Flipping Houses in a Changing Real Estate Market!

An Interview with J Scott, author of The Book on Flipping Houses & The Book on Estimating Rehab Costs
Brandon: Mr. J Scott, how are you doing?

J Scott: How’s it going Brandon?

Brandon: I’m good; I’m excited to be able to do this today. A lot of my favorite parts about being a host on the podcast is being able to talk to people on the site all the time and actually learn from them. Today one of my goals is to pick your brain and learn from you. I want to actually pick my flipping up over the next year. I’ve been kind of slow the last year or two with flipping and focusing on rentals, so today I’m going to pick your brain if that’s cool.

J Scott: That is awesome. I find the more people pick my brain the more I learn.

Brandon: Good, so why don’t we start with, you and I were talking earlier, this idea of how things are different today than they were when we both got started. The market’s a little bit different.

But actually, let’s go back a step for people who don’t know you, maybe talk about it, when did you get started? How did this take place?

J Scott: My wife and I left our corporate jobs back in 2008. I don’t want to say the low point of the recession but we were getting pretty close to the bottom. We started this business when pretty much everybody that had been in this business had gotten out, and back then things were a lot different. There wasn’t much competition which is a good thing, but the reason there wasn’t much competition was because nobody could buy houses, nobody wanted to buy houses.

The struggles we were having back then are certainly different than the struggles you have now because in the market you’re going to see different good things, different bad things. Back then the big issue was there were millions of houses out there to buy, there were no buyers for your houses. There were fewer contractors, lending was really tight so people couldn’t get loans. Things were certainly a lot different back then 2008, just seven years ago than they are now.

Brandon: That makes sense. I got in at the same time, it was the end of 2007 early 2008 I started flipping houses. It was very different than what it’s like today. Maybe you can share with us, what difference do you see now versus before? If that was like it was before, what do you see now?

J Scott: These days for anybody that’s new to the business and wasn’t it in back in 2003, 2004, 2005, 2006. I wasn’t in the business back then but I’ve talked to a lot of people who were, I think things a lot more closely resemble the 2003 to 2006 market than they did the 2008 to 2012 or 2013 market, meaning that these days lots of people in this business, there are lots of flippers out there. A lot of people think that means lots of
competition. It does mean lots of competition but it also means people realize there’s lots of opportunity.

When I got into this business there was very little competition but that’s because it was a really, really tough business to be jumping into at the time. There is certainly more competition now, more opportunity now. The whole contracting side of things have changed, and we can talk about that a little bit later, but it used to be all the contractors were out of this business. They basically all went broke and it was hard to find contractors, but the ones you found were really good. These days there’s a contractor on every corner, but the quality varies a good bit.

Finding deals, it used to be that back in 2008 I could jump on the MLS and I could find 30, 40, 50 deals a day. If I had more money and had more experience back then I would have probably done 200 deals my first year, but I didn’t believe there could be as many good deals as there were on the MLS and in retrospect there really were. Nobody else was buying and there were these amazing REO deals, bank owned deals, and motivated sellers out there just looking to dump their houses.

These days it’s a lot tougher to find deals, but if you can find a decent deal it’s a lot easier to sell them. I remember back in 2008 we put a house on the market and luckily we would generally get a contract within the first one, two, three people that went through the house. But we may not get more than three or four or five people come through the house in the first month, and these were popular areas with nice houses. These days there’s so many buyers out there, if you don’t have 20 or 30 or 40 people looking at your house the first weekend you’re probably doing something wrong, but you’re competing with 20 or 30 rehabbed houses in your neighborhood. Back then we had the only rehabbed house, there were no buyers, now lots of rehabbed houses, lots of buyers.

That market wasn’t any better or worse than today’s market but certainly a lot different.

Brandon: Okay, so here’s a question people ask me all the time. I get emails and I’m sure you do as well. “Did I miss the boat? Is it too late for me to jump into flipping or any kind of real estate, because it was so easy back then and now it’s hard? Should I wait?”

J Scott: Absolutely not. This is what I like to tell people. This business is cyclical and when you’re flipping houses you’re generally going to be in one of two place. Either it’s going to be easy to find houses tough to sell them or it’s going to tough to find houses easy to sell them. It’s either going to be a buyer’s market or seller’s market, and in either market there’s great opportunity. You can make a lot of money, the key is knowing what market you’re in, adapting to that market, and doing the things that allow you to succeed in that market. If I were still doing the things I was doing back in 2008 I
wouldn’t be having any success, regardless of how much experience I have because the market’s different.

Those people starting in today’s market they can be just as successful as I’ve been or you’ve been over the last five or six or seven years, they just need to do things a little bit differently. There’s just as much opportunity, to capture the opportunity you just need to do things a little differently than we had to do a couple years ago.

Brandon: That makes sense, and one thing I like a lot about when people say “should I wait, should I just sit out for a while.” I say the same thing, you shouldn’t, you should definitely jump in but you do have to alter your strategy and the great part about that and I think you probably agree is that most people aren’t altering their strategy. They’re still reading the books that came out ten years ago or eight years ago, and they’re still doing the same strategy, looking on the MLS and that’s all they’re doing, I can’t find a deal, I can’t find a deal. At least for those willing to put in the work and the hustle you kind of get the best of both worlds. You can still find the deals and you can still sell the deals.

J Scott: Let me tell you something, these days people say is it the wrong time to jump in? When I first started everybody was telling me it was the wrong time to jump in. Everybody was telling me that I was nuts to try to flip real estate back in 2008. Let me tell you something, in a way they were right. If I were trying to use the strategies that we have to use today back then I would have been crazy, just like if I were to try and use the strategies I used back then today, I’d be crazy.

Brandon: Right on, so let’s talk about then the finding deals, let’s talk about what are you doing these days to find deals. Before you said it was just MLS, just the realtor listed properties. What are you doing today?

J Scott: Before we talk about finding deals I want to talk about some real general stuff, because along the whole what’s different today from seven or eight years ago, I also want to project that forward and I want to tell anybody that’s listening to this that just like today’s market is different than things were three, four, five, six, seven years ago. In a year or two or three or five or ten, it’s going to be different again. I don’t know if it’s going to more like 2003 or 2008 or 2010 or 2015, or maybe something we haven’t seen before, but the one thing that’s constant in any business is change. A good businessperson, whether it be a real estate investor, whether it be a brick and mortar businessperson, whether it be somebody who has a service business, selling cars or restaurants, whatever it is the key is to figure out where your business is going, where the market is going and then insure that your business is keeping up. I see too many
people that try to do the same thing today that they were doing three years ago and will probably be trying to do the same thing in three years and that's not sustainable.

The stuff I’m going to talk about today just like it’s different than what I would have talked about seven years ago, it’s going to be different in two or three or five years. It's really important that everybody listening to this spend some time thinking about their market, think about what’s going on in their business and don’t just do that today or this week or this month, but constantly be doing that. It can take years to implement a new strategy. I remember back in 2012 it was starting to get difficult to find REO deals in the MLS that was our bread and butter; our first 60 or 70 deals were REO deals right off the MLS. I started hearing about this thing called Short Sales, and these days everybody knows about Short Sales, but back in 2011, 2012, nobody had been doing Short Sales for several years so I didn't know much about them.

I started reading about Short Sales and what I realized was there's an opportunity here. Unfortunately I was six months behind some of the smart people in this business and they had figured out Short Sales were a great opportunity six months earlier. Not only did they have a six month head start on their strategy, but they got six months worth of good deals that I never got.

Short Sales lasted a good year and a half, two years, it’s a tough strategy again today but that two years was an amazing opportunity. I missed the first six months because I wasn’t spending enough time thinking about where the market was going. Then I spent the first six months that I was in it actually coming up to speed, ramping up. In affect I lost a year of what could have been two years worth of great deals. I literally lost 50% of the opportunity I could have had between 2012 and 2014.

What I would tell everybody listening is think about where the market is going, always try and stay one step ahead. It takes 6 or 12 or 24 months to implement a new strategy so don’t think I’ll get around to that when I get around to it. You can be doing what you’re doing today while still preparing for tomorrow. The other thing is if I were one of those guys or girls that had gotten in at the beginning of the Short Sale “boom” you can call it, I would have had a first mover advantage. I would have been somebody that had not only that extra six months, but I would have built relationships, I would have built the partnerships with the other people doing it. Instead I was looking at the big boys who were out there doing 20, 30 deals a month, Short Sale deals, with each other because they were all six months ahead of me. I was the guy lagging behind watching from the outside. Had I have been on the frontend of that I would have been part of those groups of people doing larger deals. The first mover advantage is huge, that's another reason you need to stay on the cutting edge and you need to really be able to adapt in this business.

Lastly I’ll say things in this business sometimes change very quickly. 2006 to 2008 was a real quick shift from all time highs to all time lows, but there are a lot of things in this
business that change very, very slowly and it’s easy to not realize what’s going on when things are changing slowly. It’s like the metaphor with the frog in the pot where you slowly turn up the water and he doesn’t realize that he’s about to start boiling because the change is happening so slowly. I see that a lot in this business where everything will be going great, everything will be going great and then one day people will look around and say “what happened, I don’t have any deals. I did 30 deals last year and I’m not doing any this year.” To them it looks like it was an overnight shift, but if they had paid attention they would have seen that coming a year in advance, two years in advance, and they would have shifted their strategy.

If you don’t notice the small shifts they’re going to look like big shifts when they actually come to fruition. Not to sidetrack anything but I just want to say while things have changed a lot over the last five, six, seven years, keep in mind that things are going to change forever.

Anybody listening, please spend an hour or two hours or three hours a week doing some research on your market, thinking about where things are going, thinking about where your business needs to be in a year or two years, and start implementing today.

That’s all I’ll say on that.

Brandon: Can you kind of expand on that if I could ask, do you have any recommendations for a person like me. I’m looking at my business and I’m looking down the road in the next two years, how do I discover the next Short Sale “boom” or whatever it’s going to be? How do I know, how do you know that stuff?

J Scott: That’s the nice thing, it’s simple. It doesn’t involve reading books, it doesn’t involve going and looking through public records, it involves talking to other people that are in this business. Talking to people who are smarter than you are, I isolated myself in this business for the first three or four years because there weren’t a whole lot of people doing flipping back in 2008, 2009, and 2010. Then 2010, 2011, more people were jumping in but I had gotten so used to be a loner in this business and kind of working on my own that I wasn’t networking, I wasn’t going to the REO meetings, I wasn’t sitting down and having lunch with some other big investors in other niches in this industry. They were all sitting down talking to each other and at least one or two or 15 of them knew that this market was changing and Short Sales were going to become a big thing and REOs were going to go away for the most part. Had I been talking to those guys, had I have been networking, had I have been taking them to lunch, had I have been attending the REO meetings, I would have known. It’s not rocket-science; it’s really just networking and staying in touch with the rest of the community that’s doing the same thing you’re doing.

A lot of people say you should be innovating you shouldn’t be copying, I’m actually a big fan of copying things that other people are doing, just do it better. You don’t have to
invent, it’s really hard to invent. There are very few novel inventions ever, instead take
something that’s already working and make it better. Find people that are on the
forefront that are thinking about what’s coming next, talk to them, ask them questions,
and you’ll figure out what’s coming. It’s really not rocket-science.

Brandon: I love that, it kind of ties in with the popular quote “You are the average of the five
people you hang out with the most.”

J Scott: Exactly.

Brandon: I love that. Alright let’s go to finding deals. In today’s market, again people might be
listening to this two years in the future, three years in the future, ten years in the future
where it might be different, but today’s market which we are in August 2015, what are
you doing, what’s working?

J Scott: Like I said for a few years it was all REOs and for those that don’t know, REOs are Real
Estate Owned, it’s basically foreclosed properties that banks take back and they sell on
the MLS. For anybody that doesn’t know, the MLS is basically the main tool, it’s an
internet tool now that real estate agents use to list public deals. Most buyers and sellers
when they sell their houses list them on the MLS. Banks when they take back
properties, foreclose properties, they list them on the MLS.

For many, many years you could find all the deals you needed on the MLS. You didn’t
have a lot of competition, great prices. These days you’re not going to find in most
markets, I don’t want to generalize anything I say so everybody keep in mind that your
market might be different than the 90% that I’m talking about. In most markets these
days it’s real tough to find a deal in the MLS. Private buyers and sellers getting top
dollar for their house, so you can’t go and hire real estate agents to find the deals. Banks
have figured out that people are paying top dollar for houses, so when they list on the
MLS they are actually overpricing houses; it used to be that they were under pricing
houses.

The first thing I would say is if you’re jumping into this business is don’t think you can
just jump on the MLS and start finding deals and do what we were doing a few years
ago, it’s a lot harder. There are a lot of things that are better in this business but the one
thing that’s gotten a lot harder in this business is finding deals and that’s because you
can’t just go on the MLS and find public listed deals.

What’s working is finding off-market deals. When I say off-market deals I mean sellers
who don’t necessarily know that they’re ready to sell their house. They haven’t found a
real estate agent, they might be thinking about selling but they haven’t taken that next
step to start listing their house publically so that everybody can see that it’s for sale.
Your job as a real estate investor these days is to find those sellers before they list their
houses or offer their houses publically and convince them to sell to you. The big
problem with finding deals these days is there’s lots of real estate investors out there,
there’s lots of competition so finding these off-market deals where you’re finding the sellers before they list their deals, you’re doing the most important thing. You’re excluding the competition. The only competition is the seller right in front of you that you have to convince to sell their house. There are a lot of ways to do that, first let me throw out there are people who specialize in finding these deals and bringing them to rehabbers and landlords, they’re called wholesalers. These are people who kind of make it their business to find these sellers, find the deals, get the deals under contract and then sell them to the people that want to rehab them and resell them. If you know any good wholesalers in your area it may be as easy as finding a couple good wholesalers and letting them find deals for you.

The first five years I was in this business I only bought a single house from a wholesaler, one house, and that was the very first house I ever bought. For the next five years wholesalers weren’t finding deals that were better than what was on the MLS. I kind of gave up the whole wholesaler route, then things started getting tougher and I realized I had to start finding more off-market deals so I was changing my strategy, I was evolving, I was adapting, I was learning how to find these off-market deals but then there are these people, these wholesalers who have been doing this for years. They had honed their strategies, they had figured out how to find these sellers, how to negotiate with these sellers, how to get these houses under contract, so they were a lot better at it than I was.

The first thing I realized was I needed to learn how to find these deals myself, but while I’m learning there’s no reason why I can’t be working with the people that already experts at finding these deals and then maybe spending a little bit more to buy it from them. If you’re getting into this business the first thing to do is network with some good wholesalers in your area because if you can find one or two good wholesalers, they may be able to bring you enough deals to fill your pipeline and to give you as many properties as you might want to be flipping in your first one, two, three years.

If you’re looking to do one house at a time and it takes you four or five months you only two or three deals a year and a good wholesaler can easily bring you two or three deals a year.

Brandon: Here’s a problem I have with wholesalers a lot of times is most of them suck. Most of them are terrible businesspeople, terrible individuals often times. They go and scrape deals that aren’t theirs, they lie, they steal, they cheat, there are a lot of bad ones out there so how do you find the good ones?

J Scott: Here’s the thing, everybody accepts the fact that you have to look at 50 or 100 houses to find a good deal, that’s just a given in this market. Everybody accepts it, nobody complains about it, but they think every wholesaler is going to be good. They think that every contractor is going to be good. No, when you deal with people it’s no different than finding houses. If one out of 50 sellers you talk to ends up being a deal, one out of
50 wholesalers you talk to is going to end up being a good wholesaler. One out of 50 contractors you talk to is going to be a great contractor. Don’t think that finding deals is hard and everything else is easy. Finding good wholesalers is tough and like you said most of them are really bad. It’s just like anything else, you’ve got to pound the pavement, you’ve got to talk to a lot of people, you’ve got to network. You need to provide value to them and the value wholesalers are looking for is somebody that is honest, somebody that has integrity, somebody that says I’m going to do this and then follows through, somebody that doesn’t lie about their financial situation, somebody that can basically get a deal done when they say they’re going to get a deal done.

Wholesalers are looking at us the same way we look at them, they see all these bad investors out there who say “yeah I’ll buy that house” but then can’t come up with the money, or they say “I’ll buy that house” and then back out at the last minute. It works both ways, so to find a good wholesaler you need to prove to them that you’re going to make their life easy, you’re going to give them what they need so that in return they can give you what you need.

You may have to talk to 10, 20, 30, 50 wholesalers before you find a good one, but when you find a good one, and we’ll talk about contractors later. It’s the same way with contractors, when you find a good one; treat them like gold because they can honestly make the difference between success and failure in your business.

Brandon: I just recently read a book called 80/20 Sales and Marketing by Perry Marshall. Have you read that one?

J Scott: I’ve heard of it, I haven’t read it.

Brandon: Fantastic book. One of the best discussions in there is this talk about how the 80/20 rule, Pareto’s Principle says that 20% of your input will produce 80% of your results. So 20% of your garden plants will produce 80% of your peas, etc. 20% of the population has 80% of the wealth, and on and on. One of the things he talked about is when you’re working with people, and he wasn’t talking about wholesalers he was talking about employees. 20% of the wholesalers will bring you 80% of your deals and even smaller is out of that 20%, 20% of them will bring you 80% of the other deal. In the end there’s like 4% of the entire wholesalers you know will bring you 80% of your deals.

J Scott: Absolutely.

Brandon: If you put in the work needed to find that, that is your most important thing is to find that wholesaler or that contractor or whatever.

J Scott: Yes, and then treat them like gold.

Brandon: Treat them good because they are going to make your business. I love to see the relationships and it’s hard to find, but where there’s an experienced flipper or at least a
Flipping Houses in a Changing Market
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real flipper or a dedicated one, someone who’s serious and doing it the right way, and a
real or dedicated wholesaler. When you put those two together it’s magical what can
happen, both parties are making a ton of money. It’s hard to find, but when you find that
it’s just gold.

J Scott: It’s nice dealing with people who run their businesses as a business and take their
businesses seriously as a business and not something to joke around with. A lot of
people don’t put their reputation first, and they quickly lose that reputation. Deal with
ethical people and be ethical yourself and things tend to work out.

Brandon: I love that. Alright so we’ve got working with wholesalers. What else are doing,
anything else working for you?

J Scott: In addition to working with wholesalers I like to do all the things the wholesalers are
doing. They might do it better than I do at first, but if I can get good at it I can start
generating my own deals and I won’t have to pay the wholesalers markup. Now, paying
the wholesalers markup is kind of a misnomer, if you’re doing marketing yourself
you’re going to be spending extra money anyway so you may be paying the same
amount to find a deal as you would if you get it from a wholesaler, but one thing I’m real
big on in business is try to cut out anything that your business is dependent on,
anything that if it went away your business would be okay. I might spend as much
money or more marketing for my own deals than I would buying from a wholesaler, but
if that wholesaler that I’m buying a lot of deals from tomorrow decides to move to
California or he finds another rehabber that he’d rather sell deals to instead of me.

Brandon: Or he becomes a flipper himself.

J Scott: Or he becomes a flipper himself, exactly, that happens a lot in this business, suddenly
my deal flow goes away. I’m actually willing to pay a little bit more to find my own deals
than I would from a wholesaler. A lot of people think wholesalers; they don’t use them
because they’re too expensive. I like to have my own pipeline for deals because I never
know when my good wholesalers might decide to be my competition or get out of
business or whatever. In parallel with working with wholesalers I like to do all the
things that wholesalers are doing. These days the big things that wholesalers are doing
are direct mail, and direct mail is basically sending letters to homeowners. Targeted
letters or letters to targeted homeowners to buy their houses and I’ll talk a little bit
more about that. Some of them are doing what is called Bandit Signs, and I’m sure
you’ve seen these if you’ve been driving around. These are the signs on the side of the
road that say we buy houses, call this number, or house for sale, call this number and
they hope to get people to see that and say “oh I hadn’t thought about selling my house,
maybe I’ll give them a call, that’s a good idea.” Some of them literally are knocking on
doors or making phone calls, so they’re getting lists of homeowners who are in some
situation where they might be more likely to sell their house. They might be going
through a divorce, they may have had a death of a spouse, they may have had a job
relocation. These are all things that historically contribute to people needing to sell their house, often times more desperately than a typical homeowner.

If they can find a list of people going through a divorce that’s a great list to target either by making a phone call, knocking on the door, sending them a letter. I know people that go through obituaries and see people who have died, go through public records to see the house that they own and then try and get in touch with their kids or their heirs.

Brandon: Just a couple weeks ago I found out one of my good buddies bought a six unit property for $100,000, dirt cheap property. It was a property I know really well, I know the owners, I’ve known them really well but the guy who owned it died back six months ago, but I didn’t want to contact them because I felt a little bit weird about doing that. A friend of mine contacted them and he helped them out of this situation because she was drowning in debt on that thing and didn’t know what to do. He ended up getting a deal for an incredible price on it. I could have kicked myself.

J Scott: It happens more often than you’d believe. The house I’m sitting in right now I bought this because the homeowners who had lived here for 55 years both passed away and my best friend lives across the street, he basically stopped by when they were having an estate sale to sell off their stuff and said “are you planning to sell the house?” They said “you know we hadn’t even thought about it.” He said “if you want to think about it I have somebody that might be interested.” It was six siblings, three of them were out of state, and they were thrilled that they didn’t have to get the house fixed up and go through a real estate agent. We got the deal done in two weeks, and I’m not somebody that would pick up the phone out of nowhere and call somebody’s family after they passed away, but this ended up being a great situation. It was a win/win for both parties.

There’s a house a couple doors down from us where the owner, again lived there for 50, 60 years and passed away a couple weeks ago. My wife who had met his son on a previous occasion basically just left a really nice note on the door just offering her condolences and pointing out “if you need help with the house” and this wasn’t a we want to buy your house otherwise leave us alone. This was a “if we can do anything to help.” My wife’s a real estate agent in the state so if they need advice or if they need contractors, we’re happy to help, and we honestly are. In addition if he’s looking to sell let us know because maybe it will be a win/win for both sides.

There are times when it’s a great opportunity to buy a house from somebody who’s passed away but then there are people that target those people professionally and they will literally go through obituaries or they’ll go through other listings of deceased notices and they’ll send letters or make phone calls to those people or those people’s heirs. It’s a great opportunity.
There’s death, there’s divorce, there’s job relocation and that’s another big one. If you can find somebody whose job is relocating them, they’re often desperate to sell. Sometimes they’re getting assistance from their employers to sell their houses or to buy another house, so they don’t necessarily need to find a seller because they’re not necessarily paying for all the relocation costs, it’s more important to get a quick sale than a high dollar sale. These are the people you’re targeting and then the way you’re targeting them, direct mail, phone calls, knocking on doors, networking, pinning your business card up in small businesses. If you walk into a Starbucks they generally have a corkboard up there and you’ll see three or four business cards from people who buy houses. In past years these would be called guerilla marketing techniques, but these days they’re just house buying techniques. They’re very, very common.

Brandon: I like that, you’ve got to do what other people aren’t willing to do and those are definitely strategies that most people don’t want to do. Direct mail costs money, people don’t want to spend any money when they’re trying to invest in real estate. They think they can do it with no money at all. It makes perfect sense to do what other people won’t, that’s fantastic.

J Scott: Let me throw something else out there, we’re talking about finding deals before we go into another topic, there’s also the concept of to make it easier to find deals open yourself up to finding different types of deals. Back in 2008, 2009, 2010, 2011, I had this criteria, I would never buy a house with fewer than 4 bedrooms, fewer than 2 baths. There was a good reason for that, if you looked at the data in the areas where I was buying and selling houses, nobody was buying 2 bedroom houses, few people were buying 3 bedroom houses, nobody was buying houses with fewer than 2 bathrooms. I wasn’t going to be able to sell those houses if I bought them, so I had this hard and fast rule don’t buy houses with fewer than 4 bedrooms, don’t buy houses with fewer than 2 bathrooms.

Times have changed, there are a lot of people out there that are having difficulty finding the home they want to live in for the rest of their life and they’re willing to compromise. They’re willing to buy a 3 bedroom house instead of a 4 bedroom house, they’re willing to buy 1.5 bath house and maybe fix it up themselves. There are a lot more buyers out there; it used to be that single kids weren’t buying houses back in 2008, 2009, 2010 because getting loans was really tough. The 2 bedroom 1.5 bath house, there was just no market for those because there were no buyers. These days there’s plenty of 20 something’s who would be happy to live a 2 bedroom 1 bath house because it’s just them. They can get loans and they’re being outbid on the bigger more expensive houses. Changing your criteria for the houses you’re going to buy is also a great opportunity in this market. Be willing to consider houses you might not have considered a couple years ago because houses that wouldn’t have sold a couple years ago might be selling now.
In addition, be willing to change your exit strategies. For the first 60, 70 houses we did, every single one we rehabbed, we sold, we rehabbed, we sold, we rehabbed, we sold. As the market started to change so did our exit strategy in a lot of cases. We were willing to consider wholesales instead of flips. There are houses that we found that we couldn’t make the profit we wanted to make as a flip but there were other investors out there, they were landlords, they were people who were willing to do thinner flips than we were who were happy to buy those deals off of us. We said instead of saying this deal wasn’t good enough for us anymore, instead we said how do we make this deal good enough. What else can we do to turn this not good flip into something that will make us a profit in some other way? That might be buying something, holding it as a rental for a year, because sometimes if the market is pretty stable and you’re not worried about a big market drop, sometimes just the tax advantage of keeping a rental for a year makes something that wasn’t worth buying and flipping now worth buying and flipping after a year.

If you can take your tax burden down from 40-45% to 20% that can make a deal go from no worthwhile to worthwhile. Reconsider your exit strategy as well as reconsidering the types of deals you’re looking for.

Brandon: That’s fantastic. The strategy I’ve been focusing on the last couple years I call it the “BRRRR” strategy. It’s the Buy Rehab Rent Refinance and then Repeat. I buy these properties, and basically think in terms of long-term flips, five years is my holding time for them. I’m thinking I have a few years left for the market to keep climbing in my area, I think we have room to go so I’m going to buy them, fix them up, get the long term tax advantage of it, and then I’ll sell it later. Maybe I’ll even sell it to the tenant that’s living there.

J Scott: If you would have told me about that strategy five years ago I wouldn’t be talking to you right now, I’d be living on an island somewhere. That’s another example of stay ahead of your market and consider other strategies that other people are doing you might not be thinking about because that’s another great one.

Brandon: Very cool. Alright, so let’s talk about the actual market you’re investing in. If your market is crazy hot right now. I know for some people it’s just insane, there’s 40 offers on every property. Can you go outside your market, is that a possibility?

J Scott: You can always go outside your market. I am not a huge fan of investing far from home, but I certainly see better reason to do it today than I ever have. The big thing that’s changed is there are a lot of other real estate investors out there today. There are a lot of other real estate investors who are in the same boat when it comes to finding deals and having trouble finding money and having trouble finding contractors. There are a lot of other people out there these days that you can partner with to get your deals done. When I first started doing out of state deals back in 2012 it was really tough, I couldn’t find anybody else on the ground in the states I wanted to do deals that could
help us that I felt had the knowledge, had the experience, had the motivation to really help us get deals done because there weren’t a whole lot of investors back in 2012 either. Basically if I wanted to get stuff done I had to fly to a different state every week or every other week, or I had to have a partner with me that would fly every other week and we could switch off. That gets tiring, but these days there are enough other investors out there that if you want to do deals in St. Louis, just to pick a random place, there’s somebody in St. Louis that probably needs something that you can provide and will partner with you and they can be your boots on the ground. They can be the person that actually takes care of the day to day tactical stuff so you don’t have to fly to St. Louis every week.

That’s one big shift that’s occurred over the last couple years that makes a little bit easier to invest out of state. One thing I would say is before thinking about investing long-distance, again it’s not a bad thing to do but it’s a tough thing to do. Before you think about investing long-distance, consider that maybe you need to change your expectations for flips you’re doing near home. That’s a lot of what we’ve done, that’s a lot of how our strategy has shifted over the last couple years. It used to be that we would make 20-25% returns on every deal. If we did a deal that cost us $100,000 we would expect to make $25,000. Our goal was always around 20% with the average closer to 25%. As it’s gotten tougher to find deals as more competition has come into the market what we found is 20% has had to shift closer to 15%. Instead of saying $100,000 deal we have to make $20,000 and want to make $25,000. Instead we say we have to make $15,000 and would like to make $20,000. We’ve just kind of lowered our expectations, and that’s okay. Realistically for several years there was so little competition that we were making more than you’d generally make in this business. The 15-20% is actually closer to what experienced rehabbers expected in this business; we just got a little spoiled for a couple of years.

It used to be that for every dollar I spent on rehab I was looking for 60-cents in return. If I did a $50,000 rehab I’d want a $30,000 profit. If I did a $100,000 rehab I’d want a $60,000 profit. If I did a $10,000 rehab I’d want a $6,000 profit. That was always the benchmark that I’d use, 60-cents on every dollar I spent on rehab return in profit. These days that’s closer to 45 or 50-cents. If I do a $50,000 rehab now what I would have expected to earn a minimum of $30,000 before now I say I’m going to be happy with $22,000, $23,000, $24,000, or $25,000. Sometimes you have to do bigger rehabs to make a profit these days, and that’s actually another big shift that I’ve seen in this market. It’s harder to find those paint and carpet rehabs, and I think this is actually really good for the industry. Rehabbers have gotten a bad name for a long time, mostly because they’ve gone into houses that need a lot of work and they’ve done a little bit of work.

I’m sure everyone’s heard the term “lipstick on a pig”. Basically you go into a house that needs major renovations and you hide the defects with a coat of paint or with some new
carpet and then homeowners come in and they realize they bought something that still has a lot of defects and that gives us a bad name. These days it’s a lot tougher to find those houses that really do need paint and carpet. Everybody knows if you’re buying a house these days that’s been renovated it’s probably undergone some more substantial renovation than a couple years ago.

There’s an opportunity for those who are willing to do the extra work, who are willing to really learn how to rehab houses instead of just learning how to lay carpet and throw a coat of paint on the walls. There’s huge opportunity, and that’s been a big shift in our business. We’ve said instead of going in and doing $10,000 and $15,000 rehabs, we’re going to be willing to do $30,000, $40,000, $50,000 rehabs. In some cases we’re willing to do additions for $60,000 or $80,000. In some cases we’re willing to tear down and build new for $100,000 or $200,000 or $300,000. These are just some of the things that a lot of rehabbers in this market are starting to realize that the profit is to be made in the stuff that other people are too scared to do.

Don’t be scared to get out there and learn how to do some higher end stuff, learn how to do some more substantial rehabs. I like to say “building a wall is no harder than painting a wall” because you’re not doing the work. You’re hiring somebody to do the work. Certainly you need to know a little bit more about what needs to get done so you can manage those people properly, but you’re not the guy that’s repairing the foundation, you’re not the guy that’s building the new roof or building the addition. You’re hiring somebody to do that, so it might cost you a little bit more money, it might take you a little bit more time, you might need to be a little bit more knowledgeable about the construction aspect of things. At its core, doing a big rehab isn’t that much tougher than doing a little rehab, but a lot of people don’t realize that so there’s an opportunity for those rehabbers who aren’t scared of the big rehabs these days to go in and do the things that other people don’t want to do.

That’s how you look at the competition.

Brandon: Would it be true to say that maybe even a big rehab might even be easier in that you could go in and gut the whole thing and start with a fresh canvas, re-drywall it. Have you done those kind of flips, are those good today?

J Scott: People ask me what my favorite kind of rehab is and they assume I’m going to tell them paint and carpet. My favorite type of rehab is building new construction and the reason is the more you renovate the fewer surprises you run into, and when you build new construction you’re renovating everything so there are no surprises. The more you do in a rehab the fewer surprises you’re going to have, the more you’re going to have budgeted for those surprises, and the less risk you have. If I know that I’m going to be opening up every wall in a house and replacing sheetrock, I’m not scared if I find some electrical issues, I’m not scared if I find some plumbing issues. I’m not scared if I have to make some major changes to the HVAC configuration because I know I’m already
opening the walls, I’m going to see that stuff, I’m going to be prepared to make those changes anyway. It’s not going to be that much more expensive. Once the walls are open replacing plumbing isn’t that tough, people don’t realize that. If I want to replace plumbing in a house it gets very expensive if I want to replace it without damaging the walls, the expensive part about replacing plumbing is doing all the drywall and paintwork after it’s all done.

I can re-pipe the house for $2,000 if all the walls are open, but if I have to do that same re-plumbing of the house where I don’t want to damage the walls, it might cost me $5,000 or $6,000. In reality doing big rehabs not only are they not much tougher than doing little rehabs, you tend to have fewer risks because you’re expecting to do more, you’re expecting to spend more money and there are fewer things that can creep up that you weren’t planning to do anyway.

Brandon: That makes sense. You mentioned building new construction, should people consider that, should they get into new construction right now?

J Scott: No, I don’t want any competition. What I would tell anybody that’s considering new construction do some rehabs first. I think there’s no reason why anybody couldn’t do new construction, it’s no different than doing a big rehab. I like to say if I was able to learn how to do it, anybody can. My wife jokes that when we got married back right around the time we started flipping houses; I didn’t know how to change a light-bulb. Not much has changed I still don’t change light-bulbs, she doesn’t trust me changing light-bulbs, but I know how somebody changes a light-bulb and I know how to find somebody, hire them, manage them, and pay them to change that light-bulb. That’s what flipping houses is and that’s what building houses is. You don’t need to be a contractor; you don’t need to understand every detail of contracting.

It’s better to be a good manager than a good contractor if you want to be good at flipping houses.

Brandon: Oh, that’s good!

J Scott: It’s better to know how to hire people, how to manage people, how and when to pay people, how and when not to pay people, and how to resolve issues than it is knowing how to install a circuit breaker or how to install sheetrock or how to lay a foundation. Those are things you’re hiring people to do and hiring somebody to do $5,000 worth of rehab is not that much less difficult than hiring somebody to do $50,000 or $100,000 worth of rehab. And ultimately that’s what you’re doing when you build a house, instead of a $10,000 or $15,000 rehab you’re essentially just doing a $100,000 or $200,000 rehab. There’s more work, it takes longer, you have to hire more people, you have to be better at scheduling, better at budgeting, better at dealing with the city, but other than that it’s really just a scale thing. It’s not that much more difficult.
Brandon: That makes sense. That’s always been one thing that I’ve struggled with in my flipping is that I’m not as good of a manager as I am a contractor. It relates to The E-Myth, and The E-Myth Revisited, Michael Gerber. It talks about there’s technicians and then there’s entrepreneurs. Technicians can work in the business, entrepreneurs work on it. Its one thing I definitely am working on myself is how to become a better manager.

Do you have any good tips for that? How do people become better managers?

J Scott: The first thing I would say is practice, it’s just like anything else. First I would throw out that when people ask me what’s my secret to success? There are no secrets in this business but if there’s one thing that’s contributed to my success more than anything else in this business, it’s the fact that I know so little about construction. I’ve never had the problem of letting my construction knowledge get in the way of my doing construction. A lot of people do that; they might be really good at installing sheetrock so they say I’m going to do that myself. They might be really good at watching YouTube videos and learning how to run wire, so they say I don’t need to hire an electrician, I’ll do that myself. That causes lots of problems that people don’t realize.

One, it takes away your focus on other things. If you’re busy installing sheetrock 12 hours a day, you’re not focused on doing your due diligence on the next deal, you’re not focused on finding contractors, you’re not focused on finding your next deal, you’re not focused on the contractors that are working in other parts of the house that are making mistakes. All you care about at that moment is installing sheetrock and it takes your focus away.

My first tip is don’t try and do things yourself unless you have a really good reason to do it. I’ve had people tell me I install sheetrock because I love doing it, it’s calming for me, or it’s something fun for me to do with my son or daughter. When I hear somebody say that I think that is the right reason to do stuff yourself, because you enjoy it, because it’s a family bonding experience. For a lot of people doing contracting work is a relaxation thing, it’s like meditation and that’s a good reason to do it. But to do it because you’re trying to save money or because you’re a control freak, that’s the wrong reason to do it.

You don’t see Bill Gates writing code, you don’t see Warren Buffett working on an assembly line in any of his businesses. There’s good reason for that because they realize there are other people who are better at that than they are, and their time is better spent doing the things they’re good at and managing those people or hiring somebody to manage those people.

If you want to get good at that it’s just like anything else, its practice. Learn from your mistakes is actually the biggest tip I would give. I had a lot of business experience coming into this business, but I ran into as many problems dealing with contractors as anybody ever has. People think that because I had some business experience I knew
how to manage and negotiate with contractors. I didn’t, I ran into the same mistakes everybody did. I had contractors who would lie to me, who would try to overcharge me, who wouldn’t show up for days at a time, would walk off on the job, who would use shoddy materials, who would subcontract out to people who weren’t qualified. I dealt with all those situations and the key was I’ve only had to deal with each of those situations one time, because when I dealt with it I sat down, I talked to my wife, I talked to other investors and I said how do we not do this again, how do we not let this happen again, and we learned from our mistakes. That’s essentially what you have to do, you have to practice and you have to learn from your mistakes.

There’s nothing wrong with making mistakes, mistakes are great because you learn what not to do, just don’t make the same mistake over and over.

Brandon: I love that, and one thing I’ve always liked about you and admired about you is your focus on systems and running your business like a business. That is one of the best descriptions of what that means is you have these systems and if something doesn’t work out, if you’re frustrated, if you get angry, if something breaks it’s because your system broke somehow so think to yourself how do I fix it so it doesn’t happen again.

In the landlord world I used to rent to family and friends occasionally, I did it like three or four times and every time it turned out bad, finally one day I was like this is stupid. If I just make a rule that says I don’t rent to family or friends I won’t have to deal with that drama anymore, and overnight it changed because I had that realization.

If you just focus on improving those problems you have so you never have to experience them again is right on.

J Scott: It’s just like cooking, it’s a recipe. You have to tweak that recipe and if it doesn’t taste right, whatever ingredient doesn’t taste right don’t put it in next time because it’s not going to taste better next time, and dealing with contractors is the same way. I hear people say all the time, yeah he didn’t work out on this one but I have a feeling he’s going to be better on the next job. They will give a bad contractor another chance, and if they don’t work out on one they’re not going to work out on another. I like to say dealing with contractors is like having a relationship or trying to find a boyfriend or a girlfriend. If you don’t like them on the first date it’s not going to get better.

Learn to cut your losses and move on when things aren’t working out.

Brandon: One thing you mentioned earlier, too, you said the idea of spend the time needed to find the right contractor. We talked about that a little bit, and on the BRRRRR flip that I’m doing, that long-term flip I could not find a flooring contractor. My flooring contractor backed out and I made a couple phone calls and couldn’t find one, so I went and did the flooring myself. I have the skills to do it so I went and did it.
It took me probably 25 hours of work to do this floor. As I’m doing it my only thought was these 25 hours, how many good contractors could I have found with 25 hours of work and been in an air-conditioned office? Here I am on my hands and knees getting all bruised up, cutting my hands and stuff with a knife. I’m like this is stupid, why am I doing this? It seemed easier at the time to just take care of it, but 25 hours of that versus a few hours of actual dedicated search.

J Scott: Exactly. There’s a common refrain in this business which is always get three bids. I think that’s ridiculous, get 30 bids, get 50 bids, because one of the three contractors isn’t going to work. People think one out of three is good, one out of three contractors might be good, but one out of three contractors aren’t going to be good for your business. One out of 20 contractors is going to be good for your business; one out of 30 contractors is going to be good for your business. Get 30 bids; find that one contractor that works on your next ten projects. If you find the one guy that can work on your next ten projects, that’s like getting three bids for one project anyway.

Brandon: That’s true.

J Scott: Do the work upfront and then have less headache each of those next ten projects, as opposed to getting three bids on each one and having headaches on each one.

Brandon: That makes 1000% sense. I think on that project I had two people offer bids, and I went one of them and he opted out and I called the other guy, he couldn’t do it, so I’ll do it. 25 hours of work, I could have found a contractor that could have lasted me for the next decade.

J Scott: Again, I would do the same thing if I knew how, which is why it’s really good that I don’t know how.

Brandon: People ask me that a lot, should I know how to do construction to be able to get into real estate. I’m like no; no you don’t need to know it. I think that’s one of the things that hurts me as an investor is I know how to do everything and I think I can do it better than everyone else. That contractor took five hours to do that project, I could do that in two, so the next time I do it, it takes me 15 and I’m like dang it.

J Scott: My wife and I still joke about how the first two houses that we ever did, we tried to do stuff ourselves like painting work and doing some minor carpentry, stuff like that, and we joke and think back about the weekends we would spend doing stuff and feeling like we’re saving ourselves money. I look back and I realize that not only did it cost us more because we probably used ten times more materials as we should have, but it took us five times as long, and our customers got an inferior product. I feel bad for anybody that lives in one our first rehabs. I want my customers to get a good product not something that I could do myself.
Brandon: I’m the same way, a couple of my early projects I did everything on them. I don’t even know what I was doing, like a 21 year old kid pounding nails in a wall and I thought I knew what I was doing, but you learn.

How are you finding contractors today in this market? What is your strategy in getting them?

J Scott: A lot has changed with contractors, like I said it used to be that there were very few contractors out there. Back in 2008, 2009, 2010, 90% of the contractors were out of business because there was no work. The 10% that remained were good, that’s why they remained because they had customers that trusted them and respected them and they had existing business and they knew how to run their business. It was tough to find contractors back in 2008, 2009, and 2010, but when you found one he was good. These days it’s easy to find contractors but most contractors aren’t very good. I shouldn’t say that, most contractors aren’t going to be right for your business. If you open the Yellow Pages and look at the thousands of contractors in the Yellow Pages, most of them are probably good contractors but they’re not going to be good for your business because they’re going to tend to be overpriced. If they’re paying for ads in the Yellow Pages, they’re targeting homeowners so they’re probably expecting that you’ll pay the same rates as homeowners.

If you go find a typical contractor, handyman, on Craigslist, just the opposite they may not charge a lot but everybody that is looking for work these days thinks they have contracting skills, handyman skills. You’re going to get a lot of guys and girls who are going to come in and they may tell you they’re only charging $12 an hour but I’ll tell you when you have to hire somebody to fix all their work you’re paying a lot more than $12 an hour.

There are a lot of contractors out there but there aren’t a lot of contractors who are good for your business. My biggest tip today is, again I said this earlier, treat finding contractors the way you treat finding deals. Expect that it’s going to be one out of 30 or one out of 40 or one out of 50 that are good, not three bids and you’re going to find a good one, and put as much effort into finding a contractor as you do into finding a good deal.

To carry that analogy a little bit further, you wouldn’t look at three deals and say I’m going to take the best one of the three, because most likely all three of them are going to lose you money. Don’t settle for a contractor, don’t say I’ve gotten 30 bids and I haven’t found anybody good, I’m just going to take the best one. You wouldn’t do that with a deal don’t do that with a contractor, keep looking. It’s better to say I’m not going to start the job this week, I need to spend another week looking for contractors because losing a week looking for more contractors is better than losing two months because you hired the wrong contractor.
Check references, a lot of people these days are so desperate to find a contractor because they’re all so busy that if somebody comes along and talks a good game, gives a good price, shows pictures of work they may or may not have done they said they did, investors are so excited to have somebody that’s available to work on their job at a reasonable price and it looks like they have reasonable quality that they don’t ask the hard questions. Check the references, go back and see the houses that they’ve actually worked on, check their license status, check their insurance status, verify the things they’re telling you. If they say “yeah, I just did a job around the corner on 456 Main Street, so I know this neighborhood well” and you say to them what did the job entail? “Oh, I did everything, we redid the electrical, we redid the plumbing.” That’s great, so then you say fantastic, you go and check the permits. If there is no permit pulled under his name on that property either he was lying to you about doing that work or he did all this work without pulling permits, either way that’s not a contractor you want to use.

I like to give a contractor the opportunity to brag about their work “so tell me about a big job you did.” They’ll tell me about a big job, I’ll get the address, and I’ll go verify that a permit was pulled under their name on that address. That’s actually a really good way to check and make sure a contractor is telling you the truth. They all want to brag about the big jobs they did, and so if they’re not pulling permits on those big jobs then you probably don’t want to use them anyway.

Brandon: That’s a great tip; I’ve never heard that one.

J Scott: Yes, and then talk to other investors. It used to be that a contractor would work for a single investor. I had contractors through 2008, 2009, 2010, 2011, 2012, who I was the only one they were doing deals for. I was giving them enough work and there weren’t enough other investors out there that they had a lot of opportunity to go elsewhere. Things started changing in 2013, 2014, all these other investors coming on the market and suddenly contractors had a lot more choice. They had some loyalty to me but they weren’t going to give up a lot of money for that loyalty. When the other investors were willing to pay them more money or other investors, who were willing to schedule them a little bit more flexibly, or other investors who were willing to give them bigger jobs or more jobs, they were jumping ship. These days it’s a lot easier to find contractors who are willing to jump ship.

You don’t necessarily want to steal contractors from other investors, but that shouldn’t stop you from driving down the street and you see a house and in front of the house it says great renovation coming soon from some real estate company that you’ve heard of that you know are flipping houses. Walk in the house, collect the cards from the contractors in that house, and then give them a call later and say “hey, I’ve got a job that starts in a couple weeks, would you be interested?”

A couple years ago most contractors would say “I exclusively work for this guy” if they were doing a job for some company that did a lot of flips. These days they’ll say “sure,
I’ll take a look.” There’s a lot less loyalty, so as an experienced investor that’s a bad thing but as a new investor there’s some opportunity to snag some contractors that you couldn’t get a couple years ago.

Brandon: That’s fantastic. One more question on the contractor, how are you paying contractors, this is a situation that came up on my last one, the idea of hourly versus by the job. With the last guy I ended up paying every other Friday, I just paid him by the hour because he wasn’t sure how much work it was going to take on the project once he got into it, so we did it that way. The problem was at the end of the project he started making more money from other deals, spring came, more jobs came. He started working 40 hours a week for me towards the end he was working three hours a week for me, so is that just because I offered hourly and how could I have fixed that?

J Scott: My views on how to pick contractors have changed a good bit over the last several years because the market’s changed. But the one thing I’m still pretty dead set on is I don’t like to hire hourly contractors unless it’s for what I call “punch work” and these are the little things that happen at the end of the project, all the little fixes at the end of a project that don’t involve big work in one specific trade. Generally my “punch” guy is a carpenter and he’s responsible for fixing all the little trim stuff, making sure the doors open and close correctly, making sure the windows open and close correctly, making sure all the outlet covers are on straight, making sure that the microwave is installed correctly, installing the rest of the appliances, touching up paint here and there, doing little carpentry fixes. These are things that as I’m walking through the house I might see 20 or 30 or 50 little things that need to get done. I can ask him to quote me for each of those things but you know as well as I do when you as a contractor for a line item quote everything is going to be at least $50. He’s not going to do any single thing, so if you have 100 things that could be done in a day you might end up spending $2,000 as opposed to saying this is a day or two days worth of work, I’ll pay you $25 an hour for two days.

For that type of work specifically I’ll pay hourly for anything else I prefer to pay by the job for a few reasons. One, a big one is the same thing you said, it keeps them committed to my job until it’s over. With punch-list type work I can be pretty certain that I can get a guy for two or three or four days, but it’s less likely that I’m going to be able to find somebody that’s available for two weeks or three weeks if I’m paying them hourly or if I’m giving them the option to walkout because they find a better deal.

I’d rather say complete this job, if it takes you two days great, if it takes you two months great, but I know I’m going to have you to the completion of that job. That’s one big reason not to pay hourly. The other thing is it makes the contracts a little bit easier. You can say to an electrician, I’m going to pay you hourly to rewire this house, it takes him a week, you pay him for that week, he gets an inspection and he fails, and it’s another week’s worth of work so you pay him for another week, he fails the inspection again, it’s another week’s worth of work. So there’s three weeks worth of work, you were
expecting one week. Had you paid him to rewire the house which includes passing the inspections then you would have paid him a set price and you wouldn’t have had to pay him for three weeks of work what should have only taken a week.

Paying hourly rewards incompetence, it also doesn’t align incentive. I’m a big fan of aligning incentives in this business and that mean you want your contractors to want the same thing you do. When you pay hourly you want them to finish as quickly as possible, but they have a financial incentive not to finish quickly because they get paid more money the longer it takes. You pay them per job they have a financial incentive to get things done more quickly and better quality if they have to pass inspections than if you were paying them hourly.

Paying per job is a good way to align incentives and get everybody on the same page which is I want this done as quickly as possible and pass inspections as quickly as possible.

Brandon: I love it. Before we get out of here I want to ask you about raising money. Has anything changed in this market versus the old market about how you finance your flips?

J Scott: There’s some really good news when it comes to raising money. For a long time raising money was really tough, for several reasons. One, banks weren’t lending. Two, people didn’t have money to throw around. There are a lot of people, who were in tough financial situations between 2008 and 2012, and they had lost a lot of money in their 401K, their retirement funds, they were underwater in their personal residence, so finding people with money in general in this country was really tough between 2008 and 2012. When you don’t have private individuals with money and you don’t have banks lending money it doesn’t leave a whole lot of options. These days everything shifted to the other side, banks are looking to lend again. Banks really want to lend again, there are more portfolio lenders out there now than there were in 2005 and 2006, and these are small banks who lend to investors. They are looking to lend, but even better there are lots of private individuals out there that have a whole lot of money that they don’t know what to do with. They don’t necessarily want to put it in the stock market because they see the market at 16,000 and they think it can’t go much higher, they don’t want to do real estate deals themselves because they don’t have the experience, and they have this money sitting there saying what can I do with this money.

If you can convince them that the money is safe with you, they’d be thrilled to lend it to you at 10% or 9% or 11%. There are a lot of people out there that have money that if they can get 10% and they feel relatively safe and secure on that loan, they’re going to hand over $100,000 or $200,000 or $500,000.

For the first several years we did most of our deals using a portfolio lender that we knew down the street from us, and we were lucky, there was one of them in Atlanta at
the time and they liked us and we liked them and we did a lot of deals together. Around 2012 people started coming up to me saying “I’ve got money can I lend it to you” and I was like yeah, absolutely. Literally there were people I had never met before who a ten minute conversation on the phone and they were ready to sign the contracts and wire me money.

That’s a shift that not just me certainly experienced investors are getting these offers these days, but I’m finding that not so experienced investors are getting the same offers. There are plenty of people who say “let me partner with you. I’ve got all this cash, you want to get into this business, let me partner with you. I’ll put up all the cash, you do all the work, we split the profits 50/50.” Six or seven years ago this wasn’t possible because those people with that extra money sitting around didn’t exist. These days not only does it exist but they are desperate for you to work with them, they need you more than you need them, or at least as much as you do.

Private lending and partnerships with private individuals who don’t want to do the work are great.

Next, partnerships with other rehabbers, I’m a perfect example of this, I have cash, I don’t have enough deals. If somebody that is in the opposite situation they have deals but no cash comes to me, I’m thrilled to work with them because I need the deals. They need the cash I need the deals, marriage made in heaven.

These days because there are so many people like me out there, rehabbers that are used to doing 20 or 30 deals a year and can’t find 20 or 30 deals a year, we’re very open to people coming along and saying I have a deal will you partner with me? Five years ago I would have said I have my own deals, I don’t have the time to train somebody, I don’t want to give up 50% of the profits and I would very nicely say no, that doesn’t work for me. But these days if somebody comes to me with a good deal, even if they have no cash, no experience, they’re my best friend.

For all those people out there that don’t have the cash, that don’t have the experience, what I would tell them is find the deal, find a couple deals and then go take a couple of investors like me out to lunch and they’ll be your best friend. They need the deals these days and they have the cash. When it comes to finding money, today is so much better than it was five or six years ago. If there’s anybody out there that thinks they can’t get into this business because they don’t have money, let me tell you something, find a great deal and you can prove yourself wrong. Money should not stop anybody from getting into this business these days.

I would also say there’s a great book out there, it’s all about investing with little or no money.

Brandon: I’ve heard of it.
Flipping Houses in a Changing Market
An Exclusive Interview with J Scott, Author of The Book on Flipping Houses

J Scott: It was written by a guy name Brandon Turner, fantastic book. What’s the formal title?

Brandon: *The Book on Investing in Real Estate with No (and Low) Money Down.*

J Scott: There you go, there’s my book recommendation for this video. If you don’t have the cash and you don’t want to borrow money from somebody and you don’t want to partner with somebody then the other option is you go figure out how to do the deal yourself with little or no money down, and it’s certainly possible. Creative real estate is alive and well today, especially today because there are a lot of sellers out there who aren’t in the same situation they were five, six or seven years ago where they were underwater in their house and the only way they could make a sale work was if you handed them cash at the closing table so they could pay off their mortgage and pay off their debts. These days there’s a lot of sellers out there who don’t need the cash, they’re looking to sell their house for another reason. They have plenty of cash, it’s more important for them to get rid of the burden than to get the money so they are willing to do some of the financing, they’re willing to do an option contract, they’re willing to do whatever, be in an open-door partnership with you in order to flip the house.

In this market, in today’s market, don’t ever let money stop you because I can promise you that for anybody that’s serious about getting into this business, money is not an obstacle today.

Brandon: I love that; I could not have said it any better myself. Good job I like that. Anything you want to leave us with before we get out of here today, any final words of wisdom?

J Scott: I feel like I’ve already given more wisdom than I have. I’ll go back to how this whole conversation started with everything I’ve said if you’re listening to this sometime after August of 2015, keep in mind things change. Always make sure that while you’re working in your business, working on your business that you’re also thinking about future strategy and you’re figuring out what you’re going to be doing a year from now, two years from now, five years from now. What’s going to be working a year, two or five years from now? Don’t assume that what’s working today is necessarily going to be working in the future, because it may not be. If you can adapt and you can be more flexible than your competition you’re going to succeed. That’s the most important thing in this business, adaptation, flexibility, it’s the most important thing in any business, being able to adapt to the changing market.

Brandon: I love it, perfect. J, thank you so much for taking the time today to explain this.

J Scott: My pleasure.

Brandon: People are going to love this. Where can people find you around their pockets or working on the other side, where can people get in touch with you at?
I am J Scott on BiggerPockets, you can find me there. My website is 123Flip.com. I think you can find me as 123FlipRealEstate on Facebook, 123Flip on Twitter, and my email is J@123Flip.com.

Perfect, well thank you so much J and we'll see you around.

Sounds great, thanks Brandon.

Thanks.