Ep #40: Turn-Key Cash Flow: Real Estate Joint Ventures with Merv Plank

Full Episode Transcript

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.

David: Hello, everyone. This is Dr. David Phelps from the Freedom Founders Mastermind community and I'm pleased to bring to you today another one of guest expert interview calls. With me today and with you as well, is a good friend of mine, Mr. Merv Plank, from Birmingham, Alabama. Merv, how are you doing today?

Merv: I'm doing fantastic, David.

David: I just was talking to you a couple minutes ago before we started this call and you told me that you have had your biggest month ever. This being, well, we can go ahead and tell the date. This is the end of September 2015. You just said you had your biggest month ever. We'll get into your business, but just tell me real quickly, what does that mean, biggest month ever?

Merv: Well, that means we sold more properties in September than we've ever sold in one month before.

David: All right. So we'll talk about that and your business and how long you've been doing it. But just so that people know a little bit about you and I, and where you and I met, we both come from the Collective Genius mastermind group which is a very high-end real estate mastermind for people in the, primarily the United States, that do all kinds of real estate, have real estate businesses, investment portfolios.

You and I met there several years ago and what we both found was being a part of that mastermind allowed not only you and I, but for a lot of people in that mastermind, to create very unique and host beneficiary mutual relationships. It's where a lot of business gets done, right?

Merv: Yes, in fact, I don't really know where our business would be without the Collective Genius group because we've got so many relationships that just go on from that, at many different levels, whether it's something we do every week or every month to once in a while, you get to check in with somebody that's got a different business model that you may need to make some adjustments to your own model.

There's lots of people willing to help in that group, which is really fantastic for all of us because it's one of those groups where if you're not willing to help, you kind of get opted out.

David: That's right, very quickly, good point. So from my standpoint, I found it very beneficial to getting to know you. And as you know, Merv, I'm very picky. I mean, there's lots of great people in Collective Genius but I want to make sure that as far as introducing specific members to my audience that there's a good potential fit there.

I found you to be a good fit from a number of different levels and we'll talk about that in a minute. You started coming to our Freedom Founders Mastermind meetings—it's been at least a couple years, there abouts, right?

Merv: Early on.

David: Yeah, very early on. You were one of the very early participants. So through our relationship, you've been able to help a lot of my members, which are doctors and dentists. And they come because they want to learn how to better deploy their investment capital without dealing with all the moving parts that most people think about in terms of real estate.

Most people look at real estate as, "Well, I've got to go find a real estate broker to find me a rental property. Then I've got to find a contractor and go do the rehab. Or maybe my wife can do that. Then we'll put a tenant in it and everything's going to work out great."

You know, you and I know the story. Most of that doesn't work out very well and then they throw their hands up and go, "This real estate stuff, it just doesn't work." And from their perspective, it doesn't, right?

Merv: That's true.

David: I started that way but that was many years ago when I was a kid. I had the energy and I had more time than I would today, and more time than many of the doctors certainly have because they need to focus on where their time is valued best. So teaching doctors, and I am one, so this was a new concept for me as I evolved. But learning how to joint venture or create collaborations with other people who you complement.

So you have a goal, you have a business, you have a lot of inventory, you've already got the staff, you've got a unique marketplace, which we're going to talk about in a minute. So you create an opportunity. Then the opportunity for the investor, in this case, the doctors, can invest their money. It can be tax-paid money outside retirement accounts or even retirement account money, either way, it can invest with you. We'll talk about how that works too.

So that's really the model we're going to talk about today. But let's talk about you for a minute, Merv, because you didn't just start into real estate right off the bat. Give us your brief background and then bring us up to date.

Merv: Well, I obviously started investing like you did many, many years ago. More than I care to remember actually. I've had some good and some bad in real estate, particularly when I was part-time, because I had no idea how to hook into those relationships either. I was trying to do all that on my own.

But my main career has been being what I call a "corporate gypsy" most of my life. Moving around from one corporate job to another, running various companies, and wound up in Alabama. When that last job ended, my wife didn't want to move anywhere else. So we had to find something to do and I was already interested in real estate.

So I took an assessment of the Birmingham market itself and tried to figure out what kind of business model in real estate would work best in this market. After doing some fixing, flipping, and things like that, realized that probably the best model was the turnkey cash flow model because the rent values are high and the price of houses are low. The prices are actually stable in this market as well. They don't go up and down much when the rest of the world goes up and down, we pretty much are flat.

That makes a good environment for a turnkey cash flow kind of market like we have. What that means from a turnkey cash flow standpoint is we buy the house, we fix the house, we rent the house, and then we sell the house to an investor who wants to invest for cash flow.

Then we have a property management business that goes along with that so that when people are somewhere else in the world, we're taking care of their property for them by managing it here in Birmingham and staying in touch with them on an ongoing basis. So whatever relationships we have, whether it's with the house itself or with the buy-and-hold investor, we look at that all as very long term because the house we're going to live with for a long time and so are we going to live with the investor for a long time.

David: Right.

Merv: On the other hand, we are also because of the volume, we obviously need money to buy those houses and fix those houses. So we borrow short-term money at a fairly high interest rate, which the doctors also seem to enjoy using us for that because it gives them a place to put money short term, usually three to six months, that they can make a good return on. So the two areas that really we've focused on, helping investors getting a high return on a short-term investment or a good cash flow on a long term investment.

David: You just mentioned that Birmingham, your marketplace, as being very, very stable. Let's mention to our listeners, who a lot of them remember because it hasn't been that many years ago, but what, eight years ago? Seven years ago? When we had the market turn. You know, the housing fall out, the crisis. The media was talking about this great crash and, yeah, there was financial chaos at the time but to your point, real estate is very localized.

So not every market responds the same way when there's a market cycle, which there's always going to be. It will always cycle. So I just want to reiterate your point, that Birmingham is a great place to be because you have that very stable market. It doesn't go up a whole lot, but when the overall general market turns down to any degree, your market stays stable there. Your rents relative to those values, as you said, are very, very good. The ratios are probably as good as anywhere in the country.

When I came down to visit you guys, a year or year and half or so ago, that's what I saw. When you took me around the different neighborhoods, these are as good as any neighborhoods you'd see in any Middle America part of the country. But the prices are so good and your rents are higher than you could get in the same property value in other markets. So you've got those things working for you.

And I love that stability because I know there's going to be another market reset. It doesn't bother me at all because I know that whether I'm a lender or I'm in a turnkey rental property, people don't just run out of the houses and quit.

Merv: Right.

David: You know, people always need property. People may downsize a little bit but the neat thing is you're very wise in the property type and the neighborhoods you invest in because they're stable and there's always going to be a market there. People will try to move up but people may move down a little bit, but you've always got a really strong demand in that niche, correct?

Merv: Yes and let me just sort of encapsulate the mix because houses we sell are typically between $60,000 and $130,000. That's the range of houses we're dealing with here and of course the rent rate has to go along with whatever price range that is. But you're right, so it covers enough of the waterfront that if they're moving up and down, we seem to catch them.

Now, we don't go below a certain price point because then you get into neighborhoods that are undesirable and I call it the "numbers look great on the spreadsheet but they don't work out in the long term." Because you get in those, we call them war zones, but you've got to stay out of those places and we make sure we don't go there.

David: Yeah, that's a good point. I think every newbie investor has made that mistake. I certainly did.

Merv: So did I, Dave.

David: Well you have to put your foot in the water, right? You're right, way back I could buy these relatively cheap little houses in the $20,000 arena. And actually, they weren't even war zones, because I'm going back into the 80s, and you know, rents would be maybe $500 or $600. Which again, you go, wow, $500 or $600 on $20,000, that's a heck of a return.

But, you even not in a war zone, the problem there in those demographics is unfortunately, people in that category, they're not bad people but there's a lot of instability in their lives. That's where you deal. So you've got people that they live on such tight margins and they're in and out of properties and they're not going … not that they all tear up the properties, it's just that turnover kills you.

When you learn how to invest through someone like you, who understands the dynamics of your specific marketplace to a T because you live there, you do all these deals every month, you're the expert there. Even if I'm here in Texas and I go, wow, I want to go to Birmingham, but I'd be a fool to try to do it myself. Even calling a local realtor because they're not going to know what you do.

You've got the sense because it's exactly what you do. Your whole business is focused on this niche and you know the numbers cold. I mean, I've watched you spit them out and I've done a number of deals with you and a number of our members have. And you're right, our short-term money is never out longer than I'd say four months, sometimes it's less than 90 days. It's killer.

Then it's like you said, then on the turnkey side, so people put their money into a longer-term rental. Maybe we should just take a moment to talk about why someone would want to do short term versus some turnkey rentals. You want to elaborate just a little bit on that, the two different models?

Merv: Yeah. The two different models really are … and we're talking a pretty high return on the short-term money because quite honestly, you have to touch that quite a bit. If we're going to turn it in a120 days, which is about our average, that means that whenever we borrow the money we're going to have to have a conversation and wire some money back and forth, and so on and so forth.

Then four months later it's going to be the same thing and then if you want to go back in and do it again, it's going to be the same thing again in another week or two. And we've got enough deal flow that we can keep a lot of people's money in play because we like to have 25 to 30 deals in process at any given time. Because it takes about two, to two and a half, three months, to turn a house completely.

Now on the buy and hold side, obviously, that's a longer-term thing. I always tell people when you buy a house and you have a renter in it, a tenant, you should probably expect that they're going to turn every two and half years or so, the tenant is. So it's all in the pro forma as to, we figure all the costs in there of taxes and insurance and turnover, and what our fee is to manage the property. All that's in the pro forma.

But I've never seen a pro forma yet that was perfect because it's that, a pro forma. However, we try to beat that pro forma in every case. I won't say we're 100 percent but we do pretty well on beating the pro forma. What that really means is that we can find a tenant that stays in there long enough and pays the rent that we project that they're going to pay for that property.

Of course, if you hold that property longer term, you've got tax benefits, and you have a little tiny bit of appreciation, but we don't even put that in our pro forma because we just think this market is flat enough that it's not hardly worth having a discussion about appreciation.

But, the cash flow numbers look pretty good. We're cash flowing $250-$300 a month per property on a finance deal and if you pay cash obviously, now you're in the $600-$700, sometimes $800 range.

David: Got it. I think probably most people understand buying and owning a rental property and having somebody who’s made it turnkey, meaning you’ve already purchased the property, you’ve already done all the rehab. They buy it with a … we call it “loaded with a tenant,” so the tenant is already there. You run the screening applications so they can buy it so it’s ready to produce income virtually from day one, correct?

Merv: Yes. That’s right.

David: Okay. So that’s a turnkey rental but the investor in this case is buying it locked and loaded, ready to go. They don’t have to come in and do any of the management or supervision. You’ve done it. You’ve already provided them full documentation of what you’ve done. You give them comparable sell data. They can come down and visit you if they want to do that, which I always advise some new investors to do.

But after they’ve done a few deals with you like I have, I know you well enough and you still always send me very good data. That’s something else I want to emphasize, Merv, because I know this is just natural to you and you won’t say it, but I’m going to say it because this is what’s important. This is the difference between a professional and somebody who has good intentions and maybe is a hustler, but I don’t ever have to go back to you and say, “Well Merv, this is missing part of the file.” Or, “That’s missing. I need to see this or that.”

Every time, Merv, you send me or send one of my doctors a pro forma on either a lender model or turnkey property, you've always got all the data there. You guys run a tight shop and you have to, to do the number, the volume, you do. It just shows in everything you do. This is the difference and I want to make this very clear.

Every doctor says to me, "David, can I go back to do this in my own hometown?" Yeah, theoretically you could do any of this in probably your own hometown if the market and the values and the rents make sense. Now in some markets it wouldn't at all. But let's say you could and you go find a realtor and you try to put this together though, you're going to be pulling your hair out.

You think you're giving up a percentage of the return, heck no. You are making much more money because your time, for what you do as the doctor, should be focused on that. You should joint venture with someone like Merv because it's just so easy to work with you guys. Closings are easy. You've got great people who get in touch with us when you're doing a closing. On a short-term deal, the money is ready to come back out again.

It's just boom, boom. It's clockwork and I never have to go back and pull on anybody to get things done. If I haven't said that to you before, I want to make it public right now, I thank you for that because that's what makes a really strong long-term relationship and that's what this is about.

Merv: Yeah, we've, I'm sure, done close to a hundred deals already so there's plenty of chances for something to go wrong in a hundred deals if you're not on top of it all the time. But yeah, I agree.

You know, we value our lenders just as much as our long-term buyers, because a lot of our lenders have stayed with us long term as well. They may be short-term investors but they just keep turning the money and turning the money. In fact, a lot of them these days are starting to just leave their interest back in and just let that account grow so they can do more deals.

David: And it's good for everybody. Because it's good for you because you've got now an educated, a repeat customer, if you will, and it's so much easier to do business with someone you've already done business with. Anytime you take in a new customer or client or patient, there's always that new relationship building up and the intake. And not that that's bad, you have to sometimes do that in every business and bring in new relationships.

But when you can maintain the existing ones, it's just so clean for everybody. You value that. You know that from your years of experience in everything you've done but I know you value those relationships and it shows in what you and everybody in your company does. So again, thank you for that.

Let's talk for a moment about security. Again, just for the benefit of some people who don't understand, if I lend money, I can lend my tax-paid money, meaning the money I've earned and I pay tax on. I could lend that to you, Merv, on a specific house if you showed me a pro forma and it looks good to me. Or I could use a retirement account, an IRA, a 401k, if it's self-directed. I can do that too, either one, it doesn't matter.

Then let's just talk about the mechanics just briefly, about how that works. Once I see the information you send me and you're glad to get on the phone with somebody, explain things to someone who's new. You're really good at doing that. But once we're satisfied and a closing date has been set up, just walk us through real briefly about how my money as the investor or the lender, how is that secured so I'm protected? Even though I trust you, I want to still cut the cards and make sure that I've got things in a secured an environment as I can.

Merv: Yeah, we provide every lender on every house one mortgage and one promissory note per house. So whenever the house is bought, that automatically comes with it. That is sent to the lender. So they've got that mortgage and that promissory note that spells out the terms of our agreement, how much the interest rate is, what the terms of the length of the loan is, and all of that. Now I will also say that if you look at what we send out, typically we're in the 70 to 75 percent after-repair range of what the loan is.

So let's say worst-case scenario happened and I wasn't here anymore. You wake up the next morning, I disappeared somewhere, I was gone. Obviously the lender has the first mortgage on that house and typically it's one lender per house, so you're not going to get a lot of lenders you have to worry about fighting with over this house. It's your house.

Whenever we borrow the money, we usually repair the house in two to three weeks. So within two to three weeks after we close, we're going to have that house repaired and ready for rent. Which means we've done the improvements, which gives it the after-repair value that we've described.

David, you know this from experience, a number of times I've said to you, "Well I've already got this house under contract to sell."

David: Right.

Merv: Before I even buy it, I have it under contract to sell. So in those cases, it's a real easy deal. I mean, that's one of those where it really gets fast and furious. But if you had to foreclose, that mortgage and that promissory note are your tools to foreclose on that property.

Now, I've never had anybody foreclose but I'm just saying the worst-case scenario happens. In our lending document that we send out to everybody, we go through kind of the worst-case-scenario things because everybody's fear is that the worst-case scenario is going to happen.

So if it would happen, you would have a house that's worth about 25 percent more, at least, than what you've got in it. And it's rentable and most of the time it's already rented anyway and cash flowing. So that's your house and you could turn around and typically sell it for more than you have in it.

David: Yeah, and just so everybody knows, this is very standard protocol when Merv's talking about you have the promissory note and a first lien mortgage position. The first lien is what's important to you in this case because even if Merv or someone else you've done business with were able to go and borrow money from another lender, they're going to be behind you. You have a priority lien, so you're always protected. There's nothing that Merv could do, even though he wouldn't personally.

But let's say anybody else, they couldn't do anything that would take away your positioning on your mortgage, so you're safe there. As you said Merv, that lender is not putting more than 70-75 percent of that after-repair value.

So that if worst things came up, then they could sell that property. Wholesale it out. Still make some money.

But even if something happens to happen to you Merv, which someday something will happen to all of us. But the other thing I like about it, Merv, is you've got a team behind you. I mean, you could get sick. You could get violently sick for two weeks. But you know what, I'm still not worried. I'd be worried about you but I wouldn't be worried about my investment because also I visited you. I know your team.

Merv: Yep.

David: I know your team well. I've met all of your members. I know some of them very, very well. So backing you up is a great team. Really, my final resort is that property. And for that to happen, well, the sky would have to fall. And then I probably wouldn't care.

Merv: Yeah, you're right. Of course, on the house obviously, the house is the long-term investment, security is the house.

David: Right. In that case, the investor has title. It could be in their name but typically but most investors if they're doing a number of properties they'll probably get advice from an attorney or an advisor to maybe form an LLC. Something that's relatively simple to do. But yes, you actually have the priority of the title. So you're protected there.

Every property is insured. So whether you're the lender or you're the owner of the property, you've got hazard insurance which is going to protect your investments from that standpoint. I've been doing this for 35 years and I think I've had at any of my properties, I've had maybe about four fires. Every one of them were partial fires and that's been well over 100 some properties. You have the insurance from that standpoint. Liability insurance, if you're the owner of the property. It's very minimal cost but you always have that for a slip and fall or something.

So I'm just trying to bring up some of the typical objections that people who haven't done this before … you and I talk about it like it's no big deal because it is no big deal if you follow the protocol and you check the boxes off. Which is what you and I and the other professionals, people in Collective Genius, that's what we do because we've been brought up that way. We've been trained. Our experience tells us how to do that.

So I don't want to sound cavalier to our listeners who haven't been there before but that's why you want to hang around or learn from professionals like Merv who are very willing to teach and show you. Very patient. We say, Merv, there's never a dumb question.

Merv: Right.

David: Just because you and I had our ears boxed many, many times, we understand that. So we're very patient about explaining things even though we can move pretty quickly between ourselves.

We're trying to help a lot of doctors and that was kind of the point of having you here because you've got a real ability to communicate well with people. You certainly have been a great asset to be with us at Freedom Founders, which I appreciate and our members do as well.

Merv: Yeah, I think that whatever level we can do business together, to me the relationship is the first and most important thing. And relationships aren't built in a moment or two. You've got to take some time and build them. That's why I like coming down to Texas every quarter and meet the doctors and talking to the people. Because I talk to them on the phone too but it's not quite like being there in person.

David: It's always better when you can meet face-to-face at some point in the relationship.

All right, so Merv, best way to contact you? Again, your company's name is Alliance Wealth Builders, Inc., Birmingham, Alabama. What's the best form of contact that you'd like to leave our listeners with today?

Merv: I think they can either call us at (205) 552-7009, that's our company line. We've also got a really good website. If you want to look at what properties we have and what's moving and what's been sold and what's under contract and what's for sale, you can go to AllianceWealthBuilders.com. It's just Alliance Wealth Builders dot com, it's pretty simple. Obviously you can contact us from that direction as well.

On our website, we try to make sure that all that information on there is up to date, like if something happens today, we try to make sure that by tomorrow it's up to date.

David: Outstanding, outstanding. Merv Plank, again, I appreciate your friendship. I appreciate your time today. I appreciate the opportunity you and I have had to work together and I look forward to many, many more years of the same.

Merv: Same here, David.

David: All right, thank you, sir.

Merv: Take care.

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