EPISODE 269

[INTRODUCTION]

Dave Zook (DZ): Conventional wisdom doesn't work. And you should train your mind to just question everything. When you look around you and you think about convention, you pick one. Just pick one. And then you ask yourself, okay, is that working? Conventional education, go to college, get a degree, come out of college with that six-figure job and drive a nice company car. Is that working? Not anymore. Conventional medicine, conventional health, conventional wealth, you know, work in this cubicle for 40 years, invest your money in a 401K, and someday you might be rich enough to retire and live a good life. How's that working? That's horrible. You know, you go down the list, and you ask the question about conventional in a lot of those different categories. And you ask yourself the question, does that work? How's that working for people? And you'll quickly realize that conventional wisdom usually isn't the best way to approach things.

Announcer: Welcome to Elevate, the masterclass where we dissect the elements of exceptional achievement and lifestyle design with a focus on personal growth and real estate investing. Now, here's your host, Tyler Chesser.

Tyler Chesser (TC): Elevate nation, welcome back! This is Tyler Chesser. I'm so thankful to have you here and I am blessed and grateful to be sitting with Dave Zook today. Oh, baby! We covered tremendous ground in today's episode, and you're going to learn what it means to explode conventional wisdom, what upside there is in expanding your future through questioning conventional wisdom. Ultimately, you can be conventional or you can be wealthy. Pick one. Today is going to give you the opportunity to expand your wealth not only from a financial perspective, from a tax mitigation perspective, but also to expand your lifetime fulfillment through questioning conventional wisdom across the board in your life.

I'm telling you today's episode is life-changing and oh, baby, buckle up! Elevate Podcast is all about mindset, mind expansion and personal development for high-performing real estate investors. I'm your host, Tyler Chesser, and I'm a professional real estate investor and entrepreneur, it is my job to decode the stories, habits and multifaceted expertise of world-class investors and other experts to help you elevate your performance and lifestyle. Are you ready to take it to another level? It is time! Let's raise the bar today.

And before we dive into this episode, I want to invite you to pay the fee. The fee is to pay it forward and share this episode with a friend. Just grab the link wherever you're watching or listening to this podcast, all you have to do is grab that link, shoot it forward via text message, email, social media. Post it, just mention the podcast to someone else. We just really asked you to do that from the bottom of my heart. I really appreciate any introductions. I know that referrals don't take them lightly. And we want to add value to other people in your community. And the only way that we can continue to grow and add value is if you help us share this episode. If you've done that in the past, we just want to thank you. I'm here to thank you today. We asked you to do that once again today. That's the fee for listening. Otherwise, it's 100% for free.

And then also, by the way, if it's your first time listening to Elevate, welcome! We are here to pour massive value into you. And again, you know these episodes we put in so much work, time, attention because we want to show you massive respect and kudos to you for giving us your time and attention today. And without further ado, I want to introduce you to the man, the myth, the legend, Dave Zook, who is the founder and CEO at the Real Asset Investors and the owner at Horizon Structures. Dave Zook is a tremendously successful real estate investor and alternative investment syndicator-operator who's provided tremendous value for thousands of investors. He's raised over $500 million for alternative investments. He has transformed his own tax liability or lifestyle in such a big way and he's helped over $100 million worth of other tax liabilities be raised for other investors. And it's not just about letting the tax tail wag the dog but it is about creating a lifestyle. It's about expanding through the clues of what Dave has shared with us today.

So without further ado, please enjoy this fantastic, this insightful, this inspiring conversation with Dave Zook.

[INTERVIEW]

TC: Welcome to Elevate, Dave Zook. How are you my friend?

DZ: I'm good, Tyler. Thanks for having me on your show.

TC: Absolutely, man. I'm excited about this. And it was fun to just kind of catch up here before we got going. We got a Friday morning, we got Friday energy, and I was looking back at my week and I'm like, uh-oh, I still have about 27 things I need to accomplish. It sounds like the same for you and that's a typical week, right? But, while we dive into this conversation, Dave, why don't you take a moment to briefly introduce yourself to Elevate nation. Talk a little bit about your upbringing, a bit about your backstory, if you don't mind.

DZ: Yeah. So, fortunately, I was born and raised in a very entrepreneurial, business-friendly family. I grew up in the family business which was modular buildings. We were building modular buildings, still are. My dad bought the business the year I was born and sort of grew up in that space. As I was getting into my teens and early 20s, I was kind of looking around and seeing what else is out there. And I started investing in buildings and businesses, largely due to the fact that I saw my dad investing his extra money. He's very successful, and I've seen him invest his money in farms and land and some single-family homes. I saw him self-manage single-family homes and I quickly lost appetite. And for anything that had to do with investing in real estate, I just decided that wasn't gonna be me. So, I started building businesses and long story short, some of those businesses started doing really well. I got myself in a position where I was paying a half million dollars a year in tax. And, I was having a lot of fun at the time building these businesses and running the businesses. But, when I had to give half of my money back to the government or almost half, it just wasn't so much fun anymore.

DZ: So, that's what drove me into investing first in multifamily apartments and, you know, getting familiar with words like cost segregation studies and 100% bonus depreciation, Section 179 at that time. And, you know, quickly took my tax liability from a half million dollars a year to zero the following year. So, I really studied and got my mind around how that worked and eventually, it got to a point where I realized there were a lot of people, sort of, in that camp, and I started teaching it. So, I sort of went down that path of investing in multifamily apartments. And that led me down to the path of bringing some friends and family with me, and then, you know, kind of business associates and all that, and we started doing some deals together. And actually, you know, I'm a syndicator. I really didn't plan it that way.

TC: Yeah, man, I know there's so many of the listeners can resonate with what you're talking about, and myself included. I remember those first few sort of big tax checks I had to write to the government. It's like, man, that does not feel good and it pushes you into action. It's like, it's caused you to start asking questions and sort of the conventional wisdom as well. You know, I remember hearing this and I'm sure you've heard this yourself. It's the CPA that says, well, if you're paying more taxes, that's a good thing. That means you're making more money. And, I love your tagline that says, "You can be conventional or you can be wealthy, pick one." And so, is that where that sort of line of thinking began?

DZ: Yeah, you know, Tom Wheelwright shared with me, more than a decade ago, he said, "If you want to change your tax, you've got to change your facts. You've got to change the way that you're doing business and the way that you're investing." And, I always, to come to the conventional wisdom, that, you know, if you make a lot of money, you got to pay a lot of tax, that's what I was taught, that was the influence I was under including my then CPA. Oh, you had a good year, you know. What are you gonna do? You can make less money, or you can bail out of tax, you know, that was sort of the thought. So, you know, the idea that I could control, that I could make a lot of money but control my own tax liability never occurred to me till just over a decade ago. And when I realized that that was in my control to reduce my tax liability, everything changed.

TC: Yeah. And it's not how much you make, but it's what you keep, right? I mean, I think that's the realization that most business owners recognize over time. You know, after you start writing some checks that are like, man, let's question that, and it doesn't feel good to fork over a significant percentage of your net profit, you start to look for opportunities to change your facts. So how long did it take you to really take action and really pivot the way that you interacted with your tax strategy? I mean, was that one year later, it was completely transformed? Or was it over a few years or so?

DZ: Yeah, good question. So, I went from paying a half million dollars a year in tax to zero the next year. It's been close to zero ever since.

TC: And the primary mechanism was through cost segregation, depreciation, and so forth, or give us a sense of what else you were able to change your facts, so to speak.

DZ: Yeah, that's really what it is. I had a conversation with an investor the other day, and he, you know, that investor was telling me how he's putting this whole entity structure and, you know, using trusts and entities and offshore stuff and moving stuff around. I was like, for one that sounds complicated, and it's expensive to maintain. And unless you're immersed in that stuff. I mean, for me, I get lost in all those details, like you gotta structure different things, different ways. It's much more simple than that. You really take your income, and this is what we teach, this is what I do for myself. There are really three kinds of incomes, there's more than that, but the top three are ordinary income, you got passive income, you got capital gains income. Now, of course, there's portfolio income, there's short term, long term, whatever, but those are kind of the three that most people are familiar with, and that you should make sure you get your head around.

DZ: And then really, what you're doing is you're taking an asset class that provides the depreciation to go along with that stream of income to wipe out the tax liability on that stream of income. And so, for passive income, there's tons of ways you can offset the tax liability on passive income. For ordinary income, if you're a W-2 guy, if you're a doctor or a dentist, a lawyer, high-income earner, it's much harder, but it's still possible. There are asset classes out there. When it comes down to it, you really got to figure out what is the government wants you to invest in? All right, and then so there you gotta find that asset class to offset the tax liability on your W-2 income. And there's some out there, there's some good ones out there, especially now. And so really just taking those asset classes that give you the depreciation that you need to offset the tax liability on net income. Capital gains, another easy one. So, really the hardest one is the W-2 income earner but there's options for that. And that's what I do for myself and that's what I teach people to do.

TC: Yeah, it's so valuable. And a couple resources for the listeners who want to dive deeper into this. Maybe they find themselves in that position where they've got tremendous earned income, and they're getting taxed at, you know, a significant rate. I mean, obviously, looking at Robert Kiyosaki and what he's taught over the years in terms of the Cashflow Quadrant, and how you can make leaps from one part of the quadrant to another. And then of course, you mentioned Tom Wheelwright earlier. Thinking about tax-free wealth and what he writes about and what he educates about. If you think about the IRS tax code, at the end of the day, it is all about incentivizing certain behavior. So, understand what Uncle Sam wants to partner with individuals and businesses and investors on? It can help you guide your behavior. And it's not like you and I would imagine looking back in many regards.

TC: Obviously, you were pushed into action to make a shift in terms of how you're spending your time and how you were creating value. It's not like the tax tail, totally, wag the dog, but it pushed you in tremendous forward progress and action. And so now The Real Asset Investor has become, you know, a pretty substantial thing and you've scaled in a massive way, you've helped so many others access real assets and alternative investments through sort of this initial push. So, talk to me a little bit about those alternative assets. You mentioned you started kind of in the apartment space and multifamily, but you've done so many other asset classes. Could you talk a little bit about that?

DZ: Yeah. So, and to your point, you know, about finding out and using the tax code to your advantage? You know, I always sort of shocked people, when I tell them this grid, because it flips on its head, the thought that if you make a lot of money, you got to pay a lot of tax. People think it's patriotic to pay a lot of tax, you know, who would build the roads, right? Well, if you want to be patriotic, do what the government wants you to do, and pay zero tax. They'll pay you to do it. And so you know, it kind of flips people on their head when I tell them, flips that whole thing on their head when I tell them that really, when you end up the year with a big tax bill, that's the government punishing you for not doing what they want you to do. That's a fine. That's a fine for not doing a sock here. That's like a citation. That's a fine for not doing what the government wants you to do. And when it all comes down to it. When you add value to people, when you add value to society, the government rewards you for that. When you provide housing, when you provide energy, gas, oil, anytime you're out there, providing a lot of value through jobs, buying new equipment, stimulating the economy, all those things is what the government wants you to do. And if you do it, and you do it well, they'll pay you to do it.

DZ: And so different asset classes to your question some of the asset classes that we're involved in our three core asset classes, self-storage. We do a lot of self-storage. We do a lot of ATMs. We're one of the top four ATM operators in the country. So, if you see an ATM and a convenience store out there, there's probably a one in four chance that it's ours. -aybe a little less, but it's good chance they might be one of ours. And then we're building and acquiring Tommy's Express car washes. So, those are sort of our core asset classes.
Quick story on several of them. We just rolled up almost a year ago, back in November, we've rolled up 26 of our self-storage properties, sold them to Reid out of Chicago. That was a $450 million deal. It netted our investors around a 30%-31% cash-on-cash return, annualized. That was a great deal for us.

DZ: So, we have a great operations team. We do a lot of self-storage. On the ATM side another great asset class. When you're looking at diversification, you look at those two asset classes and you think that's just like opposites. The one is super strong cash flow, 100% bonus depreciation in year one, but there's no equity. You get out to the end of the seven-year period and the deals over. Self-storage, our business model is we buy from a mom-and-pop operator. We add value, a forced value into that deal. Normally, a lot of times, we're adding square footage, climate-controlled square footage. We know what the REITs want. We've sold 40-plus properties to REITs so we know what they want. We're adding climate-controlled units. We're taking a 50,000-square-foot facility and turning it into an 80,000-square-foot facility. And then we're stabilizing and sell it to a REIT for some crazy cap rate. A lot of margin in that business, but it's a total, it's almost opposite in that because we're adding value and spending money in the property. Whatever pretty low pretty modest cash flow, also fairly modest tax impact. But then we've seen huge equity upside and we make money on the exit.

DZ: And so just to be able to provide those different sort of asset classes with the different attributes for an investor, like if I have an investor coming to me saying, hey, you know, I sold a property, and I've got a half a million dollars in gains, what would you suggest that I invest in? Okay, that's different than somebody who says, hey, I'm a doctor, and I made a half million dollars a year in income or a million dollars a year in income? What have you got that I could invest it? I mean, those are conversation starters. And then, you know, my suggestion is always, well, let's look at it from you know, let's look at it big picture. What have you got on your tax side? And then what are you thinking about cash flow or equity growth? Because some people think, you know, many people think, okay, I'll put 100 grand out there, I'll put 500 grand out there, and I want that money to earn money, right? But many times if you can reduce your tax liability, and you can knock out that 37% tax, that's a 37% return on investment for a year, right? So it's those kinds of things that we talk through and that kind of stuff gets me excited. I love helping people work through their tax liabilities in there, and really ultimately, their wealth strategy,

TC: That's fine, man. It is a game, to your point. It is a fun thing to kind of put those pieces of that puzzle together. So, thinking about those three different asset classes, when you think of self-storage, ATMs, carwashes, which you mentioned, are kind of the three main asset classes that you've been focusing on recently over the past few years. And when you think about those three different components, the asset classes, you mentioned self-storage, and the margin, the profitability in terms of that strategy that you guys have successfully employed. Now, how do ATMs and car washes play into that overall strategy? You mentioned sort of a tax strategy, maybe profitability for one asset class, maybe give us a sense of what ATMs and carwashes, what role they play in that portfolio overall?

DZ: Yeah, so carwashes, when you understand the business, you realize that the margins, I mean, it's a cash flow investment, It's a cash flow investment, number one. The other thing is, institutions right now are all over it. They understand several things. They understand, it's a very high cash flow business. They also understand that since spring of 2020, kind of a big deal, when you can take a team of a business normally at that size, you know that many transactions, that kind of volume passing through your business, you're thinking 12, 15, 20, 50 employees. Here, we can run 200 to 300 cars per hour through our tunnel and get their cars washed. And you can do that with two employees. And so they recognize that this thing about retaining, hiring and retaining good people has become a lot harder in the last two or three years. And so, to be able to run those kinds of margins, you know, 45% margins on EBITDA, and doing that kind of volume with two people. And then also recognizing like the self-storage space where this business is a proven business, even during a recession or pullback.

DZ: So, you're looking at that thinking, those three key ingredients are very popular with investors but institutions have been waking up to the fact too and they're seeing this and they want it. So, there's incredible appetite in the institutional community for carwash. And we're really building this thing to sell. Right now we started out thinking that we're going to build 30 to 40 carwash within five years. And now we're on pace to build 60 and four. So, it's really a race to really assemble a package, a big package of carwashes, and at some point, exit to return or an institution. And what we've seen is carwash packages trade when there's eight to ten carwashes in a package. We've seen those trade at somewhere around a 10x multiple. But we've seen once you get it to the size and scale where it's an institutional grade package with 20-plus carwashes, the last four institutional size packages with 20-plus carwashes, well-run tunnel washes. We've seen this trade around the 20x multiple. And so just lately, the last couple of weeks ago, an article came out in the Wall Street Journal that really confirmed that and they're talking about those multiples 18 to 20x multiples on a large institutional grade or institutional size portfolio. So, we're really building this portfolio to at some point exit to a REIT down the road sometime.

TC: That's very exciting. It makes me think back to my very first job was at a carwash. And we did not have two people, we probably had 12 or 13, or whatever. But you know, obviously, that industry has really been transformed. It's really interesting when you go, I mean, it is totally a machine in every aspect and a money printing machine in many regards. So, that's exciting to hear, the scale that you guys have been able to achieve and the opportunities that you're uncovering in that space. And with regard to ATMs, I mean, help me understand the functionality that that asset plays in the overall portfolio as well.

DZ: Yeah, so that's again, that's a very aggressive cash flow play. It's 24 and a half percent cash-on-cash return with an IRR of around 19%. And so you know, when you look at what is the business model, it's very simple. I mean, somebody comes and swipes their card costs them around three bucks. Somebody on the other side of that transaction is getting the three bucks, right? We take down large portfolios of institutional grade locations, convenience stores, delis, those kinds of locations, high foot traffic locations in the right communities. We're taking down those large portfolios. It could be $5, $10, $20 million portfolio, and instead of getting them funded by Wall Street, we're bringing that portfolio down to their investor community, and we're funding them privately. And so, normally in the space, you typically have either one of two. You have a mom-and-pop operator running around can serve us up to 150-ish machines in a 50-mile radius until they've kind of you know cap down. It can be a very lucrative business but it's also a very active business. It's not very scalable.

DZ: And so on the other side of the spectrum, you have the cardtronics of the world. You know, the big four, the big three publicly-traded companies, billion-dollar-revenue companies, and you know, all of their maintenance people, their operators, their drinks, and looms bringing in the cash machine, all third-party audited. As you can imagine those cameras are everywhere. And so you sort of have those two players, mom and pop and an institution. We're somewhere in the middle, we take down large institutional grade portfolios, like over here with the big players. But then we bring them back over to our investors and we fund them privately. And then, of course, we manage that portfolio for the investor. An investor coming in will invest $104,000 for a unit of ATMs for accredited investors. That unit of ATMs is placed in the portfolio, and then that investor gets paid on the blended performance of the entire portfolio. So his ATM machines are in the portfolio but he gets paid based on the entire portfolio. So you know, if you're in Naples, Florida, if your six ATM machines are in Naples, Florida, and you get wiped out - unfortunately, they have some rough weather down there in the last couple of days - your cash flow doesn't stop because your ATMs are underwater. You got a blended portfolio across the fund, and you're getting exposure to you know, maybe a thousand or two ATMs in the fund. So, you get paid, right now, we're paying out $2,142 per month. It's a seven-year contract or 84 months. It's a very aggressive cash flow plan. It's 100% bonus depreciation in year one,

TC: That's awesome. Let's take it to a step sort of higher and to get a step back and kind of looking at the overall strategy. I mean, from a pace of growth, obviously, looking back, I mean, you mentioned the word scalable. You've scaled significantly from a capital-raising perspective. And obviously, you speak the language of business owners and people who have gone through some challenging sort of tax experiences themselves. And obviously, I'm sure you resonate with them. But I want to get to capital raising and the mindset behind raising, you know, $500 million plus dollars from investors and offering those type of opportunities at scale. But before we get there, talk a little bit about your strategy when it comes to finding these opportunities that you're just speaking about in various different real assets. I mean, are you doing JVs? Are you doing fund to funds? You're partnering with operators, are you guys sourcing the deals and vertically integrated yourself? Help us understand a little bit behind the scenes there.

DZ: What we do well is we like to partner with the operator. So we'd like to be a funding partner, coming in beside them, consulting, helping them in ways to scale the business. We find a really good operator. I'll give you an example. Our self-storage operator, 40 years in the business. And you know, when we first got to sort of know each other, and I was asking them a lot of questions. I was asking him like, what else do you invest in? And you know, forty years in business, very successful in the self-storage space, he was like, boom, nothing. Self-storage is all I know. So that's a good example of we'd like to come alongside those people. Another example is the ATM space. I was a passive investor in ATM space for about four years until I got the opportunity to partner with the guys. At that point, it was kind of a small friends and family fund. I got the opportunity to get in there and saw the opportunity to scale. In 2016, I became a partner in the fund and took it from, you know, small friends and family fund to now one of the top four ATM operators in the country. So, we really just we like to get behind somebody that's kind of a master in their space, and then partner with them and come alongside and help them scale the business.

TC: Yeah, partnerships are so powerful. And one of the things that you've been able to do is obviously you've scaled the ability to partner with other investors through syndication. And so, let's talk a little bit about raising $500 million. I mean, first of all, that is remarkable. I mean, I know we had a deal recently where we raised 16 and a half million bucks in, you know, the course of two months, and that was a big lift. I mean, but to be able to multiply that in the capacity that you've been able to do is remarkable. It's unbelievable. So, talk a little bit about maybe advice that you might give your younger self when you started raising capital versus where you are now. I mean, I'm sure there have been many lessons learned, many pitfalls to avoid, many things that have, you know, significantly worked well in terms of being able to be successful in this space. So, talk a little bit about that.

DZ: Well, first, congratulations on your raise, $16 million in two months is no joke. And I can appreciate that. So congratulations. But no, it's just going to market. And this doesn't matter if you're a syndicator. If you're trying to raise capital, if you're building a widget, if you're whatever, going to market, looking to add value, deliver a lot of value to a lot of people. That could be the fastest way to success. And one of the things that really helped me to kind of jumpstart and get a really good start on syndication was I was immersed in the investment world. I was doing a lot of this stuff on my own. I wasn't investing, like I shared, I was investing in ATMs for years before I brought it to my investor group. I was investing, I own several hundred apartment units before I ran out of my own money, and then had to go find a way to get the next deal done. And that's when I got friends and family involved.

DZ: So really, it's just being able to share a story and be able to say, look, this is what we're doing. This is how it works. This is how it works from the tax side. That's how it works from the equity side, the cash flow side, and really just showing them this is how this could work for you and then going to market. Looking to solve problems for them. A lot of those guys had the same problem that I had. Heavy taxpayer thinking that, you know, well, I made a lot of money last year, I gotta pay a lot of tax. And then I come along and kind of show them that you have options. You got more options than that. And so just being able to go out in the community and creating value for people. When your investor realizes that you're looking out for their best interest, not yours. And you know, look, temptation is there. When you got a deadline to meet in whatever the self storage space, you got a big deal that you're closing on, and you got an investor comes to you that had a big liquidity event just sold his business for $20 million. And he's looking to place capital. And you know, you're kind of caught up over here in the ATM side where you got lots of depreciation, but you got this big deal that you're trying to get done in the self-storage side. You never want to take investment money somewhere where it's not serving his needs the best. And so when investors realize that, and they can trust you that you will, that you're looking out for them and their needs, that's a big deal.

TC: I completely agree. I've found that myself, you know, just a simple phrase of, "hey, you know what, it seems like this deal is not the best fit for you" can be one of the most powerful investments into a relationship that pays massive dividends down the line. It's like, hey, you know, look, I'd love for you to invest in my deal but based on what we talked about, this just doesn't make sense. And here's why I don't feel like this is your best option. That is just like an opportunity to earn that type of trust and that type of relationship for the long haul. In my opinion, I would imagine that's been a huge component of your success. And I think it's almost an investment not only in the trust and the confidence that hey, this person is wanting to truly add value to me and they're not just looking to close me out as an investor. But it's also a bit of a sort of a nudge towards the psychology of capital raising. There's a lot to be said about the psychology and the comfort level that people have by placing hundreds of thousands or millions of dollars with you. So maybe you could talk a little bit about your perspective and some of the psychology that you've uncovered through capital raising, as well. Is there anything that you found to be interesting or any patterns that you've observed through raising capital over the years?

DZ: Yeah. And to your point, when you make those kinds of calls, you're thinking long term not short term. Could you benefit from putting on some good sales talk and getting that deal done and use an investor's capital to get that deal done? Probably. But that stuff will come back to haunt you. This business is about relationships. This business is about thinking long-term. And so when you can think long term, it's sort of the difference between hunting and farming. A hunter has got to go out and catch or kill something and he's getting enough to eat for the day. A farmer just crops the soil, just thinks long term, just plants the soil, whatever and eventually that bears fruit for a long, long time depending on what you're planting. So, that's the difference between the farmer and the hunter mentality. And business, again, is about relationships and thinking long term. If you want to get momentum, you've got to think long term, you've got to do what's best for your investor.

TC: Totally agree. And there is this tendency you know, it's like our mind tells us, well, you know, this will be good for them if we just kind of fit them into this one-size-fits-all box. But if we can fight against that because that's the lower-level self that says, hey, look, if we close them, we can win in the short term and then we'll figure out a way to win in the long term. I think you're setting yourself up for failure. And so to that point of having the mindset of a farmer rather than a hunter reaps tremendous benefits and there's the compound interest of relationships and building and strengthening trust and playing the long game. You know, for some people it's like, on the other side of the fence, it's, you can win a short-term battle, but you lose the war. So like, let's play to win the war. You know, let's till the land and let's really water the seeds of these relationships.

TC: Hey guys, just a quick word from our sponsor, then we'll be right back to the show. This episode of Elevate is brought to you by CF Capital, a national real estate investment firm founded by myself and my business partner Brian Flaherty. CF Capital's mission is to provide property investment and asset management solutions to help investors like you maximize their returns by investing in high-value multifamily communities. If you are looking for risk-adjusted alternative investments in quality apartment communities, are seeking tax-optimized cash flow with appreciation upside without all the hassles of management, you might benefit from learning more about investing alongside our team. You're invited to reach out and learn more about how you can invest with us by visiting CFcapllc.com. We're also currently offering a free ebook called "The Bottom Line: 10 ways to Increase Cash Flow in an Apartment Complex". Whether you're a new or experienced investor, we're confident you'll find massive value in this resource. So, go get your free copy today at CFcapllc.com. And now please enjoy the rest of the show.

TC: Talk to me about your mindset. I want to talk a little bit about sort of the mindset that you've had because you've obviously transformed sort of your activities from a business perspective to an investor now adding value at scale to more people. But talk to me a little bit about the mindset that you've had to really kind of step into as you've transformed. I mean, again, going back to your, I love this tagline, "You can be conventional or you can be wealthy. Pick one." Maybe that's where we would like to take this in terms of just willing to question conventional wisdom. Is there anything else that you might say that has been a mindset or perspective that's been critical for you to adopt?

DZ: Yeah, so, I shared with the seniors class in our local high school yesterday, yesterday morning. You know, we talked about that. I told them, look, conventional wisdom doesn't work. And you should train your mind to just question everything. When you look around you and you think about convention, you pick one. Just pick one. And then you ask yourself, okay, is that working? Conventional education, go to college, get the degree, come out of college with that six-figure job and drive the nice company car. Is that working? Not anymore. Conventional medicine, conventional health, conventional wealth, you know, work in this cubicle for 40 years, invest your money in a 401K, and someday you might be rich enough to retire and live the good life. How's that working? That's horrible. You know, you go down the list, and you ask the question about conventional and a lot of those different categories. And you ask yourself the question, does that work? How's that working for people? And you'll quickly realize that conventional wisdom usually isn't the best way to approach things.

DZ: So, really just questioning everything, not trusting conventional media. How's that? It's horrible. Just training your mind to think when you see something that even you get caught up doing conventional, doing that whole same thing that 90% of the others are doing. And then you ask yourself the question, okay, how can I do this differently? Because at the end of the day, conventional is not going to get you there.

TC: It is really interesting when you go down that rabbit hole of the path of all of the different conventional thinking or conventional wisdom across media, across education, health, fitness, money, investing, career, I mean, like the list goes on and on leading your family relationships. I mean, like, honestly, we could probably have a three hour conversation on just this. But it is interesting. And when I think about Earl Nightingale, one of the all-time greatest personal development gurus, he was talking about the strangest secret in the world. He said one of the - this is not exactly what he said but this is the concept - the biggest indicator of failure is conformity. And ultimately, that's what you're talking about. It's like being a sheep. It's following in line. It's not questioning why the hell are we doing this? Why the hell is this being done? It's like, well, it's been done for 200 years. It's like, okay, well, why? Is that getting us what we want? And what kind of outcome are we focused on? And if we're willing to question that and open our mind to consider a new path, well, then maybe we get to the outcomes that we want. And so when we start to question then we can say, well, wait a minute, where do I actually want to go? Rather than is that the path? Because sometimes we're focused on doing rather than gaining or the outcome? Does that resonate with you, Dave?

DZ: Yeah. And one of the things that I did when I first realized that it was in my control to eliminate or reduce my tax liability, that I could make a lot of money, $8 million a year and pay no tax. That was a new thought. So, when I realized that that could be done, then the next question was okay, how can I do that? And then, you know, taking the step to really hunt down the people that we're teaching it and getting in front of them, getting in front of Robert Kiyosaki and asking him and his CPA questions about, okay, how's this possible? I was taught this way but you guys are teaching something totally different. How's that legal? How's that possible? And, you know, just then go to the people. Like my story with the self-storage guys. Instead of me spending the next five or 10 years trying to figure out the self-storage space. And really immersing myself in that asset class, big giant shortcut, when I can come right around and came up for partner with somebody that's immersed in that space, somebody has done it really well. And we can do business together. So really just kind of shortcut that whole process, and asking the professionals tapping into the professionals. And so that's been a lot of fun over the years to really just finding that professional team that really has their one thing, and being able to come alongside them, partner with them, take them to the next level, they take us to the next level was spend a lot of fun.

TC: I love it. And you know, it's just amazing. I'm just sitting here reflecting on just the absolute power of questions. The first realization is, hey, it is possible, right? It is possible for me to reduce my tax burden, it is possible to reduce it to zero or, you know, it is possible for “fill in the blank”, right? Anything. My firm belief, my core belief is that really anything is possible. Obviously, you know, a lot of things, we just kind of limit ourselves to say, well, that's I have never seen that done in my own sphere, or, you know, so it can't be done. So I think we've got to start there and recognize your point, hey, anything is possible. And then number two, it's the question of how can I and so it's just amazing to me, like these tiny, some of these things that seem insignificant, just like questions that puts us then in the world of possibilities to start finding the answers.

TZ: And 80% of our successes, you know, really comes down to our own psychology and our perspective, because if we don't ask ourselves those questions, we're never going to gain the strategy and the implementation opportunity to be able to do that. And so as you've continued to stack on these type of questions, obviously, you're looking on the landscape, you're looking for opportunities, whether it's strategies from a tax perspective, whether it's acquisitions from an investment perspective, so on and so forth. Obviously, you're probably asking questions, like many of us are like, hey, well, what does this market cycle actually going to shake out to look like? So I'd be curious, your take, you know, give us a sense of how you're viewing this market, how you're looking at sort of the economic crosswind? How are you reading this environment?

DZ: Yeah. So it's interesting, when I hear these conversations from apartment investors, they're talking about three quarter point rate hike that kills their deal, you know, and, to me, those numbers are too tight, there's only there's only a margin there. For me, when when we went through the spring summer of 2020. With our ATM portfolio, our transaction volume for two or three months, at the very lowest point, our transaction volume dropped 11%. And so that 11% is a lot. But fortunately, we had a 20% margin buffer built in to protect our investors. And so you're looking at a 28% margin buffer. So I kind of like to just chuckle a little bit when I hear an apartment investor, you know, their deal gets killed because of a half point or three quarter point rate hike. When you look at the ATM business. You're I mean, the carwash business, you're looking at a business model, a well run total carwash that's running on a 45% margin on EBITDA. There's you know, and when you look at what happened in 2008 to 2010, at the worst point during that era, carwashes volume across the board dropped around 5%. Just a lot of margin there. So I look at you, when you asked me the question about what am I seeing out there, investments beware, especially if you're operating under those sorts of asset classes, where you've got a really skinny margin that you're dealing with and don't have much production.

TC: I think it's critical to understand margin and to understand resiliency and to stress test your deals. I mean, you know, the past 14 years have been a run up in most all asset classes. And so people look back and you know, the conventional wisdom in the investment industry comes to be, well, you know, things always continue to grow. I mean, rent growth, and you know, velocity and all of these different things. It just grows, you know, that's just the world that we live in. And man, we forget very, very quickly about the cycles and, guess what, what goes up must come down. So, are there any tips that you might have to investors in being more thoughtful in how they're investing with margin in their deals? Or is there anything in particular you would point to?

DZ: Yeah, I mean, it's hard today to find an asset that is providing good steady cash flow, and to buy that asset at a fair price. It's hard this asset prices have climbed, as you mentioned, a lot, so you know, being able to go in there and force value and to something, figuring out a need in the marketplace and forcing the value. Now one of the things that we're doing in the carwash space is we're taking a very good location and we're building a carwash on it. So we're creating the value, we're forcing the value into that location by building a very profitable business. On top of that, it's different than when you go out and try to buy something that's already providing steady, stable, solid income, you know, there's a lot more competition for that type of a deal.

DZ: So, just realizing where the margin is. And you know, asking yourself that question now, can I go out and force value into something into a deal. I gave you the example of, you know, taking a self-storage facility that's in an underserved area, taking a mom-and-pop operated facility and then adding the square footage and getting it up to the size and scale that's now attractive to a REIT. There's a lot of margin there. If you go out and try to buy a 75,000 square foot facility that's got strong NOI, great cash flow, what I mean is cap rates are crazy and low. And so you know, just being aware and being able to recognize, okay, where is an area that I can force value? Because that's where you're gonna make margin in today's market?

TC: Where are you seeing the biggest opportunities in this next recession? I mean, is there any part of the marketplace where you see an opportunity to add more value than others or anything else that you're paying attention to closest?

DZ: Either having cash to be able to take advantage of opportunities that come along because of the market cycle and lose opportunities could be a result of a lot of things could be a result of over leverage could be a result of bad management could be I mean, it could be it could be a lot of things, but then being able to have the either the cash for the ability to raise the cash to take advantage of those opportunities when they come along? I would say that that would be a big one over the next few years.

TC: I could not agree more. And man, Dave, this has been a lot of fun. It's really fun to dive into your mind and the way that you're looking at things and the way that you just question all of these things across society that have just been set in stone as this is just the way it's done. You know, you always think about, you know, old time corporations are like, Well, why are we doing this? Well, this just this is how we do it. This is how it's always been done. That's how it's going to continue to be done. But I just appreciate the way that you like the foundation of who you are, as you're asking that type of question. It's like, well, why are we doing it this way? And can it be done in a totally different way? And also, the other side is how can I add value to other people? How can I add value at scale to other people through your investor community? And that also, it's like, how can we force appreciation? How can we add value to these investments into the community that we're investing in so that we can reap sort of margin and give ourselves more resiliency? So those are some of the summarizing comments that I would like to add. But Dave, I'd like to transition into the rapid fire section of the podcast, it's called the rare air questionnaire, it's all about being uncommon. I mean, at the end of the day, this conversation has been so uncommon in so many ways. So I'd love to ask you just a few questions. If you had to point to two or three of the most impactful books that you've read over the past few years, what would those be?

DZ: “Rich Dad, Poor Dad” is one. “The Compound Effect'' by Darren Hardy is another one. There's another one I read recently, “Who Not How” was a big one. I would say probably those three.

TC: I love all three of those books, we'll put links in the show notes as to where the listeners can find those themselves. Of course, starting with a classic. I mean, that was one that almost put me in this world of questioning everything was “Rich Dad, Poor Dad”. And then of course, I mean, what we're talking about, we're talking about making investments in investors and other partners and relationships, that to me, the compound effect is one component of that. And of course, there's so many different efforts that we can put forth that compounds that give us exponential growth opportunities. And of course, man who not how I mean that that was a game changer for me as well. I mean, I grew up middle class, in our mindset that we were taught that conventional wisdom in that sort of world, if it is to be it's up to me, and yes, there's value in our efforts and things like that. But ultimately, there are other people who can help us achieve certain outcomes and many more outcomes and achieve greater outcomes. So thank you for those reminders, man. I love that. And aside from what we've already talked about today, Dave, what's the biggest way that you elevate your life on a daily basis?

DZ: If you can put emphasis on health and wellness, it comes down to the question, okay, what is wealth? If you're a billionaire, and you're not feeling well, and you're just unhealthy and or if you're a billionaire, and you're not, your relationships are in shambles, and you don't have friends? Are you rich? Not really. I mean, you've got money, but you know, so So when I look at, you know, success and wealth, I think about those things, I think about it, you know, when we talk many times when we think about success and wealth, our mind naturally goes to how much money's in our bank account. But when you talk about real success and real wealth, it's much deeper than that. In fact, money might be top three or top four in that list. Being able to build relationships, being able to take care of your body, you only get one. If you don't feel good, nothing else matters, right? Taking care of your body, your spiritual health and then you know, making sure you're sound financially and making good, doing good deals and lifting people around you through doing that.

TC: Man, I love that you're setting that type of example, because I think a lot of times investors, you know, get tunnel vision, and it's like, hey, you know, it's cash on cash, it's internal rate of return, it's getting that tax bill to zero. It's all of these things. It's net worth, it's all these, you know, cash flow, blah, blah, blah, blah, blah, on and on and on. But at the end of the day, success without fulfillment is the ultimate failure. And it comes down to health physically, comes down to health in your relationships with your family, all of those things. And so I just appreciate the fact that you're giving us an example to course correct. If for some reason, we're out of alignment in certain areas of our life. Let's look back and say, it's not just about money, it's about creating a life. It's about investing in other people. It's about investing in your fulfilment. And I just love that. So, Dave, talk to me about the biggest way you elevate others around you.

DZ: I would say from a financial perspective, we've helped people save probably hundreds of millions of dollars in tax. And you know, it's always fun when you get the call, you know, you're explaining the investment and how the depreciation works and how it will affect them and all that sort of Yeah, right? Yeah. Okay, good, that sounds good, whatever. But then when they you get the call, like on April the 20th, or, you know, sometime soon after they get there, you know, that have their tax work done, and they have, you know, sit down with a CPA, and it's like, wow, this stuff really works like. No, so really, you know, through education, I would say through education and building long term wealth, I think we've delivered a lot of value in the last decade.

TC: Dave, I just want to acknowledge you, man. This has been super fun conversation. I've learned a lot. And I want to acknowledge you, man for continuing to add value at scale to so many people and giving people the opportunity to question conventional wisdom in all aspects of their life. Dave Zook, any parting thoughts or words of wisdom that you'd like to share with Elevate nation today?

DZ: Oh. Go question conventional wisdom. Partner with great people. Life is just a whole lot more fun when you do business with really cool people. And subscribe and do that well. Go make an impact. Impact your community, your family, people around you.

TC: Awesome, man. Great stuff, Dave. Until next time, my friend. Thanks again for being on the show.

DZ: All right, thank you, Tyler. Thanks for having me.

[END OF INTERVIEW]

TC: Elevate nation, Dave Zook bringing the heat today, bringing so much value. I just love when we get to speak with people as successful as Dave Zook. And you realize how nice they are, how kind they are, how willing they are to share their perspective. And you know, to help us kind of dive in to identify those clues. And I can tell you, there's a lot of clues from this conversation today. And you want to talk about somebody who is bold, who is continuing to push the limits, who's continuing to question conventional wisdom. I can tell you that conventional wisdom in the real estate space is not one of which you know, we can raise $500 million, that is not conventional wisdom in the space. So, there is tremendous upside to questioning conventional wisdom. Again, you can be conventional or be wealthy. Pick one. That is such a massive takeaway from this episode. But there's so many more. I want to encourage you to re-listen to the show. Because when we listen twice, we learn twice as much. When we listen three times we learn three times as much or more. By the way, it's amazing what our brain sort of takes out of the conversation when we're not careful and when we re-listen. Repetition is the mother of all skill. If we want to gain the skill and the expertise and the willingness to open ourselves to new opportunities. I just want to encourage you to do that.

TC: I also want to encourage you to share this episode with a friend and have a discussion I want you to identify your top three key takeaways from this episode. There's probably 27 takeaways to be honest with you and maybe even more. But I just want you, I want to encourage you to identify your top three. What are those three items that really moved you? Move the way that you saw things, the way that you want to communicate with your partners, the way that you're interacting with this market cycle. What are those takeaways that you want to apply immediately because ultimately, at the end of the day, application is where the real power is. Knowledge is not power. It is the opportunity to take action on insights which then creates power. So ultimately, I want to encourage you to take massive action on what you learned today, and until next time, Elevate nation. Thank you so much for tuning in, and we will see you next time.

[OUTRO]

Announcer: Thank you for listening to Elevate. If you enjoyed this episode, be sure to rate, review, subscribe, and pay it forward by sharing with a friend. Most importantly, take this opportunity to elevate your results by taking immediate action on what you learned. For more, visit elevatepod.com.

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