Video Narrator: Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment, jewels of wisdom.

Dan Breslin: Darcy Marler, welcome to the REI Diamond Show. How are you today?

Darcy Marler: I am doing very well. And thanks for having me on. I really appreciate it. This is great.

Dan Breslin: Yeah, absolutely. I was excited by the topic. I think our listeners will be equally as excited. Most of us listening are probably fixing flipping houses. We are interested in buying and selling real estate. We would improve said real estate to get to that profit. And I think that our discussion today around land and development and making that transition will be a very much well-received topic by the audience and by myself today. So Darcy, would you mind giving us the background and the career evolution to getting where you're at today?

Darcy Marler: Well, a lot of people, I was an actual IT guy way back in the day, about 23 years ago, I got tired of that. So I wanted to get into real estate and I started flipping and doing long term rentals and that led to some land development and construction. The bird, I've done all the strategies I've owned, had close to a thousand tenants and 240 renovated units, written a couple of books and then yeah. So now I'm doing a bit of everything, but I keep coming back to new. I like new, I like being creative. I like knocking stuff down instead of fixing it up now. [inaudible].

Dan Breslin: So why don't we start with an example then this could be your first development deal, or you can not do that one. If that one's not maybe the biggest lesson and maybe you could pick one that came with a really big lesson that helps us expand our vision from single-family fix and flip or buying duplexes that exist to ground up new construction?

Darcy Marler: Yeah, so actually the first one is a perfect one. So I had this 1950s bungalow. I was just going to flip it. The person next to me passed away, so I bought that as well. I said, " You know what, I've always wanted to build. So what does that look like?" Actually I moved both of the old houses off. I didn't even demolish them. I actually sold them. They got moved off. I split those two lots into four. I made sure all four lots were serviced and then I built four new homes and I loved it. It was exactly what I wanted. So the big thing that I'm all about too is, is not your personality to your strategy. If you're not enjoying what you're doing, what's a better fit. And I love creativity. I love the pride of watching the stuff come out of the ground. I think it's awesome.

Dan Breslin: I see how you say it so calm now and I have friends who are developers bringing stuff out of the ground. I guess some of them are calm. Others maybe not so much. How do I say it? I feel like some of the developers have this innate riverboat gambler mentality. And I feel like it's hard to, at least for me, because I've never brought something out of the ground where I was a sponsor. I'm a partner in the 14 developments right now for self storage, but I'm not the guy who's budgeting that. I am a money guy. So I don't have the emotional barrier. I have personally, Darcy, I probably do have the emotional barrier. I could do $150000 flip, get architects, the whole thing. We can get that done. No problem. Then I have this mental block of getting past dart. Is it going to be 400,000? Is it going to be 500,000? It's going to be 600,000 to build said property. Then am I going to be able to sell it? Otherwise, it feels like a humongous risk to put the shovel in the ground when I'm not clear on that budget on the front end. Maybe we could pull on the thread of the first deal. You've got four houses coming out of the ground. How did you budget for that new construction or did you take a riverboat gamble?

Darcy Marler: Well, they say God protects the naive and the stupid, so I'm not sure which one I was. Let me go out a little bit another way. So as flippers, we have to finish. You can't half finish a flip and expect to sell it for any profit. But in this world, let's say every building, whether it's residential or commercial, whatever, it starts with grass and ends with a building. There's all these things that have to get done. We don't have to do the whole thing. So there's basically three parts. There's the permitting entitlement, there's the pipe in the ground, getting the infrastructure in, and then there's the physical build. You don't have to do the whole thing. You can just pick one of those pieces. I did the whole thing with that story I just told you, but I could have, once I had the four units or four lots separated with four different sets of pipe in the ground, I could have sold four service lots. So there's a lot more entry and exit points in this world that don't exist maybe in the flip and rental world. And that can take some of the scariness out of it because I've got a clear exit point. Or let's say I'm going to go and I'm going to do the whole thing and then the economy changes and interest rates go crazy and costs go crazy. There's multiple exits. I can sell it to a builder because his internal costs are less than mine would be. So maybe it doesn't pencil out for me anymore to finish that final product, but it still makes sense for the builder. So I can sell it and make a lift from changing zoning and density and usage or whatever, or putting some pipe in the ground, knocking down the old house. So there's lots of exit points which help to maybe help you feel better and...

Dan Breslin: Help mitigate the risk along the way. I mean, even when we flip houses, we're throwing darts at the number. I think it's 60,000. It ends up being 82,000. That's okay. We sold it and we get a little luck of the market and maybe we make the profit we targeted or maybe more. Usually my exit price Darcy on product, a house, whatever, I'm going to go low. If I think I can get 525 with luck, maybe I'm building a deal on 485, 500. Then maybe I'm so conservative that it sells for 550 when it's all said and done. We did a little nicer job. We got lucky, the spring market and the market moved, etc. But on the front end, we're throwing a dart at that renovation budget still. So I'm not, price per square foot making sure the electrical is 8,000 versus 11,000. We roughly know it's going to be eight to ten thousand. We're using 10,000 to come up with the budget. Did you have anyexact budgeting on these four houses when you were building?

Darcy Marler: Yeah, because then I've done a bunch of flips on my day too. The worst thing is, you don't want to go into the wall. Because you don't know whatscary things are behind the wall. Here, we're going to tear down that old house anyway, we don't care. So we can get us a more, it's a lot easier to get a fixed budget for, to do this job is going to cost me this much because it's just brand new out of the gate. So with the four houses, yes I went to an actual quantity surveyor, because I was my own onsite supervisor guy, even though I had never built a house before, I wouldn't necessarily recommend that. But yeah, here's thethe budget. Then you're actually out there getting quotes again, like, here's what it costs to tear down the house for my case, move them off. Here's what it's going to cost me to bring the utility lines in from the street, from the city. Here's what it's going to cost to frame. Here's what it's going to cost to throw the HVAC system in. So it's a lot easier to get cleaner quotes on that than I found with the flipping world.

Dan Breslin: I guess you were committed at that point. You probably, well, you did, you already owned a dart. You knew you were going to do it. So at that point it was bidding out the job efficiently versus, underwriting the deal in the front end to figure out if that one works, you're not going to call and get 15, 20 quotes together before you make your offer, you got to have some gut feel for how much each is going to cost to build.

Darcy Marler: Right. But in that case my fallback position was, "Okay, it's too hard. It costs too much, whatever. I'll just flip both these houses now." So I had that luxury, but even if I hadn't bought the houses yet, let's say I was just looking at a house that I think this is a better teardown than it is a renovation. The great thing about it is it's linear. Like things have to be done in the order. You can't put on the roof before you put on the walls. Utility pipes have to go in. So it's linear and that makes it just like a to-do list. Psychologically it can be all intimidating for us that this is hard, but it's just one step at a time. You get the quotes, I can call a couple of demolition companies. What's it going to cost to tear down that old house? Perfect. Check. Call the city. What's it going to cost to hook up to the city water line? Check. It allows us to move through and make that the whole process simpler for us, but also less intimidating. So it's not just throwing darts as you say.

Dan Breslin: Got you. I mean, I have friends who were talking $20 million profits and I feel like they threw darts on what they were going to put in the property and it worked out for them. At some level, all of us in real estate are throwing darts at some point and taking a risk. That's what risk's all about in a sense. You do have to take a little bit of a gamble. Hopefully we're educated. On the four lot package, what was the total duration from the purchase of that first house to the sale of the final fourth house? I assume you sold them, not rented them?

Darcy Marler: I sold them, yeah.

Dan Breslin: Yep.

Dan Breslin: I prefer to sell instead of keep stuff. Basically, it took me the actual knocking down the first house to finishing the fourth was about 10 months. I was in a note...

Dan Breslin: Wow! You built the fourth house in 10 months? Then sold maybe four or five months later settlement?

Darcy Marler: Actually, I had them all pre-sold.

Dan Breslin: Wow! Okay. So the whole thing, let's say, was permitting all that.

Darcy Marler: Let's call it 16 months from from cradle to grave.

Dan Breslin: All right. 16 months then. And it's pretty quick. So you've mentioned two philosophy things that I want to highlight for listeners. We get a lot of times a buy and hold everything foreverphilosophy. Then we get everything is for sale. I'm more of the everything is for saleguy We did 331 deals last year all of them are sold and gone already and I do hold a handful of rentals in my portfolio but they're like a savings account and I guess in that aspect I mean, I guess I'm lying if I say I'm a buy-and-hold forever I try to be more of a buy-and-hold forever with my own personal portfolio. I don't... Really no way. I think it's more work for me to try to slice and get out of them versus just keep renting them out and the management company handles it. So why is it that you prefer the sell everything versus the buy and hold forever?

Darcy Marler: I get bored easily. So I don't like to [crosstalk] stuff for Teddy. But the other thing too that 23 years has taught me is no strategy works all the time everywhere in every economy. Stuff changes as we've seen the last few years. So I don't like the concept of, I'm going to get in bed with a JV partner and own this apartment building for 12 years. I barely know the guy and I don't know what's going to happen in 12 years. All of a sudden I buy it at 1.9% interest rate. And now now I refinance my mortgage payment is three times what it was. I don't like that. So in and out quick is, is one of my I've got Darcyism in and out quick is one of my favorite ones. Like I said, there's the three parts of development, I would recommend picking one. Just do the entitlement bit, get the lift from changing zoning density and sell, or just buy land in this state, put the pipe in the ground and sell service lots, or buy land that's already serviced and build the fourplex or tenplex, whatever you're going to build so that you can get in real quick. Interest rates rising is a big deal. If you're going to hold something over 12 years, if you're in and out in 16 months, it's a factor, but it's not anywhere near as big a factor as if you're holding it longterm. I find these strategies are a lot more recession proof to get in and out quick.

Dan Breslin: I got into real estate in 2006. I was 26 years old. The market was, I guess, at its height through 03, 04, 05, and I knew that like my parents' house, I think they paid like 89 grand for it and houses on the block were selling for like 150 to 185 or something like that. This is like not, I mean, I guess it was a long time later. We bought it in 87, but to me, real estate prices just didn't feel like they should move that fast. So when I got it in 2006, I'm like, "Man, this everything is inflated beyond where it should be." So you got to get out as quick as you possibly can. We started flipping and doing thosethings. And it turned out the market. It did go down from 2006 to 2013 when it bottomed out various different places and points in the timeline around the country, I'm sure. Then we've been on a pretty good appreciation run, but I don't know if it's [inaudible], because I got in as the bubble was bursting last time or maybe the Darcyism and the sell everything quick is the right methodology. But where I'm going with it, Darcy is real estate has always felt like a game of hot potato to me. I'm flipping a house and that thing is hot. I'm losing sleep. The construction's going on. Can we get it done faster? Can you guys work on Saturday? How about Sunday afternoon? I'm exaggerating a little bit with my pressure on the contractors, but man, I want to be out of that house as soon as I possibly can. It's a hot potato. I got to pass it on to the next. If someone's going to live there, it's not a hot potato to them. That's going to be their home and their location for a very long period of time. So yeah, I'm on board with the Darcyism of sell it quick.

Darcy Marler: I'm 57, I bought my first personal residence when I was 20 in 1987 and I paid 12.5% interest that was what the...

Dan Breslin: Okay.

Darcy Marler: And I thought I was getting a deal because it was three years before it was 16%, 18%, 20%. I thought this is awesome. It's a perspective, I guess.

Dan Breslin: Yeah, you're right about that. The other philosophical thing you just touched on here, which I don't even know if it's a Darcyism or not, but pre-selling the houses. So I had Brandon Cobb, friend of mine on the podcast, I think I've had him on twice now, and his original philosophy around pre-selling versus finishing it and selling it, he wanted to pre-sell. That jammed him up during the inflationary period because then he had already sold and locked in some prices, so he got into a little bit of a jam. So he flipped to the other side of that philosophy which is, I'm not pre-selling anything because I want to make sure I can continue to ride the market. That probably was a good strategy for the last 38 months, give or take. But now we're in probably a little bit of a different market. It would be worth noting that Brandon then moved on to the thing you were mentioning before. You got these three components, permits and entitlements, adding new utilities and selling finished lots or building vertical and coming out of the ground. So Brandon had mentioned now on that second podcast that he's more partial to running number one and two, buying the land, getting the permits, putting in the infrastructure, and then selling those lots, sometimes in an entire package to the end builder. So did you go back and forth? Do you sometimes pre-sell and sometimes not pre-sell? Where's the Darcyism in that, if any?

Darcy Marler: I tend to not like, the pre-selling of the final house to the people that are going to live there because then they're picking colours and they're painting my ass as I'm trying to build this. So you are better off building spec in that sense. At least you're not fighting the owners. I want to move that wall while it's too late. I already got the building permit. The wall has to be there. But yeah, like I'm doing a land development deal in Houston right now. The goal is to pre-sell the final finished service lots. I'm not going to build the houses. I'm just going to create service lots to sell those to the builders before you're even on the ground. That gives you security in terms of here's the final end price and here's the dates they're going to take some in blocks of so many every three months. That makes your lenders happy, makes everybody happy. Again, it goes back to your personality, which what are you more comfortable with. I like the security maybe of having the final number there. In that scenario you talked about, I got my butt kicked in the 08 recession, doing a 36 unit development where I was doing the land and the builds of the houses, pre-sold probably 20 of them, so two thirds, and then the recession hit, and I was scrambling. So, there was just a massive boom before that. So you're seeing runups of both costs and revenue. It was a roller coaster. So yeah, in a note, quick...

Dan Breslin: Wow! Yeah. I vaguely remember the 2008 inflation at the gas pump, but I guess we were complaining about the price of copper, but I didn't have the scale in my career at that point from 06, 08, where I was affected by it like we were this time around doing [inaudible] higher volume of deals, but history repeats itself. Pre-selling the land is a smart idea. We actually have a project right now that we have an LOI for. I think it's like 16 to 20 townhomes, and we have a rezone clause in there, and that would be pre-sold to them before we have to enter this rezoning. So that might be like an ideal scenario. How big is that Houston? Could we pull apart that example a little bit?

Darcy Marler: Well, what I did there is it's stillin the works. So rather than buy the land and then trying to raise the money, I went the other way. So I did what's called a blind pool or a blind raise and I raised some money. And now I'm on the hunt for, for the land. What I'm looking for is, but again, so 23 years of experience I've, I've built close to 50 houses and duplexes and small multifamily. I'm okay with it. I I'd like it, but I don't love it. I love the dart bit. So I'm just going to focus on what I like. So yeah, we're looking for 20 to 50 acres of land that we'll actually subdivide into smaller, whether it's city lots or whether it's half acre lots or larger, and then we'll actually get the builder set up. Basically, the way that works is you're typically looking at, let's say a 15% deposit of the final agreed upon and the sale price once they're done there due to diligence. Basically, at the time when all the drawings are done and the permits are in and they know that this is going ahead. That's a great way of also getting funding as you're going through. Now I have to have that much less financing with my construction loan. That saves a ton of money in interest costs and whatever. Again, that's another benefit of maybe figuring out the end piece before you're throwing darts at the wall.

Dan Breslin: So will you take that 20 to 50 acre parcel through the utilities and sell finished lots there?

Darcy Marler: Yeah. So piping the ground, internal road, sidewalk, subdivision, the light poles, the fire hydrant over there, and then sell it to one or more builders.

Dan Breslin: Have you successfully gotten a couple of those closed so far?

Darcy Marler: Yeah. So not this one, but over the past 23 years, I've certainly done that.

Dan Breslin: Nice.

Darcy Marler: Very expensive. Like I said, when I was first starting out, I had to do the whole thing. You have to do the whole thing. It's just like flipping, but no, after a while. The bits you like and just do that bit.

Dan Breslin: Yeah, 100%. So we're flipping houses. I know in the South side of Chicago, Chicago is a great market. Philly is a great market. Atlanta is great market. There's great markets all over the country and there's need for what we do. In Philadelphia, there's a lot of product available where I'm not necessarily flipping in the lowest end areas, let's say, in the Philadelphia region there in the city. I would guess you have investors who are making 30 to 40, maybe 50,000 in profit if the contractor guy is in there offsetting his labor costs. Then obviously, there's probably some higher end stuff and they're making more money there as well. In Atlanta, the renovations are significantly lower cost. So in the Philadelphia market, we're talking about 1900s to 1920s product. That's going to need $40,000 to $80,000, depending if the guy's doing the work, to make the $30,000 to $40,000 to $50,000. In Atlanta, the product is newer. It was built, an older product is built in the 50s or 60s in Atlanta. Then you have a lot coming up through the 70s, 80s, 90s. Maybe you put 20, 25 grand in there for your average flip, and then your upside is probably $40,000 to $50,000, give or take. The South side of Chicago is interesting. It's always been an interesting market to me because we have so much product where you're going to spend 80, 90, 100, 100,000 in renovation. When I first moved from Philly to Chicago, I was shocked when they were telling me how much, oh my gosh, we got to spend 100,000 to, back then it was 80,000, now it's 100, 110, something like that, to renovate these bungalows. But the upside there is it's $70000, $80000. So there's so much product and inventory. I don't know how long that's going to last, but to flip houses on the south side, you're going to have challenging neighbourhoods and a certain contractor. Some contractors are not going to be willing to go down and work in these areas, but the product is there and there's a volume of deals available to flip houses in the city of Chicago. So it's a great market. But I'm curious, we're in 2024, the interest rates are high, and if you were talking to one of those investors in any one of those three markets, Darcy, who is making those kinds of spreads, what would be your advice to them as far as here's what might work for you to consider going into the development space, would it be ground up new construction and would it be fine multis, would it be skip right ahead to the land development? Like where would be the best transition for that flipper to proceed into the development as a career?

Darcy Marler: If life's working good for you and the numbers are working, then fine. I'm talking to the person that's not happy with their rentals or their flips or whatever. This isn't what I signed up for, it's hard. So just a couple of quick facts here. So the average lifespan of a wooden structure in North America is 70 years, brick is 90. So that puts us in 1954 and 1934. Basically, for me, anything 1970 and newer keep that, that's a flip for sure. Of 40s and older, tear it down. Like, why are we keeping those? Obvious exception for the historically or architecturally valuable, but that's a small percentage. Most old crap is just old crap. The 50s and 60s is your call what you want to do. So for the most part, the problem with what we've been taught over the last 40 years in real estate education is we're just taught to fix up something. That's all we know. Fix up an old building, keep it as a rental, flip it Airbnb at rental and whatever. We need a building. Sometimes you're sitting there as a flipper and you go to that 1910 and this is too far gone. I don't know what to do with this. And off you go to the next one. So as the inventory starts to age, we're always taught the values in the building and to create value, you got to add value to the building. As the inventory ages, the value is more in the land. So can you bring out the value of the land? For example, most of your listeners probably as their flippers, if they come up with a vacant lot, they don't know what to do. Or if they come over that 1910 piece of crap, that is obviously a tear down. They can't deal with that either. So off they go, well, if you tear down the 1910 piece of crap, now you've got a vacant lot. So what can we do with vacant lot? That's part of an educational process to learn. What was great about that is that now that separates you from almost all the rest of the competition that ever read a real estate investing book, took a course or listened to a podcast, we're all looking for the same product. Well, if you know how to deal with vacant lots and old crap, that sets you apart because most investors don't know what to do with that. That would probably be as you're dealing, like I said, in Chicago and filling some of these baltimore, some of these old places, it's got a lot of that old product. Let's stop fixing it up. I used to be fixed it up guy. Now I'm tear it down guy. Let's just tear it up. But what you come back with instead of one for one cause with a flip, typically we fix it up. We had one unit before we got one after. If we did do tear down before we tore down the old house and build one really nice house, let's come back with a duplex or fourplex or sixplex. Let's help the housing crisis. Let's help the missing middle that we're talking about all the time with a nicer, newer product. Let's revitalize. Let's stop the urban sprawl as we're heading out and spending all that money as taxpayers, new roads, new schools and hospitals. Let's come back in and revitalize some of these older inner city neighbourhoods with some new product because everybody likes new. Nobody really likes to live in that 1930s burr. Let's come back with the new stuff that people want.

Dan Breslin: Yeah. We notice in these areas, again, South Side, Chicago, a lot of the areas in Philadelphia, Atlanta, it's a night and day difference in Atlanta by the West End and the Beltline area. They put a walking trail in the railroad loop going around Atlanta. It's been a project going on for a long time. It's really a great example of bringing the area back to life. But when we started in 2016 in Atlanta, you'd walk around and maybe there was like one occupied house on the entire block. Now, maybe there's one or two vacants and maybe there's a handful of them that are in decrepit shape, and everything else like brand new renovations. They weren't necessarily tearing those down, but I think what we're seeing is a lot of these challenged areas are benefiting from the housing shortage and they're seeing the investment and there's no other options. So people are willing to move there, willing to buy there, willing to own there. Now, I guess the question around the new construction if I'm looking at this 1910 house in the neighbourhood, Darcy, this is what we run into in a lot of times in the area. There're no other comps for new construction in this town or in the school district or in the zip code. Is that an automatic pass? Should I be now looking for neighbourhoods that do have some new construction or is there a case to be made for being somewhat visionary and providing somewhat of this unique product and a build it, they will comementality. Fill me on a site selection or the site pass criteria.

Darcy Marler: I like the precedent. Yeah. You know, I use the analogy of the World War 1, nobody wanted to be the first guy. Going over the [crosstalk]. Some other people have done it. I like the precedent. What happens is you tend to, what was I going to say there? Basically, I like precedent and maybe you can edit this part.

Dan Breslin: Yeah. Site selection versus site passing?

Darcy Marler: So basically you come into a neighbourhood and what we're looking for, like I said, because of the age of the houses, I specifically target neighbourhoods that are 1960s and older. So that was basically the outskirts of town in 1940. Those are what I'm looking for. And yes, I want precedent there. Because there's always, there's typically a NIMBY, not in my backyard installation in some of these older neighbourhoods. People bought this house 30 years ago for 40 grand, 50 grand, and now this is a retirement. They're scared. I want somebody else to have fought that fight with both City Hall and with the local community. So they're allowing the old house to come down and a duplex to come up, or maybe some triplex or fourplex scenario. That's what I'm looking for. Now in the other situation where there isn't precedent, try to stick to the borders, stick to the main roads, the high traffic arteries thing. Cause the city will usually almost always approve permits for higher zoning, higher density on the main traffic.

Dan Breslin: Interesting.

Darcy Marler: And the neighbourhood community group cares less. They care more about what's inside. It's almost like a wedge. That's how you get there. We're going to build something new on the main street. Well, now it's harder for the neighbourhood to block or the city to block. If you bought the house right next door. Well, you got approval. How come I can't get it right in there? It just wedges itself in there. So, two ways to deal with that. But yeah, you never want to be the first guy over the hill. That's for sure.

Dan Breslin: So in the small development space, meaning one to four units, buying a single-family house, tearing it down, is a competitive advantage or the edge, finding a single family where two, three or four units can be built on the lot. Is that part of the strategy?

Darcy Marler: Yeah. Because I think most people with land development, new construction, they have it in their head that, well, that's just for the big companies on the outskirts of town. They're going to buy 400 acres and put up a thousand homes. As smaller investors, we can get into this world too, just by focusing on that one old house on the 50-foot frontage regular city lot. I think it's a mistake to assume that most people that want new, that they want a new 2024 build, only want to live in the suburbs. Lots of people want to come back in where there's high walkability scores, where there's existing infrastructure, where there're the mature trees lots of people like that inner city vibe. And there just isn't the product, as you said, like most of the stuff is always been taught, again, is how to fix stuff up. So if we knew what to do with the really old stuff and the vacant lots, I think we, as smaller investors, there's a real opportunity for us to come in and, and then we're not competing against the really deep pocket developers in the outside of town.

Dan Breslin: Yeah, it's logical. I have a friend, I had two friends work in a similar strategy. They would get, there're areas in the Philadelphia market where these lots are practically for free. It's a thousand bucks, 2005, $10,000. You're getting a lot. They would rezone that lot, I believe. To build either two, I guess it would be three flats. So triplex, maybe a quad on there. They would build them and there were zero comps for new construction. There's not a lot of that two, three, four unit product in the city of Philadelphia. I mean, there's enough, there's duplexes that are around, but they're not like they are in Chicago, New York City, Boston, cities like that. And because he had no other sales comparables, he would simply rent them all out section eight program. Then refinance based on the income. And he'd built himself this wonderful portfolio of buy, build, rent, refinance, and recycle the cash. And now he's got all this wonderful product that he built that has low maintenance that's probably got a long lifespan ahead of them. But that was how he was able to get around not having comparables and because he's doing that, there's zero competition because he's not selling them once he's done. There's not comparable sales popping up and now everyone else wants to fly in and capitalize and drive the land values up. Then I have another friend who will build, he does magnificent design and I ask myself or I observe there are visionary developers who win on design. At some of the highest levels, I mean they're taking risks with money that's not theirs, family office money, and they're building these trophy projects and they work out. I don't know how long they work out for it. Cause we're seeing some of these trophy project type things cycle back through the system and foreclosure as we speak right now, some of the multifamily stuff across the country. But his strategy was it's a neighbourhood where there's million dollar homes. Stuff is probably selling for six, seven, 800,000 and maybe the new construction is selling for above a million. And maybe he's putting a second storey on something and using the existing foundation. Sometimes he's building completely brand new. It's amazing product. It seems like there's no price too high for someone's willingness to pay. Obviously there's some limit on it, but there's not a lot they can compare it to because it's just such magnificent product. Whereabouts would you fall on that spectrum of design versus functionality. So the four units I was talking about are probably, that's builder's grade, cheapest thing we can do. You got bedrooms, bathrooms, closets, a kitchen, not much else. Then on the high end of the design spectrum, you have floor to ceiling glass windows and just an absolutely magnificent and stunning property when you pull up. Whereabouts would you fall on that scale? And where would you maybe advise somebody to get in the game?

Darcy Marler: There's always the opportunity to and it depends on the neighbourhood. If it's a really nice neighbourhood, maybe the opportunity is knock down an old house, build a really, really nice house in its place. And there's certainly a market and profit to be made there. Probably most of your listeners, probably the smaller investor level. What's great again about getting into this is, like I said, we knocked down the old house and let's say build a fourplex the exit strategies could be I build it, I refinance it, I rent it up, I refinance it, I keep it in my own portfolio. Option two is, I sell the fourplex to another investor that wants multifamily. And as we said, there's a ton of competition of everybody looking for multifamily. Well, now one of our real estate investing brethren is going to buy that as an investment. Or we could turn that into four condos and sell them as four individual condos. In certain places where you've got basements so maybe it's a two storey duplex up and then two down. So that's your fourplex. You can sell one half, to one young couple that lives there and then has a mortgage helper in the basement. Then there's other exit strategies, like we said, if the cost got too high during the build, you can sell it out at the various stages up till there. So it's those multiple strategies that I like, again, for the smaller regular size investor to hedge their bets as they're going in. You can run the numbers, sold as a building, sold as condos, kept in my own portfolio. What did these numbers look like? You can make those decisions before you actually even go on the ground. And the other thing too, and a lot of places now, because there's this housing crisis, all three levels of government, there's incentives for a lot of time to incentivize multifamily builds. So basically anything over typically five units, government rebates, incentives, better tax or better mortgage rates, higher loan to cost on the build, you're able to get some of these opportunities as well, that aren't available in a typical flipper or rental world.

Dan Breslin: Have you ever done any projects where you've gotten the government subsidy, some alternative financing? It sounds like a lot of paperwork and a lot of, I don't know how to get that.

Darcy Marler: Well, yeah, so typically what happens is, typically it's on the final build. So let's say land development, it's not necessarily there. You have to physically build the final one, but you can get up to, 95% loan instead of a 75% loan. So actually 95% loan to cost. So those are available. Then typically you can port those into, let's say a 40 or 50-year round mortgage. Because now the end of benefit, I understand most of your audience is flippers, but if you do want, if you're looking for rentals, you want to be landlord, to build this, there's a ton of benefits to having new rental portfolio, better class of tenant, they qualify easier, they're willing to pay more. The building's brand new, so your parent maintenance budget is next to nothing. Because of all of that, your management is much less and a lot easier to manage. They're easier to ensure. A lot of these 1910 things, you can't ensure them anymore.

Dan Breslin: You're right.

Darcy Marler: Because of the process and the aluminum wiring and all this stuff. Then they're easier to mortgage too, because instead of a... We really got a scrape to get a 15 year lifespan, expect to see out of this building, well now a new build it's going to last a long time. So much easier to insure, much easier to lend. Throw that all in and now it's easier for governments to get behind that as well. It could be a local, just a municipal thing here in this town, we're looking for housing for lower income or for seniors. It could be a statewide thing. It could be a federal thing and it could be tax rebates, incentives, cheaper loans, these kind of things that incentivize us. Because we're trying to get rid of the housing crisis here. It's a big deal. So lots of things are available for us.

Dan Breslin: Yeah, you're right about that. The product I own is so old. All brick. I think I have one that was built, late eighteen hundreds that might be stick built and I'm like replacing a wooden footers under this part of the foundation and. Probably wish I didn't buy it i think I'm okay still in the profit zone and maybe I should sell it but the allure of owning product that would even have been built. You know twenty ten plus for me as an investor, I wish that all of my product in the portfolio was that newer product, but I could never get the numbers to work out with the low cap rates that they trade for. And if I'm looking at two or three or four unit property, I'm fighting with the house hacker and that is a red hot market. Use a two unit, three unit, four unit building, house hacker, meaning someone's going to live in one unit and rent the others out to offset the mortgage. They can pay more than the investor can pay and it's a good thing. A lot of them are getting FHA financing and starting off their careers with the right move. I wish I would have done that myself. If I'm going to build a four unit and maybe it's not me who does have contractors, maybe it's somebody who you alluded to a little earlier in the show, Darcy, where they tried a few flips, maybe they broke even lost a little money on it. It's not working out how they want to. How would you advise an investor at that experience level? Let's say they're going to build that three unit triplex somewhere. How would you advise them when we get to the construction phase to bring that out of the ground? Are we talking, find the right GC? Are we having them go down and look at permits pulled? Like what, what's going to be the one, two, three step action item for them to find the right construction partner to build that out?

Darcy Marler: Yeah, so I was on-site supervisor guy. I was project manager of my own property all the time. And I would not recommend that. Yeah, so let's back up a step. Think of ourselves as investors. We got to learn some new stuff. What is highest and best use? What is zoning? What is density? Like I said, we've been taught the values in the building, the values more and more in the land. So how do we increase the value of land? So there's some new stuff that we need to learn. Geography is really important because there's certain places that certain municipalities will approve your application for zoning change in two months, other places take two years. So where we invest is important, but then it's specifically to that fourplex. What's different about the pricing there, if you think about it, again, we're used to one unit for one unit. We're not adding, that's new to us here. But the cost of the lot, the old house or vacant lot, doesn't change whether you're building one new unit or ten. So you can split that cost amongst the new unit. In general 10 units is better than eight, which is better than six, which is better than four. In general, a way to increase line is to have more units. The other thing too, then, is certain like your architectural costs. For your architect to sit there and design a duplex, he's not going to charge you twice as much to design the fourplex. Again, some of the costs aren't split. Some of the costs change, but not in a pro-rated basis on the number of units...

Dan Breslin: So far, just so I can interrupt, so far, part of my action item is I probably should consider building six, eight or ten at a time versus two or three or four because I'm getting a little more cost benefit. Am I hearing that right?

Darcy Marler: Yes.

Dan Breslin: Okay.

Darcy Marler: So, how do you do that? We have to understand zoning and then seeing how that works. Right now I find this 1910 tear down, it's on a 50-foot lot, and the zoning is a single-family home. What is realistic for how many maximum units I can get on there? Let's say the house next door to me is a 1910 tear down too, going for bake a lot, going for a thousand bucks before I ignore that. Because I don't know what to do with it as a normal flipper. Well, now if I got two, now I got a hundred feet of frontage. How many units can I put on that? And again, your costs go down based on that and builders are more interested in you because now you've got more land downtown because in most cities it's hard to find large continuous areas of land, not outside the town. You're coming in, so if you can learn about land assembly, if we can figure out about... If I put two together, now I've got 50 foot of frontage, maybe the play again, just in the entitlement world is to split that up into four 25-foot lots, sell that, 333s. Or maybe you put pipe in the ground and those, and now you just sell service lots. Or maybe you go through and you amalgamate those two lots and you put a little mini apartment building together, or you do some townhouses. So we got lots of options. So I love options. I love more tools in the toolbox instead of just, flips rentals, Airbnb rental, and that's how we got wholesaling. Let's learn different ways to separate us from the competition so that we're all not just fighting for the same thing and dealing with it the same way. So at some point we're going to be the investor. We're going to find the deals, put the deals together. But then you hand it off to your team, your architect, your civil engineer planner. They're going to do the back and forth with the city. If you stay there with just the paperwork entitlement world, perfect. If you're actually going to do work on site, yes, hire builders project manager general contractor, whatever works in whatever situation. Then I think you've got more value as an investor trying to find the next one.

Dan Breslin: Okay. It sounds like you might be advising me not to bother building and just get the project to a point and then skip the construction risk, maybe? Sounds like your heart might be more in the dart aspect?

Darcy Marler: It depends. I think of it this way. So if I'm just doing paperwork only, I've got like three tradespeople. I got a lawyer, I got a civil engineer, and I have a surveyor. If I'm putting pipe in the ground, maybe 12, 15. Six, fifty trades, material suppliers, people that are involved to build a house. And it's not that far off to do flips and burr strategy. There's a lot of churn when you're doing flips. One of the bad things about flips, as I found out, was that all these different trades, people are making money and hopefully there's some at the end for you too. Lots of churn. But again, the more you do, the more risk there is in terms of time, but also more and more people sticking their hand out. That's why I say if you're going to build perfect, nothing wrong with that, but try not to do the whole thing. Buy the land that's already serviced, properly permitted, so you can start building I could knock down that old house. If the old house is empty, I can knock it down tomorrow and go home. In an [inaudible]. But that's some of the things that 23 years have taught me.

Dan Breslin: Nice. My final question before we get to our wrap up here, what are your... Well, number one, what is the market that you invest in right now and why? Then number two would be what would be your next, second and third choice markets, maybe you're already there. Maybe those would be ones you would consider?

Darcy Marler: Because we're adding units. Like I said, in the past flips rentals, it's one for one in this world. We're adding units. We've got to make sure we're where people want to be. So demographics play a larger role. I pay a lot of attention to domestic migration, not necessarily foreign immigration, but how people are moving around the states. They're moving from the California's in New York, the Chicago's and Boston's down towards the Texa's, the Florida's, the Carolina's, the Nevada's kind of a thing. So make sure you're in the right area statewide, lower taxes, no state tax in those places, a real quick turnaround time usually for permits, lower cost to build in a lot of these states because of the cheaper labor down south. That's the thing. Then so like Texas, for example, one of the things I don't like the up and down. I like consistency. The population of Texas is supposed to double by 2050. I like that as a developer. So you pick Texas. Now there's three or four major cities. I like Houston for a bunch of reasons. I know it best for one thing, but yeah. So you're looking at, so I guess there's some, there's pros and cons to every, every strategy. The downside of maybe development is you got to do some upfront thinking and planning first, because again, we're adding units, we got to make sure that people are going to buy or rent our units when we're done. We can't just assume that in my town, it's a great place to be because maybe my town sucks. Maybe my town's anti-development. They don't want me there. The fees are permits and fees are huge. It's going to take me two years to get stuff. So we got to be able to do that upfront homework first to make sure we're in a great place.

Dan Breslin: Makes sense. Is Houston your home market? Is that where you live?

Darcy Marler: No, in the late 90s, I was a computer guy and I lived and worked in South America, Venezuela, Mexico, Colombia, Brazil. My client was in Houston, so I made Brazilian trips back and forth to Houston. I've just seen the growth. When I was there in 2001, let's say for IT, they had the one ring road and there were three quarters down the second. I come back in 2022. I've been there about three or four times the last two years. They've done the second ring road, now they're 90% done the third. So consistency of growth is what I'm looking for as a developer because I'm adding units.

Dan Breslin: Yeah, it makes sense. Cool. Last couple of questions here as we wrap up, Darcy. Do you have any books or podcasts or other YouTube videos, anything inspirational that you might share with the listener?

Darcy Marler: Yeah, so I do a YouTube video every week. So just my name, Darcy Marler Channel, and then I've written four books. I got my first book given to me in real estate when I was 15, so over 40 years ago. So I watched Real Estate Education and everybody again, flips, rentals, burrs. I wanted to be different. Nobody's really talking about this other stuff. So I'm passionate about, as you can tell, I'm passionate about this development stuff. So every week I put out a video related to this world. Then I've written four books on real estate that are different. So yeah, I love this. I'm really passionate about it.

Dan Breslin: All right. Cool. Crown jewel of wisdom. When you go back to 2001, you're in IT, knowing everything you know now, what will be the crown jewel of wisdom you would share with yourself back in 2001 when you were visiting Houston and it was it was not quite as grown up as it is now.

Darcy Marler: Basically, match your personality to your strategy. I think, like I said, we get into real estate investing all the really is. Am I going to be a landlord? Am I going to be a flipper, wholesale Airbnb, whatever? Make sure that matches your personality. Maybe you don't like tenants. Maybe you don't like dealing with nasty flips. Part of the bad side about flips is you're always on the conveyor belt trying to find the next deal. You're always on the hunt because you've got to keep your trades busy. Does that match your personality? Are you staying up late at night worrying about it's not getting done quick enough? We're told that property management's the answer, it's hands-off. No, it's not. Like rentals. So learn both the pros and the cons of all the strategies first and then pick one that aligns better with your own, what you like, what you don't like, your strengths, weaknesses try to get a partner, an operational partner. I was lone wolf guy forever. I see a real benefit to having someone that's strong or you're weak and vice versa. Anyways, just some general advice there.

Dan Breslin: Nice. Do you have some other contact information, websites you'd like to share with the audience?

Darcy Marler: Yeah, so I've got a link tree. Basically the Link tree is an app that lets you put everything. So the YouTube, the Amazon, and all that stuff. So it's lanktr.ee foward slash Darcy Marler. So linktr.ee/Darcy Marler. You can find me there and go down the rabbit hole about development and new construction, land assembly, upzoning, entitlement, all that stuff.

Dan Breslin: Nice. My final question, what is the kindest thing anyone has ever done for you, Darcy?

Darcy Marler: I was sitting in Venezuela one time and I had to pay it an exit tax to get out of the airport and it was a long line. I'd already gone to the front and I didn't have the right number of pesos or deliveries and the guy behind me paid on my behalf and so that was, paid for. I paid it [inaudible] a little bit later, that was cool. I like that.

Dan Breslin: Nice. Very cool. What was the thought you had in your mind when you realized, I guess you realized at the front of the line that you didn't have the right change or whatever it was. What was the thought that crossed your mind?

Darcy Marler: Well, I had miscalculated. I had some but not enough. Now I'm going to have to go to the ATM and get something I'm going to go to the back of the line. I'm going to miss my flight anyway...

Dan Breslin: Nice.

Darcy Marler: ...that's an angel who saved my life.

Dan Breslin: I like it. All right, cool. Hey, I got a couple pages notes. I had a blast recording the episode and I really appreciate you coming on the show.

Darcy Marler: I had a blast too. I love this stuff. Nobody else has talked really about development. So let's change that and let's bring some new stuff to the world.

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