers perspective on 100,000 people versus 8 million people on trying to find that sweet spot of those people that specifically want to do a rent-to-own home.

I was like, well if I'm going long distance anyways, or longer distance, what's the most effective way? That's where I got deep into Google ads and pay-per-click. Now I honestly just raise and lower the ad budget on our Google ads and they're just targeting our specific person and we have them fill out a prequalification form of what's your income, what's your credit score, and how much you make. Here are the expectations. This is your monthly payment, here's what you'd be approved for. Do you like this? Yes or no? If they click yes, Google gets happy and awards at a conversion point. So then they give us more of those leads. If they say no, Google doesn't give us a conversion point. Similar to the shopping for people that are trying to sell their home fast, it's like yeah, you're just doing the conversion value, and the former engineer in me, I just love numbers and Google is just so easy to track those numbers.

We played with Facebook a little bit, we're looking at doing Zillow potentially next. But Google is such an easy way of tracking the number of views, number of clicks, click-throughs, how far they went down your funnel, and what's your cost per conversion. Then you can start back held and be like, this is how the numbers work. So what we do is we just target specific states and we let Google do its thing with our ad budget and they're just specifically trying to find the most attractive way of spending our ad budget for the lowest cost per click.

Daniel: Yeah. That's cool because it gives you this opportunity over time. If you guys do fall in love with certain areas, certain markets, certain states, the tenant laws are favorable, and half the states and they're not in the other half and you fall out of love or fall into hate with certain ones, you just turn the state off and you shut off the lead flow. I imagine over time you will find more of your most desirable markets and want to scale up much more heavily in that area. So that explains the tenant facing...

Adam: If you don't, Daniel, one thing that I think the listeners could do is if you know anyone who's self-employed or can't get a bank loan, like this was the very first model one that I did was just basically like, I'm just trying to co-sign with someone and if I have to put in no money, but I maybe get $250 or $500 of cash flow, that's a potential real estate play there. It's like you're co-signing on a loan, which is the equivalent we're doing. We just like to take the title so that we have more control. But if a listener is looking at it and be like, I have, I have a really good job or I have a good W2 income and I can, can get a bank loan in about five seconds from 12 different banks because it's typically if you have the W2, I would say that there might be a lot of, sometimes they're real estate agents, sometimes they're flippers, sometimes they're self-employed, sometimes they're people with poor credit score.

But you can work out either a tenant in common and an LLC or this type of arrangement. You could do a land contract where you're just like, they're bringing 20%, you're putting 20% just matching your conventional loan. Selling it back to them and just say, you're responsible for principal interest, taxes, insurance, repairs, all that, just use my loan. But then just give me a yield spread, which is like what the banks are doing. They're just borrowing money and lending it out anyway. It's like, could you borrow at 7% and lend it out at 9% and just take your 2% yield spread? Just for anyone listening there's another different way if your brain hasn't thought about it. Because I was always wondering how the banks always had the biggest buildings downtown. It's like, it's because they're just playing the yield spread game where they're just moving money around and playing the spread.

Daniel: Yeah, some of them go belly up. It can be a dangerous game. What price point areas are a no-go for you? Is there an area where you have this tenant that's got the income and they're willing, but you're like, we're not doing this on a $900,000 house, or what other example is a no deal for you?

Adam: For us, we are starting to collect all the data to figure out what deals do and don't work. We've recently stumbled across a couple of interesting statistics across 25 states, which was homes under $200,000 typically tend to perform worse. Which I thought was an interesting statistic. It's partially because if you're getting 5% or 10% down if you do it on a $100,000 house, it's $5 or $10. But if you do it on a $400,000 house, that's $20 to $40. So the amount of, call it skin in the game, although from a same percentage, basis is the same, just from a pure dollar amount is much higher. So we've kind of found our sweet spot being between $200,000 and $650,000 mostly in the Midwest to Southeast.

Daniel: People in that price point too. Just think about it, it's like the size of their monthly budget from the work they've done for that income is going to allow a little bit more tolerance for the car repair that's needed for the two weeks out of work because you're sick. A little bit more savings versus somebody who is maybe net $200,000 or under the mark, like man, they're done. When the car breaks, a car needs transmission, they're out, they can't get to work. It's shut everything down. So there's a lot more risk as you get to that level, unfortunately. So I'm going to switch gears because we're getting here towards the end I was doing some research and something jumped out on one of the documents I think I found. Do you have a history of playing chess?

Adam: Certainly do. My dad flew me around and taught me when I was young. Stopped playing when I started to beat him, but then I ended up taking the state chess champion three out of the four years in high school. They were probably some of my favorite memories with my father, which was my first plane ride ever out of North Dakota to California to play in the national championship. There are just so many analogies in life for chess from delayed gratification and strategically moving forward that I've been slowly trying to get my kids and they're like, a horsey. I'm like, no, that's not the lesson I'm trying to teach you right? I'm trying to teach you life lessons how to think five moves ahead and how to see the board. That's a good deep dive. I've thoroughly enjoyed chess. It's probably my number one hobby.

Daniel: Yeah. I did not play competitively anywhere at your level. I was okay at chess. But I do remember playing, probably starting when I was maybe five or six years old, something like that. I wonder, it's like I am running a business and there's this level of complexity and we have to think ahead and we're having to calculate risk and we're having to come up with strategy and it's like, good. Should parents consider making sure the kid plays chess? Because you're mapping out the brain in a way at a very early age. The brain grows like the trunk of a tree and then the branches go out and the branch is really small in your early years, and then you can build out all the leaves. All the foliage on the branches of the brain. That's how the brain grows its pathways. I wonder how impactful or important something like chess is. I'm sure there are a lot of other things that could be done in place of chess to expand neurology at an early age as well. So it may not just be limited to chess, but how important is that to set up the foundation in the neurology for that strategy and for that risk calculation, delayed gratification, and these things 20, 30, 40 years later? I haven't played chess in a decade, 20 years probably. But I probably would credit that as a child playing that up through middle school and maybe a little bit into high school as there was something important. It was maybe as important as reading books. I don't know.

Adam: Yeah. I could go deep into this. You'll have to cut me off, but there are so many different things. So each chess piece typically has a point. A pawn has one, a horse has three, a rook has five, and a queen has nine. So it's essentially like a queen is worth nine ponds or two rooks are the equivalent of a queen. As you're making trades or exchanges, you're trying to exchange one piece to capture a higher piece, you have more points on the board. But what's unique about chess is that you could be down to your last two pieces and still put your opponent in Checkmate if you use their pieces against them. So it's partly like the space of a point, but it's also just where you're at on the field with the pieces and how you use them to potentially get them into checkmate along with the opportunity that every pawn can become a queen, which is just this cool concept of like every little person could make it with enough if you make eight squares and you get to the other side, you can get promoted into the queen and you now become the most powerful piece on the board.

That idea of sitting and looking at a chess board, and in my mind, like the pieces were moving around. It's funny, I watched The Queen's Gambit and it was one of my favorite shows because you're trying to look at a board and it's got pieces and different things you're trying to do. If I do this, then he's going to do that. If I do this, she'll do that. Just starting that chemistry of, instead of just moving this piece and seeing what's going to happen, it's that forward-thinking, which I think is ingrained into me, which is just I wake up and be like, okay, where am I headed? This can be a little bit of a downfall if that's all you're looking at. If you don't get to sit and smell the roses and enjoy the journey a little bit just from a philosophical and emotional intelligence health standpoint. But I do feel like people are better served if they say, what can I sacrifice today for the betterment of tomorrow? It's trying to make that strategic choice.

Daniel: Fantastic. I have a couple of wrap-up questions that I ask every guest who comes on the show. Before we get to that point, knowing everything we've covered so far about home equity partners and your business model, are there any points you feel it would be important for us to cover for the listeners or anything we left out here that might be worth revisiting before we switch gears completely?

Adam: I think you covered them all, Daniel. I think the only thing I would reinforce is that for someone looking at their next deal, my favorite thing is just to look at what that calculated risk is and how you can mitigate that risk with something that with a piece of knowledge, with a resource, with a business partner. I'm such a fan of business partners. I know Dave Ramsey craps on them all the time where he is like the only ship that doesn't sail is a partnership. I don't care if all six of my business partnerships go south in 10 years. It was the best besides getting married, having kids, and different things like business partnerships when you have someone with an equity interest similar to yours. In a home equity partner, in my various ventures, I have a 50-50 business partner and it's one of the greatest choices I've made.

It can be a little bit smoke and fire, but those individuals that are like, it's just really hard to do it myself. One pays to be in front of masterminds and classes and different things. I'm in four of them, and I took different classes. If you can do the lower price points, free is even better, podcast books, different things. But if you're looking at this and you find someone who's equally passionate and has similar vision, but maybe complementary values, I would say that significantly increases your likelihood. Similar to my wife and parenting, if one of us makes a bad choice, that's fine, but if both of us, between the two of us, rare is it that we make a bad decision. Adam can get heated. My 4-year-old pulls out know dumps a bowl of Cheerios right in front of my face and then takes off his pants and runs away I'm just scratching my head or maybe I lose my temper. But as long as both of us don't lose it, that's what I feel like in a strategic business partnership. Not just the team member or employee mindset is they have that same philosophy. For the listeners thinking about doing that, find your friend, find your uncle, find a sibling, find an investor, and see if there aren't some good complimentary ads there.

Daniel: Yeah. I would layer onto that. I have partnerships and everybody who's on the team, we say, look, we're doing each deal. Our acquisition manager and the executive who's on that deal, as well as myself, like we're all going to get a partnership share on that. These are not like our employees, our sales guys. You're getting this like a small, minuscule percentage. Show up and match the energy of your partners. I would say that the complimentary risk, is two things, you want to have your alignment of interests in the partnership. That's how everybody feels like they're getting a fair shape. Part of that is how much energy am I bringing to the table, right

Adam? You get someone who's like, I got the cash, so you're going to get 10% of the deal and you're going to do all the work. Maybe some new investor takes that and maybe there's some place where that's good enough because they were happy with the experience.

And the experience was like, all right, my interests are aligned. I could spend time with this person. But in some of those instances, more often than not, maybe the cash is 60% at 40% and your interests are aligned. Maybe it's 50% and 50%, I don't know. For each person, your experience level, the quality of the deal, the other options, and the other partner who's bringing that deal to the table might have at their disposal an alignment of interest. Thinking through the incentives versus what each person is bringing to the table is important. You don't just want to partner with someone who has the same idea and is trying to do the same thing. There should be some evaluation of the strengths. I was just talking about this on our last episode of the show. We should evaluate what strengths we're bringing to the table. The bad partnerships that I've been a part of that I've had to get out of were most often caused when the energy wasn't being matched or all of our interests were aligned and the energy was there and then the person maybe got into some other business and now they're spending more time on that than this. And I feel like I'm carrying 70% of the load where it was supposed to be 50-50 because we were 50-50 in the early days.

Maybe the other person feels like that and you're the guy putting 10% in, or the guy putting 10% in, and it's time to exit that partnership. So evaluating the strengths to make sure the interests are aligned would be my take on collecting the right partners. Cool. Our wrap-up questions here, Adam, do you have any books, podcasts, sources of inspiration, or maybe one or two recommendations that might fit in that category for the listeners?

Adam: I would say Scott Trent's Set for Life. If you're in the early stages just talking about how to manage your expenses and how to save up and cashflow. If you're a business owner, The Road Less Stupid by Keith Cunningham will change your philosophy on business. It's so crazy what just simple questions can do. But that one's a rare one that I've been recommending to everyone recently, especially if you own a business.

Daniel: The Road Less Stupid. What a great title. Cool, Crown Jewel of wisdom. You're still a civil engineer, but now you know everything you know. Now March of 2024, Adam, if you could go back and tell yourself earlier in that civil engineering career, that Crown Jewel of Wisdom, what would that gem be?

Adam: In this specific case, I got to financial freedom and I thought that that was it. I left the engineering job and I probably had an identity crisis where it was cool. I've worked 10 years to get out of this job, which is like it was my whole life for 10 years. I had small businesses, I had small kids, I got married and did that. But the whole idea was like, I got bigger pockets, I got the fire mood, I was living, breathing financial independence, and I was going to leave the W2 job. That was it, there wasn't anything beyond that. It's really difficult to understand. But I would look back and I would say I was so passionate and fired up and thrilled about it. Oftentimes, and there were a couple of times where I looked at it, but I was like, this is potentially the best time in your life.

For everyone listening, this is potentially the best time in your life. Everyone struggles, everyone has problems. If you put all your problems on the table, you'd probably be pretty quick to take back your own if you were in your neighborhood when you realize what other problems people have. But I would say this is likely the best time in your life. You're starting a business, you're raising a family. I have great energy, I have great health versus all the, I'm not out of the job yet. I don't have this. Us high charging impact entrepreneurs. It's always from A to B. It's like just really sitting down and enjoying it and being like, this is probably the greatest time in life. You got a lot of love, you got a lot of passion, a lot of fire, a lot of good opportunities, and a lot of good optimism. Enjoy it.

Daniel: I love it. Where can listeners go to dig into you, Adam, or maybe Home Equity Partners?

Adam: For sure. You can find me on LinkedIn and Facebook. If you just search Adam Zach. It kind of sounds like Zach, but it's pronounced Zach. If you go to homeequitypartner.com, you'll find a lot about what we're offering to tenant buyers. There's an investor tab on there, or you feel free to send me an email, at adam@homeequitypartner.com.

Daniel: One my final question, what is the kindest thing that anyone has ever done for you, Adam?

Adam: When I was 28 years old, so roughly six years ago, I slowly started to understand that I was going blind. I had a genetic best disease. When you start realizing that you might lose your vision and the amount of empathy and compassion that she had, the trust that she had in me, it wasn't like this grand gesture. It wasn't this, I'm going to do X or like, I was really in a tough spot. It was ironically just the idea that I have someone who truly loves me and is there for me for eternity, especially the fact that I was worried that I was not going to get to see my kids' faces as they got older. I'm getting eye injections and doing different things. But just having her in my life and being able to share that with no one else on planet Earth. Her ability to simply sit there and empathize and show kindness just as I was going through maybe the turbulence and the struggle of trying to grasp life without little eyesight would be like, is the greatest gift that she gave me was just having someone to be there for me.

Daniel: Wow. That's amazing. Well, I'll be praying for fantastic eyesight for your entire life here as we close. But Adam, lot of great stuff here written down on my notes. I had a blast. I'm sure we could have gone for another hour or two on this whole variety of topics. Maybe we'll have to do a follow-up at some point. But I appreciate you coming on the show.

Adam: Thank you very much, Danieliel. It was a pleasure.

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