Robert: Hi, this is Robert Kiyosaki and I'm here with Ken McElroy. He is my personal friend, advisor, I invest with him, we've made millions of dollars together, and he is the author of the Rich Dad books on real estate. So what we're going to be talking about today is an update on the real estate investing, not only in America, but throughout the world. And the real estate market all throughout the world is changing at a high rate of speed. So this is an update, but Kenny and I will also be talking about the fundamentals of investing in real estate. Because these are not ordinary times. And so often people will come up to me and they say, "Hey, I'm jumping into real estate." And I think that's one of the most stupid things you can do. So with that, I'll introduce Kenny, one of my best friends, but also my personal advisor, but also a person who has made me a multi-millionaire over and over again. So Kenny, what do you have to say to somebody who wants to jump into real estate?

Kenny: Well, first of all, I always ask them why. A lot of people want to, but I think they feel like it's super easy and they can get rich quick. So that's usually the reason they say it. Not always, but sometimes it's a longterm strategy, and then if they say that, then I love it. Because then that's really what it is. It's a longterm strategy of cashflow.

Robert: Great. And so Kenny and I come from different backgrounds when it comes to real estate. I've never been in the real estate business, I don't have a real estate salesman's license or any of that. So I went and took a real estate course way back in 1973, it was ... I was watching a TV infomercial in Hawaii. I was still flying for the Marine Corps. And I asked my rich dad, I said, "Can you teach me a about real estate?" And he said, "That's not my job. Your job is to learn about real estate." I said, "Why don't you just teach me?" He says, "That's not my job." So he says, "Go learn for yourself."

Robert: And so I still remember I was in Honolulu, I was flying out of Hawaii and I was watching this infomercial, and it says, "You too can become a multi-millionaire with nothing down investing in real estate." So since I had nothing down anyway, I called up and I said, "Sign me up." So the introductory course was free and so I strolled into it and it cost $385, which I really didn't have because I was making about $600 a month as a Marine pilot. So $385 was a lot of money, a lot of money for me. But I signed up for the course, I figured out how to get the money as we can all do. And I took this three day course and that's how I started in real estate.

Robert: And the most important lesson my advisor or the teacher gave me, the guy was sort of like Ken, a real real estate professional, he said to our class, there was about 30 of us in the class, and he says, "Ladies and gentlemen, your education begins the day you leave this class." And he says, "What you do when you leave this class will determine whether or not you become a real estate investor or not." And his assignment was that each of us in the class had to look at 100 properties, do a one page evaluation on the property, why it was good or bad, pros and cons of it, in 90 days. So the assignment was 100 properties in 90 days, one page written documentation why it was good or bad. Evaluation, not very sophisticated. And everybody in the class, let's say those 30 of us, we all agreed we'd all do it. At the end of 90 days, I think five of us completed it, which is usually the stats there are about it. And so let's say 25 dropped out and that's why they're not successful.

Robert: So one of the things I ... And I was looking for a nothing down piece of real estate, and I found out at island of Maui, which is something you may know is some of the most expensive real estate in Hawaii, and I found out one bedroom, one bath condo on the beach. It was $18,000 down and I gave them my credit card, I put $1,800 down and I made $25 a month. In other words, I made $25 a month with nothing. I used 100% debt. So the course kept the promise that they would teach me how to make money with nothing down, but I had to do the work. So that's how I got started in real estate. So Kenny, how did you get started in real estate?

Kenny: Thanks Robert. Well, it's interesting now, people look at us now, we have a billion dollars in real estate and 10000 apartments and 300 employees, et cetera, et cetera, et cetera. But I started very similarly like you. I was in college 30 years ago, and my buddy said, "Hey, would you manage this apartment building for free rent?" And I said, "Yes, I will." Because free rent is good and I was racking up student loans and going through school. And so the idea of managing a property, it was only 60 units, but I remember it wasn't easy. Collecting rent and maintenance and all that kind of stuff. I was like, how hard can it be? So that was my first experience in real estate really. And the guy who owned the building came ... I would deposit all the money and then he would show up in his nice Mercedes, and he would sit down and he'd go, "Thank you very much for keeping the property full," and then he would drive off in his Mercedes. And I was like, okay, I'm on the wrong side of the desk here. Something's something's wrong.

Kenny: And I was just finishing school. I was in the business school. And so really, I just decided at that point I was going to get my real estate license at the same time. So I started to get my real estate license and got that. And then I went to work directly, right out of university for a very large company that does commercial real estate and brokerage and land development, property management, and all that based in Seattle, which is where I'm from. And boy, did my education start there. I started managing properties. And so for the first 10 years of my career, I was managing properties. I probably managed somewhere between 20 and 30,000 apartments up and down the Western United States. And then at some point, I decided I'll start to buy them and own them myself, and so I've been doing that for 20 years. But I've been in the real estate business for 30.

Robert: So the point that Kenny makes, which everybody should listen to there is that he got his experience. And he got experience not in the acquisition necessarily, but the hardest part about real estate, which is the management.

Kenny: Yes.

Robert: When I look at people who lose money in real estate, they're pretty good at buying because almost any idiot can buy a property, you have to be very smart to manage the property. And so that's why when Kim and I started investing in real estate 30 something years ago, is that we bought our first property, but she managed it. And although she has a business degree, that's when she really started to learn about business. It's not only acquiring the property, it was a two bedroom, one bath house in Portland, Oregon, but she learned more by managing it. And I think that's one of the key reasons that people fail at real estate, because they can't manage. And so when Kim and I met Kenny and he found out he could manage real estate, he was like a godsend to us, God, we really wanted to partner with Kenny. So Kim and I at that time had about 40 rental units. And so Kim asked Kenny, says, "Kenny, would you manage my properties for us?" And I don't remember if you know what you said to her Kenny, but you deflated her balloon so hard.

Kenny: I'm sorry.

Robert: It was like ... because up to then, we thought we were Donald Trump, we had 40 units, you know? And what did you say to her about [crosstalk 00:08:40]

Kenny: Well, yeah. What happened is, as you evolve and you start to buy properties, at that point, I think when you and I met and Kim, I had already owned several thousand units at that time, and we were just handling properties that were 200 units and larger. Because it takes a lot of effort to manage anything. So a 40 unit building is hard, so is a 200 unit building, but really they're not that much different. The basics are pretty much the same. And so a 40 unit building is not very profitable or even a 10 unit or 12 unit or eight unit is not very profitable for any property manager, really. So that's why I had already been in the business long enough to know that 150 to 200 units is really required for us in order to even make a profit in management side.

Robert: So that's one of the biggest lessons that if you could listen to what the fundamentals are, is start small. And as Kenny knows, Kim is a far better real estate investor than me because she has the management experience. And management of property is the management of people. And when I was a kid starting out, when I was 10 years old, one of the first chores my rich dad gave his son and me, Mike was in Hawaii, we went on and we collected rent. You haven't lived until you've collected rent.

Kenny: Yeah.

Robert: You'll hear every bullshit story, every lie, every very victim, everything you could ever think about. And so Mike and I be pounding on these doors as little kids and say, "Hey, you're 30 days, your rent's behind." And then you hear lie, cheating, stealing, BS and all this stuff. And the hard part was, if we didn't collect the rent, we had to go talk to rich dad. So the question for Mike and me was, which is worse, this tenant or rich dad? And finally we grew some backbone or what the Mexicans called them, [Spanish 00:10:51], and we started pressing the guys for the rent. And it was even worse when they totaled it. Sometimes we'd peak in the unit and these guys had dogs and chickens and cats and donkeys inside their units, and they were destroying the property. And that's when you really start to understand management. So Kenny is that true today?

Kenny: Yeah. Yeah. The backstory of how Kim and Robert and I met was I was already in the business full on. And I was raising money and this guy said to me, "Hey, you should meet Robert and Kim," because both lived in Phoenix at the time. And I read your book the, before I met with you, Robert, Rich Dad Poor Dad, and I said, "Oh, I want to get into this guy's head and figure it out." And this was brand new, the Rich Dad Poor Dad was just out, it wasn't the big hit that it is now. But I remember in the book you actually said the most important person on your team is a property manager. And I had actually never read that before, because now, keep in mind, I was in the trenches at that time, and most what happened in my world was people would buy real estate ...

Kenny: I have a great story of a guy that he had a property that was 75 units, fully rented, cash flowing like crazy. He was out on his sailboat, he lived in San Diego. And a broker convinced him to sell that and to buy 140 unit in Mesa, Arizona. Okay? So he did that. It's called the 1031 tax deferred exchange. But here's what I remember the most, he called me the day they were closing, he said, "We need a manager." And unfortunately this is what happens. So what he really needed was a property manager to actually look at that 140 unit in Mesa and tell him whether it was a good deal or not. Because the broker, they're just working for commissions, the property managers, they're the ones that had actually have to make it perform.

Kenny: And so what happened was he was so far behind, he was already committed and he had to close and so he ended up buying it. And here's the problem, the property was filled with a bunch of bad things. It already had a lot of vacancy. It had a lot of deferred maintenance. And in addition to that, we had to evict a number of people that weren't paying rent, because why would you rent to anybody that can't pay? And so pretty soon, the occupancy on that thing was like 60, 70%. And so then guess what he did, he fired us. You know what I mean? He's like, "Yo, it can't be me my fault." And I'm like, "Dude, you bought a mess and so we'll clean it up for you." And it took a while, it took like eight or 10 months.

Kenny: But finally, he was trying to project back onto me as if I had something to do with it. I'm like, "All I'm trying to do is fill this thing up with good people." And he is like, "Well, now I'm flying over to Phoenix all the time. I'm working all the time." And I go, "Dude, you sold a 100% occupied property that had a lot of cash flow, you're sitting out on your boat and now you're flying to Phoenix and you bought this property that's in a borderline area, it's your own fault." He didn't want anything to hear about it.

Kenny: And the point is that, like you sit in the beginning, Robert, it's easy to buy something. It honestly is easy. If you have money, there's lots of money being thrown at real estate right now, it's not that hard to get money. Having money can be very dangerous. And so people are doing that right now. And that was a great example where a guy, he had a comfortable life and then all of a sudden it was riddled with ... And he fired the property manager after that. And then after that he ended up selling the property again, for a loss.

Robert: And sometimes those are your best investments.

Kenny: Yeah. I know. I know. I was just managing property at that time, and I wish I would've had the cash because I would've went in and swooped in and bought that thing. Because it really, it takes a while to turn around a property. In some cases, it's taken me a year, year and a half on big ones. We have a 680 unit property in San Antonio, Texas, for example, it was ... I think, remember you and I went to it?

Robert: Yeah.

Kenny: There were 300 vacant when we bought it.

Robert: Wait, wait, wait. It was worse than that. It was the worst property I've ever seen. We walk into the first unit, all the walls are taken out because they took all the wire out of it, and sitting in front of the fireplace was the toilet. I'm looking at that, and Kenny says, "God, this is a good deal." There's an effing toilet sitting in front of the fireplace, all the drywall is taken out, all the copper wire is taken out and there's no carpet, Kenny says, "This is the best deal I've ever seen." This is the worst I've ever seen. But the guy I listened to was the guy that turned the property. What was his name?

Kenny: Yup. Ken. His name was Ken also. Yeah. Remember?

Robert: Yeah.

Kenny: Yeah. No you're right. He was the property manager.

Robert: Yeah. He looked at this thing and he said to me on the side, "This is the best deal I've ever seen." I said, "You guys are nuts or I'm blind. I'm missing something here." And that turned out to be one of the best cash-on-cash returns we have.

Kenny: Still in the last 10 years, it's been the best deal that I've been able to buy. We bought it for 25 million, we got the bank to write down another three, so our basis was like 22. And then we put seven into it and now it's worth over 60, and we got our money back.

Robert: And the bank loaned you the money to rehab it, right?

Kenny: Yes. Right. Right. And that is actually the power of real estate investing, is seeing that. As you say, Robert, a lot, you say, deals are done in your mind. It's something that you see that no one else sees. And I knew in two years I would be able to turn that property around, put new debt on it, get all the investor money back and own it free and clear as we like to say, infinite returns.

Robert: Yeah. Infinite return is we get money, but we have no money in the deal.

Kenny: Right. We still own that building. We have 30 million in equity in that deal, just the one. And it kicks off about 800,000 a year in cash flow, and we have no money in the deal. And that's a property that we own right now today.

Robert: And because it's real estate, we get to write off depreciation, amortization and appreciation.

Kenny: Right. Right.

Robert: It's really a great deal. The point here I want to make is that if you can't do that, you should stick with stocks and bonds, because there's one word about property that is bad, property is not liquid. And that is, the moment you buy it, you own it. And if you've made a mistake and it's titanic, you're going down with it. So that's why you better know what you're doing before you buy it because if you make a mistake, you can't sell it. And that's what I see happening to so many people, they just jump into real estate thinking it's a mutual fund or an ETF or an REIT but then they can't get out of it because it's illiquid. And so that's why real estate requires much more financial education and real life education than stocks and bonds and mutual funds. Any comments on that, Kenny?

Kenny: Yeah. I think that probably the thing that I would just want all the listeners to know is that before I buy something, literally before we close on it, we already know what the value's going to be in year one and year two and year three. And we already know how we're going to get our equity back. And it's almost never via sale. Almost never. So in other words, we don't buy to sell, we buy to hold in cash flow, and it's a very different philosophy. And that takes an tremendous amount of experience and education.

Robert: And a team to do it.

Kenny: Yeah. Yeah. And it's so worth it. But the thing is, even if you don't know how to do it, there are lots of people that will help assist you in that. Remember I was telling you about my billboard story, how we're buying billboards. I didn't know anything about billboards, but there's lots of people that know them. There's lots of people that put ads on them, there's lots of people that own them, there's lots of people that manage them. But honestly, a year ago, I didn't know anything about them and now we're buying them as you know, because they're real estate. So I just found the people that could help me understand it. That's all. And they're out there, and these people are everywhere. And that's the mistake the guy from San Diego made, is that he just thought, well, I can roll my money from my San Diego property into one in Phoenix and it's going to do the same thing, and I don't really need a team. I don't need to understand it because it's going to be full, just like the one I have. What's not the case, he bought it in a very bad area. And so you have to have that team.

Robert: And there's one more thing that I learned the hard way is that, when it's the salesman, a real estate broker, and as I would say, the reason they call them brokers is because they're broker that you are and they have to sell you this property. And it's not against a law law to lie. So they'll give you all these numbers called a proforma. And a lot of times, a proforma really should begin with the words, once upon a time or in a perfect world. They're lies. So Kenny, if you were looking at a property, like my building I'm in right now, that I own, and I gave you a performer, the broker gave you a proforma, would you believe the numbers?

Kenny: Well, no. There's several reasons. Maybe they are trying to lie, but I always take the position that they just don't know the property. A broker doesn't understand management, generally most of them. Some of them do, some of the very good ones do, but most of them don't. Most of them are just trying to get a listing and sell it to the next person and move on.

Robert: And get a commission.

Kenny: Yeah. Their commission, or as we like to call it, tips. So that's the position I take every single time. I take the position. Because I have the knowledge and the experience, then I'm always managing the broker. So I'm always saying, I just had this scenario two weeks ago, I understand that you started your first month at 92% occupancy in your proforma or your budget, but the property is at 78% occupancy today. So if you buy it today, the beginning number should be 78%, not 92, so how can you ... You know what I mean? You just get into the nuts and bolts of what really is. And so what you're always trying to do is you're always trying to buy the property on how it's operating today. Period. That's what you want to buy it on. You want to buy it on how it's operating today and then you want to turn it into some value.

Robert: Well, this is my question, because this is what I was really weak at, which Kim is really good at, is how do you get the real numbers? So when you're looking at a property, you have the the sales sheet the broker gives you, but what do you do next if you're interested to get the real numbers?

Kenny: That's a great question. So here's what we do. First of all, they're almost never correct as you pointed out when you get them. But if you know what the area, if you're really studying an area and you understand an area, we'll just pick San Antonio, like where we were, what I knew was even what the broker had was lower than what the market was. So it's the equivalent of seeing a $200,000 house in an area where everything's selling for 250 or something like that, except it's on the red side. So I already knew that, but I actually, as you pointed out, I already knew it was worse. Right? I already knew whatever the broker said it was.

Kenny: Because what the brokers do is they take whatever the last few leases were, even that might be wrong, and then they say, okay, that's what the whole property is. Well, really there's what we call legacy issues, where you got tenants that have been in there one year, two year, three year, five year in this particular case, even longer, their rents might be one, two, three, $400 under the market. And so what you have to do is understand that there's a lot of room there. And so what we do is if we see that there's a lot of market lift, even from what the broker says to what the market is, then we like to go in and make an offer. And then from there we get into due due diligence, and that's where the magic happens. So we'll pull every single lease on every single file.

Kenny: So on the property that you visited, Robert, the backstory of it is, of the 350 units, plus or minus that were occupied, we pull every single lease and we do our own rent role and we figure out what our own rents are. You know what I mean? And so that's what we did. And then we put together our own projections based on our due diligence timeframe.

Robert: So for those of you who'll listen to this thing, if you're just starting out in real estate, don't jump I. Don't start with 100 units, maybe start with a duplex or four units. And then you'll learn more from those four units. And if you've made some serious mistake, you might be able to get out quicker. But when people buy a large property they can't get out, that's when the whole thing comes down like a house of cards. So that's what I enjoyed about Kenny, working with him. Because I learned more from bad properties than from pristine properties. And so anything else would you suggest that people look at and do before jumping in?

Kenny: Yeah. Well I think what happens is ... What you want, the biggest thing for me is sometimes you can even make a mistake on the buy in a real estate market. Like in other words, maybe you're buying in and you're not getting a great deal, but if the market itself is really jumping ... Like Phoenix right now, as you know, Robert, is one of the fastest growing. Arizona was the fastest growing state in the country last year. Well, okay. So that's a result of a lot of job growth, a lot of population growth and people are moving here, et cetera, et cetera, et cetera.

Robert: That's also because people are leaving California.

Kenny: That's right. Yeah. Because of tax and high expenses, et cetera, et cetera, et cetera. So what you couldn't take a look at, sometimes that will save you. So in other words, sometimes demographics, when there's stress on supply and demand, so there's more people moving to Arizona than there are housing, let's say, well, then housing's going to go up. Period. Rents are going to go up. Land prices are going to go up. All that's going to go up because there's a lot of people trying to buy in an area that has small demand. It can work the other way around, as you know. Like in Detroit, you know what I mean? When everybody moved out, not everybody, but when the manufacturing stopped and blah, blah, blah, and all of a sudden the real estate started to go down. So sometimes you can buy in a market and the market can save you, but you really need to understand both.

Robert: Yeah. So for those here, please pay attention because remember our friend, Richard Tan.

Kenny: Yeah. I remember this.

Robert: He's the funniest guy in real estate I've ever seen. He's such a dear friend of ours, but we're friends because we need some entertainment in this business.

Kenny: Remember when we were on stage in Singapore?

Robert: Yeah.

Kenny: And he put that map up behind us.

Robert: Listen, you got to hear this story. So Richard says, "Yeah, I did what you guys advised. I'm investing in America." And what was this mistake, Kenny?

Kenny: Okay. So first of all, we're on stage and he's happy, remember this?

Robert: Yeah. [crosstalk 00:27:31]

Kenny: He was so excited, he was like, "I finally bought some real estate." And so the first piece that he bought was he bought a church. Remember?

Robert: Yeah.

Kenny: I said, "Oh great. That could be a good investment. How much is the church paying you?" "Well, I felt bad charging a rent." So he bought the building, but he didn't have any income. So that was the first thing.

Robert: Because Richard and Veronica Tan are true Christians. And I reserve those words for true Christians. They really are. They practice what they preach. They're very good people.

Kenny: Incredible people.

Robert: Very incredible people.

Kenny: Yeah. But it was funny because I said, "Okay. Well Richard, it's okay that you bought a church and let them rent free. That's fine. But it's not necessarily going to be a good deal for you, unless the church goes up over time." But on the wall though, then he showed the picture of the United States and keep in mind, we're in Singapore, and it had a dot, he said, "I bought a property right here." I remember we turned around and we looked at it on the screen, and I go to Richard and I go, "Richard, I think that's Mexico." And it was. It was Mexico. He bought a property, he thought in north America, but it was in Mexico. It wasn't even in the United States. But this is a guy with money that just sent his money, wired his money around and bought properties, unknowing that ... Remember he bought a hotel that was half finished and all this stuff. So there's a lot of people that do that. A lot of people that throw their money around like that.

Robert: The good news is Richard's gotten a lot smarter because the way we all get smarter is by being stupid. We've all been stupid, made our mistake. So he's become very, very successful. But Richard has one bad habit, he starts big.

Kenny: Yeah. Yeah. Yeah.

Robert: Our lesson that starts small. The stakes are smaller. So the other point we can get on with this is that market's always changing. And one thing I respect about Kenny as a real professional, you're always attending seminars and classes and you know, things like that. I remember one of the last times I talked to you, you went to a real estate seminar run by my millennials who are teaching how to use information technology.

Kenny: Yeah. AI. Yeah, yeah, yeah, yeah. I flew to Seattle. It's cool because sometimes when I do go to those, they want me to speak. And so I did speak up there with bigger pockets and a bunch of guys, because there's a whole generation coming up behind me, and it's so fun to watch. And so they're trying to figure out how to do more with less through apps and cell phones and things like that. And the fact is that the real estate industry largely, even property management is antiquated. It's a lot of paper and a lot of this and a lot of that. And so these guys were fascinating to hear. These guys were managing hundreds of houses, all automated with apps and property management tools on their phones. And for me, it was really eye opening. And the great thing is, I was able to come back, because we have a property management company as well, that's where the majority of our employees are, and I was able to sit down with the CEO of our company and start to overhaul our whole company and say, hey, how do we automate more? How do we automate all the way? How do we make it easier for the resident? How do we make it easier for the property managers and easier for the investors so that everybody can see everything and be super transparent? So it was exciting.

Robert: And then markets are always changing, but around 2006, 2007, we didn't have as many properties as we do today, but people were leaving our properties to buy these giant homes. Kenny and I were sitting there, our vacancies are going up because people are leaving to buy these McMmansions they can't afford. Remember that?

Kenny: Oh boy, do I ever? Yeah. Remember, because we screen all of our residents obviously, you want to, so you have to, basically, they pay you to run their credit. And obviously, if you're going to rent something, you want to to somebody that can afford it. And so we get all their data, we know where they're working, we know their past credit history, all that kind of stuff. And so at the same time that we're actually denying some people, those people were actually buying condos and houses. So the people that we were actually denying to move in as a renter. So that's when, I remember you and I were sitting there and I said, "Oh Robert, I'm telling you what I'm seeing at at the occupancy level is that we're actually seeing people with pretty bad credit that can't even really afford to pay rent, that are actually buying homes right now." And I said, "This is going to turn into some kind of a bigger problem."

Robert: I remember it was kind of frightening because our vacancies are going up. When vacancy goes up, cash flow goes down for us. And all we could say was, let's just wait because something's going to happen. And when it happens, we'll move back in.

Kenny: Yeah. And that's what we did. Yeah. It took-

Robert: So in 2008-

Kenny: Yep. It took years, but it did happen.

Robert: When Lehman Brothers came down in September 2008, that was kind of a sign from God. Because that's when we moved in and fast because prices of real estate were coming down and interest rates were coming down.

Kenny: Yeah. Yeah.

Robert: It was a perfect storm, wasn't it?

Kenny: It was. It was. And it's interesting because if you really want to get super simple about what happened, people were giving people money that couldn't pay it back. Period. That's what happened. And all of a sudden everything fell. That's why they call it the big short. People that recognize that you can give anybody money anytime, you can give them 100 bucks, 1000 bucks, a million bucks, if they can't pay it back, there's a default. And that's actually what happened on a big, big scale.

Robert: So what happened after the crash?

Kenny: That's when all the banks and institutions started taking that real estate back. And so-

Robert: wasn't that when you made some of the best buys ever?

Kenny: Absolutely. That's when we saw that San Antonio property. That was owned by Bank of America, they had lent on that and it was 50% occupied and it was what we would call bank owned. So that's when you see all those things. It's incredibly difficult at that time though, Robert, as you know, to buy. Because everybody's scared, everybody's hunkering down on their money. Investors are going, "Real estate's a terrible, terrible time." And so that's when you have to have your team together, you have to have your systems together and you have to be ready for that. And that's what most people miss. Most people jump in when all that's fixed. And I remember we were joking, I said, "When the checkout person at Target has given me a real estate tip as I'm Christmas shopping," I said, "There's a problem." Or you're hearing it a lot at cocktail parties, "The party's over folks," at that time. And right now it's kind of the same time, even though I still think we have a lot of run in the market, in some areas, not all, it's a dangerous time to come into the market.

Robert: And that's what I was getting at is because this is in 2007, 2008, everybody was flipping houses. And that's when I was talking to Kenny and he says, "I don't flip." And I said, "I don't flip either." Because Kenny and I are cash flow people. We want the property to pay us an income for the rest of our lives or as long as we hold the property. But all these people that were jumping in were flippers. So they want to make the quick buck. And my concern is, that's kind of where we're at today. And I was looking at the real estate section of the Wall Street Journal and New York Times, and people are just euphoric because the prices are at all time high, just like the stock market. The NASDAQ, S&P are at all time highs right now. And that's when the amateurs jump in, which includes real estate.

Robert: So the part I wanted to get to today is ask Kenny what you're looking for. Because I think we're more cautious now in 2020 than we were in 2008.

Kenny: Oh, without a doubt.

Robert: Though I'm more scared now than I was in 2008. In 2008, I was just glad it was crashing.

Kenny: Yeah. Yeah. How much more room do we have in this particular market and where are we? And if you look at the money that it's backing off, rents are topping, occupancies are not as high as they were. Cap rates are starting to go up, capitalization rates, as you know. We sold that big portfolio of ours, Robert, almost 300 million worth of stuff in the last 14 months, and our cap rates were in the low fours, 4.2, which is really low. And so if you don't understand cap rates, then you better be careful because they're important as you invest. And so what we're starting to see-

Robert: Kenny, could you ... I'll give people the definition of cap rate you gave me. A cap rate of four means if a property is a million dollars and you put a million dollars in the return is four. Is that how you-

Kenny: Yeah. That's pretty close. Yes, it's good enough. And so what happens though, is that 4%, whatever it might be, that's generated from the property, from the net operating income, which is another formula, which is basically expenses after income. And so what happens though is if that cap rate goes to five, then what happens is the value of the property goes down. And you have to jump, if you think about this 4:5, the ratio is 20%, you actually have to grow your net operating income by 20% just to break even. And a 20% growth in net operating income is super hard to do. And so that's what's happening right now is we're watching these cap rates and people are buying at three and 4%. And if the cap rates go down at all and there's any softness, especially with interest rates, then I'm telling you that these properties are not worth what people are paying today. And all of a sudden they're going to be underwater with their mortgages or the things that are not going to cash flow like they should.

Robert: Right. So in spite of prices being high, the market being volatile and all that, are there still opportunities out there?

Kenny: There are. I got to tell you, it's interesting, on my podcast, I just had a guy that's investing in mobile home parks as an example. And mobile home parks were not even on the radar. People weren't even talking about them years ago. But let me tell you what they are, they are a land place covered by rent and these are affordable places. And so they're buying these things, 100, 200, 300 unit mobile home parks, and their rents are six, seven, $800 a month. They don't actually own, sometimes they bring their own and they stick it there, but they get basically a rent for the space. And the people own their own place, or in some cases they don't own their own place, they just charge them rent. The point is that more and more and more people are moving to what I would call affordability. That's one of the big things, is affordability and rent control. All that stuff's coming Robert, as you know. It's already here.

Robert: So anyway, I want to thank you for your time. Thank for your education. There's always an opportunity out there, but I think you've got to be a professional at this. Any final words which you would you say to somebody who's thinking about jumping into real estate? What would your final words be? Except buy your three books, of course. Talk about that. It's cheaper than a down payment.

Kenny: Yeah. Yeah. Education is everything. As you know, Robert, honestly, find yourself some mentors, find yourself a group of people that are like-minded and like to study. Even Robert, you and I, we study a lot. That's why I created the kenmcelroy.com, the videos and all that stuff, so people could just go on there and study and learn and from real experts. You can only get so much out of a textbook though, and you can only get so much out of a video. You actually have to go out, like you did with your stuff in Maui, and go out and actually learn. That's how you really learn. But do that first before you spend your money or somebody else's money. Because the market's not always going to go up.

Robert: I thank all of you for watching Kenny and myself discuss this very important subject called real estate. When people say, do what you love, I really think it's also invest in what you love. And I really love real estate, which is going to be a problem because I bought some really bad real estate because I loved it. So if you love it, study it, be a professional, have mentors and I think make it a lifelong plan to keep acquiring real estate. So thank you, Kenny.

Kenny: Yeah. Thank you, Robert. Always great chatting with you.

Robert: Thank you for listening.