Twitter Thread by Nick Huber



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Don’t have much cash but want to invest in real estate?

Want to get SBA loans and special loan programs so you can buy real estate investments with only 5-10% down?

One word for you:

Don’t.

Here’s why

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Leverage can be a beautiful thing.

Appreciation takes over and all that value you bought with debt grows and you amplify your returns.

But there is another, darker side of debt. https://t.co/IgIq7GPkeK

> Everybody I know loves LEVERAGE when it comes to real estate.
>
> It\u2019s a beautiful and scary tool, kicking appreciation, depreciation, and cashflow into overdrive.
>
> It amplifies everything. You can make a lot of money really fast and go broke in months.
>
> Here\u2019s how it works\U0001f447\U0001f447\U0001f447
>
> — Nick Huber (@sweatystartup) October 18, 2020

Values drop 5 or 10% and you’re underwater. You have zero equity or negative equity.

Ask the folks who were over-levered in 2007 what happened on 2011?

Real estate is a frothy space right now. Money flying everywhere and values higher than they've ever been.

Debt is cheaper and easier to get than ever.

Will it continue?

Probably.

Money could stay cheap for a long time. There is a ton of negative yielding debt abroad and liquidity ready to flood our market at the drop of a hat.

Rates will likely stay low. Gov will probably keep subsidizing these loans. You'll probably be okay.

But what about that 25% probability event?

That inflation takes off, rates go up and debt gets tougher to get and more expensive?

You're totally screwed.

So if you're not well capitalized wirh the ability to put 25-30% down on your property with another 25-50% in reserve, you're at risk.

And if your counting on rent growth you're at risk.

And if you're counting on cap rates and interest rates staying you're at risk.

A lot of stuff out of your control.

So my advise is that you shouldn't.

Real estate isn't for you unless you either have your own cash or have investors ready to do deals with you.

So the folks telling you to "just do a deal" maybe should just be ignored.

Learn and study and plan, sure.

Chase deals. Underwrite deals. Develop your operational advantage. All of that.

But maybe you should focus on making money another way and spend some time just being patient.

Easy for me to say all this as I'm 5 years in and have a lot more to lose now.

We all took risks early.

If you have a clear value-add play and the chops to pull it off then throw this advice out and get after it!

https://t.co/hO2QKfbguR https://t.co/ufJ3T7zPeI

> Maybe, but it got me in the game, added $1m+ to my net worth, and 6 figures of annual cash flow. Hindsight is 20/20. A ~$12k pre-pay fee won't seem like much when the refi hits!
>
> — Rob LaBonne (@roblabonne) January 5, 2021