Ep #7: How to Find Good Real Estate Investment Opportunities

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With Your Hosts

Dr. David Phelps and Evan Harris

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You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

Dr. David Phelps: Hi everyone, it's Dr. David Phelps and Evan Harris, 2 guys on a mission to make a difference and show dentists how to create real freedom in their lives and practices and do it now. Today we want to touch on something that we know is inherently very important for every doctor, every professional to be doing in their life and that's creating leverage to build wealth and income streams outside of the practice. We deal in the practice but we also have to deal outside the practice to create that plan B revenue to have that wealth ready to go when you want to slow down, have options to retire, cut back, whatever your needs and desires are. So many doctors say to both myself and to Evan hey how do I do what you guys have learned how to do in real estate? Show me how to do it.

I think that's fine Evan, you know a lot of the docs who come to our Freedom Founders Mastermind, they bring a younger son, typically it's a son who's maybe in their twenties who has the entrepreneurial skills and the ability and they tag team together. They join venture. Dad is in practice, has discretionary income. They get their sons involved and you and I can both show them how to actually implement the systems and the marketing and the lead generation and how to put these deals together so. For a segment of our doctors, I think this makes sense.

Today on the podcast Evan we're going to talk a little bit about how good real estate investment opportunities are found. Let's dive into that a little bit. One of the things those people say where are these opportunities and we know in the past that a lot of novices would say well just call your local realtor and your realtor will help you find these properties. That today is very difficult as we both know but let me let you lead into that a little bit because I'm going to let you run down the road and then I'll jump in at the right time.

Evan Harris: Sure. My wife and I have been in this business for many years. My focus is in dentistry and her focus is in real estate but because now my clients are investors in the real estate I get to be intimately involved in the whole process and get to see how the deals come through. For the do-it-yourselfer, there are many ways to be able to do it. Just like you said, the doctor may have a son or maybe the doctor only practices 2 days a week and can dedicate the other days full time to real estate investing.

One of the areas that I see people have success with, it's a lot of effort but there can be success, is using the MLS, that's standing for Multiple Listing Service. You can get access to it if you're a broker or an agent or if you know a broker and agent that are willing to give you access, their access code, you can be able to see what's coming up on the market continually.

Now the goal, and rarely is it found whether the deal's just standing right there in front of somebody, but finding properties that fit the niche that they're looking for. Let's say for example someone's looking for a 3-bedroom, 2-bath house that is situated in a certain town. Make an offer. I have people that make at least 10 offers a day for the price that they feel would be a good investment price without any relevancy to what they're asking for the property. Sure some agents might feel that it's rude, but for the most part the offer is spelled out. This is just an offer. It's a backup offer so that if the client, the seller, finds that they need to move quickly to sell the property, here is a tried and true offer.

Now in reality, there are a lot of sellers they get zero offers on their house so legally an agent has to present an offer, even if it's ridiculously low. On a bonus, if they can do a cash offer, that will really stand out. Here's why: Many times with the banks today, banks are initially saying that they'll fund but then as soon as the steps go down the road a lot of escrows fall out, for whatever reason, and now that seller has to start over again. That seller may need to move out of state. That seller may be selling a deceased family member's house and they've got motivation to get it done. Whatever it is, having backup offers in is oftentimes a way of playing the lottery for free. If they're put out 10 offers a day, eventually one will pop. If they put out 100, there will be a response from agents. Now sometimes an agent might say that's ridiculously low, they'll never go for it. That's okay. Spell that out in your letter. We know this is well below the asking price, this is just a backup offer. That would be #1. Just have that son, that daughter, whoever it might be, just keep making offers.

Dr. David Phelps: Evan you're so right because nothing happens until you make an offer and by making those offers you're creating relationships. As you said, even though the first few deals the realtor may say well that's ridiculous but if they know you're a cash buyer, that you don't have to go through the underwriting process to get a loan, then you become a very high-ranking backup offer and that's key. That's a really good strategy. I'm glad you started with that one because I was going to poo-poo the whole MLS listing but you know what? That's a backend strategy that actually really does work and I'm very glad you brought that out so that's awesome.

All right. Let's go to the next one. I think we're going to talk a little bit about agents that are really active in the market.

Evan Harris: Yes. One thing people will find, at least in my experience, is as someone is making cash offers, a lot of times the agent will say although the seller is not going to move forward with your office I do have someone in a town across the way that is really motivated to sell, needs to be gone in 30 days and would be interested in a cash offer. Would you be interested in looking at this house? It's not always just the house that someone's making the initial offer on. It sometimes can be one that's not even listed yet. An agent might have just gotten the ability to list it and they're coming to you first because they know it's a cash offer and you're for real.

One of the ways to do that is find agents with the most listings in the area that you want. There's a certain town. There's a certain configuration. Find the rock star agent and once you find him, build rapport. Let them know, Janice I understand you've got a lot of properties right now that you have listed. They may not be a fit for me right now but I want to let you know if anyone does come up and it's in this price range and they want to close all cash, give me a call. I'd be happy to take a look at it. Who knows? We might be able to make a deal happen. Most agents like having that option. Just knowing that you're there, you're not being pushy, not being rude, just being available, they know that if all of a sudden their client says that they're going to cancel the listing unless something happens within 2 days, well at least that's better than nothing. They can reach out to you, have an offer before the seller and who knows? It might move forward.

Dr. David Phelps: It's all going back again to building those relationships, Evan, by putting yourself out there, letting the active players, the agents and brokers in the market, know who you are and that you're ready to pull the trigger again with cash. There's something else called pocket listings and that's something I think realtors have to be careful about. A pocket listing is one where they have a client who's contacted them to list their house and has already told that broker, that listing agent, hey we need to move quickly. We've got a situation we need to go fast and we're willing to take X price and the broker realizes that's a discounted price and they may go right to you, that cash buyer, because in that case they don't have to split a commission with a buyer's broker. Sometimes they'll do that. Again, it's all about the relationship. They know that you can make a quick decision, put the money there. Everybody's happy because the deal is done.

Evan Harris: Exactly. Agreed. One other area that I would mention too, we're talking about lists and things and demographics, is purchasing a list or getting one from a title agent. Title agencies have some pretty amazing data in my experience where they can know who owns houses and they live out of state, so that would be out of state owners who have certain properties in certain areas and certain configurations. There's so much information that's available. People can do mailings. They can do calls. If they've got someone who has time, there's a way to be able to really define their search list and be able to make contact.

For example, I know a guy that just sends postcards to out of state owners. The postcard says if they would be of any interest selling their property they'd like to make an offer because they're looking for property in that town. I know someone else that sends a letter. The letter appears to be handwritten. The outside of the envelope is handwritten. Inside is a letter with a picture of a vacant property. They search for vacant property and they send pictures of the property, usually looking in pretty rough condition, to these people that are out of state saying I'm concerned. I understand this is your house and was wondering what your plans are to fix it up or to rent it out? If you would have any interest in me taking over and taking care of this situation for you, I'd like to offer you a cash offer.

Surprisingly enough, you get some pretty interesting phone calls. Phone calls such as I had no idea the property looked like this. I thought that my property manager was taking care of it. I wondered why I didn't get last month's check. Oh my goodness, is that window broker. Is something living inside? He's even said things like I've noticed your tenants have moved in and they're having a bonfire in your front yard. Well those of course weren't tenants, those were people that just found an opportunity of a vacant house but that got a phone call quite quickly and the out of state owner realized you know ... a lot of them are accidental owners. They didn't plan to be an investor. They used to live in that house and they got transferred for work or for whatever reason. Now they're living in Texas, they got a house in San Diego. They don't really want to deal with it. They just didn't want to sell it back then or maybe they were underwater and now they're not. Now they're actually in the plus. A lot of times it's a headache for them. You can alleviate the headache and by offering cash you can really get a lot of leverage and a lot of times they just want to be out of the hassle.

Dr. David Phelps: Yeah out of state owners are in a very precarious position, aren't they? They have no control. They're dependent upon other people, management companies, and they are typically highly, highly motivated to do something. You are just bringing them a solution to a big problem that they have. Again, if you don't reach out, if you don't engage them, if you don't make an offer, nothing's going to happen. Good point.

The next one I want to talk about Evan, I think, is one that we both love and I think this makes a lot of sense for a lot of our doctors who don't maybe have a capacity or time to actually lead generate and do all the activities we just talked about and that's the joint venture. Let's talk a little bit about that.

Evan Harris: Sure. It's a very popular vehicle where, let's say there's already a reputable company that is binding these properties. They're doing all the leg work to comb the Multiple Listing Service, to reach out to the agent, to have people drive neighborhoods and look for vacant houses, to send letters to out of town owners. They do all of that. They find the deals. Essentially a joint venture partner is someone that comes in, usually with the capital, with the money to buy the house, and then they split the profit.

Now the upside is the person that's putting in the capital they are just the capital. They can focus on their profession, the economic engine that's giving them the capital to invest. The person that's searching for the properties can just focus on searching, preparing and selling and they don't have to be searching for capital because they already know it's available. Then they split the proceeds however they decide to split the proceeds. I would add once concern is that they need to have a really great trusting relationship because the person that's lending the money oftentimes really should know that the expenses are all legitimate expenses.

It's been my experience that some companies have padded the expenses to make it look like there's less money being made but in reality a lot of those expenses were either going to their friends or themselves or other tradesmen that were kicking back money. It needs to be a really closeness. It's family or it's a long-term friend or someone that would always be on the up and up and can provide documentation that every receipt, like they're purchasing granite, they're purchasing cabinetry, they're purchasing flooring, that it's very, very detailed of where all the money's going and that this is a good relationship over and over and over again.

Dr. David Phelps: You know Evan, I do a lot of joint ventures today. I'm not in full-time practice anymore but you know when I was I was trying to still do it all myself. I was trying to run my practice and I was investing in real estate and in the real estate side I was coordinating all the activities. That is the acquisition, the buying of the property, negotiating it, as you mentioned earlier, the lead generation, sourcing the deals and then orchestrating the contractors that would do some of the renovation or fix-up because typically for me this was a buy and hold rental property. Then I would meet with the tenants and that's all fine but again where's our time most valuable. If we're in a practice, we need to be focusing there. The joint venture really works well and you brought out some pros and some cons.

I'll just mention really quickly that one of the ways that I overcome the aspect of someone padding the expenses is that I go into a joint venture where I'm the one putting the money in and the other partner, if you will, is the one that's doing the rehab, the work, the contracting, the management. We actually go in and I make them set the budget. I know what the acquisition price is. They've got the estimate from the contractors and then we put a ceiling on how much that's going to be and even at the maximum ceiling amount I know that my return is going to be X dollars. If they go over, then that ends up costing them maybe not on the renovation side but on the return on monthly cash flow.

I know some ways to build some things in and the joint venture is a topic that we could have a lot of fun with in going much deeper into in further conversations on the podcast because it's a great instrument and I think if we build it out and flush it out we can really give some strength to that model. It's a great one. I'm glad you brought it out.

Then I think the other one that works really well for more of a passive participant, a passive investment person in real estate, is through the trustee lending position. Talk about that a little bit if you would Evan.

Evan Harris: Sure. Yes with the trustee lender they have the advantage of being passive where they can focus on their profession, build the capital, build their savings, and they really don't have to monitor the job. Just like you said, there's a lot of ways to structure the expenditures of a joint venture and I'd love to have a whole podcast on that. With a trustee, it's straightaway the interest. If they agree to get 10%, 12% interest that's what they're getting. They're not sharing the potential profit. They're getting 10-12. If the person that purchased and resold the property, if they make $10,000, if they make $30,000, or even if they lose money, the investor on the trustee is getting their percentage back, their interest on the property and they are secured by the property so if they didn't get paid they could actually take the property. They have, in my experience, a lot of leverage when it comes to that investment and they don't have to have the thought or the headache of monitoring. They didn't have to find the deal. They don't have to wonder what's happening with the deal. They are the bank.

Just like Bank of America when they give a mortgage, they're not thinking are you painting the door blue? Are you painting the door black? Are you putting granite in?

There's no thought. They're getting the money every single month and if they don't get the mortgage they come knocking on the door to take the house back. That essentially is what a trustee investor. It is being the power of the bank on a private-level state scale but essentially it's the same way providing a mortgage and they can either receive monies each month or they can receive the income at the completion of the sale so they get all their capital back that they invested in the house plus the interest based upon how many months that money was used.

Dr. David Phelps: Yeah and you could do the trustee investing model, Evan, on both short-term, fix and flip deals, and you can do it on long-term buy and hold. It works for either one. I love the model just for the reasons you set out. It's because I don't have to be involved in all the moving parts and you have a secured asset, just like the bank does. The key here is that as the investor putting the money in, the capital in, you're never investing typically more than about 70% of the real market value of that asset. If everything went haywire, and rarely does it ever, but if everything went haywire and the person who was operating and running the show, so to speak, just fell apart, couldn't do it, and you had to take the property back, you could do it quickly, easily and essentially wholesale the property. That is, just discount it to the market place to somebody else that's a boots on the ground person to take it and you could get all your money back.

It's a very safe position to be in from a passive standpoint, but certainly earning 4, 5, 6 times or more what the banks are paying today on CDs and money markets and that kind of a low-risk, I don't really even call it an investment, it's just a place to store your money.

Evan Harris: Agreed. Agreed. Yes. Well David I know we've only got about a minute or so left on the podcast here. Is there anything else you want to add to this list?

Dr. David Phelps: I just want to say that I think you brought up some great areas of interest here today for those who want to be more active and do it themselves or with a son or a daughter. Certainly the ways to do it where you don't have that time capacity and you want someone else to do it. Both models work. It's defining who you are and we'll go into future podcasts and develop out these different topics in more detail.

If you're listening on Itunes, please give us some reviews. Give us a 5-star rating if you really liked it today. Give us your feedback and some of your questions. What would you like to hear from us? Evan and I are in the trenches every day in the practices, in the investment arena, and we want to give you the information that's relevant for you. We'd love to hear your comments and feedback. We're 2 guys that are just out there on a mission to really make a difference and show dentists how to create real freedom in their lives and in their practices.

This is David Phelps with Evan Harris. We'll see you next time.

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