The Land Geek Podcast
With Mark Podolsky, AKA The Land Geek

Mark talks with Jeran Fraser - ReserveLand.com

Transcript

Mark: Hey, it's Mark Podolsky, the Land Geek at TheLandGeek.com and I am honored, privileged, to have with us again. You know him, you love him, Jeran Fraser at ReserveLand.com and now you better go there because we're going to know if you aren't there, RuralPropertyFinder.com. Jeran, it's 118 here today record heat. What's going on in San Diego, I forget?

Jeran: Gosh, catch horrible weather. I think the last I checked it was 75 degrees in the air and then I think the water temperature somewhere right around 70 so terrible. I can't even imagine. I mean if I could just be in Scottsdale for one moment, I'd be excited.

Mark: I dislike you.

Jeran: Thank you.

Mark: I mean that in the most loving way possible. I just feel nothing except envy. All right, let's get started. I know you don't have much time. This podcast we are going to discuss the very esoteric subject of notes, notes, notes management, everything that has to do with notes. I know there's a lot of things out there about buying notes, discounted notes, there's like making money on notes, notes, notes, notes. Everyone has an opinion about notes. What is a note Jeran?

Jeran: A note is something that you hold in place of payment for a property such as a contract for deed, a deed of trust, any kind of instrument that you're taking payment on you that you will eventually convey or have already conveyed with taking back a deed of trust. Which is basically a marketable piece of paper that you could sell to somebody in exchange for cash or trade or whatever you plan on doing.

Mark: Right, right. So I love notes and I have quite the note portfolio. Not trying to brag I just do. The reason I started doing notes I think I started really getting big into notes in about 2007 was that at some point I just thought you know what? You know buying and flipping and buying and flipping is great. But at some point, you get tired of this and wouldn't it be great just have a nice passive income stream coming along with the extra cash of flips. So in 2007, I did that and now I'm at the point where my passive income exceeds my daily expenses. So if I don't want to work for a month, three months, a year, as long as those people keep paying on their notes I'm in good shape. Now, they do fall out occasionally depending on how you structure your note. So how do you do your notes?

Jeran: Well, of course, every dealer has unique. In this case you know we touched briefly before we started this podcast basically about a deal that I closed today one that was very interesting in the dynamic. The dynamic of sales and how you structure a deal each one would be unique. So in my case one of my note sales recently or one of my notes recently was I want to say I sold 2000 acres for let's just say, $250,000 on terms for seven years or eight years with a 9% interest rate or whatever rate I charged them and then a balloon payment.

So at the end of seven years which actually I think I'm not 100 percent sure now but I think now those are not allowed anymore or much of the balloon payments are allowed to look into that a little bit more, but someone brought that to my attention recently. So, in this case, I structured the deal and prior to that when I had something very similar and that one fell out. But I ended up foreclosing or taking the land back and then reselling it and it ended up being a very profitable situation for me and today closed escrow on the sale of that note. So I sold the note.

Mark: How much did you get? Do you mind sharing?

Jeran: The note was roughly I want to say $150000 was the balance for the note and we sold the note for right around $115000.

Mark: So what kind of discount did you get?

Jeran: About a 25 percent discount, 30 percent discount.

Mark: That's pretty good and total profitability or ROI?

Jeran: ROI, let's just see that's kind of hard to put the mathematics together let's just say I probably made about 300% return.

Mark: That's not bad. That's not bad. So you were getting how much a month from that note?

Jeran: About $1500 a month.

Mark: You were getting $1500 a month and now you can take all the cash and be out of it. You don't have to take that risk of the $1500 a month going away. You get month you 115 so it's worth taking the discount on the note and now you can take that 115' and you know buy some land from me.

Jeran: Exactly. Exactly, and that's what I'm so excited about is that the opportunity to work with you again, Mark.

Mark: I'm very excited about it too. No one likes taking Jeran's money more than me. Even though he negotiates ridiculously well and I always end up being like, "Did I just lose money on the deal with him?" But that's okay. That's okay.

Jeran: That's so untrue, Mark. It's disgusting. But just so all the listeners know Mark and I went into business together I want to say 2002, 2003 and I let Mark do all the negotiating because this man I'll tell you there's no one that does it better. Mark is the... you know and he's known I'm trying to think they had a title for him recently and I just heard it and I'm not sure what they called him but he's the ultimate negotiator. So if you guys need some tips don't talk to me talk to Mark.

Mark: I will create a new a new type of course for that. It's going to be Mark and Jeran's negotiating 101. But actually, you know what's funny about that though? Is back in the day I think you could do old school negotiating and you could do sort of like this win-lose type negotiating. Today I think it should just be a win-win. You know I don't really negotiate that hard. It's like okay you know? Because I really see it more like this is someone going to work with long term it's not just going to be a one-off transaction. So why should I you know kill myself and kill that relationship for the last dollar? You know what I mean? How do you go about it?

Jeran: I totally agree. Relationship-based negotiating is the way to go. I mean and it's funny I tell people every day when I'm working on different startups or different concepts or ideas is that the way I do business is basically through relationships. I don't do it through trying to sell somebody or meet someone I've never met before I'm trying to sell them on an investment or anything else. For me, it's all about all relationships. So if I have an idea that I think is going to work I'm going to run to my Rolodex, I'm going to find someone that I believe can either help me with the idea, would invest in the idea, and that's how I basically do business.

Mark: That's great. It's great. Okay, so let's talk about our notes. So I buy a piece of land for let's say $10,000, 40 acres and I'm going to sell it for $20,000 cash, okay? But, I know that there are only a handful of people that would like to spend $20,000 cash on that piece of property. But there are tons of people that can afford say $1000 down and $250 a month. Let's keep it at a car payment. Usually 249, 250 is always a magic number. If you go over that number you can it's just your buyer pool gets a little bit smaller. Wouldn't you agree?

Jeran: A hundred percent.

Mark: Okay. So then we advertise that property and we say you know we'll give you two choices you can do the cash price or do the terms price. Now the terms price because there's something called time value of money, right? Which basically means that today's dollar is worth a whole lot more than tomorrow's dollar, right? Why is that Jeran my economics student?

Jeran: Inflation or hyperinflation sir.

Mark: Inflation, exactly.

Jeran: You're really good at this now.

Jeran: Thank you. Thank you. You taught me well.

Mark: I'm trying to put you on the spot. Okay, so right inflation. So 20 years from now today's dollars is worth a lot less than that dollar is going to be in 20 years. Nevertheless, the value of property is also going to be worth a lot more too, right?

Jeran: Yeah correct. You said less but yes more. Today's dollar obviously...

Mark: Oh yeah it’s worth more than tomorrow's dollar.

Jeran: Correct.

Mark: Right. So we can't sell that property on a note for $20,000 like we would cash. We might want to say $60,000 or $50,000 on a 20-year note, correct?

Jeran: Correct.

Mark: Because in 20 years that property could be worth $100,000 so again we're getting back into a win-win, right? We are going to increase buyer pool that can afford the note. They don't mind paying the higher price because they can control 40 acres enjoy it, improve it, do whatever they want to it, for the next 20 years and they're betting that in 20 years it's going to be worth a whole lot more than just $50000, correct?

Jeran: That's correct. And I think if you look back at what we did in 2003, 2004, 2005, 2006 when the market was hot you remember that it didn't matter what if we had if we had price notes at 30 grand we were getting 30 grand cash for some of these properties. So the dynamic is totally different now and of course like you said you open up your buyer pool at a certain dollar amount like you know 199 or 249 and certainly, I think it stops there. Obviously the less you go the more people can afford. So there is an interesting dynamic of what happened in ‘04, ’05, ’06, to a market like today where the cash isn't there anymore.

Mark: Right, right and unlike housing, right? So let's say we buy a house for $150,000 and our mortgage on that house is you know $500 a month and then we start renting out at $700 a month. Well, we've got a tenant, right, and they can kind of mess up our house. So we've got to do a lot of due diligence on that tenant. We want to make sure they have the ability to pay $700 a month. So we do credit checks, right? We do a criminal background check because they're going to be inside our asset and who knows what they could be doing inside that house, right?

So that’s why you know renting homes it's not for me. I’d rather sell land where what can they do to land? They can't do anything to it. There's no maintenance. There's no tenants. There's no termites. There's no toilets to fix, right? So I don't do credit checks. Do you do credit checks on your buyers?

Jeran: Definitely no credit checks.

Mark: Right, and the reason is because our marketing is strong and we know that if that buyer ends up defaulting we can quickly resell it. Where with a house it's a little bit more difficult because now you have somebody who actually is living in that house and you have to go through a whole process to evict them, correct?

Jeran: Correct.

Mark: Because they are in a home and you know emotions aside I mean you know nobody ever wants to have to go to somebody's house and kick out a family of four and a dog because they can't pay the rent. That is going to be an unpleasant situation. However, all the parties involved understand that if you can't make your payments on a piece of raw land, well it still stinks but no one's life is going to be really affected. You know the kids don't have to change schools and you know no one is really affected. Would you agree?

Jeran: I totally a hundred percent yeah.

Mark: So we don't have to do credit checks which really make our buyer pool much larger because we can work with everybody. Now when we do that what's going to happen inevitably?

Jeran: We're going to have defaults. I don't know.

Mark: We are going to have defaults, yeah. There's going to be higher percentage defaults. I think in 2008, 50% of my note portfolio went bye-bye. That wasn't fun. What about you? What happened to you in 2008? Were you doing notes in 2008?

Jeran: I had very, very limited amount of notes but I probably had maybe 15 notes in place and of those, I think I lost about 50%.

Mark: Right. Now in a deed of trust, you have to go through a foreclosure process even on a land note, correct?

Jeran: Correct.

Mark: That is expensive and time-consuming. So we don't do deeds of trusts. We do something called a land contract. What's the difference between a deed of trust and a land contract?

Jeran I think we touched on this on an earlier podcast but a deed a trust is basically...

Mark: Yeah we did do it. I'm sorry.

Jeran: That's all right. We can talk about it again. I'm sure we have new listeners all the time. So a deed of a trust and a land contract are basically different in the sense that a deed of to trust is the property deed it over and that deed of trust is an instrument in place that if the buyer defaults on payment you can foreclose the property. A land contract is the current owner stays the owner of the property and deeds the property over when that contract is paid off. So whether it's a 15-year contract or deed or a seven-year deed whenever the last payment and the property is paid in full, that's when the transfer is made.

Mark: Right, right. So it's much easier to get your property back on land contracts. That's why we use land contracts. I believe because the property stays in your name that you can do a lot more land contracts than you can deeds of trusts with the new Dodd-Frank bill. I think we discussed that in last podcast so no worries there. All right, so let's get back to structuring our notes. Okay, so you know we buy the property for $10,000 and now we are selling it for $50,000 on a note. What interest rates you typically pick, Jeran? Do you have a formula? Do you do one plus two or something like that? How do you do that?

Jeran: To be honest with you I'm a very creative in the way I do it. It all depends on the property. Sometimes I'll charge 0% interest because what you can do is let's say that you bought it for 10,000 and you could sell the property for 35,000. But if you charge 50,000 and you charge zero percent interest it may be as …. What's the word? As enticing to a buyer as charging 35,000 and again depends on the competition how many people are selling the same piece of property.

But if there's no competition if you've got a piece of land somewhere that no one else has and there's no real price, I mean sure you may be able to get some comps from two three four or five years ago. But there are no real comps and you're sort of determining the price of the property and you know throwing out the fishing hook to see if anyone bites and you get a bite and they're willing to pay 50,000. They like the interest rate. That's great. Well you look at it you do the numbers at 35,000 at 9% or 8%, it ends up being 50,000.

So it sort of depends on the property. If there's more out there I try to sort of I'm just … I'm a numbers guy. So I look at every property. I look at the numbers. I have an algorithm formula that I basically look at all the properties what they're priced at, where I think I can get from a target perspective price wise and what I see is enticing to a buyer what would be interest rates terms etc.

Mark: Right, right. What I do is much more primitive or basic as far as my analysis. I'll do what Jeran does. I will look at the unique attributes of that property let's say and the competition for that property. So if it's completely unique then I'll price it accordingly as well as the terms because I don't have any pricing pressure in the marketplace.

That being said because of velocity and I want to sell quickly I will typically use my pricing as a marketing platform and keep my interest rates low and my prices very competitive just to get it sold quickly and turn over that property as quickly as I can. But that's me and because I'm doing this for time as opposed to part-time or the way Jeran does it two hours a week you know I want that activity. But you know everyone's situation is different and depending on what you want to do with your piece of property you can really have a lot of flexibility and latitude in how you structure your note which is fantastic.

Jeran: Yap and I'll mention one thing too Mark I'm not sure if you do this but one of the creative things that I try to do is when I lease the property out I'll give discounts. So if somebody pays it off within five years I give them a discount. So let’s say the property is 10 grand over 15 years if they pay it off within seven let’s just say I give them 10% off that. So I give them you know a thousand bucks off of the property purchase price. So I basically cut the note down for the years if that makes sense.

Mark: That does.

Jeran: I haven't seen that being done before but it kind of came up recently in my thought process of whether it would be something that would entice buyers. I don't know if it's working. So it's sort of like one of the things I've got to test enough sales to figure out whether it is good or not in terms of… You get feedback from your buyers to find out why did you why did you choose this property? What makes you tick? So that's the things where it takes a process of selling 10, 15, 20 before you really know whether it's effective or not.

Mark: Yeah, you're generous. I don't do that. I do. I do 24 months 25 percent discount. If you want to just pay cash a 30 percent cash discount. But after 24 months I don't offer discounts. You know that being said you know I'm not crazy and I don't stick to the letter. If it's the 27th month and someone wants to pay off their note I'll give them a discount but I don't contractually obligate myself that way.

Jeran: Yeah I see what you're saying and that's sort of you and me and our dynamics like I'm kind of like the giver and you're the taker in the business relationship here. But I’m kidding you, Mark. I think honestly I think it's one of those things where we just have our own process of how we do it and we just try to change things up and see which works better.

Mark: All right great. Well, I know Jeran’s got to go, Jeran quick tip of the day.

Jeran: Oh dude, don't put me on that on the spot, tip of the week. Why don't you start first let me think?

Mark: I'm going to say if you want somebody to manage your notes there's a great company out there. Evergreen Notes Servicing, NoteCollection.com. If you're doing just a few notes it's a great service. I think they charge like 75 bucks to set up the note and then it's like 10 bucks a month and those fees obviously get passed on to the buyer so it doesn't cost you anything but it's nice. They keep track of all of the math for you and at the end of the year they give your buyer a nice 1098 so they can deduct the interest from their taxes. It's just a nice service if you don't want to get into note management.

Jeran: Another little tip for me I just thought about it a little site called MortCare.com and that came from a generous person by the name of Mark Podolsky.

Mark: I've got my hands up, MortCare.

Jeran: MortCare.com and the only dilemma with MortCare is I'm a Mac guy and it does not have an application for Mac. It's only for Windows which is a bummer.

Mark: Yeah. But you know what I do. I have a little windows PC I bought on Craigslist for 200 bucks. All it does is run MortCare and you know what? I'm so against working on that computer. I actually go into LogMeIn.com the computer is right next to me, I won't go on that … It’s a laptop. I'll go on to it virtually from my Mac. That's quite the Mac snob. Should I be ashamed of that publicly?

Jeran: Yes, yes

Mark: All right Jeran thanks a lot. Hey if you want to learn more go to ReserveLand.com and RuralPropertyFinder.com. Jeran thanks a lot. If you guys want to learn more about me go to TheLandGeek.com that is T-H-E LandGeek.com. Download the Passive Income Blueprint. If you want to buy some wholesale land, go to FrontierPropertiesUSA.com, www.FrontierPropertiesUSA.com.In fact we can talk about domain forwarding for another podcast because having somebody spell FrontierPropertiesUSA.com not the best thing in the world for marketing. But the Land Guy would be easier to spell or something like that.

Anyways I want to thank everybody for taking the time out of their busy schedules to learn more land tips and tricks and how to make money with land notes. This is quite a vast subject and we can talk more about it. So thanks again. This is Mark Podolsky the Land Geek, TheLandGeek.com, signing off. See you next time. Bye, bye.

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