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

Dan Breslin: All right, Zach Lemaster, welcome to the REI Diamond Show. How are you doing today?

Zach Lemaster: Dan, I'm doing great. It's a pleasure to be here. Thank you for having me.

Dan: Yeah, for sure. It was very interesting. I saw the bookings come through. Turnkey rental property was a big topic a few years ago, so I've been in the business since 2006, and I remember those companies proliferating probably right as things started to come out of the great recession, there's a lot of turnkey rental businesses in the Atlanta market. I knew of some in the Philadelphia market and I've seen some come and some go and I think some of them went, like in the Atlanta market, you could get houses for $25, $30, $35, $40,000. They were selling them for $75, $80, $90 while the prices ratcheted out that price point and then you couldn't find the inventory. That became like a big issue for those companies, and they kind of wound them down. The investors were very happy because their investments went from a $100,000 deal to $250 and $300 without renovations or any other additional costs. So we've seen them come and go. You've been around for a while and you have an interesting model with the new construction. Do you want to kind of give the audience an overview of the business model here?

Zach: Yeah, I'd be happy to Dan, and thanks for starting there because I think turnkey in general, it's a buzzword and like any business, but especially in real estate there are companies and different business models that work in certain market cycles and some that don't work in other market cycles, as you just alluded to. It's great. That's the beautiful thing about investing in real estate. If you, I don't want to say time the market, but if you invest over the long term, your properties should go up over time. It sounds like during that market cycle that you just mentioned in your history, there's a lot of people that did really well. But turnkey investing, it's a buzzword. There are a lot of people who may have had experiences with turnkey in the past or don't really know what that means, or people saying turnkey could even be a broker saying, a house for sale is turnkey.

It's really ill-defined. But what we try to define turnkeys is first we look at the markets where there's the best and besting opportunity from a global picture. We're looking at the areas throughout the USA that have affordability, that have high rental demand relative to home prices where you can still have positive cash flow and areas that have a diversity of industries and have economic and population growth. We want to be on the path of progress areas that have landlord-friendly legislation, and low taxes. Fundamentally, we want to be invested in areas where we know we're going to have a quality investment product over a long period of time. But essentially what turnkey is, is we sell houses that are newly built because we mainly focus on new construction or fully renovated, leased and professionally managed in an area that meets all of our criteria.

The idea is that an investor on the front end, regardless of your experience level, regardless of where you're located physically, or if you don't want to necessarily be an active landlord or your local market's too expensive, whatever the case is if you want to easily access deals across the

country where everything is kind of handle for you that's the idea. You can come in and buy real estate, diversify across these other areas, and get started easily where you have a team behind you that's going to guide you through how to successfully do that and handle everything for you. We mainly focus on two main geographic regions. This is the Midwest and the Southeast where I know you're very active as well. The Southeast is a great area. We know that the population is really shifting down right down to the Sunbelt.

Those are areas where there's an undersupply of housing and those are areas that we try to focus on. A new construction house could be anywhere from $200,000 to $300,000. We try to be below the median house price point in the US which is $400,000. We try to be below that. That way we have the largest pool of tenants and, and also retail buyers when it comes time to sell those houses. I could probably talk all day about that, but that's a quick summary of what we view as a turnkey model.

Dan: Yeah, and I think the long term of real estate, I didn't time the market with my rental properties. In my own experience, the rentals worked, there's mortgage pay down, my business continued to grow, and they've become a little bit more of a hassle than I like for the amount of investment gain that's occurring in the background. I'm actually in the process of selling off my rental portfolio, and I'm going to put that money into an expensive vacation rental in a very constrained, high-end market that I consider to be bulletproof so that I have one mortgage and one insurance negotiation per year one property manager and 10 and two prepay and stay for a week, and then they're gone. Then it sits vacant for like nine months. I like that actually. Just for simplicity's sake.

That's not really an ROI-driven investment decision for me, but more of a simplifying estate decision. That said, my methodology for selecting markets was, I grew up in the Philadelphia market. Let me buy some of these Philadelphia houses where we happen to be doing our flips. A couple of them are in the right area. They went up in value. A couple of them probably went down a little bit and I'm going to take a little bit of a haircut, and I'm like, I don't care. I just need to get out of them because I'm trying to simplify my life. There was no market selection there other than that they were in my backyard and I own some stuff for the same reason in the Chicago market. I'm signing contracts this week to divest myself of them.

If I had it to do all over again, I started from broke and I'm sure there's some people listening who are like, that's where I am. I need to get rich in real estate first. I think there's probably a good case for the buy, run the rehab, rent it, do the refinance, and be an active investor to build up your war chest, as it were. But on the flip side of that, I think that if I was in a position where I was already making some money $100,000, $200,000 a year, maybe more than that, I would've approached this a whole hell of a lot more intelligently. Which sounds like what you talked about. Let me look around the country and figure out what markets work for a little bit of cash flow but probably more important that the diversity of the industry to low taxes.

Then the part that I really like about your model is its new construction. All my rentals, Zach, are early 1900s brick, we're levelling out the floors for the tenant at the cost of like $13,000. One of them happened that's not new construction and I got a crush on the repairs. My Chicago apartment buildings were built probably in the 1920s or the 1930s. It's the same kind of thing. It's

replacing all the electrical, it's plumbing issues and leaks that are never-ending. The repair bills and all those repair conversations that I'm having as a busy professional managing my rentals, it's unacceptable. That's what's led to this simplification streak that I'm currently on. I'm not opposed, I like to see the turnkey market and I'm like probably wouldn't be too bad to have say 2, 3, 4, or 5 new constructions.

The cash flow maybe is okay, we're probably not talking home run cash flow when you go in and you do your renovation yourself and really focus on it. But having four or five that were new construction in a portfolio, it feels like it might offer more of the simplicity that I'm going to get out of that vacation rental versus letting me get to 30, 40, or 50 units in my own backyard. I don't want to be in the rental property business, even though I have a manager, it's kind of like what I'm doing if it's in my backyard and most investors too. What would you tell me as far as how simplified and easy it is to own properties that your product is offering compared to sort of the old way of doing the business?

Zach: Yeah, so much to unpack there, Dan, and I agree with you a hundred percent. We see this transition over time as people build large portfolios. Myself would be included in this in the very beginning. I started investing 15 years ago. I was an Air Force captain and an optometrist working at the Air Force and just bought my first house. House hacked it, there was a duplex, moved out of that cap. It bought more and more and it's the same thing I started locally because that's what I knew and felt comfortable with. The pivotal moment for me was when my wife and I identified that, hey we can actually invest across the country building a process around this where we can identify locations that are more conducive to our goals, that offer better returns, that have better upside.

When we were able to successfully do that, that's what allowed us to dramatically scale our portfolio and retire from our career path in medicine, is by being focused on the areas that have better returns. I just want to call that out first is a lot of people think that they have to start locally because that's what they know and feel comfortable with. I would argue that I mean, you certainly could, there's nothing wrong with that, but I would challenge them to think outside of the box to really evaluate, does this make the most sense? When you scale, and this is getting to your question, but when you continue to scale, it's a balancing act. Everyone's like, I got to own X amount of doors to have X amount of cash flow to be financially free or to get the net worth that I want and everyone's working really hard to get to that number. Then once you get there to surpass that, it's like, man, I'm working more than I anticipated. This isn't as passive as I'd like it to be. It's like a li a wake-up call.

I went through the same thing. There was a point in time where we had over a hundred doors spread across multiple different markets, and I had managers for each one of those areas. But it was still like managing the property manager and herding cats and a lot of chaos. We went through some simplification ourselves as well, and this is a common path to follow where we invest in single-family residential or small multi as a good starting point. I still believe that's the right place to start, especially if you're intentional on location and then we trade up. You trade up and you consolidate, go through 1031 exchanges, just like you mentioned, we own some high-end luxury short-term rentals out here in Colorado, in the mountains where I'm at.

Those things are on autopilot because we have a great managerial team and they produce excellent returns. We also have traded up to commercial multi-family and retail buildings where management handles everything even making the mortgage and in payment and handling everything with the tenants leasing. There's this consolidation and trade-up because I don't think that you want to have a hundred per cent of your assets in a hundred doors across multiple markets as we do at one point. But anyway, to tie this back to your question, how passive can this be? I think the first thing I'll tell you is, that there is no such thing as true passive income, just to understand that, you always need to be managing your money and being conscious of your money.

People like to think about passive income as investing and forgetting about it, but there are more passive ways to invest in real estate. We specifically chose new construction. We didn't always work in new construction. We did a lot of the renovation and the older homes, just as you alluded to Dan, and that causes more headaches over time. We chose the new construction because it's new. You have a much more predictable return. You have better quality tenants. It attracts more tenants overall. You end up having less vacancy and less turnover. People tend to stay longer. They take care of better care of the houses. They're just overall better tenants for more predictable returns. But most importantly, new construction, especially in growing areas where there's significant demand in undersupply of houses, we found over time that not only is the cash flow and returns more predictable, but you have better upside, you have better appreciation in home value in rents.

Our average rental increase is 6% per year. That's more than double the national average. That's because we're building specifically in areas where there's demand. To tie this all back, investing in turnkey new construction, I think is a much more strategic approach to consistently scale your portfolio where you're not having to buy yourself another job where management, all the teams and systems are already in place and the property itself is going to be less of a headache than maybe an older property. That's our goal. Is to allow someone regardless of where they live or their experience level. Most of our clients are people that have W-2s or they're self-employed, whatever. They have capital, they like real estate, they don't want to be a property manager. They're investing in real estate to have more time, not less time. That's our approach to it and why we focus on new construction

Dan: In the New Constructions Act. Do you find that the average tenant lease length is longer or has it not been running long enough to get a comparison to like this was the existing renovated product, tenants stay 2.4 years, new construction stays how many years?

Zach: Yeah, it's about a year longer on average. We're close to about a three-year occupancy timeframe for new construction tenants, and we're about a year and a half to two years. About half of that on what I would call C-class assets which are older homes that are rehabbed.

Dan: Yeah, very, very challenging. The other thing about the new construction turnkey model, is that when I started, I still struggle with this and it's just like an internal need of cheapness. It's like we make our money because we're buying it low and we're putting our renovation in and we're selling it for a higher price. I'm always looking for the price and maybe sometimes I've missed the value, especially on the things that maybe I've held long term. It's cheap enough, I

could buy it. The payment's low, it just looks manageable, and it looks low risk, but yeah, it's also low return because we're dealing with lower rents and more challenging tenants and more renovation issues. One of the things over the past few years was my attraction to mortgage paydown.

I think a lot of times we get into the business Zach and we hear things like, well, it's all about the cash flow, don't even count the mortgage pay down. It's all about getting to $10,000 or $20,000 or whatever your monthly number is so that you can quit your job. There's so much focus on that, at least from my viewpoint in the real estate education space. There's like a downplaying of if you will, the mortgage pay down. But the thing over the past four or five years is, I like the more expensive assets because maybe I'm stretching to put my 20% down and it's kind of thin and scary at the time when you buy something for, let's call it $500,000, you put $100,000 down and you got like $150,000 in the bank, you put $100 down, it's like, man, that vacuumed your account. But now $200, $300, $400, whatever you're making per month, maybe it's more than that in cash flow, but the mortgage pay down over time is paying off this $400,000 asset.

At the end of the day, without any appreciation, you bought the $500,000 asset and the rent's paid off it's worth 530 years out when you paid it off. Whereas if you bought a $100,000 asset and there was no appreciation and you got your rental and that was paid off the entire time, you had a hundred still sitting there. That's why I like the higher-end vacation rental because it's something with this multimillion-dollar mortgage that will pay for itself at the end of the day. If no other appreciation occurs, it's collected a whole hell of a lot more value in the equity. I think maybe we could dive in as an example of that. Would you mind touching on one or two examples of new construction deals? What do the numbers look like on a new construction? Turnkey rental?

Zach: Yeah, that's so important. I have a lot that I want to digest and discuss on what you just mentioned because that is so common for people when they're first starting real estate to just be hyper-focused on cash flow. But we know over time you talk to any experienced investor that's built wealth, it's the other asset, it's the other ways that you earn income and build your wealth in real estate investing outside of the cash flow. It's almost like cash flow is like a byproduct or people look at cash flow as a way to just support the investment. But all the other ways that you build wealth, we call real estate the ideal investment, which is an acronym for all the ways you build wealth. I is for income, that's your cash flow. Again, most newer investors just focus on that because it's tangible and they can't really fully understand or conceptualize the other areas.

But D is depreciation and your tax benefits. I would argue that I don't know if you do things like cost segregation and accelerated depreciation, Dan, but like to me, that's the biggest impact immediately out of the gate to year one. Because on a million-dollar house, you could potentially get a $300,000 tax deduction. That's a hundred per cent bonus depreciation, but that's a $300,000 tax write-off you get in year one. That's money you would otherwise pay to Uncle Sam that you can actually reinvest and earn an income on. But to your point, there are other ways you build wealth. E is equity buildup as a tenant pays a loan down for you. Real estate is a beautiful concept because you can borrow money from someone either the bank to buy an asset that you have a hundred per cent of the benefit from a hundred per cent of the ownership and control that someone else is paying that loan off for you.

You just let that run its course over time. A is appreciation. All real estate goes up over time, regardless of short-term fluctuations. Then L is leverage using. But a typical deal is I would say average new construction house anywhere between $250,000 to $300,000. We'll take a Southwest Florida new construction house, that's probably a four bed, two bath, 2,000 square foot house. Bread and butter housing in an upper B or a class area. These are areas where there are quality tenants, the rent is probably in the range of $2,400 to $2,600 a month on a $300,000 house. You still will have positive cash flow if you're putting 20% to 25% down, even with current interest rates. We're likely seeing rental increases at 5% to 6% year after year.

We're still seeing home appreciation in those areas because of an undersupply and overdemand. Again, it's all about supply and demand being in the areas where people are moving. But in that house, it should be very predictable. You don't have any maintenance in the first year because you have a builder warranty, you have a structural warranty and mechanical for five to 10 years, so you don't have any capital expenditures. It's just, very predictable. One thing that we try to do, especially right now, Dan, is to be very creative with people to offer different buying opportunities, different financing and incentives that we have access to right now that we wouldn't have a couple of years ago when the market was just a crazy seller's market. That's why right now is a really unique time to be able to make big moves.

We have certain things where you can buy properties with as little as 5% down. True investment properties, this is from local credit unions. You can buy up to five investment properties. This is a portfolio loan. You can have builder incentives where you're getting upwards of 10% equity immediately on the property. On a $400,000 house, that's an immediate $40,000 price reduction. You can also take that $40,000 as a managerial credit where it's actually covering half of your down payment. you can use it to buy the rate down to as low as 3.99% on a 30-year fixed loan. That's going to skyrocket your cash flow and get way lower almost half the rate that we're currently seeing today. My point is that there are a lot of unique financing options and creative things that you can do in today's world because there's a little bit of excess inventory because the market's slower to allow you to make moves that you probably wouldn't otherwise be able to.

Dan: How can a 5% down loan work, you still have to cover the debt service. Wouldn't 95% screw the economics of the deal?

Zach: Well, every property is specific. For most properties, if you have a 95% loan, yes, you're probably not positive cash flow. But we have many people who do that, and that makes sense for them. Here's an example, we have a doctor couple that lives out in Seattle and they're making $400,000 or $500,000 a year and have newer investors. They have an extreme tax burden. They don't need cash flow because they make significant income through their W-2, they're looking for real estate as a long to diversify their portfolio as a long-term investment and a large ability to take tax breaks. On something like that or individuals like that, they put 5% down and you don't have to put 5% down. The point is here you could put 6%, 7%, 9%. On this portfolio loan, there's no PMI and there's no prepayment penalty.

It's a 30-year amortized loan in a 10-year term. What this means is that in most cases, people's minds immediately go to conventional financing where they think I have to put 20% down. If I

put less than 20% down I have to live in the house and rent out part of it, and I'm paying mortgage insurance. Because I'm less than 20% down. You have to understand the economics of the loan structure itself, but yes, in general, if you have a 95% loan on the property, you're probably breaking even in a negative cash flow. You could put a little bit more than 5% down to structure that however you want to. But it depends on how it makes sense for your strategy. With this doctor couple in Seattle, they bought a couple of properties with a 5% down.

They had, let's say a hundred thousand or it was more than that. It was like a couple hundred thousand dollars to invest and they could have bought what, 20% down. They could have bought three properties with us at that $300,000 price point. But instead, they would've got great tax benefits from those three properties and I can go into this as deep as you want me to. They used them as a short-term rental for the first year. They took the accelerated depreciation. They got over half a million dollars in tax deductions from buying this portfolio, but they thought, hey, I can expand this by using 5% down on two properties. Those two will be negative cash flow, and then I'm able to maintain the majority of my capital to buy two or three more properties that will be positive cash flow.

As a portfolio, they're still positive, but as a whole, they're able to collectively buy more real estate with the same amount of capital and take an immense amount of tax benefit. It's things like that, that you just have to, and that's what we do with our investors, is work with them to structure the strategy. You still have to qualify for this loan. You have to be financial, it's not like anyone can qualify for this. You have to have good DTI and good credit and things like that to absorb that high debt. Also on one of those structures, we had a 10% kickback. Basically, what they did is they had, is on a $300,000 house, they had $30,000 that they got back in their pocket. They put 5% down, and they actually got $15,000 back in their pocket, which they kept as reserves.

Even though it was negative cash flow, you got to map out the plan and the strategy. Say that $15,000 is reserved to cover that and rents go up year after year and they'll probably, what they'll do is they'll refinance that property within two to three years after they've built a little bit of equity in it once interest rates probably come down. That's like the longer-term plan. Again, I know I got way into the weeds here, but it all just depends on what makes sense for you.

Dan: No, I love it. The nuance and the detail's important on that one. Was that one done in the last six months to a year? That example?

Zach: Yeah, this was just recently. They just closed probably I would say earlier. Well, it was about six months from now, so earlier this year.

Dan: What do you remember the projected maybe rent increase in that market? Maybe you could tell us what market that was. For this couple to get comfortable with the negative cash flow. It's probably a lot easier if I know that I'm expecting rental increases at least one time in the next year.

Zach: Yeah. Again, the average rent increase per year is 5% to 6%. That's not a theoretical number or speculative that is a track record number. More often than not, we hit 6% year after

year. Sometimes that's built into the lease as an escalation. If people are signing a two to three-year lease. They bought in multiple markets. These were all in the Southeast. They bought in Huntsville, Alabama, which is a growing market in the Southeast. There's a lot of tech and government employment and growth in Huntsville. They bought it in Tuscaloosa. That's a really good market. They bought in Florida outside of Orlando in a town called Poinciana. It's in Polk County. It's about 30 to 40 miles Southwest of Orlando.

We would call that a secondary market that's adjacent to a large metropolitan area where in Orlando houses are three times the cost and rents are not three times the rents. But it's being outside of those large metro areas. There's a lot of demand, a lot of growth. All these areas are in the Southeast new construction homes where we were still seeing appreciation both in rents and home prices, but again, they didn't buy everything with this low down payment. We mapped out a plan together, for the properties, some of them did put 20% down on those are positive cash flow, and those offsetting the negative cash flow. As a portfolio, it's very self-sustainable. But their main objective was a tax haven for that first year. That saved them over six figures in actual dollars that they would otherwise give to Uncle Sam. Guess what? Now they can reinvest and buy other assets that have additional tax benefits and they get the snowball. More importantly, they have multiple properties where they're building well through all the things and then the ideal investment strategy that we talked about.

Dan: Yeah. That circles back to getting the larger mortgage. It's a big pain in the ass to buy a piece of property and to sell a piece of property. Probably in the sale, it's got to go vacant. It's hard to get the tenants out. Now I'm carrying a vacant property, I have to do a turnover if I want to sell at retail. But on the buy you have the mortgage application process, I'm hunting down the information on this little nuance piece in my tax return. I'm collecting property, it's a pain to get the mortgage. To go through all of that one time and stretch and get a million and a half worth in property with whatever it was, we'll call it $1.25 million in mortgage, give or take. But now you've set up that automatic payment plan or savings plan. To me, they're like IRAs in a sense. I set up this, this $1.5 million IRA appreciation aside, but that $1.25 million mortgage, I just got to like watch that thing go down over time and I look back and from 15, 20 years in, I probably owe $650,000 on that mortgage. I don't know that I otherwise would've allocated monthly to some account this pay down. It's like going through all that hassle upfront once get as many assets as your down payment can buy. To me that makes sense.

Zach: Yeah, absolutely. People need to pay attention to those things. An amortization scale on a loan, that's set. You know exactly how much principal you're going to be paying down at any point in time so you can go through and and calculate it out. That has a physical return on investment associated with it. Yeah, you need to be conscious of those things especially buying higher-end properties like you're doing, Dan, I know that you're like most people probably wanting to be conservative, but those houses will appreciate and arguably nicer homes to appreciate better in those higher-end locations. A million-dollar house appreciating 5% is going to yield a larger equity gain than a hundred-thousand-dollar house appreciating 5%. But anyway, we share the same philosophy I think on that.

Dan: All of this is only possible. I got into the business in 2006. What year was it you got in? Was it...

Zach: About 2011. I think is when we bought that first duplex.

Dan: Okay, great timing there.

Zach: Well, yeah, it was, okay. Again, I was stationed in the Air Force, I was a young captain. It was North Dakota. Okay cash flow market, not a great appreciation market. Some of those northern and Midwestern states, even now, don't have the downfall, but they also don't have the upside. Going back to my initial point when my wife and I, were allowed us to be focused on investing intentionally in different areas throughout the country, we saw better returns. That made a significant difference, but yeah.

Dan: All that is only possible. When I got into the business, is when Zillow came out. I think it was '06 if I'm not mistaken. I think Zillow was launched in '06 and I remember we're sitting around the table in my office, like Z-I-L what is this? Weird. That's the early part of the electrification of our lives. We didn't even have the iPhones yet. There weren't podcasts. But we didn't really have access to the information to select markets across the United States. We're in this really unique time right now where we're still on the cutting edge of it. We're 2024, we're 20 years in, but like how much harder will it be 20 years from now when much of this has been bought up already I guess? We could see a further compression of the cap rates, if you will, on these assets and it could become even harder to buy than they are right now. That would equate to higher prices. But all this is possible because we have access to the information for these markets around the country. Without that, none of this was possible.

Zach: Yeah. That's why companies like ours exist. But yeah, to your point right now, we have an affordability crisis in the US. We have a huge housing shortage. The affordability crisis is the worst it's ever been. We have a deficit of 7.2 million houses in the US and what happens with builders, all the builders can buy, and cannot build enough houses to meet, meet the demand. But then you couple that with the institutions coming in and buying up the REITs and the Blackstones and all these institutional buyers that will buy up hundreds and thousands of, and they mainly focus on new construction, by the way, the build-to-rent properties. Those houses will never go on the market for retail, for the average investor, for the retail market. We never see them. They get traded up into a fund then private equity, and then they just keep getting retraded[?] up, up and up.

They're never coming back on the market and they disappear forever. That's only hindering the aspect. Or the issue we already have on affordability and access to inventory. It's tough but they're still good markets to be had. Again, if the institutional buyers are buying in these same areas, they do their due diligence. They have their entire team. They have entire teams of hundreds of people dedicated to identifying areas. You don't have to overcomplicate it, just do what they're doing.

Dan: Would you mind listing maybe your five favourite markets in order?

Zach: In order. Well, this is going to say like anything, Dan. This depends because I think that what is my favourite market may be different. May not be the most appropriate market for

someone else. Different markets are better for different reasons, for different people based on your situation and your goals. That's really important to understand there are different price points and it depends if you want to be really aggressive on the appreciation and growth side if you want to be really cashflow heavy. Here are the areas that I really like and we've already talked about a lot of them actually. Same reason I'm investing in these areas that Dr. Couple in Seattle did. I like Southwest Florida. We do a lot of construction in Cape Coral and Fort Myers, in Tampa.

We like central Florida. This would be areas surrounding Orlando and those secondary markets. We do a lot in Ocala and like I said, Ponciana. I still like Texas even though property taxes are challenging right around 2%. I like Houston and San Antonio. I think there's a lot of opportunity in those areas. Then the markets we already talked about in Alabama surrounding Huntsville. Huntsville has gotten a little crazy with competition. It's hard to make deals pencil there, but you can again be 15 minutes outside of Huntsville and like Harvest, for example, a small town that nobody's heard of, but it's 20 minutes outside of Huntsville and it's right adjacent to the country's largest arsenal for the army. There are little secondary markets like that that can be really, really good. We like Goldchance[?]. We talked about Tuscaloosa. Those are some of our top areas. I don't know if that was necessarily an order but those are the areas we're consistently building in and seeing very predictable returns.

Dan: Do you think it would be helpful if we pick a deal that's actually available for sale right now and you and I talk through it as though I was going to buy that deal?

Zach: Let's do it. Let's go live. I love that idea.

Dan: We'll do like you're doing my consultation here. You already know I hate my current rentals and I'm selling them and I'm lining up 1031 exchanges and I have on the low end, maybe it's $280,000 to $300,000 purchase price with a gain of, well, the gain's probably only about $50,000 if I had to guess, it might even be less. But that would be on the low end and probably 1.1 million, 1.2 million on the high end, but the gains even still will be $300,000, $400,000. I already talked about liking the higher mortgage pay down and I like the single deed scale. I like scale in the price of the property over scale in the number of markets and number of deeds, number of houses. I'm not a number of units-driven kind of guy now, I like the numbers to be bigger. What do you have right now that might be interesting for us to talk about?

Zach: Let me just make sure, and this is, we just had this conversation yesterday with a gentleman who was selling his house in California for like 1.5 million. It's crazy how real estate is appreciated in some of these coastal areas. It's an average house. He's going through a 1031 exchange and he is looking to like buy multiple because he can't even have with 50% equity in that property, he still can't have positive cash flow. He is looking to buy multiple properties. But let me just understand, Dan, just to review. What is the total spend? For 1031 you have to buy the same amount that you sell, so what's the total acquisition?

Dan: For me, I don't know that I would put my full, let's call it a million dollars in cash that's going to come back from multiple sales. I have options. I could do the 1031 from the small deal, that's the 150K gain or it could be a deal where I'm at a $400,000, $500,000 gain.

Zach: Just for the audience, let's use simple, or even potentially theoretical numbers just so we can.

Dan: Okay, I'm selling a three flat for $280,000 from that deal, I probably am going to have $150,000 to $160,000 in cash, but I have additional cash to put into this deal if possible because the more important thing for me is not making this one exchange for the other, it's largest property, largest mortgage. The 20%, 25% down payment is probably fine. I'm a little more on the conservative side if that's what makes the cash flow pencil out.

Zach: Alright, so selling a property of $280,000, $150,000 in cash and what is the gain on this? What did you buy it for? How much capital gains would you have on this?

Dan: It's not even a huge one. I mean, I'd be surprised if I had a $60,000 gain there.

Zach: Yeah, and that's probably in my opinion, this is the first thing to discuss is 1031 even worth it? Doesn't even make sense because of the cost associated. We could go down the whole rabbit hole of capital gains probably going up over time, but yeah, I would say at a $60,000 capital gain, like that would be worth it. The juice would be worth the squeeze to go through to roll it into a 1031. At $150,000 cash you have to buy $280,000 or greater. It sounds like from what you just elaborated on with your goals, that the idea is to buy probably more real estate and own more. Again, you can let the loan be paid down. I would probably spend 20 to 30 minutes if this is an actual consultation, to really hone in on exactly what your goals are.

We want to know about what are important things to you. Do you want to be, again, more growth-oriented? How simple do you want this to be? Do you want to stretch this capital as far as possible? Do you want to be hyper-concentrated in one market? Are you open to looking at diversifying across a couple of different markets? How important are tax benefits to you and what level of cashflow or ROI are you looking at? Those are some of the things that we would go through and try to understand for your 1031. But just on the surface, things that I think might be interesting for you. We have a couple of properties that have pretty decent cash flow right now. Both of those properties, and these are in Prairie Grove, Arkansas. These are properties that are $280,000, $290,000. If we open up one of those brochures. I don't know if this is on video to do any screen share, but I can just run through the numbers. This is a brand new construction home. Can I screen share or is this just audio?

Dan: Do you want me to...

Zach: Yeah, you can drive the ship. If you go down to lines 11 and 12, there's the inventory, you can see the brochure there.

Dan: Should I open it?

Zach: Yep. Here's a typical new construction deal. Let me just see. When we're running our proformas, we're always looking at it from a 30-year fixed loan. As we were talking about before the show...

Dan: You want me to scroll down to the numbers here?

Zach: Yeah, why don't you do that? Why don't you scroll down there?

Dan: Here or a little further?

Zach: This is good if anyone can see this. This goes through and we have obviously the rental calculator on our website that you can go and plug and play because this is just a screenshot. We also have our wealth tracker that you can see the link in below. That's a really unique tool that's just free for anyone to use. We had a software developer build that, and what it does, is it allows you to track. We had them build it for us because we couldn't find a calculator that did this. But basically, you can build a portfolio of homes or you can look at how your portfolio, and you can go through this real quick if you want. You can put in just fake stuff or whatever.

You can still get access to it. It doesn't have to be a real email. But basically, what this does, Dan, is it allows you to track performance not only individually for each property but also as a portfolio. This is one unique place whether you're buying a property with us or not, you can use this where you can look at how your property is performing collectively as a portfolio and most importantly, you can future project. To your point, if you want to say, hey, I want to see where my equity position is going to be, even if I assume 0% appreciation because you can put in whatever variables you want to, how much loan pay down am I going to have in seven years if I have 30 properties in here. You can actually go in and calculate these things out and it will run. You can scroll it and run a projection on whatever scenario you want. But we built this out so you can not only track the performance of an individual property but also a portfolio and future project. Really interesting tool. I'd encourage you to check it out, Dan.

Dan: I would do that. I don't want to take five minutes setting it up and everything just live on the call, but people can check this out. This would allow me to put in properties, whether I bought them with you guys or other ones around the country. I fill in my details and it gives me the ability to compare, which may be performing better or worse.

Zach: Yeah, absolutely. You can look at future properties. You're potentially looking to evaluate. You can track your performance on how the properties are performing. But most importantly, it allows you to look at a point in time in the future, and this is the point here, is to really solidify in your mind, okay, this is why I'm investing. If I want to have a million-dollar net worth in say 10 years and $10,000 a month passive income, how am I going to get there? What do I need to buy every single year so you can reverse engineer that? Well, this will allow you to show you exactly how to do that. But if we go back to the Prairie Grove property, this would be off the cuff for time purposes without having a real detailed discussion with all of your goals.

This would be maybe something that I would recommend as far as something to think about based on the price points. For you, you could probably buy, if you have $150,000 cash, you're probably looking at two of these properties. If you're putting 20% down, I think we run 25% on our proforma, but you can put as little as 20% down. That would probably still save some money in reserves for you. If you're doing a 1031 and you have to invest that or if you want to inject a

little bit more capital, you could probably stretch this to a third property or maybe use one of these unique loan options where you put 13% down instead of 20% or 25%. Still in that scenario, you'd probably still be positive cash flow and stretch it to a third property. But those are all unique discussions we would have with you. But on this property, you can see that we're factoring in all the anticipated things that we're looking at. The rent on this one, the price is $292, the rent is $2,200, and you get a builder rent credit right out of the gates of $1,200. The HOA on this, which most, I'm sorry, there is no HOA, taxes, $1308, insurance is $1,650.

Dan: $1,300

Zach: It's all relative. Taxes are all relative. You look at some of the Illinois stuff you have. That's probably significant. I know because I used to invest in...

Dan: You'd be $10,000. I think for something that was new construction anywhere in this market. That's amazing.

Zach: This is why we focus on the locations that we do. Taxes come into play and are important when factoring in your overall proforma. By the way, I did own multiple two flats in south side Chicago I bought probably 10 years ago. I did not do well with those. They were probably de-class locations and a lot of turnover dealing with CHA, Chicago Housing Authority. Anyways factoring in a 3% vacancy. We talked about this previously, we have 0% for management. You're anywhere from your first one to three years, you have 0% management. This is not always the case. This just happens to be an incentive that is being offered right now on this. That helps the ROI factor, but over say if this was two or three years you'd need to use the wealth tracker calculator to look at where you're going to be in two or three years.

Also understanding rental increases and things like that and new construction on a proforma. Proforma is the year's projected performance, by the way. Proforma is the year one projected estimated return. You really have to understand that. If you're looking at years 2, 3, or 4, that's where the wealth tracker can come in to help you calculate those out, to see where you're at in five or 10 years based on expense increase appreciation, rental increase. Taxes will also go up. Insurance might go up slightly over time. It's really important to look at how this goes over time. But just on the surface, this would be something that I would say, might be something interesting for you to look at depending on what other goals we discuss.

Dan: For anyone who's listening in, we have a nice breakdown of everything. We did mention a couple of the numbers from this chart, and you could find this right on the site. I do appreciate your presentation being so detailed for the inventory that you have. We got to this point from a shared Google sheet that has the inventory and the selections available for anyone who's curious to check that out. One of the things I'm going to take a moment to elaborate on is the annual insurance premium of $656. It feels like it's low. However, as I'm doing the mental math of insurance in my head, I have a property in South Philadelphia. I'm selling it because the property next door went vacant and I have all kinds of trouble trying to get property insurance on there.

It probably should be $700, $800 premium and I think I'm paying like $2,200 because of this vacant property next door. The older properties that I have with insurance get to be a big pain in

the ass insuring every year. The insurers don't seem to like insuring the older vintage product that I own built 80, a hundred years ago. I'm constantly getting like, hit with inspection list of repairs and they want me to fix these things or maybe they're just doubling my rates so that I go take my business elsewhere. I'm assuming that when I have a 2023, or a 2024 built house, the insurance companies view those as a significantly lower risk product and they're much more apt to continue to just renew those policies relatively like increases. Is that another advantage to go new construction, Zach?

Zach: Of course. For like this one, $656, that's a very specific number. That's because we have an actual quote. That's what you would expect. Now you can obviously add additional things and do change your premium, change your deductible, that may vary that, but like we have an actual quote to support that. But you would do that, that's part of the due diligence. Same thing with buying any property you go through, have your appraisals, your inspections, you get your insurance quotes, you go through title work. Those are all things, you finalize the numbers, you buy a property, like you buy any property. But to your point, Dan, yeah, look, we just went through this in Florida and this is a big topic where it's like, insurance is going through the roof. People know that insurance is going crazy, but they probably don't know the details.

What's happening is it's the older homes. The new construction homes that are built to current standards are less risky to insurance providers. We don't build in flood zones. That's one thing where people really got hammered especially in the southeast is being in flood zones. Flood plane maps are changing too. That's something to be conscious of. But we like new construction because these are in most cases concrete block homes that are built to current standards that are required per code, per building code that are significantly less risk to an insurance company. Because of that, you don't see the variability that you do in insurance right now that we're seeing in a lot of older homes, there's some people's premiums in areas of Florida that went up like 300%, 400%. Those are exactly that. The older homes that in some of those, maybe they got rolled into a floodplain, maybe not. It's just the risk of insuring those for that geographic area went through the roof. But yeah, new construction certainly has more affordable insurance policies and we always quote that and put that number on here.

Dan: I'm going to highlight one number and then I'm going to ask one question here on this example and then we'll move on. Down payment, 25%, $73,076, and then the cash flow, meaning after your mortgage payments totals $7,342. Roughly, 10% cash on cash before you have any rent increases that we are hoping for when we buy in Alabama Arkansas. The question I have is, is this product already finished and already rented when we go to settlement or is this a you buy it pre-construction? We get one month rent credit, but we might have actually two or three months of vacancy while we're waiting for our tenant.

Zach: It all depends on the property specifically, but everything that we sell is already done. This house is done and ready to go. Some of them are already leased, some of them are not. This particular property is not, but the majority of our houses especially Alabama, like all of our Alabama inventory already leased so you know exactly what the rent is. You probably would, even though you have one month of rent credit, the average leasing time is 26 days right now. We anticipate that you won't have any vacancies but there could be. That's something you need to factor in. Right now we're in the summer months, it's very active for leasing. If you're buying

this house around the holidays in December, we would probably have the conversation with you to say, yeah maybe have an extra, maybe leasing time is 45 days instead of 28 days or whatever.

Just being conscious of that. But you can see for anyone looking at the photos, I know this is a nice home and it's got some brick facade and these are new construction houses in growing areas. This is what we've translated our business model into over time. Because we used to do the same thing, Dan. We used to do the 1900 rehab house and while you could potentially negotiate good deals with those, if you're buying distressed assets, there's just a lot more variability and headache over time as you alluded to in the beginning. This is why we like build to rent.

Dan: Nice. Alright, cool. What else did I forget before we hit our closing questions here? What else did I forget to ask that might be important for the listeners, Zach?

Zach: Gosh, so much. But I think we covered the general. For turnkey, if you're someone that is just new, getting into real estate and you're thinking you want a little bit more handholding with a team that's going to support you, and I know that you do this as well, Dan, with your investors, but that's something we always help newer investors get started and help them scale. If you're someone that is a busy professional and doesn't want to be buying yourself with an active job being a landlord, if you are someone that lives in an expensive market and your local real estate doesn't make sense, whatever the case is, turnkey might be an interesting way to invest. It doesn't mean you need to buy all your properties this route, but it could be an interesting way to start building a presence in a new market and test the water, to see how it goes. Can I give a plug on where people can find out about us?

Dan: Yeah, we'll do that in a moment. First I'm going to ask book recommendations. Are there one or two recommendations you would make to people? I don't necessarily know that it has to be in the turnkey rental space. You started as a, and thank you for your service with the Air Force by the way. I would say it's kind of professional then you went into ophthalmology.

Zach: Optometry. Yeah.

Dan: Am I saying that? Optometry, okay. Into optometry as a professional. Maybe book recommendations you would make to someone in that position who was thinking about being in real estate?

Zach: Yeah, obviously all the Kiyosaki stuff, I think most people are aware Rich Dad Poor Dad has changed so many people's lives. If you haven't read that one, that's a must of course. But I really like the Millionaire Real Estate Investor by Gary Keller. He's the founder of Keller Williams. Really talks about the mindset. A lot of the stuff we talk about today, but in more detail about why are you investing in real estate from a math perspective and how to buy a million, how to own a million, and receive a million in passive income through real estate. I think it's just a really good book. From a business owner standpoint, Michael Gerber has a good book. The E-Myth Revisited, that's a real good idea about thinking about growing, like approaching this like a business. Putting on the business hat, working on your business, not in your business is really important for growth. Those are a few that really made an impact on me.

Dan: Nice. If you could go back and share the crown jewel of wisdom with yourself in 2011 when you were just getting started knowing everything you know now, what would that be Zach?

Zach: Everyone can say, I wish I got started earlier. I wish I was more aggressive earlier on. I think we built a very large portfolio in a successful business and allowed my wife and I to live a lifestyle right now that we wouldn't otherwise. We don't practice optometry season, optometrists as well we [inaudible] in school. But we have humanitarian efforts where we set up cataract surgery clinics in third-world countries. We're able to have a larger impact on people because of the financial position we're in. I think that's just really important. But I would actually go back and just give myself a little bit of words of encouragement, which would not change the course of anything, but would've made things easier throughout because look, real estate takes work.

Even buying turnkey, even buying, like I said, there's no truly passive income now. There's more passive ways to invest, but this still people business, you're still dealing with tenants. This still is challenging. We've lost a lot of money and a lot of deals and bad partnerships and things like that. I probably would've just went back and gave myself a pat on the back and said, it's going to be okay in some of those down times you're on the right course, you just got to stick to it. I don't know if that's worth anything, but that's probably what I would've, or that's what I would tell anyone right now. If you're in a tough spot and investing in real estate and you're like, I just had a crap deal, or I lost money. That's a short term thing. That's a learning lesson. This is a lifelong journey. Consistency is what keeps people, or what makes people successful in this game's consistency.

Dan: That's right. I bet people needed to hear that right now who are listening and it was perfect. Now is the time for the plug, Zach. Where should listeners go to get some more information?

Zach: Perfect. We want to drive everyone to our website, that's RentToRetirement.com. Rent T-O Retirement.com. We have our own podcast, our YouTube channel. We put out a ton of information about just market data and different creative financing options like we talked about. Whether you're investing with us or not, we share a ton of resources. We're happy to have consultations with you, talk about your goals. If you're listening to this in the car, you can text REI to 33777. That's REI to 33777 to get on our email list, to set up a time with our team. We're just happy to talk with people about investing. We're passionate about what we do.

Dan: Very cool. My final question is, what is the kindest thing anyone has ever done for you, Zach?

Zach: You told me this in the beginning and I've been thinking about it. There are a lot of different things that people have done that's been very kind to me. But I would say, alluding to what I mentioned a while ago, I did have a mentor. I didn't initially, but I did have a mentor that I was going through some challenging times. We lost a ton of money with a bad partnership with a bad contractor, and I was ready to call quits. I had a mentor of mine who is a very successful real estate investor. He did give me some of that advice. He told me, he said, "Zach, I've lost a lot of money in real estate, but I've made more than I lost. And if you stay the course, that's going to be how things turn out. Keep your chin up and stop making stupid decisions and partnering with

people too soon, a day before you marry them." Anyway, I think just advice and encouragement are probably some of the kindest things that are less tangible than say money or whatever, but it's really important.

Dan: Very cool. Zach, I appreciate you coming on the show. I got a ton of notes, I had a great conversation. Really appreciate your time today.

Zach: It was a great time, Dan. Thanks so much for having me on

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