JP: Hi, I'm JP and this is **Real Estate Investing Undressed**.

We're here today with Erik Stark and Steve Mills of Michigan Property Superstore. I met these guys through a good, mutual friend of ours, found out a little about what they're doing in the arena of flipping houses and finagled my way into convincing them to get on the horn here with me to share some of their goods, some of the inner-most secrets, if you will, of what they're doing.

Seriously, these guys are carving out six-figure profits flipping and wholesaling houses in clearly one of history's worst markets or economies, and in one of the nation's worst real estate markets in Detroit, Michigan.

So, we're going to cover some of the key components of what it takes, in their opinion, to flip houses in volume in this market and how to justify as a wholesaler -- you can make so much darn money for just pushing paperwork around, essentially, and what these guys do to prepare for a day in the trenches out flipping houses in their arena.

Guys, fair warning here, I'm about to put you under the spotlight. I don't know if you've heard these things before, but my job is to extract from you and get you to spill the beans.

Erik: We're up for the challenge.

JP: Before we get into the tactical arena give us just a little about your history.

- **How long have you guys been in the real estate business?**
- **How and where did you get your start?**

Erik: This is Erik a partnership of Michigan Property. I've been investing full time as a real estate investor for three years. Steve and I teamed up as a partnership just under a year ago and ever since then I've been closing deals like crazy.

I did get my start as an intern for another investment company. Things worked out well and then they just went sideways then Steve and I partnered up and it's been history ever since.

JP: What about you, Steve?

Steve: Same thing. Erik and I have always been friends since we were younger. It was something where we had a few gentlemen around us that got in the business of real estate investing right around 2006 when the market seemed to kind of tank. So, as Erik said we kind of joined them as an internship.

We were kind of slaves to their company, but it was in a good way because it kind of taught us how to really go out there and not think about getting paid every day, but you've got to kind of build the business.

I was a real estate agent and I had Erik join me in my company. I was a very bad real estate agent. I was horrible at listing, but I seemed to have the knack for wanting to buy property and to be able to sit down with buyers, sellers and lenders, so it kind of went from there. We actually heard of a book from Steve Cook, actually, *How to Wholesale Houses for Fast Cash*, which set the tone for our wholesaling empire.

JP: Yes, it's a good little book. As you guys know, Steve is a friend of mine and I definitely can't recommend that highly enough. This was, you said, what 2006 when you guys partnered up is that right?

Steve: Yes. We partnered up as realtors and had a vision of wanting to be real estate investors.

JP: Now your market is pretty unique there in that it sucks and it has for a long time. A lot of people's markets stink right now, but yours was pretty stinky when everybody else was going through their boom.

- It might be helpful, because people are going to be listening to this in completely different markets, to give me a bead on where your market was at that time, when you guys first started getting your feet into this business as investors when you first partnered up.

- Then I'm going to follow that with where it is today in comparison and how it sizes up.

Steve: For instance, we did our first deal as partners as a wholesale back in March of 2008. It was actually on a property that was on the MLS and there was a local agent that I knew who found the deal for us, but it was the early part of last year.

The market had just started tanking and it was something where we'd saw where the market was dipping, we just had no idea how far the fall was going to be as far as value, because we did want to hold on to some rentals. We kind of had it in our heads that one day we'll be big shot landlords. We quickly found out that a property we bought this month if you waited 60 days it would be another 10 to 20% less in value.

So, I would say the beginning part of '07 and '08 is when it really started tanking in our area and that's when we knew we've got to turn this thing into a wholesaling business where we can sell these things to rehabbers and let them fix them up and sell them, because this market is steadily declining.

That's basically what forced us into the thought of being a wholesaler, because before a lot of people were doing lease options and stuff like that and it just ran out in our market. There was no equity left, so it forced us to be wholesalers, as far as the bank foreclosures because that's 90% of our business is bank foreclosures.

JP: Erik, would you add anything to that?

Erik: No, he's dead on to where our market is. It has consistently dropped for the past two years, but we instantly noticed an opportunity to pick up these properties in a declining market and then just sell them off to other cash investors, so there was a huge opportunity for that.

JP: So as wholesalers let me ask you…

- **Most of your buyers are who, describe their demographic, what kind of people are they?**

Steve: Normally the ones that we really enjoy selling to are the landlords, because we are in a really heavily-leveraged bank-owned industry. Everything is foreclosure, so a lot of investors or a lot of the actual buyers out there happen to be landlords.

Our main target market would be landlords, higher income earners or they're just professional real estate investors and those are one's we tend to sell 80% of our properties to, is the landlord market because they are the ones out here buying and seeking these deals.

Sometimes they're too busy and that's all we have, pretty much, is time. That's how we really got in this market is getting to know it and kind of going to the landlords saying hey, what do you guys look for? Then we went out there and just did exactly what they wanted and brought it to them.

JP: Tell me if it's changed from when you got in the market.

- **Right now what is your average home price in the area there?**

Erik: The average price of a property would be right around $120,000 to $150,000. This is kind of the first-time home buyer market. Everything in that range has dropped to about $70,000 to $90,000 right now, so it has depreciated but mainly the rental market, which happens to be the low-end side of it where some of the properties used to be $30,000 and $40,000 these properties are now $5,000 to $15,000.

So, the bread and butter of our business is on the lower end. We kind of call it commodity housing, what people look for as for rental grade real estate and that's our major market.

JP: So typically, you're saying the prices for the average home dropped to $70,000-$80,000.

- **Are you talking about that's what it would appraise for right now in today's market?**

- **What kind of house would you be describing, like a three and two 1,200 square feet, how would you describe it?**

Steve: Yes, your typical three bedroom brick ranch on a basement with a two and a half car garage or a two car garage in our normal market, would normally be anywhere from $120,000 to $150,000.

When we do buy these properties and remodel them and sell them retail we are selling them for right around $90,000. So something that used to sell for $125,000 to $150,000 we're now selling gorgeously fixed up for $90,000, you know, some of our clients or if we do a rehab, as well. That was the market that we've seen the big dip in, is the first-time home buyer market.

JP: Erik, were you going to say something there?

Erik: It kind of goes back to who the demographics of our buyer is. I've actually located and focused on a really good niche that Steve and I have put together up here. With financing being so difficult we do 'wholetail' a house every so often. I'm sure that the listeners know what a 'wholetail' deal is.

We have found a creative niche with financing being so difficult. You know these young people my age and right around here are looking to buy a house and they just can't qualify for financing. There are a lot of cases when mom and dad or grandma and grandpa have quite a bit of money in a 401k or a savings account that's only earning a couple percent.

What they will actually do and we've had quite a few sales recently where they would go to grandma and say hey, I've found a house that I want. Why don't you buy this cash for me then sell it back and you have a land contract?

We have really carved out a very good niche in that and kind of marketed to some of those buyers where the younger crowd can get in, pay cash for the home and then buy it back from their parents.

JP: Let me just reflect that back to you and make sure I understand. You're saying this niche you're describing is one where the first-time home buyer is challenged in qualifying for it, but they're interested and you're presenting them with a way to get into the house by having their parents buy it and then owner finance it to them? Did I get you right?

Erik: Yes.

JP: That's pretty interesting. I don't want to go there yet, but I'd be interested to hear how you tapped into that market, specifically, how you got into it. It makes good logical sense, but it takes a little bit of outside-of-the-box thinking, so I'm sure you have to present that message to the right crowd.

Steve: Absolutely.

JP: Before we go there, right now you're saying that a lot of your buyers – the ones who aren't fitting the mold you just described – are landlords right, at least a certain healthy number of them, you're dealing with people who are buying keepers in the area there and you're picking up houses for anywhere from $5,000 to $15,000.

- **You're mostly, if I understand correctly, not doing renovations to those you're selling them as-is to those landlords or are you doing kind of a basic renovation at all?**

Steve: Some of the properties we will go in and spend…say it had some water damage or stuff like that. We pick those properties, but the normal landlords right now are buying a lot of clean stuff because we have so many foreclosures in our market they're tending to switch up.

It's not your typical guy that used to say bring me the house that needs the most work, because I can get the biggest discount. You can get big discounts on clean ones, but we're also seeing a tremendous discount on the dirty homes.

What we'll do is like Erik said it's called 'wholetail'. We wholesale to the retail market, but we also do it to the landlords. We'll clean up the basement. We'll put some industrial enamel on the floor. We'll Kilz the basement walls. We'll just clean the home and make it look presentable. We won't do major rehab, but we will do some cosmetic stuff where it helps out, because you're presenting a cleaner product that you bought for grossly under price.

So, you're spending a few thousand to get it up to that market where those investors will pay attention again.

JP: I believe the terminology that Bob Norton likes to use for that is '<u>splash and dash</u>'.

Steve: Right. Kind of just hit it or get in and get out.

JP: Right, but it does require you as a wholesaler or 'wholetailer', if you will, and for those who haven't heard that term it's just, like you said kind of wholesaling to a retail buyer. It does mean that you have to close on the house. You're not flipping the contract. You're not assigning the contract. You're not doing a double closing. You have to close on it for a few days there to be able to get your splash and dash out of the way and get it flipped, right?

Steve: Correct.

JP: One question I have is in a market like yours where the values are so squirrely and low really, I mean there are people listening to this who can hardly believe that you can pick up a house that's standing that has walls for $5,000 to $15,000, but I know you can do it out there.

You can do it in Memphis in some neighborhoods, but it's even a bigger opportunity out there. There are people in California and this just blows their mind they can't even think of it, but local guys, local landlords, they're aware of that.

- **How are you selling your services as a wholesaler or wholetailer to them?**
- **How are you a value to them?**
- **How are you addressing their concern of, I can find these things a dime a dozen myself, why do I need you?**

Steve: The number one thing as I said earlier is time. What we do is we look for these investors who are really leveraged in this industry where they're ready to buy. Either they're wealthy individuals before or they just got the bug and they know they want to get in real estate and buy some rentals, but they could be full-time employees at another job or run their own business.

One thing is like, I said in the beginning, is that we had a lot of time. For a lot of individuals, us having time and them not having that much time brings value, because it means we are constantly hitting the streets and buying these properties.

Typically, when we buy these properties we create a new low standard for the area. If everything is selling for $25,000 like a three bedroom brick bungalow, we tend to get that property for right around $10,000 to $14,000 and we create a new low. So these guys know, when they buy from us they're still buying about $2,000 to $5,000 below next month's pricing.

So what we have is we've bought in volume from a lot of the local banks and REO brokers in the area. They're coming to us and saying hey, close on this house, you can get it for this price or just make me an offer and that's one thing we've found, since we buy so much these brokers give us new properties at unbelievable deals, so even the landlords are like wow, I know I can get this deal but it will take me some time.

That's one thing we always say is you're paying for our contacts and our relationships, but you're also paying for our time hitting these streets and really pulling your hair out doing what we do because it is a job sometimes, but that's what we do, we create time for these landlords and they really respect that about us.

JP: So it's a factor of saving them time. Also, what I'm hearing you say is because you're out there aggressively mixing it up, maybe to the extent that they're unwilling to because of their limited time or because of their lifestyle, you're able to actually get better deals. So, at least partially, the answer to the question is a lot of times they're getting as good a deal as they would get without you, if not better.

Steve: Exactly. One thing that's very powerful that we do market for and bring to the table is we're known around here from some investors as the guys that can close houses out in 48 hours.

We have a title company that's a beautiful company to work with. They do all of our transactions and if we hand them a purchase agreement they can have that deal closed out within 24 to 48 hours and that's something that a lot of these investors–I'm sure you know in the bank-owned industry you deal with a lot of offers, multiple offers, highest and best, offers getting accepts then upper management declining the offers, because it's just too low.

We have these deals already pre-negotiated, ready to go and we'll close in 48 hours, just paying earnest money. They really love our speed, because in this market you need speed.

JP: Here's a question.

- **Have you guys ever seen Napoleon Dynamite?**

Steve: Absolutely.

JP: Good. I know there are some people who heard you describe your title company relationship there and they said lucky!

Steve: Right.

JP: But here's the thing, I want to emphasize this because I know that line of thinking. The fact of the matter is, when you got started– tell me if I'm wrong– you probably didn't have that relationship. You weren't nearly as lucky as people probably think, but this is a relationship business and those title companies exist anywhere, but you have to find them.

You have to get out there to develop those relationships and you have to do it proactively and not expect it to fall into your lap. Am I right?

- **Did the stars align all at once for you in that regard or did you have to earn your stripes and build those things?**

Steve: It was something where we thought there was a magical formula, but I'm being honest, JP. When we started getting so busy with buying more properties and finding private lenders for our properties it kind of fell out of our brains that we used to really second guess ourselves out of everything.

To a lot of the newer wholesalers out there, stop thinking so much because when you just start acting, we started doing deals and it's odd, but the title company found us. They came to us and said hey, this is our plan, in that you guys bring us a lot of business. This is what we can do to make everything better with us.

It kind of clicked in our head and we're like wow! People are coming after us now. When we went out there before we might not have been as leveraged, but now it's starting to help us because we are known in the industry as the guys that can close.

Title companies really love that, because one thing about this market JP, is that Detroit is very depressed right now and just by us giving business to the same company every time helps our business, but also helps other local businesses and that's important in our market is to help everybody, because without them we couldn't close as fast, but without us they couldn't do as many closings.

So it's kind of you scratch our back we scratch yours and it works out beautiful for everyone.

JP: There's a really strong tip there that's worth illuminating and you said it twice now, you are getting known or you already are known as the guys that can close and that's a real hook, even if there are other people who are just as reliable at closing, building almost a brand around that idea, right.

That's very benefit-driven from other people's perspective. It's a source of frustration from other players out there in the industry, REO brokers and things like that. I can see it on business cards. I can see it on your website. I would say anything you can do to capitalize on that statement and make that your brand would be awesome.

Steve: Exactly. It's a huge benefit. Like we were saying, it's something where we kind of forgot about trying to impress everybody. We just got really busy and that's when things began to click a little easier where it's like hey just do what you say and if you do what you say a lot of people are attracted to that.

I'm sure you know JP in real estate there are a lot of bad people, but there's also some very good individuals that don't talk a lot and it's usually them that deliver on everything and we enjoy that.

JP: Right. Let's shift gears here for a second and focus on how you're buying properties. There's no shortage of listings right now to look at. I'm assuming that you're probably focused in on one or a few different strategies, but probably not trying everything.

- **What are you focused in on in terms of acquisitions today?**

Steve: Our main strategy right now, we really hit the bank foreclosure industry hard. I've learned it from a lot of you guys as far as going for the low-hanging fruit and the best part about it is there are so many foreclosures, but what we really did is we networked ourselves with a lot of the brokers in the area.

As we said, by us just being the individuals that close, they tend to bring a lot of their properties to us. Where a lot of other individuals normally just write a lot of offers, they contact us and say hey, an asset management company is looking for this number, can you guys come in?

What it is, even though we created a niche for ourselves as the buy guys and we can close quickly, these banks really appreciate the fact that we can assemble a deal so fast because we do have the funds in order. We are more organized and just being organized really gets us a lot of the upper hand in this market.

JP: Erik, what would you add to that?

Erik: Exactly it's along the lines of what Steve said. One thing I focus for, as far as deal wise, I'm a guy who spends a little bit of time on the MLS, I'm constantly searching for deals. We do have a lot of different people – brokers and agents – bringing us deals every single day, but I spend quite a bit of time on the MLS.

One thing that I do is I search for loopholes in the MLS. Something we did when we first got into the business, I spent a lot of time looking at properties that were pending on the market. I'd look at it and I'd say man, this thing went pending on the first day and this was over three months ago why has this thing not closed yet?

It kind of reverts back to the story that some offers get put in some don't and what's going on with this deal. I called this office and I just said, hey, what is going on with this deal? They said well, the investor backed out. We're trying to get everything cleared up. We're trying to work everything out and get this guy to come back on.

I asked if the offer was still standing with this company. Is it something where I can just put my offer in place and close on it because this is a great deal? Believe it or not, I had spoken to the assistant and the broker ended up calling me back within one hour. He said if you want this deal and you can close on Friday this is your deal, you have it. This was a fantastic deal. It was already negotiated, so all we had to do was jump in place.

Another thing I look for is, when you show me a property online and you tell me that it has a basement in an area that generally doesn't have basements or vice-versa, I know that that's a loophole in the listing system and that a lot of people are just going to look over it. They're like oh, I don't want to buy it if it doesn't have a basement.

I usually know a little bit better and I say I'm going right out to that house, because I know that there's a basement in that neighborhood. So we'll go over, take a look at it, I'll get in touch with the agent and say I'm absolutely interested in it, so I look for the loopholes.

JP: So just to reflect back, Steve, I'm hearing you say that you guys focus on a lot of REOs, because there is a glut of REOs.

You're doing a lot of bank foreclosures and Erik, you're saying in addition to that you also specifically have targeted and are kind of mining diamonds out of the MLS that are being overlooked because of oversights of some sort or somebody printing something wrong or checking the wrong box when they're listing it that kind of thing.

Erik: Absolutely.

Steve: By us having a lot of agents out there working for us as well, we have some buyers' agents that do write offers for us, but we have a select few individuals that are kind of our partners.

We actually created partners out of some realtors, because a lot of realtors are investors as well. There are a lot of agents that bring us deals, because they know that they're in an office with a large REO broker. And, let's just admit it, there are so many of these foreclosures a lot of these brokers are either miss-inputting information like, Erik said or they're just putting the wrong number.

We really look for those loopholes and we also look at everything. I mean it was something that I didn't believe before, but if you look at 30 properties per week you're going to be above so many other investors out there as far as knowledge, pricing and the quality of the properties you're looking for, because it's just one thing agents don't do.

They're very busy or they just don't want to get up unless they know they're getting paid and that's where we just say, you know what, if I get out there and as long as I'm in the running as many houses, it's a numbers game we are going to get a deal. We pride ourselves in always being in the running on everything.

JP: That's good. That's awesome. I just thought of titles for each of you. Do you want to hear them? We've got Erik the MLS sniper and Steve the REO shotgun.

I know I'm kind of putting you on the spot here and we probably should have done this at the very beginning of the interview, but it didn't occur to me until now. Just to give people an idea of what you are realistically able to accomplish in today's squirrely real estate arena in one of the worst markets in the country…

- **What kind of volume are you doing?**
- **What kind of profits are you seeing?**
- **We alluded to it earlier, we talked about six-figure earnings, but can you crystallize that and give us a snapshot into what's possible in terms of what you're accomplishing right now?**

Steve: This is Steve and I'm going to kind of speak for us both on it. When I heard Erik say that we make six-figure profits, I just want to let everyone know, we do not sell $10,000 houses for $110,000 and make $100,000 per deal.

We would love that, but we have made over multiple six figures doing what we do. Just to give you a snapshot of how many properties we are buying and how many we're selling per month, this year has been a lot busier, but we are buying about 7 to 10 properties per month and we usually sell the same amount of volume every single month.

In our typical wholesale, which is hard to believe for a lot of people, but we do make typically, about $6,000 to $15,000 per deal. I know that's a big window, but it fluctuates, because we do buy a little bit more expensive properties that are cleaner. We sell them on the retail market and we do make those bigger profits, anywhere from $15,000 to $25,000, as well.

So we do about 7 to 10 deals a month and we typically try to sell every one of them. It's something where in our market we are consistently buying anywhere from 7 to 10 properties per month and consistently we're making $6,000 to $15,000 per deal as far as wholesales go on these deals.

JP: I just did the math. That means, if we take the conservative numbers and we say 7 deals at a $6,000 grand profit apiece, which I know you're making more on a lot of them, but just taking the conservative numbers, we're talking somewhere in the $40-$42-$45,000 and maybe on a good month, upwards of $50-$60-$70,000 in a month.

Steve: Yes. I know that sounds like a lot of money, but we are building our business. We've had some $4,000 months, but this month we're looking at right around $59,000 in profits bringing in this month, but we do have a lot of overhead.

It helps us out, because one thing that we've learned from you and Steve Cook from his book and I cannot stress this anymore how much it has helped our business is we don't just pay referral fees of $500; I know there are a lot of investors out there who give their dogs $500. If we're making $10,000 grand you better believe you're making $5,000 of it.

Something that works very easy for us is to take 50% of the deal and do less work. So even though we are bringing in a lot of money per month, we do pay out a lot in referral fees, because that is what helps our army or me and Erik buy and sell what we have.

Let's just face it I know you've worked with some individuals who have wholesaled volume, and you don't have a life, so it's something that we leverage ourselves. We pay very good referral fees and it really helps.

JP: Yes, that's huge. I can tell you, it takes a mindset shift to stop thinking what's the least I can get away with paying this person to make them happy for sending me this deal and instead to look at the big picture and say how much can I pay them to make them hungry to bring me the very best deals.

Steve: Right.

JP: The difference there is pretty obvious when you state it that way, but still most of us tend to gravitate towards looking narrowly at just what's going on with that one deal and how to extract as much money as possible out of that one deal, so that's a huge tip. I appreciate you bringing that out.

Steve: Definitely. I just don't want it to be out there that we make a million dollars a year, because let's face it, hopefully we will, but we pay out very generously because we believe that by us helping everyone else in this area you're creating an income for a lot of people who are hurting in this market.

Some of our bird dogs never knew what the heck real estate or a foreclosure was until they met us. It sounds kind of cheesy, but we like it, it makes us feel good that we're actually being able to help people in Michigan because like you said let's face it; it sucks here.

JP: I'm ready to move on to the next question. Erik, do you have anything you want to say before that?

Erik: No.

JP: You mention overhead. Obviously, you are also in partnership. I want to focus on a couple of those issues. Let's be realistic, back off of the gross numbers and look at net. I'm not trying to pry too much into your business and personal affairs well I guess I am, that's what I said I was going to do so let's do it.

Give us an idea of the overhead that you have right now in your business, if you don't mind and where the bulk of it is.

- **What are some of your biggest expenses and why?**

After that, I'm going to ask you a little about the dynamics of your partnership. Go ahead with the overhead.

Steve: Right now the overhead is very low. I thought it was high but let me reiterate why it's high. We've been dabbling in some rehabs and rental property, some of these we do buy and fix up a little bit. If we can't sell them, which we always do, but if we want to keep it in the beginning, we usually plan on it.

What I mean by overhead, let's say we made a $20,000 profit, me and Erik try to get out there and buy a $10,000 home as a rental. Even though its part of our overhead, it's really going toward doing remodeling, paying our bird dog and referral fees.

Also, we are an 'S' Corporation. Erik and I pay ourselves a salary. We have marketing costs, because we do have some mail drops. We do list our properties with agents so we sell some properties on the MLS and part of our overhead is our MLS fee that we pay out in commissions.

It's all good overhead, but it is something that eats up your profits, because it's in another home that you're waiting to cash out on, so a lot of our overhead is under $5,000 per month, but we are doing some rehabs, referral fees and listing properties on the MLS.

JP: That's important to bring out. Anyone in the real estate investing world will watch a TV show like Flip That House or Property Ladder and when they bring their numbers up you look at them sideways. They mention the potential profit, but you go where is the realtor's commission and closing costs, they're not talking about the mortgage payments for six months or whatever.

Erik, anything you would add to that?

Erik: Yes, around our office we call it the 'velocity of money'. It's something where if we make money today, say $20,000 on a flip that we did it's not like it just sits in our bank account and we open up our online statement and look at it. We have it going into rehabs and we have marketing costs.

We're just trying to shift money as fast as we can and get it back out there into the streets providing jobs, income and purchasing other property. It's what we call the velocity of income. We put money to work as soon as we get it, so you don't get to realize it all the time but it is constantly in motion.

JP: Let's talk about your partnership. Partnerships are a tricky thing. I've been involved in a few of them.

- **How long have you guys been partners now?**

Steve: About three years. We were verbal partners and agents together with the internship. A lot of people know us in the area as Steve and Erik. It's everywhere on our marketing. We have been a partnership, Michigan Property Superstore, Inc. for about a year.

JP: Okay, I have another question.

- **How do you have that structured, if you don't mind me asking?**

Steve: We do have an attorney that structured the 'S' Corp for us. As far as the agreement between Erik and me, right now, it might not be as professional we've heard from a lot of gentlemen that have had bad partnerships go wrong, but we do everything 50/50 down the middle.

I'm sure there will be some times when we have our differences, but as of right now our partnership is 50/50 on everything. He takes care of a lot of marketing and the closing of the properties. I find the money, the deals and a few other things and we mix it up. It might be sloppy but we mix everything with each other.

We play to our strengths but we don't have a formal agreement saying Erik you get 49% and if you split with me I want to do this but that is our next step, because let's face it, a year ago we didn't know what we were doing and now we have more of a vision and that is our next step. You caught us in the middle of making that plan.

JP: Interestingly, I was just discussing partnerships with Bob Norton. We were doing one of the KISS flipping sessions and one of the things we talked about is that in partnerships, ideally you've got two people with complementary but different strengths so that you're drawn to focus on different things. I'm strong where you're weak, you're strong where I'm weak and we are better together because of that than we are separate.

- **Do you find that that's the case in your partnership?**
- **Do you have similar strengths and weaknesses, complementary, how is that working?**

Steve: It sounds weird but Erik and I are night and day different, but after teaming up and doing what we do. For example, Erik used to enjoy his days up in the five feet of snow in the north with snowmobiling and stuff like that. I like the summer and palm trees. He's starting to like the palm trees and I'm starting to like the winter, so it's something that we just grow off of each other.

It might just be that we're just hung in our business, we're out there hungry and working well, but Erik and I do not have any problems as of now– knock on wood– but we don't have any differences.

His strengths were marketing, online and the Internet and if anyone out there knows me, they know that I do not do the Internet well. I'm just not the computer guy, so he has picked up that side of that and it's a huge help. I do the books in our business and we've hired out an accountant now, but before we just played what we were good at, I like numbers and he likes everything.

We play to our strengths.

Erik: You touched on everything where Steve and I are. We do complement each other very well. Steve is more of an out-in-the-field and in-your-face meet and greet people type. I do a lot of the online marketing and make sure everything is going well on the administrative side and that bottom line is there every month.

Keeping up the relationships with people and doing the follow up. I'm a back office type person JP. I focus on customer relations, making sure people are satisfied, getting down to the nitty-gritty, making sure we met the deadline and that the deal was everything they thought it was and more.

In 30 days of closing a deal with you, I'm going to be at your rehab making sure everything is going well, our numbers are right on queue and to see if we can't do some marketing for them on the back side as well.

Steve: He wasn't always like that JP. In the beginning, this guy would get on the phone with somebody and scare the living daylights out of them. He said I'm going to work my butt off on customer relations and it's working now. We were young and scared before. We'd try to bulldog people and I would do the same, but we realized that's not how you get the job done just be you, play to your strengths and stay at it.

JP: You guys know I started and ran our local IREIA group here in Memphis for six years and through doing that, running REI Tips and the different circles I've moved in I've known a lot of new investors who, I would say if you're in the first two years of investing, I would call that a newbie investor.

One of the things I've seen a lot is partnerships or people trying to partner with someone, but it's not because they're looking for someone who's strong where they're weak or who complements them, it's because they're afraid to go out and do it on their own.

Many times you gravitate towards someone who is very similar to you and you jive on the same things. I think you are a great testimony to the strength of finding somebody who complements you if you can do it. It can still be a challenging relationship. I would say that most partnerships don't end up working out in the long haul.

Of course, you are going strong after three years and every partnership ends too so I'm sure at some point you will go your separate ways when it makes sense to, but it's great to see a working model and to see it working well with the approach you've taken.

Steve: The number one thing is that we're honest with each other. If I'm slacking, I know it because he tells me. Even though some people might argue with their partner we have this ting called, 'do you want to be right or do you want to have peace' and whenever I'm mad or something and get ticked, Erik will rub it right in my face.

Normally, people will get annoyed, but we always keep our goal right in front of us. I don't know if it's the way we think or act, we have fun at what we do. I'm sure there will be quarks, but I pray to God that nothing will ever happen because it seems like its rocking and rolling.

We're having a good time. As long as it stays fun, I'm sure it's good, but we also are with each other in the bad times, when we were flat broke, when we were dreaming about dreams we thought would be real and that's something we love about each other through bad and good.

I've heard a lot of partnerships are good when it's good, but it's bad when it's bad. When it was bad it was good for us, so hopefully, we can keep playing to that.

JP: Awesome. One of the things I like the most about these man, on the street, interviews is that they're real and you guys are real people. It's helpful to have the ability to connect with people who do not necessarily have the agenda of selling a course. I'm a big proponent of education. I think your education never stops in this industry and I know from talking to you in the past that you feel similarly.

You've mentioned Steve Cook and his book.

- **What are some of the educational resources that have contributed to your success, the thing you've gone through you'd recommend to other people?**

Steve: One thing I contribute a lot of our success to is from back in 2006, when I got my real estate license, I looked in the newspaper for foreclosures. There was a guy from a company that I knew was here for 40 or 50 years it was a very old real estate company. I called him and went inside to get a list of foreclosures. I said, I'm the guy that buys houses and he probably saw right through me, but he saw my passion.

This older gentleman of 67, took me and Erik under his wing, because he was like, this guy has so much fire in his stomach; I just need to teach him how to be dependent on his own. So, one thing we did was find mentors.

A lot of people speak about mentors, but some of our best mentors in our life were free. We sought individuals that are older, had been there before us and have done tried and true methods. Some of the best mentors are free, but one thing I can say about real estate related mentors, you brought up Norton; he has been a big player in the way we do our business and you can see our model almost matches his.

We went to Florida to Mike Collins Pitch Free Seminar and met Than Merrill. We met you guys, we got to see Steve for the first time, because we've read his book many times and he set the tone, but if we had to put out some names it would be Bob Norton, Preston Ely, Than Merrill, Steve Cook and others.

There are a lot of guys on your circuit, but one thing we pride ourselves on is that we only took from their program what we understood that we could do. I'm sure you see that a lot where a lot of us get lost in what we're learning because we're learning so much.

I want to do short sales, rehabs, flips, whatever I want to do, but we took the pieces that matters and that we understood and did our best.

JP: Erik, what would you add to that?

Erik: The critical thing on what Steve just said, we took a little bit of what everybody had to offer out there. Steve asked do you want to go for short sales, the wholesaling, whatever. We took a little bit about what every person had to offer and said I like this strategy I can implement that into my business.

So, we'd grab some guerilla marketing from Than and some customer service from Chris Daigle and Chris Chico. We incorporated what everybody had to offer out there and said I don't think this is going to work with our business model, so let's touch base on this one and see what happens.

We just played around with a little bit of what everybody's business model was and factored it into ours. We're not reinventing the wheel, so we replicated and implemented what other people were doing and put it into massive action.

JP: Let me pull something from what you're saying. Let me tell you what you didn't do and I congratulate you for not doing this, which a lot of people fall victim to.

First of all, I think every name you mentioned, except for Daigle who I also know, is someone who has some continuing education but in the wholesaling arena. You see yourselves as wholesalers at your core, right.

Erik: Yes.

JP: While you may dabble here and there in some other things, that's primarily the engine that drives your boat. The lion's share of your attention has been focused on has been starting, building, growing and refining your wholesaling engine.

That’s important because there’s a lot of different education, but what you didn't do is spread your arms out as far as you can and try a little bit of every tactic and business model out there and that is entirely self-destructive in the long haul.

When you're a new investor you spread your wings wide and taste test a lot of different things to find out what your focus will be. Once you figure out this is the thing that jives and resonates with me, fits my personality and what I want to do, you then focus on that one thing and make that one thing the best version of itself that it can be.

That’s what I’m hearing you guys did. Even though you continue to educate yourself, when you came across something that didn't fit to what you’ve committed yourself to, you’ve pushed that to the side and then added to only increasing what you’ve committed too am I right?

Erik: Correct. I want to apologize for not mentioning Chris Daigle. He was our speaker at Weapon. I love him. We’ve talked to him personally on the phone. I forgot to mention him but he is an unbelievable individual.

It sounds odd JP, but the way we do wholesaling in our business is we go to other markets to learn what other guys are doing and we bring it in. In other markets some guys are doing more creative stuff. Chris Daigle taught us to go to these other markets so it’s very important to us.

JP: Some people who are going to listen to this, in the near future or down the road, they’re looking at this picture that we’ve painted of your business, what you’ve accomplished, and they're trying to figure out how to duplicate it themselves.

- **What advice would you have for people who want to try to build the same thing that you have built so far?**

Steve: I think the number one thing that helped me and Erik is that we just bought the house. We found the top selling REO agent – if you want to do foreclosures let me give you a quick idea.

We’ve been teaching my brother and a few other individuals who wholesale with us, if they want to go the foreclosure route, let me give this quick tip. We are also agents but we had some realtor friends and we asked them who is the top dog in this market for REOs? Who is selling the most? Who’s listing the most?

We found the guy who sells all of these houses to investors. We went to him and we may not have been totally honest by saying we were investors, but we wanted to buy a house and that individual got us the property accepted. When you get that first deal accepted, the wheels start turning either in panic, necessity or like okay, I did it so now what do I do.

Getting that first deal, even if you fail and don't sell it will help you learn more. I think we've learned more on every deal that wasn't successful than every deal that was successful. I say just get out there and get that first house.

JP: Erik, what would you say?

Erik: The only thing I can add to that is they say you only make money when you buy a house and you realize it when you sell, so the hardest part of it has to be purchasing the house, right. If that's the case, you've already signed the contract you've closed on it, so now just get out there and hit the streets.

Talk to a couple of rehabbers, landlords and realize that profit. You've already signed you name? Providence is in motion. Get the wheels turning, go out and realize that process.

JP: There is something, Erik I think it was you, I'm not sure, but one of you guys have mentioned something called the Five Points of Investing that you see a lot of other people doing wrong.

- **Could one of you clarify for me what those are and what you mean by that?**

Steve: Let me throw out the first one and Erik can follow up on the other. It's interesting you ask because just now on our way to the home office we realized what we did in the beginning and what set us over the rest of the crowd; there are a lot of wholesalers and investors in this area who are starting to do guerrilla marketing, that some of our best marketing is in-your-face marketing.

One thing I see wrong that investors do when they market for buyers with bandit signs. I'm sure everyone knows what bandit signs are and if you don't, find out because they're very helpful in our business. We sell a lot of properties with bandit signs. These individuals write a huge paragraph on the sign. Erik and I will write, "Cheap House $29,000 and a phone number."

JP: You guys use a big, fat magic marker right.

Steve: Keep it simple and get straight to the point. Some of our signs say, "Quick sale, make offer" and a phone number. Don't over think yourself and put too much information because it's not necessary. In the real estate world, in our opinion, less is more when it comes to marketing.

JP: Dare I say, keep it simple stupid. What else?

Erik: What I notice JP goes bandit sign. There is a lot of influx of new investors that is coming to our market here. On any Friday, Saturday or Sunday you can see these corners are plastered. There are four different guys. One has them on the pole, one has them up against the stop sign, one is in the middle of the median these cities are going to start cracking down on this.

I know its guerrilla marketing and it works, but you must be respectful of these communities. They're going to start calling, they're going to hand out fines, they're going to make it illegal and wipe out that guerrilla marketing across the board.

Another thing I see other investors doing; we picked up a very good, young motivated wholesaler that goes out and sells our properties now. The reason he's become so attractive to us is the last time he sold a house the guy gave him $500 and said I appreciate you going out there putting out the signs, you met with the buyer, closed the deal, here's $500.

The first time he came to us, we contracted a house to him, he sold it and I think he made over $4,000 just for making a couple of phone calls and meeting them at the property. We pride ourselves in going the extra mile and making sure our people are getting paid the full amount on all of these deals.

JP: Awesome. Anything else?

Steve: One quick one. A lot of these agents in our market are very knowledgeable and I think sometimes when people think about wholesaling or real estate investing they assume they have to be above the agent. It may sound strange, but there are agents out there that have done what we've done for a long time they just never knew it was called wholesaling or whatever we call it.

You seek out those who have done a lot of deals. One mistake that I see out there is a lot of guys try to be their own lone wolf and try to do everything their selves. We go to the market and say we're out there, this is Michigan Property and we're looking for agents or whoever else can give us knowledge on the market.

We found some of the top selling REO or listing agents. With every house we buy, if we don't sell it through our own marketing, we always have them selling too because agents work for commission, so it's the best full-time free assistant. They kind of help you out in your business. They're your salesperson and you can even borrow their team to close out your deals.

If these agents have a system you can borrow them and what I mean is that a lot of investors take the approach where they must set up this whole system in their office, so they're the guys. We find the best individuals and piggy back off them and work with them. They became some of our best friends and they help us with our business.

Reach out to people, don't be the guy by himself.

Erik: Another thing. If you are going to choose to go toward a foreclosure market and deal with REOs, you must make your name very likable and presentable. There are not many people who call where I say I don't want to talk to this guy right now.

When you're calling these offices you must recognize that these assistants are the gatekeepers to getting you deals. You want to make their job as simple as you can. If you can look at the property, do the paperwork, handle everything and remove a lot of the stress from doing a deal, they're going to be more than happy to come back to you and say you are going to get this deal.

Another thing, I know there are a lot of guys who complain about the fees on these HUDs. There are high closing costs, compliance fees and REO fees, at the end of the year I know that it adds up but don't worry about that small stuff.

If you're the guy that calls and says what is going on I have an extra $100 on here, I'm willing to bet that the next time a deal comes up they are going to think of that scenario and say even though there's nothing we can do about it, I don't feel like explaining it to this guy that it's part of a transaction and the cost of doing business.

Steve: In the short form JP, Erik and I pride ourselves in taking a beating from our buyers, from banks, we get beat up all over the place, but we enjoy it because it makes us money as well. You're a problem solver you're not a real estate investor; you solve problems and that's one thing our mentor said is to go out there and become a solutions expert and the rest will follow, so we pride ourselves on taking a beating.

JP: That's a great word picture to describe it.

- **Did we hit all five?**

Steve: One last thing goes back to not being the top dog in the area. We go out with a learner's attitude. Many people in this area see us as hungry for knowledge and not just money.

One thing I can say is it might not make sense in the beginning because you assume it's all about money. It does help but do this business because you want to do it, not because you heard it's a good way to make the next quick dollar.

When people know you're out there and you have a general interest in what they do, their business, employees or anything just like, Erik said it's going to come back to you because they respect that you're still a human like you said, we're just normal guys so let's face it you become friends.

JP: I have two more questions for you and then we'll wrap up. They focus on two of the biggest pain buttons that I think most investors are feeling right now in this arena. One is lenders and the other is buyers.

You went from having one lender to having four lenders in an eight month period. That's impressive and I'm curious to know how you stirred them up.

- **How did you inform them that you're somebody worth doing business with?**

- **How did you bring them to the surface and how did you engage them?**

Steve: The first lender we had was a gentleman that was lending to other investors that we knew.

JP: These were private short-term lenders, right?

Steve: Yes, private individuals. This guy happened to be a broker in the area. A lot of the people we do business with, see them in us because we're younger and have the fire. This guy said you are killing yourself for commissions and everything, so I want to teach you how to invest as well.

He said go buy a house and I'll fund it for you. We fell on our face into our first lender, but it was because we were working so hard that he realized these kids were not going to give up so I'm going to give them the help that I had wished I had.

Another one is that some of our best lenders have been buyers of a home. I can give you a quick example about the fourth lender we recently picked up. We bought the property for $35,000. I called this gentleman and normally we would sell this home for $55,000, but because we got an extra great deal I thought I'd offer it to him at $47,000.

I asked him if he could give us $40,000 earnest money? He asked why it was so high. I said I can close in 48 hours and we can have this deal done on Wednesday and closing on Monday, but I want to let you know that I'll use your earnest money deposit to fund my buy into my deal.

We turned out investor who's buying our home, took his earnest money deposit and funded our buy end of it, so we're creating lenders out of some of our buyers who are buying these rehab flips.

JP: That's solid.

Steve: Erik, can tell you about an older gentleman that funded us on a three-unit apartment building and how he found him.

Erik: I had a unique experience with a lender. This gentleman had been in real estate when he was younger and started at the office we started in, so it was a very good reference point for him.

We talked on the phone and he was calling on one of the properties I had for sale so I told him about the property. This was the case where he was looking to buy this for one of his kids and then sell it back to him on a land contract.

I met him at the property and had been talking to him for a few days. I gave him the lay down on how we operate and how the deal is going to go. I get out of my car and he says you are certainly younger than I expected you to be. You're so knowledgeable and know what's going on. Then he asked me how I was able to buy these houses at such a young age?

I said it's exactly with people like you, those that have money in a 401k or savings account that's not earning you much money in return, put it into some real estate and I go out and see guys just like you who have money floating around not making the return they'd like to make and we put it into a tangible item like real estate, so you can come by and see your investment any time.

He never went forward with that deal for buying it with his son, but we did turn that guy into a lender and we have since closed three deals using some of his funds. So, it was a unique twist that worked out well. He has his money in a bit more secure place and as Steve said we brought some of that fire out in him that he had when he was a younger guy selling real estate.

JP: What I'm hearing is that you didn't have a secret formula or blueprint for securing private lenders. You went out and did business, added real authentic, tangible value to the marketplace and in the process of doing that you connected with people.

What you created was money magnetism. The money almost found you. You had your eyes open for it when it was there and you recognized it, but you became money magnets rather than proclaiming to the world that you're money hungry.

Steve: Right. One thing Erik did say and I've mentioned as well, is we took reference to wow! We looked back and I said Erik, we need some more money. How can we get more money? One thing we do is step back and looked at what we're doing to try to take value from what we've experienced.

We looked at the deals we did through our buyers and lenders and said all of these guys were or are in the field of real estate. So to find money we'd go to people who understand real estate. You don't want to go to McDonald's to find a hard moneylender; it's just not going to happen. You might but I haven't found one.

We went to the people who handled money or handled real estate and figured we'd cut out most of the challenges. It hasn't worked the best all the time, but what we're proud of is that we're knowledgeable in real estate and these guys see it in us that we work toward this. They also know real estate so it makes us feel better that they feel better.

JP: I'll just add my two cents in here. Personally, here are three ways that I've secured all the private funding I've used.

1. One is just being connected at my REIA group, connecting with people and letting them see and know what I do.

Not constantly asking people for money, I'm not afraid to say I'm looking for good money, but I wasn't the guy standing up at every meeting say that I still needed to borrow some money. I was connecting with people and trying to live principles that made me a money magnet. People began to come to me.

A doctor came to me at one point and said he'd been coming to these meetings because he wanted to get into real estate investing, but he didn't have the time for it. He basically wanted to live vicariously through me by letting me use his money.

2. Another tactic I've used that I stumbled upon is I was talking to my closing attorney at one point and he mentioned another transaction that involved another investor. I just happened to ask who funded that transaction and he mentioned somebody's name.

I said I don't know who what was and he told me that he funds a lot of the investor's transactions locally. I asked if he could give me his number. Sure. Many won't think about that but once you get a relationship with a title company or closing attorney and the people like specific people in those offices, they know who's funding transactions with other players.

They'll talk to you if you have a good and strong relationship with them; they know, like and trust you. They'll share that information. There are some valuable contacts to be had through that.

Erik: I can certainly vouch for that JP, because in the past week and a half, one of our title companies have come to us and we're in the process of doing exactly what you said, it's shocking.

They said you do a lot of deals and we know this guy needs a return on his money, so would you be interested in meeting with this guy? It was very odd, but we'll let you know how it goes, but it just happened to us what you just said.

JP: Last question. We'll touch on buyers with this question. It's the ultimate question people want answered right now. You have hinted on some things but let's drill on it for a second.

- **How do you suggest wholesalers go about finding buyers in this market?**

You specifically are dealing with a lot of repeat customers. I didn't mention this earlier, but I will here and that is that landlords are having a challenge getting financing because Fannie Mae is cutting back on their limits, FHA and others at this moment, a lot of the traditional real estate investor is tightening its belt.

There are a lot of people who would love to buy some income property that are struggling with how to get them financed. You are dealing with these buyers.

- **How are you dealing with them, acquiring, keeping them and keeping them as repeat customers?**

Erik: Aside from the guerilla marketing, putting bandit signs out, networking and going to IREIA's, in the beginning to find our first buyers, since we are agents and even if you're not agents, get access to the MLS, agents are all over. We got on the MLS and started doing reverse searches for people who are paying cash for houses.

We would set up our search and go 30, 60 and 90 days back and say we see this guy he's bought a house in the past 30 days he's obviously got to be rehabbing it. Let's drive by. Sure enough, there was a dumpster in the driveway so let's talk to this guy.

If somebody is buying one house, chances are they're ready to buy another. Even Bob touches on this and it's huge to what we did when we first got in the business. We started reverse searching through the MLS looking for cash buyers and we'd drive it. If there's a for rent sign, we know he's a landlord and he probably likes cleaner properties. If that is what you have, call him and let him know what you're looking to do.

The verbiage that you need to tell him is a little tricky. Steve and I spent a lot of time role-playing, going back and forth over what to tell him. Being that there is an influx of people coming into the market they get a lot of calls now.

If you can bring up a scenario or deal, have them meet you at the property don't just tell them to run by there when you get a chance. Set a time, something in concrete and say meet me at this house. That way they put a face to the voice, they know who you are, you exchange business cards and you call that guy. If he doesn't buy this deal it doesn't mean he won't buy the next one, call him over and over again.

I have about five guys in my back pocket that I can call and sell just about any deal we have. It's usually gone, we don't have to market it or do much. They do expect a little bit of a discount, because they do buy in volume but we try to take care of them. We throw them very good deals. Some rentals we want to keep we'll just throw in and give it to them as a nice bonus for them.

We started this reverse search on the MLS finding cash buyers.

JP: That's a solid step anything else to add to that?

Steve: Something I'd like to add real fast, I know he brought up that we do these rehabs and we actually do seven-day cash sales. We try to look for everything that sold for cash in the past week, because for 30 days we look for those people who have bought. We try to narrow it down to who closed last week because chances are they're just getting into their rehab.

We always drive these neighborhoods and call every for rent sign in the neighborhood. That's something we learned from Bob Norton, but you'd be shocked once you drive a neighborhood and call a few for rent signs. You know what these guys are buying and chances are what you're buying for is probably less than what they paid for theirs.

So, we do reverse prospecting and look for guys who are buying today, not a long time ago.

JP: Awesome! Let's wrap this up. I appreciate your time and spending a few minutes with me in the middle of a work day. Thanks for letting me twist your arm behind your back and coax you into it. It's been very informative, a great man-on-the-street interview, I'm sure that my listeners will find it insightful. I just appreciate it.

Do you have any closing remarks?

Steve: I can say that it's something we are hungry for knowledge and we do not quit. You can ask Bob Norton. If we were to have known your email address and you might not have known us, you could see how persistent and annoying we can be trying to get a hold of you.

One thing I can say is, don't give up. If you want to work with somebody or you dream about meeting a wholesaler or some big shot in the industry, nothing against you guys JP, but we used to think you guys were untouchable.

Now, we're getting busy. You are calling to talk to us, we're calling to talk to you and the phone actually gets answered. Number one is to become valuable to learn how to become valuable. Also, reach out for those guys, because as I said we thought you were untouchable, but you're just like us, a normal guy and these people answer their phone.

Don't be afraid and do not give up.

Erik: JP, I just want to give a personal thanks to you and always you've contributed to the real estate investing community here. When we first got in it seemed like we would never achieve this status and here we are doing a brief interview in the middle of the day.

I want to send something from Steve and I to you for all the things you contributed to real estate, the free gifts and bonuses that you give out to help people. It shows that you are a successful person out there giving value to the community.

JP: Thanks man, I appreciate that. I don't know how or why it happened but I feel like I've found my volunteer calling I guess in a sense, as an advocate for my fellow real estate gals and guys. I receive that warmly, thank you.

This has been Erik, Steve and JP with another episode of Real Estate Investing Undressed.

Thanks guys, we'll catch up with you again soon.

Steve: Thanks JP.

Erik: Thanks a lot.