DNRE09 - Why COVID Is Primetime For Real Estate

Casanova Brooks: [00:00:30] What's up DreamnNation! We are back again with another real estate episode. And this one I'm excited about because I first came across this brother on Bigger Pockets and he has quite the story, quite the journey. And we're going to learn all about that today. So without further ado, please help me in welcoming Serge to the show. Serge, do you want to go ahead and say what's up to DreamNation?

Serge Shukhat: [00:00:56] What's up DreamNation listeners. Thanks for having me. Excited to be on with you.

Casanova Brooks: [00:01:02] Absolutely. It's going to be a fun one. So let's jump right into it. And you've been in real estate for how many years now?

Serge Shukhat: [00:01:10] I've been doing it since 2008, so 12 years. Right when the market crashed. End of that year, started looking and started doing deals there in November, December, and then in 2009 and never looked back.

Casanova Brooks: [00:01:27] Got it. What got you into real estate in the first place? Obviously there's a lot of things that you probably could invested in time and money. What made it real estate for you?

Serge Shukhat: [00:01:37] You know what I was a stock market refugee, I call it, I never made money in stock market, I tried. And I thought that would be my investment future, but learn pretty early. I was in the Bay area and it was a grew up during the time when all those big NASDAQ companies were sprouting up everywhere. Where I grew up, it used to be a Marine world then they tore that down and put up Oracle. I'd see all these huge companies and thought, I had some kind of leg up and investing in this. And the internet bubble kind of popped my notion of making money there.

And in 2007, the corporate company I was working for, we purchased a small company in Arizona and moved down here. And right at that time, you started seeing Lehman brothers and the collapse of real estate. And you started seeing all these foreclosures around me and looking and running the numbers and they made a whole lot of sense back then you could buy a house that was $350-$500,000 in 2006 and come end of 2008, you can get that thing for under a $100,000.

And rent's never really changed. Rents went down maybe from 1500 to 1400, but not much more than that. So it made a whole lot of sense. And my background was in accounting, so it was a no brainer. It was a no brainer and started with our first single family, with the loan from pops and never looked back from there, proved out that model and grew it.

Casanova Brooks: [00:03:21] Got it. Now for a lot of people, they're thinking that it could be the same opportunity that's come in about the next three to six months, because obviously we know depending on when you're listening to This is in July but we have a lot of people that have been on unemployment, businesses that still don't know exactly where they're going.

So you start to wonder if the foreclosure rate and everything is going to go up after the end of July, once a lot of the assistance is cut off. So a lot of people are thinking, Oh, I would love to blaze that path as well. My question to you was in the beginning, did you have any mentorship or how did you get the confidence?

Because you said you're coming from the corporate world and all of a sudden we're going to start getting rental properties, even though they are a discount, you necessarily, did you have a lot of knowledge beforehand?

Serge Shukhat: [00:04:07] Not really. That's where Bigger Pockets came in,. It was just starting and the forums. There were a couple of experienced guys on there that had bought a lot of stuff in the Midwest. And I got to connecting with them. I had a good college friend of mine whose father made a living in real estate in the Bay area and owned a good amount of single family rentals and I ran some deals by him.

And he was pretty good mentor for me. And him and his son and ended up getting in the market as well with me at that time did pretty well. But really it was trial by fire. There weren't as many resources back then as there are today and on a single family home, I love the principle of a single family home and starting out on a single family home because everything is right there at the micro level.

Everything that you're going to learn about investing in a hundred unit apartment complex, you can see it, feel it, smell it in a single family residence. So for me, the numbers were really simple. This is what it rents for. This is what your mortgage is, and this is what's going to be left.

And then that's what you think it is when you try it out, you see what it really is. And then you see what it is in the short term. You hold longterm, you see what it comes out in the long run. And then from there you can build a model, build a business. And what you're saying is absolutely true today.

We may be three to six months out. I know here in Arizona, single family homes that held up really well, apartments had held up well, and real estate in general has held up well, even office and retail and then hotels. You're just not seeing that distress just yet, but I'm a real big believer that it's coming and it's definitely coming to Arizona with where we are, politically and, the situation with us being the number one per capita flip the virus. And it's not a good situation. I think we're going to be following new York's trajectory. And you're certainly seeing everything that you're talking about. You're seeing that in New York already. And in other Midwest cities. So it's happening in slow motion and it's happening a region by region, city by city.

So you can certainly find deals. It's certainly a great time to start. You've never been in real estate. It is a great time to start, but you definitely want to exercise caution. And I would definitely connect with somebody that did it the last time around and knows the queues, knows the clues to look for, knows what to look for in the news, but knows what to look for him.

There's a lot of signs. There's a lot of signs that come up that tell you when it's a good time, when it's time to pounce. You gotta look for those signs.

Casanova Brooks: [00:06:45] And I love that you brought that up. What are some of the signs that you were looking for when you first got in and are those signs the same signs of what you're looking for today?

Serge Shukhat: [00:06:55] You know what it's different today. So back then the sign were so obvious. They'd hit you in the face. They were to the extent of, driving to the store and seeing for sale signs on every single corner with big foreclosure banks. They were getting emails from the auction companies that they were renting out a hotel ballroom to sell 250 assets all in an hour. Those are all signs. Those are all signs of distress. So what you're looking for is signs of distress and they show themselves in different ways, depending on where we are in the cycle. We're clearly at the beginning of a down cycle right now.

But those signs have not shown in real estate. So they've shown in oil. And it was obvious. And all you saw what happened when they slashed the price. But there were a lot of signs before the price drops. With oil, same thing with housing, right? So you're going to start seeing a notice of foreclosure.

How many notices of foreclosure are being sent out compared to the prior month compared to the prior year, And you watch that trend and you watch where it goes. How many are actually getting foreclosed? Like right now there's been government intervention that aren't allowing a lot of assets to get foreclosed, but are there are notices going out?, What's happening with the distressed auctions, What's happening with the rental market? Is it softening up and probably the most important something that I'm looking for always regardless, is what's happening with population trends? What's happening with population trends.

I was talking to you before this podcast said you're moving right from the Midwest. And you're looking at Texas and Arizona, right? You're not the only one. Someone's sitting in California, that's sitting in San Leandro or, van Nuys or wherever, pick the city.

They're tired. They're tired of the bullshit. They're tired of the taxes. They're tired of the traffic. They're tired of the infrastructure. They're tired of the schools. They're tired of the earth quake insurance, maybe they like the weather, but that's not the only place that has good weather.

So they're coming to Arizona. They're coming to Arizona. They're coming to Florida. They're coming to Texas. The same, the Sunbelt States. Sunbelt at the same States that everyone has been talking about. So you watch that population and you say, are those trends going to change?

Because At the end of the day real estate, it is always going to be driven by people. Don't forget what real estate is. It's not a stock. It's not a stock that one day it's hot on a news report. And then the next day, it's not. One day people love Tesla and the next day they hate Tesla. One day they love Apple, but next day, Steve jobs is gone and they haven't innovated for 10 years.

You know what I mean? With real estate, it's a roof over here and that's driven by people and how many people live in a city compared with how many homes are being built. Supply and demand. And when one is off, when there's more supply than demand, when people aren't moving in, they overbuilt, you're going down. And that's what happened. When it's the opposite, when people are moving in and they're not building fast enough, nothing stopping that train, and we're seeing that right now. We're seeing it Corona virus where Arizona's number one per capita in the world, it's safer to go to Bahrain or Brazil than it is to come to Phoenix right now.

But yet our luxury market is through the roof. If the homes are going pending over a million dollars, our entry level market is through the roof. There's no inventory. I sold out the last of my SFR portfolio, the single family portfolio in mid March, we listed and sold in mid April. Right in the middle of this thing had multiple offers sold in 10 days was shocked.

When it first happened, I was like, shit. I got stuck with a few of them. And then I had been wanting out for the longest amount of time. It's just single family isn't efficient for me anymore. Selling was not a problem. And selling is still not a problem here. Like I said, there's just about nothing.

When the population keeps growing, nothing's going to stop that train other than, over building, which takes time.

Casanova Brooks: [00:11:01] Got it. And I wanted to piggyback off of that where people do forget that, that's the reason why real estate has always been the staple of building wealth is because it's really about real people, right?

It's not about what your books look like and everything else where you talk about when the stock market is so volatile, because one day you love it, the next day you hate it. But real estate, you have something that's tangible and people will always need a roof over their head. For you, you started out in the single family. And how many did you get up to before you decided to start selling off?

Serge Shukhat: [00:11:37] My wife and I, we got up to between 60 and 70. And we're managing probably another 30 for a couple of good friends that we had sold to as we were building up. So we just kept them in the portfolio and manage.

Casanova Brooks: [00:11:52] Did you have your license? Or your wife?

Serge Shukhat: [00:11:55] My wife got her license early in the game so that we could control the deal. She would write the offers and get the commission, and when we'd sell we'd control the sales side. So that was, I'd say a must. Otherwise, it was just getting very difficult. It was what people forget is that it was always competitive.

It was never a give me. Even when stuff was cheap, there were investors, there were people that knew, it just less people had money and it took time before wall street came in and crashed that part. So it was just that small window between when the foreclosure started and wall street woke up.

And it was very competitive with the mom and pop investors, which we were, so yes, we had the license, started a property. A real property management company. Used all the corporate tools that I had learned in my time to scale and use software and technology.

And to the extent we could, but the problem is, when you have, a geography of home, all our homes were within three counties, two counties right next to each other. And then a third, which is a little South. Going through the revolving door of employees of handymen was a challenge.

Believe it or not, even at that scale, 50-60, 70, it still didn't make sense to hire a full time asset manager or property manager to work for us. We were the property manager, but it just made no sense. And we were put into a position where it was either find a professional property manager to manage the single families, or sell them off.

So we tried to find professional property managerause it was just taken up all of our time. And the homes were unique. The homes were bigger. They were typically four bedrooms. We were having families in there, which was nice because there was less turnover. But they destroyed the home.

So it was just like after a year or two full remodels on all that square footage and remodeling was cheaper back then, but it was all the profits, all the rentals were going into hefty remodels. An d there was so much equity in those houses. And it still is very difficult to get good debt on single family residence.

Once you get past certain amounts, you get past five or 10, the debt market, doesn't look too kindly on you anymore. And you've got to get special products, higher rates.

Casanova Brooks: [00:14:19] And you just mean traditional banks for people?

Serge Shukhat: [00:14:21] Yeah and you buy personal residence or you buy a second house or your first rental or whatever, you're getting that 80% loan to value in that low rate.

But when you have five or 10, you gotta go to some of the wall street. Some of the mortgage backed security stuff and the rates change. And so when we were sitting on a lot of equity, everything was purchased between 2009 and 2016, I'd say maybe even 2017.

And it was all foreclosure stuff or foreclosure auction, and highly distressed stuff. So fixed it up and got good tenants in there. And rent had gone up. So we were sitting on a lot of equity and the calculation that was driving me crazy every single day was that return on equity. So the return on investment was great.

We bought it so cheap and the rents were high and the cashflow was finally starting to come. But the return on equity was atrocious, right? Because all this money was tied up in these stones and bricks, and, not being used well. So it just made sense to over time then, especially once, the new tax code was revised and they came up with the bonus depreciation, it just made the transition from single family to multifamily and absolute, no brainer. It just had to happen. It took a long time. It took two to three years to get out of those.

Casanova Brooks: [00:15:43] Wow. Were you're selling off your portfolio , where you just trying to do them one by one or you're selling them like what if somebody wants to come in and buy 15 to 20 of these, at one time we're solid off, then.

Serge Shukhat: [00:15:58] No, it was a combination. So a tenant would move out and if you bought the house for 50 and it's worth 250, it was like an had to remodel it for the third time. Just okay, I'm going to remodel it. And this time we're selling it, there's no way I'm going to let another tenant destroy it.

A lock in those gains. And I felt that the markets, since 2000, probably 18, I'd been preaching that the market was overheated. We were at the top of the cycle and there wasn't a lot more room to go on the SFRs and it turned out to be true. I think we'll see. But, it was a combination of tenants moving out.

If I didn't want to remodel it, sell it wholesale to one of the big companies was very active in Phoenix, OpenDoor OfferPad and those guys. And so I believe maybe 10, 15,000 on the table, but be able to sell it in 15 days or 20 days. Sell it whenever, to be able to time a 10-31 exchange, I'd bundle three, four, five, and sell it to friendly investors again, that helped me time it.

So that I could exchange it into a multifamily. So what I would do is I would wait until an interesting multifamily came up, maybe a $5 million deal with a million dollar deposit. Get that into contract and then bundle five houses together and make some phone calls and say, Hey, if you want a good deal, this is what it's going to look like. But you got to work with my timing so that I could a 10-31 exchange into the multifamily.

Casanova Brooks: [00:17:26] And for people who are listening at this and they don't necessarily know what a 10-31 exchange is? Educate us. What is a 10 -31?

Serge Shukhat: [00:17:35] Without getting into too much detail in this day and age, Google day and age, you can find it, but it's taken your gain.

So if you bought something for 100,000 and you sold it for two for simplicity, you have a hundred thousand in capital gains taxes. If you go and you buy another asset of the same class, basically real estate to real estate, and buy it at equal or greater value. You don't have to take the tap. You don't have to pay the tax, you just roll the tax forward.

And so in real estate with the strategy for as long as I can remember has been, is you roll your gains, you buy something, you sell it, you roll your games to something bigger and you keep exchanging up and up, and then you die and you give it to your kids and they get a stepped up basis. Which means that, basically that they never pay tax on that, but that they're new basis is the value of the property when you died. And then they could sell it for that value and pay no tax on it because that's now their basis. Now with the person that died paid 60 years ago. So that's been a generational wealth transfer for a very long time.

Casanova Brooks: [00:18:43] Got it. I love it. And thank you for clarifying that. And I there's so many different strategies and loopholes to build wealth in real estate that you can't do in any other class.

You could try to figure it out, but real estate, the best part about it is tangible. So that's why I absolutely love it. First off, do you remember your first single family home deal?

Serge Shukhat: [00:19:06] Yeah.

Casanova Brooks: [00:19:06] Was it a cool one or was it just the standard like 20% down we bought it. We'll see how it cashflows and it worked and let's just try it. Or was it like a really cool deal? Did you have any creative deals in the first couple?

Serge Shukhat: [00:19:20] I always look for creative deals, but, in the beginning, when you're not experienced, nobody really wants to, structure a deal with you. They don't know if you can pay or whatever. So it wasn't necessarily creative. The house was an older house in an area which, back then was like surrounded by farmland. And today is like the fastest growing city in the entire state. And at some point during the past few years, the fastest growing city in the United States, but, it had a huge pool.

It had a yard . It was $50,000, has a four bedroom, two bath with a pool. Today it's worth probably 280-300. It's central to in a really fast growing city. And from there, had to buy cash. All of these were cash deals. There wasn't a lot of financing for these.

You had to buy them in cash, fixed them up, get a tenant and refinance them and move them, move the money to another. I remember all of them. I remember every single one of them. They all have a little place in your heart, especially if they made you money, the ones you don't want, you don't want to remember the ones that didn't make you money, you hate those.

Casanova Brooks: [00:20:35] Absolutely. But they still have a place in your heart because you learned something from that.

Serge Shukhat: [00:20:40] I will tell you though, I have never lost money on a real estate deal. Of all my time doing real estate. And I have some friends that have been in this game longer than me, that have been in the game 20, 30 years that keeps saying, Oh, just wait, it's coming. You'll get yours. You don't learn until you lose. I've just been lucky enough.

Casanova Brooks: [00:21:02] You think it's just because you know how to really dissect your numbers on the front end or what do you attribute that to?

Serge Shukhat: [00:21:12] I learned something really early in my career, maybe even in college and in the accounting 101. And it's a thought of, that every asset has an intrinsic bottom line value, right? It's called intrinsic value. And what the in real estate, my theory is that, that every house or apartment or hotel or whatever you want to call it, that you buy is going to have a specific value in any market.

And so you can say the worst case scenario market, pandemic, world war three, all happening at the same time. The asset has to have some kind of value, and in certain markets and certain places, you can easily make an argument that the intrinsic value is zero like in Detroit, where population, went from 3 million to 650,000, you can easily make an argument that a house built in 1940 in a bad neighborhood.

The intrinsic value is zero, right? Because it's appreciated a way to nothing. But what I'm looking at is what is the worst case scenario value? And it's a combination of rebuild cost. What does it cost to build this house? What's the rental cost? A nd I'm never, ever under any market buying something, that's going to be crazy valued over that intrinsic cost. And I use that theory all the time, even today on complex commercial assets. I'll look at a hundred unit apartment complex, and Phoenix is one of the hottest markets in the United States. Very difficult to buy. And I'm seeing people buying stuff, buying a 1982 property.

Which is nice, which is still decent. You can, still has some curb appeal, but they're buying it for maybe 50% more than it costs to buy land in an A neighborhood and build a brand new apartment. So you're clearly off your value, right? and when the economy bursts depending on where you are in the cycle, that's going to be the first asset that's going to take that hit, right?

Because the top of the line, stuff's going to have to lower the price. What happens to the mid tier. But if you bought it, so if it costs $150 a square foot to build an apartment complex and in a state like Arizona, And you're buying a 1982 product for $200 a square foot, and then having to put another $50 a square foot into repositioning it, You're into it for $250 a square foot. And your philosophy is that you're going to raise your rents 200, 300, \ whatever it is, you're going to raise your rents to drive demand to your units. And you're going to say, but the A class new stuff is renting for $1,600.

I'm renting for $1,400 and I'm similar. What's your advantage if it costs you the same or more as the guy that built that A plus property. What is your advantage? You're renting for $200 less and you had to do all the work to reposition it, and then you have all the risks that if something happens in the cycle, it's going to go down to the low rebuild costs.

We already saw that. So all I see the deal like that is risk. I don't see the upside. The upside is everything has to go perfect. And the economy and everything has to go perfect from here on out, but we know that it doesn't happen. It did happen just recently for the last, eight years straight, six years straight or whatever you want to say, the longest up cycle that we'd ever had.

But the writing was on the wall that had to end. So here we are, people are stuck with these assets and the prices haven't changed yet. There's a lot of assets coming on the market and, brokers are going to tell you that they're pricing stuff based on the peak of the loss cycle.

Here we are entering a new cycle. I don't think anybody argues that anymore t hat we're at the beginning of a new longterm down cycle. Is that cycle gonna last one year, two year, five years? Nobody knows. Is it going to be V-shaped or U shaped? It's obvious. Probably it is U shaped at this point, right?

It's obvious it's going to take a little bit longer, right? And then you have all this political risk on top of it. The 1% right now are scrambling. The 1% right now are having meetings. hiring accountants, lawyers have means getting ready for the next five to 10 years of taxes. Republican or Democrat and I hate to break it, but Trump's not getting reelected. It's the writing on the wall.

Casanova Brooks: [00:25:40] I think I've seen like a month ago, where he was then starting to say that there's been scams and you could see in their mind, they're already conceding defeat. And so that'll be very interesting to see if he doesn't get reelected, then what real estate looks like from there? Do you think that it changes?

Serge Shukhat: [00:26:01] It does change. And I've been saying this probably you can go back to podcasts from two years ago. And I've been saying that, I didn't know what was going to cause the down cycle, but I knew that the biggest risk was going to be government policy and tax changes, and the influence in real estate is enormous.

It's enormous . People don't see it necessarily, but it's a lot further than just a change in the capital gains, tax return or the change in the top rate. There's so much more than that and it's coming. we're not going to continue on this trajectory.

I don't see a scenario You don't have to hardcore, right wing. Remember they said, there's no way that Trump's gonna lose. The way I see it, I'm straight down the middle. I'm not taking a position one way or the other, but I don't see a scenario. I follow pop it's state by state, and he's not winning short of, Biden, getting the virus or completely collapsing in the debates, which all could happen.

It all could happen right now. If he just stays in his basement, he keeps his mouth shut, lets his hair plugs dry.

Casanova Brooks: [00:27:06] So for somebody out there, that's not looking at this. And they say, okay, after the election term, it looks like things are going to change. And we know that the real reason that most people don't get into real estate is because they're always waiting for the right time. So if someone hears that right now and they say, Oh, maybe I'll wait until after the election. DO you think that people should be waiting a certain timeframe before they start to jump in? Or do you feel like right now it's still a great as great of time ever to buy real estate?

Serge Shukhat: [00:27:34] That's a very general question. and I hate to say market by market but it really is. What I say is there's at any given point in time, there's always a good deal out there. It's just a matter of how hard do you want to work for it? How hard do you want to look for it? Another thing I will say is the stuff I'm saying about the tax changes and the regime changes, don't have as much to do with single family. because a lot of the tax tricks and tax benefits don't particularly apply when you're buying singles family, they apply to commercial assets to a large multifamily or a hotel or retail or something like that.

The tax change wouldn't take as big of a bite. The mom and pop single family home investor. I would get back to basics. Get back to basics. In the Midwest, that the trend line for a home in Cleveland right is $50-60,000, that rents for $900. And those numbers work. So if you can get a market expertise in Cleveland or in Omaha or in wherever your city is where the numbers work, you've protected your downside, right? So you may not have appreciation. So that house you bought for $50,000 in Cleveland may not be worth a hundred in five years, right?

It may or may not, but you don't really care. at that point. When I was buying in Arizona at those prices, I didn't care about appreciation. I didn't buy for appreciation. I let cash flow speak. I wanted the cash flow and I got the cash flow. And if you can get the cash flow, you're safe. You're saying, because rents, aren't going to move that much. If you bought it for 50 or 60 and you can make arguments that's a good investment, bad investment, I'm just saying, numbers lies. If you bought for 50 and your rent is 900 today, what's the worst that can happen to you? The worst is you bought in the wrong Metro. You bought in the population loss Metro, and that house goes down to intrinsic value zero i.e. Detroit, right? Hopefully you didn't do that. Hopefully you bought in the Midwest city, maybe about Indianapolis. That's actually still growing. Maybe you bought in Columbus.There are cities out there that you could still get good deals with population growth, right? Your worst case scenario in those, in those purchases is that your rent went down, went from 900 to 850, or from 900 to 800. 10% on paper.

That's a big hit, but that doesn't change your dynamic. Doesn't change much. That doesn't change much. And you can manage your way out of that. So if the wall street journal says Cleveland rents went down 7% last quarter, and you were at 900 and your tenant left, it doesn't mean you can't get 900 again.

It just means that you gotta work a little bit harder. You've got to post a couple extra places. You got to do a couple of extra showings. You got to pick up your phone, you got to have better customer service. You get your 900 again. It's not a stock. it's not a stock where it's limited ticker says it went down 10%.

It went down 10%. Yeah. That's not housing. You can out manage and Outbrain. And that's why I love real estate. That's one of the reasons I love real estate the most, because it's a function of your brain. Your returns are as good as you are. No one's throwing a dart at real estate making all this money.

It's how good of a manager, how good of an asset, how good of a researcher are you? I already hook up an account. You gotta have a lot of hats. And if you're good at all those hats, you'll make money. You'll make money in any market.

Casanova Brooks: [00:30:56] I would definitely agree there. You've mentioned resources at the beginning. You said there when you first got started, there wasn't as many resources as there are now, do you have a book or a YouTube channel or a podcast that you listen to outside of Bigger Pockets that maybe as a hidden gem of what's helped you to scale your mindset and at the same time, just scale your business.

Serge Shukhat: [00:31:20] There's so many out there right now. I listen to a ton of podcasts, but I'm listening a little bit more in the commercial world, a little bit more in the department syndicators. For people in the single family and the beginners, Bigger Pockets, I think now has three set different podcasts.

I would definitely recommend those and listening to people's journeys. And what I like is when you listen to a podcast, it's not it's not like Joe Rogan. You're listening to podcasts, Elon Musk, where it's like, Oh, that was interesting. But that's that?

No, you're listening to ordinary people that you can hit up on Facebook and ask them a couple of questions. Every time I do a podcast, somebody reaches out to me. And I make a connection, and it may be a kid just starting real estate in California that's looking at some stuff.

And I answer. I remember my roots, I love talking to people. And so you just listen to a lot of different people's stories all over, and there's podcasts today. I did one with the millennial investor, young people starting out. Just listen to those. You listened to the based on your demographic and who you click with, you listened to an interview with somebody that's Hey, I like that guy's philosophy, or I like, the region that he's doing it and, or I want to do that.

Find somebody that's doing what interests you and that did it. And that made money doing it that showed some success and just call him, call that person, offer some value. My bet is that five to seven at a 10 of those people will call you back. So that's what's cool about that. That's what's cool about today. It's still easy to find those people, whereas before it was a challenge.

Casanova Brooks: [00:32:57] I definitely agree. I've gotten so many people when I do podcasts as well. They reach out to me and say, Hey, they're thinking about getting into real estate or they're thinking about getting their license, or even they're thinking about just starting their own marketing or whatever.

And I always try to respond to those people just because you remember your roots. And there was something that I learned in the beginning, when I first got into real estate from a mentor of mine, but he told me, he said, Casanova always remember that persistence respects persistence.

And so for so many people they're afraid, or maybe they reach out one time and then they don't ever reach out again. But understand that person who you're trying to get that advice or mentorship from, if you stay persistent and you show that you really want it, that person will respect you that much more.

Because they remember where they were when they first started. Now this is some people obviously forget, but for the most part, the people who you want to connect with, they'll remember where they started and then maybe probably see a little bit of you in themselves when they first started.

Serge Shukhat: [00:33:59] That's right. And people like talking their trade. You get a stock guy, he loves talking stocks. You get a real estate guy, he loves talking real estate. You find out what interests these people . I like talking football, NFL, it's find a connection, find something to talk about, and then eventually you'll get what you want.

Be a friend and a listener before demanding information and the information will come. I tell my daughter all the time, I give her small tasks. She helps me list Airbnbs and stuff, and she says, I don't want to do that for $10. And I'm saying it's not about the $10. The value is in the knowledge, not the money, value the knowledge.

Casanova Brooks: [00:34:40] I love it. You talked about Airbnb. Obviously being in Arizona, it's more of a luxury market than a lot of places in the country. Did you try to convert outside of your multi-families? Do you have multiple airbnbs?

Serge Shukhat: [00:34:53] Yeah, man. My wife and I are pioneers in the Airbnb space. I think Airbnb opened up shop in 2012 and I was just looking at some historical reports. Our first ones were super bowl, 2013, when the super bowl came to Arizona, we converted our first Airbnbs, and had been doing them since 2013.

And, I've been doing them across multiple product lines, multifamily anda single family and have had varying degrees of success, has taken a really long time to learn the processes and to build the business model and to make the business model profitable. It's a business model that isn't profitable for everybody.

It's a business that wiped out a ton of people with the Corona virus. It happened in March, March is our absolute peak season. We have three X revenue in March and they closed our spring training. They closed, everything's shut down in the middle. We'd lost all of our reservations and Airbnb decided no matter what, your refund policy that they're taking the money.

And not giving it back and refunding a hundred percent. To be in a state like Florida or Arizona, Southern California in the February-March to get completely shut down that turned for a lot of people 20 until loser. For us, it was a hit. For us. Airbnb is about 5% of the revenue.

it was something watching with amusement, I'd say on the side, not that amusement, cause there was a lot of pain out there, but it wasn't a killer. And then, strangely enough it picked up 110% they put up about end of April and May. And right now a hundred percent book, we have a total of 30 Airbnbs right now, out there. 30 out there. So it's what the model has evolved to. It was taking a few to, two to 12 units out of a multifamily and setting up Airbnbs.

Casanova Brooks: [00:37:10] Got it. So you still start off the single family, but instead of going to get more single family homes, you just decided that you were going to convert some of your already multifamily into the Airbnbs.

Serge Shukhat: [00:37:21] Pretty much. So the single families were revenue line. A separate business line and there was property management income. And so when we decided that single family had to go, it was like, Oh, it'd be nice to keep that profit, center going. And so take the last of the SFRs, convert them into B to B and BS and see how the SFR product does.

See a lot of it was experimenting in the beginning and then it went from experimenting to getting good at it, to knowing what your market, wanted to knowing what furniture to use.

And there's so much to learn. The learning curve is huge. Learning curve is huge. And that is something if you do want to do a BNB, that is where it is imperative to get with somebody, to get with a mentor from day one, because you can get that learning curve from somebody telling you, Hey man, you can use this kind of furniture or this is the key pad you need to use, or this is the infrastructure you need to have, or this is what it's really going to cost you. People underestimate the cost. That's the biggest problem. Most Airbnbs are not profitable.

You look at their rates and you say, Oh my God, he's charging $150 a day for a unity buck for a hundred thousand dollars, he must be killing it. And that's not the case. It's a catch 22 with those because you can easily run one or two or three by yourself without hiring anybody.

You start scaling at all. It becomes a full time job and no, you cannot outsource that job. You have to hire people. You have to hire people. You have to have a team and you have to have either somebody or yourself managing their team. So if you put a rate on the time you stand, the hourly time you spent there, you put a rate on all the damage people actually do over the long term.

You put the appropriate expense on the staffing, the appropriate set of rights made. You gotta have, replacing the towel, supplies are crazy. The supplies are crazy. I bought my first hotel this year, after the coronavirus and, for the past two years, I've been underwriting hotels, And it's a completely different model than business than a multifamily. And what I learned was that it's crazy how much in expenses hotels have. Everybody thinks that they're $60 a night for these small studios that they kill it, but they're running. In some cases, a good hotel back in the day not so much with what's going on right now was running at 60 to 80% occupancy. The supplies, the food costs, the maids, the payroll taxes. It's like you dip 10% and you're losing $60,000 a month. And so the Airbnb is no different. You're competing with hotels. It's no different.

You're just trying to cut all the expenses the hotels have to have because they have scale. You're trying to cut it by you doing that work. And so if you assign a value to you doing the work, you'll see that doesn't make that much more money. So unless you're in a position, you're a mom and pop and you want to do two on the side and you want it to pay your mortgage on your primary residence and maybe have a vacation home out of it.

Fantastic. That's what it's great for. To run a business out of it. You're pretty much becoming a hotel operator and that's why I started looking at hotels cause that because I became good at running this kind of business and the hotels had very high margins. If you buy the right hotel. Right now, they're getting hammered.

Now, they're getting just told different business now, but they're just hoping they can hold on now and seeing how long this is all going to last.

Casanova Brooks: [00:41:05] This has been such an amazing conversation. You've dropped so much value, so much knowledge, and I want to be the first one to say, thank you for somebody out there that wants to stay connected with you. Where do they find you at?

Serge Shukhat: [00:41:19] I'm not hard to find. They can find me on Bigger Pockets or, wherever I come up, I have a LinkedIn, Facebook.

Casanova Brooks: [00:41:27] We'll make sure we drop all of those in the show notes. The last thing I want to ask is there somebody out there it's listening at this and they vibe with you, right?

They want to blaze their path similar to what you've done. Maybe they're even in Arizona. And they're like, man, I can do that as well, but they have that little voice in their head and that little voice maybe says they're not strong enough. They're not smart enough or maybe they just don't have enough resources. What's the one thing that you would say to that person to get them to just take action.

Take action at what you are**Serge Shukhat:** [00:42:00] good at. Figure out way to make money and what you are good at. Once you have that money, everything else will open up and you'll have the confidence to take action on what you're not good at.

People want to do real estate or stocks or whatever they want to do to invest. Just thinking about investing with money they don't have. Think about making money first, and if you're good at it, doesn't even matter. Selling oranges on the streets. Whatever it is, make money at what you can do today.

Focus on what you can do today. And when you have a some nickel to invest, then worry about real estate or stocks or whatever else, because that's fictitious, a hundred percent financing deal that just finds you and makes your career. And you make a couple million dollars.

Somebody gifts you, that doesn't exist. That doesn't exist, patience and perseverance and waiting for your time and not wasting time. Stand that time you got now making money, how you can, and maybe you can't invest until you're in your thirties or in your forties. Which seems a long way away. And you're in your twenties today and you're frustrated.

Why can't I buy, why can't I be. I want to be a real estate investor. This maybe it's not your time, but what you need to be focused on. And when it is your time, you're ready. When the market starts presenting you something you're ready for that, right? Maybe you're going to miss this downturn today, the coronavirus downturn. Instead of sitting there and crying about missing it, make sure you're ready for the next one in six years or eight years or in 10 years.

Casanova Brooks: [00:43:27] I love it, man. And you stay ready. And a lot of the ways that people, in my opinion, they talk themselves out of the game is because they think that they don't have enough resources.

But I think you alluded to it in the beginning. It's just about being resourceful. And once you find the deal, I think everything else opens up. So if you don't have a lot of money to invest right now, you said, Hey, I asked my dad to write a check, right? and from there, it's we all know somebody, but you got to do your homework on the beginning and you gotta make sure that if you don't have the money that at least you have the time to go out and invest in educate yourself, which just like you said in the beginning, there's a lot of resources out there nowadays just especially YouTube university, right? And so if you utilize those resources, I think you can be as successful as just like Serge myself, anybody else, because it's all about relationships at the end of the day.

I want to say thank you again. This has been a phenomenal episode and for anybody that's listening, reach out to Serge, tell him, Hey, you got a lot of value and see if he'd be willing to take you on as a mentee. I'm sure you're super busy, but if you come and you add value to his life, you never know what could happen, but remember you got to take action.

Otherwise it'll only merely be a fantasy. We'll catch you on the next one.