

# **LANDLORDING ON AUTO-PILOT**

**A Simple, No-Brainer System for Higher  
Profits and Fewer Headaches**

**MIKE BUTLER**



John Wiley & Sons, Inc.



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*In loving memory of  
"Pretty Girl"  
Tammy Butler  
September 12, 2004*

Our phenomenal success in real estate investing came from the support, confidence, enthusiasm, encouragement, commitment, love, and sacrifice I received during 21 wonderful years with my Pretty Girl, who allowed me to "break my chain" to invest aggressively and safely.

Most investors can only dream of having a life partner and soul mate so perfect.





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# How I Operated 75 Rental Properties While Working My Full-Time Job as a Cop

**F**ellow landlord investors, my goal in this book is to share my successful investing programs with you. Not all of it has been pretty: I have an honorary PhD from the School of Hard Knocks. I developed the auto-pilot system of holding and managing solid rental properties to help me to manage dozens of rental properties while holding down a full-time job as a police officer. First, I want to share with you a little bit about where I've been, what I've done, and how I've ended up.

My mom and dad raised seven kids (including me) in a two-bedroom home in Kentucky (see top of p. xii).

I grew up just a few blocks from the world-famous Churchill Downs, site of the Kentucky Derby. Most of our neighbors were blue-collar workers, whose definition of *successful* was to land a good job, at a good company, buy a home and get it paid off, buy a riding mower, and retire. In our neighborhood and church, I don't recall any doctors, attorneys, or certified public accountants (CPAs). Those folks lived on the other side of town.

Being the oldest of seven kids, I grew up with a strong work ethic. Pop worked at a slaughterhouse and proudly identified his occupation as a *meat cutter*. He would quickly let people know that anybody could be a butcher. Mom stayed at home and did a great job of keeping everybody fed, healthy, and in clean clothes. We had no clue that times were tough. We knew Dad worked hard; I admired him and wanted to be just like him. I got a paper route delivering daily morning and afternoon papers the summer after I finished eighth grade. This paper route was passed on to my brothers and sisters for almost a decade, and the money we earned allowed us to attend a private high school.

I did a short stint at a Winn-Dixie supermarket. I started as a bag boy and worked my way up to store manager. In November 1982, I had the wonderful



opportunity to get robbed at gunpoint, with a revolver nervously shaking inches from my nose.

This event, along with my experiences catching shoplifters (some violent), sparked my interest in law enforcement. I had never been satisfied with punching a time clock and relying on a single full-time job to take care of my family and me. While in high school, I took on odd jobs such as painting houses. In fact, for the first

house I painted, I gave the elderly owner a quote of \$60, which included painting the exterior from the foundation to the roof, all the windows, and all the doors. What a huge mistake that was, but I learned that lesson very quickly! For the next house I painted, I charged \$400. At this time, I hauled all my supplies, ladders, bucket, and brushes on my Western Auto 10-speed bicycle with no brakes. I roofed garages and houses and took on small remodeling projects before I started driving. So, I guess I've always been a worker. You will need to be one, too, if you want to be a successful landlord, but it has sure paid off handsomely for me and for thousands of other landlords that I have trained or mentored.

I got married and when my second child was born, I pulled the plug on Winn-Dixie and changed careers, becoming a Louisville, Kentucky, police officer. I took a sizable cut in pay to become a cop: My starting salary was \$17,000. I worked all the overtime I could get and worked off-duty jobs for extra income.

I also looked for something to supplement my police pension down the road. I read the classified ads daily, especially the "Business Opportunity" sections. Like many people, I was searching for a "magic pill." I thought it might be found in vending machines or coin-operated car washes and laundromats. There had to be a simple, easy way to financial success.

My goal was to spend my time and energy (because I had no money) on something that would grow in value and income. I wanted to find a way to make money as an *absent owner*, a hands-off system. My gut instinct kept directing me to real estate and rental properties, but I didn't have a clue how to get started and had no money.

In those days, the Department of Housing and Urban Development (HUD) advertised properties for sale in the classified ads of Sunday newspapers. I would drive by these properties in our 1986 Ford Ranger because I thought I could learn my market by seeing how much HUD was asking for the property. Then I would try to catch how much they sold for in just a few days or weeks. One Sunday in December 1990, a two-bedroom house on my old paper route showed up on the HUD list. I made an all-cash offer below the asking price although I had no cash. I just wanted the experience of going through the bidding process.

Low and behold, my bid was accepted!

Now what? We had about \$1,000 in our bank account, and I got pretty nervous. I went to the Louisville Police Officers Credit Union and got a loan on my 1986



Ford Ranger, our old Monte Carlo, and an unsecured signature loan with automatic payments to be deducted directly from my paycheck. This still wasn't enough to pull it off and do the rehabilitation needed. I resorted to my last resource—cash advances on several credit cards.

We bought the house for \$17,000, spent \$2,000 on needed repairs, and completed it all in 13 days. I hauled trash and debris to my police station dumpster at night. After renovating this little house, I went to Office Depot and purchased a generic rental application and lease agreement and put a tenant in the property. (I was lucky. This tenant is still with me today in his third home with us.)

I quickly refinanced this house, paying off the truck, car, signature loans, and credit card advances and ended up with \$5,000 cash in my pocket plus almost \$200 per month in positive cash flow.

Another pretty house, ready to go, went up for sale across the street, and I repeated the process without having to do any repairs except for changing the locks. Wow! This was awesome. At this point, my wife, Tammy, jerked my chain and said whoa! Being wise and conservative, she ordered me to ride it out for 12 months to see if there would be any “too good to be true” jinxes.

After a year, we had over \$6,000 in our real estate savings account, and she allowed me off my chain. I continued buying rental houses. In the beginning, it was simply a lot easier to buy stinky, broken, ugly houses in need of repair than to pay for more desirable real estate. I would fix up my houses and rent them out. People thought I was nuts. I was buying properties at a good price; but I was *not* selling them. The rest of the world seemed to want *fast cash now*. I was just trying to build something that would double or triple my police pension in about 15 years.

I accomplished several interesting achievements by accident:

- I *never* went to a bank to buy an investment property. I always bought the property first.
- I *never* used a “hard money” lender or a private lender for financing.

We started our first year with two properties, then added two more the following year, and I set a 1 year goal of one house per month resulting in eighteen properties purchased. After this, I planned to set an annual goal of two houses per month (twenty-four for the year). My good friend, local competition, and real estate education partner Jay Long and I had the opportunity to see Brian Tracy, the noted self-help speaker and author, in Florida during an annual real estate investor conference. Brian Tracy did a presentation on setting goals and challenged the listeners to “shoot for the moon! If you fall short and miss your goal,” he asked, “Are you a loser?” His answer: “No, you’re not a loser, you’re just a *star!*” Because of Brian Tracy, I adjusted my goal from twenty-four houses for the year to ninety-six houses—and rounded it up to one hundred.

Thanks to Brian Tracy, we did 85 deals that year and purchased over 50 rental properties. Absolutely incredible! It sure blew the doors off my original aggressive

goal. Getting this buying machine cranked up was a huge challenge that involved getting past many train wrecks and potholes. I share many of those stories in later chapters in this book.

One of the keys that made this plan work was my knowledge that I absolutely had to develop efficient systems, tools, and resources. There was no other way to have a realistic shot at achieving my goals. Keep in mind that I had to attain huge goals with part-time effort while working my full-time job. I hired my first part-time handyman for my fifth rental house and have never swung a hammer from that point forward.

I was buying property, managing rentals, and keeping it all together from a small office in the corner of our basement. My communication tools were a pager and a cell phone. My real office was on wheels, my police truck.

As a cop and an undercover detective, I developed effective people skills. I had a special knack for getting bad guys to tell me their side of their story, either in a tape-recorded or a written statement. An admission of the criminal offense, taken properly and legally from a suspect, is one of the best pieces of evidence in a criminal case. What is weird is that the offenders usually thanked me as they were led away in handcuffs. I retired from the police force in March 2000 and still get pleasant calls from bad guys in prison and on parole. (Their girlfriends and family members have quite a different attitude about me.)

Although I knew I needed to have systems for our little empire to grow safely and quickly, I had no mentors or a proven system to follow. We were on our own, blazing a new trail. This was a blessing in disguise because it allowed me to create and develop an auto-pilot landlording system without any baggage or critiques from experts and professional naysayers. I simply focused on results and objectives when developing this system and procedures.

Once I realized that real estate could be more than a painful hobby, I chose to kick it into high gear and achieve financial independence. Tammy and I lived off our police officer and nurse wages. We chose to let our real estate grow itself.

I had a "Failure Is Not an Option" attitude. I researched and looked for answers and solutions without much luck. Knowing I could only spend a few hours a week on real estate, we developed a lean, trim, efficient system in our investing business. Many folks in my town thought our business was a full-time operation. I am confident that if we had a way to compare the results, we would find that our part-time effort surpassed the gains of many full-time investors in my town.

One beautiful Saturday morning, I checked the voice mail messages on my pager and found it was full, with 30 messages. I retrieved all the messages and began returning phone calls at 8:30 A.M. while sitting downstairs in our lower level kitchen. From our oak table, I could see the pond and swimming pool out back, the ducks and geese, and it was a gorgeous spring morning. I returned those 30 calls while watching my pager dance on the table with more messages. Tammy brought me a tuna salad sandwich at lunchtime, and I continued returning phone calls, retrieving and deleting messages from the pager, and calling more folks. At 8:30 P.M.,

I still had a list of 30 people to call, and I finally realized that I had blown an entire beautiful Saturday because of our real estate.

This was not what I wanted from our real estate investments.

I wanted our real estate to give us a higher quality of life, not a noose around my neck.

Tammy and I decided to hire a part-time office person to help manage our properties. Kim worked about five hours weekly from our basement home office. What a relief! She pitched vacancies and did a lot of clerical work in her five hours. If she got behind on something, she would work longer.

Our records showed we operated 75 rental properties, plus the rehabs and the buying machine, before hiring a part-time office person.

This book shows you exactly how to achieve the same success.

In Section I, I introduce beginner basics to show you the fundamentals, attitudes, and some pitfalls and lessons I learned from the School of Hard Knocks. But I also explain the rewards that come with auto-pilot landlording to give you the motivation and patience to stick with it. I compare it with learning to ride a bike. You will get banged up and dinged up a bit, but if you keep working at it, you'll soon be speeding along for the rest of your real estate career.

In Section II, we move to key steps in auto-pilot landlording with detailed and thorough coverage of the rental application and the procedure for screening tenants. Just imagine what your landlording life would be like if all your tenants were perfect tenants. That is my goal; I haven't achieved it yet, but I've gotten close a few times. When you have great tenants, almost all the headaches and nightmares associated with landlording seem to evaporate. Your life can be awesome.

Next, I discuss how to polish your system and crank it up to the next level where you can actually begin to get more than 100 percent of your rents. This sounds impossible, but I explain how I did it with my properties.

And finally, you can get the set of forms for the landlording on auto-pilot system in PDF and Microsoft Word format. These forms are immediately available by downloading them from a web site.

Real estate has rewarded me in so many ways. Money or cash in your bank account is not the only measure of success. Success or reward is not at the END of the road. Success *is* the road; it is the journey. With success (and money) we have helped more people than I ever dreamed possible with my job as a cop. I have met great generous people from all over this wonderful country of ours.

We are blessed to have all these opportunities in our world. It is up to us to take action and make it happen for ourselves and for our families.

Good luck, happy investing, and congratulations on getting your hands on a copy of *Landlording on Auto-Pilot*.



## ACKNOWLEDGMENTS

I am not a genius. I have been blessed with a wonderful supportive family and circle of friends. I have learned a boatload of powerful life-changing information from many experts in life and in real estate. I have taken these techniques and strategies from these folks and have tweaked and twisted them to fit into my program of investing and landlording.

Thanks to my dad, mom, brothers, and sisters who lit my fuse and started me on my journey to achieve more in life. Again thanks to my wife Tammy and our daughters, who kept this fuse lit and fired me up to be the best I could be for us.

Also, thanks to my mentor and friend John Schaub who introduced me to wild man “Fixer Jay” P. Decima of Redding, California, who recommended me to Richard Narramore, my editor at John Wiley & Sons. Richard encouraged me to write this book.

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# BEGINNER BASICS OF AUTO-PILOT LANDLORDING

**T**his section explains how to keep the big picture in perspective. If you can keep the big picture in perspective, it will give you the patience and motivation to implement your systems and put your landlording on autopilot. Attitude, philosophy, and an understanding of what you really want from your real estate investments are critical parts of this process.

I screwed up often during the first half of my investing career because I didn't have a clue about my final objective. Sure, I realized owning real estate was good, but I operated with that Nike attitude: "Just Do It." Too many times, I bought property and did things that did not move me toward my ultimate objective. Call it busy work, or a waste of time. I may have made some immediate money or profit, but such activities stole my time from the quick pursuit and achievement of my investment goals.

These beginner basics are the culmination of the many lessons I have learned from speakers from all over the country, along with some tweaking of my own.

One of my instructors made the following comment I've never forgotten: Are you stepping over dollars to pick up nickels?





# My Amazing Discovery: A No-Nonsense Plan for Getting Rich in Real Estate

In my town in Kentucky, house values do not go up in double digits the way they do in Florida, California, New York, or Las Vegas. A good solid rental house averages 7.25 percent appreciation annually in my area. I like to be conservative in my real estate investment planning, so let's say that a property I am considering investing in would only appreciate 5 percent a year over time. With an average annual appreciation of 5 percent:

\$100,000 in property value = \$5,000 increase in market value *each year*  
\$1,000,000 in property value = \$50,000 increase in market value *each year*  
\$10,000,000 in property = \$500,000 increase in market value *each year*

I'll be the first to admit and agree that this is only on paper. You won't find it in any bank account and you cannot buy groceries with it. But, if you can hang on to your investments, just like the beer cans on the rear bumper of the limousine at a wedding, you can crank some phenomenal numbers and grow your wealth unbelievably fast.

Let me immediately remove the "Pie in the Sky" aspects here, and start with the end in mind. Ask yourself, "Where do I want to land?" What is your objective of investing? I never thought about this when I got started, and it caused me a lot of grief. I was buying properties left and right because I believed they were good deals. But I neglected being clear about my goals.

Here's what you need to know: "\$\_\_\_\_\_ in my pocket monthly would make me a happy camper!" Go ahead, fill in the blank. What is your answer? After working with investors all over the country, I can tell you that most investors are not like me. They are not greedy and have absolutely no desire to compete with Donald Trump. To my amazement, the number one answer here is \$10,000. That's

right, over 90 percent of investors say, “\$10,000 in my pocket monthly would make me a happy camper.”

The next part is a bit more challenging. How many of these properties would it take to dump your dollar amount into your pocket monthly? You also have to consider what kind of properties you would like to hold long term. Do you want a low-income area with high management and low appreciation, but excellent cash flow; or do you want nicer neighborhoods, less management, and less cash flow with wonderful appreciation and depreciation? This is your choice, not mine.

Let’s keep this idea going. Assume that you filled in the blank with \$10,000 and you want the nicer properties in a nice neighborhood. Using the market in my town would mean that about 20 solid \$100,000 rental houses paid for would dump \$10,000 into your pocket monthly. Using “real world cash flow” and not the dangerous definition used by many real estate agents, each one of these properties will give you about \$500 monthly.

Real world cash flow on a \$100,000 rental house in my town:

Monthly rent income =	+\$800.00
Minus Property tax =	(\$91.66)
Minus Insurance =	(\$25.00)
Minus Management fee =	(\$80.00)
Minus Repairs =	<u>(\$50.00)</u>
Total =	\$553.34

These are the numbers used for single-family houses in my town. Your town might have a different property tax rate or insurance rate and may have homeowner association dues. You must factor in all these ongoing expenses associated with owning the property. If you are investing in multifamily housing, apartment complexes, or commercial properties, you should include a vacancy factor for your market. With single-family houses, I don’t include a vacancy factor because I want my tenants to stay forever. Many of my single-family properties still have the original tenants today, years later. I’m not in the hotel business, and you shouldn’t be either.

Using the preceding example, you can see that 20 of these rental houses (if paid for) would put \$10,000 in your pocket every month from now on. Plus, there is a built-in hedge against inflation because you can raise the rent as the market value and market rents increase. This means you can always give yourself a raise. There is still another extra bonus behind the scene: You will have 20 houses paid for, resulting in your ownership of \$2 million in real estate. At 5 percent annual appreciation, this results in an additional \$100,000 increase in market value each year that you own the properties. Later in this book, I explain some tax benefits including depreciation.

So this fairly simple example of having a goal of 20 houses paid for will bring in \$10,000 monthly into your pocket and your real estate will increase \$100,000 in value every year.

Now, the hard part. How do you get there? How long will it take? Here is how I did it. I realized the preceding magic early on. I discovered that *time* was my biggest and scarcest resource. The sooner I got X number of properties under my belt, the sooner and faster and bigger the wealth would grow. I didn't want my real estate investing to be a painful hobby. Just like you, I wanted true financial independence for my family. I wanted to do it safely and efficiently. My wife and I were sticking our necks out, taking all the risk, with no one to turn to should our investing go belly up.

Here is my answer and battle plan. If I captured 100 of these houses *now*, I could "ride the bull" (dealing with tenants and rental property) for four years cranking over \$500,000 each year. After four years, I would have picked up another \$2 million in market value. If I had the discipline to sell off 80 of the houses and keep the best 20 for rentals, I could end up with 20 free-and-clear houses on this aggressive four-year plan. It was my original battle plan.

*If it ain't broke, don't fix it* might be an appropriate description of where I'm at today. With our investments cranking some phenomenal numbers in appreciation, even with just 5 percent annually, the big picture results are overwhelming and it's all on autopilot!

There is a common denominator for all the preceding results. Every single bit of it involves owning real estate. That means dealing with tenants as well as with the ugly word and world of being a *landlord*. The word sounds bad, doesn't it? It sounds evil—something ugly, not fun, not good. In fact, I prefer the word *investor*.

## **Definition of Investor**

An investor is "[a] person who purchases income-producing assets . . . considers safety of principal to be of primary importance. In addition, investors frequently purchase assets with the expectation of holding them for a longer period of time." (David L. Scott, *Wall Street Words: An A to Z Guide to Investment Terms for Today's Investor*, Boston, MA: Houghton Mifflin, 2003).

What about those folks who buy, fix up, and sell? Are they really investors? I don't think so. They are in the same category as a builder, plumber, or electrician. They are getting paid for what they do, not what they own. When these people stop buying, fixing up, and selling, their income stops, too.

What about those who *wholesale* or quick-turn properties. These people also try to label their activity as investing. Far from the truth! Once again, when they stop wholesaling, it's over. Stick a fork in them, they're done!

I'm not against these two activities. It just burns me when some people try to say these two methods are the safest and easiest methods of investing. These