Ep #26: David, Where Did Your Passion for Real Estate Begin?

Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

Ep #26: David, Where Did Your Passion for Real Estate Begin?

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.

Derek: Today on the Millionaire Pilot Business Show, I have an incredible guest by the name of David Phelps. David, in the best words I can describe, lives life on his own terms. Started off with a dental practice from 1983 to 2004, started investing in real estate in 1980, and still currently doing that today. He's also now teaching other people how he was able to successfully create multiple streams of income, passive streams of income, and that is in so much alignment with what my passion is for helping our audience grow and become more successful and financially free. Please welcome to the show today David Phelps.

David: Hi, Derek. It's great to be on with you today.

Derek: Hey, great to have you, David. Thank you so much for taking time to be on the show today and just to share your story, your wisdom, and just inspire other people to go after their dreams and become financially free in life. Probably there's people that have done it, but I find that there's so very few people that are actually willing to share their story to help other people achieve the same results and to go after their dreams, so thank you so much. I'm excited and anxious to get in and hear how you did it.

David: All right. I'm ready to go with you. Take it away.

Ep #26: David, Where Did Your Passion for Real Estate Begin?

Derek: I'll tell you what. Maybe you could just start by just sharing a little bit about who you are and how you got started on your journey toward financial freedom, and introduce yourself to the audience.

David: Sure, Derek. As you said, I was and actually am a licensed dentist, but it didn't all start that way. When I was in college and preparing to go into dental school, dentistry as a profession, of course we have a lot of courses we have to take to get there, the prerequisites, and there was just something about my character, my personality that really comes from the entrepreneurial side of me. I was always, looking back as a kid, I was running the paper route, but getting other kids to help me throw those papers. I had the multiple lemonade stands and got the kids to get their mother's ... Raid their mother's pantry and get their Kool-Aid supplies out. A lot of things like that, selling door to door gift cards. I always had this in me, but I didn't really identify it as being unique as a young person.

My dad was in position, and I saw ... I was already in that kind of mode of that's what you do, you go to school, you get the highest education possible. I go onto a career or profession. As I did ... While I was still in college and getting through those difficult prerequisite courses, I still was thinking about I need to be a good steward of whatever income that I make. I don't know again where that came from, because there really wasn't a fear factor of not having enough when I was growing up. My father was able to provide for us very well, but I still thought I've got to be able to do something that gives me what I call today a plan B. I didn't call it a plan B back then. I had no idea what I was doing. I just knew I needed to do something more and be a good steward.

I read books about investing money, books about the stock market and mutual funds, and I picked up a few books on real estate. In comparing the two different platforms, real estate made complete sense to me, because I could see where the value add was and how ... What we call today, it's an inefficient market, which gives more opportunity for those who are willing to dig in and find the opportunities, versus the stock market which I saw no ability to control anything. It just didn't make sense.

In my first year of dental school, back in 1980, I convinced my dad who lived a couple states away, I was in Texas going to dental school, and I said, "Hey, dad, I'm going to be here for 4 years. I think this real estate thing is something that we should look at." We being I needed the money.

Derek: Yeah, there you go.

David: I needed a joint venture partner, and so I convinced him to fly down. We spent a couple weekends with a realtor, and showed us around and looked at properties. One thing I realized from the books I read is that it's location, location, location. I didn't know all the other things, but at least I knew location was important, so we did the main objective. We bought the worst house in a good neighborhood, and looking back, we actually made a pretty good deal.

Derek: Yeah.

David: It wasn't super great, fantastic, home run deal, but it was a solid deal. So he put up the credit and the financing, and I was the manager. I got some of my dental school buddies to come over and we did the cosmetic work. I fixed it up. I didn't live in it. I could have and probably rented out the rooms, but I decided to just rent it out to a family. So over the next 4 years I was the manager and at the end of my term in dental school, we decided to sell the property, because I was moving on. We split about $50,000 in capital gain profit. I thought, "Wow, that's more money than I made in all those years in dental school while I waiting tables on the side at nights on the weekend." I thought, "There's something to this building up capital assets and living off of the passive income, or building up wealth through capital gain equity profits."

Just to fast forward, I graduated from dental school and went into private practice first as an associate with another doctor which I think was a smart move, because I certainly didn't know what I didn't know at that point about running a business, and I needed to improve my clinical skills quite a bit. I was just a new graduate, but I was also still very interested in real estate, so I continued to look for good deals and learn how to better finance them and how to acquire them and how to better manage them.

Within just a couple years, I had been able to leverage myself, and that's a key word here, leverage, the right way, into about 15 properties. That's what a young guy who had very little in assets at all and very little in discretionary income, but I figured out how to do it. I made certainly mistakes along the way, but nothing that was every horrific, nothing that ever set me back on my heels that I could never get up and, as we say, fight another day.

Derek: Yeah.

David: Fast forward in 15 years, after being out of school and in practice and with the real estate discipline, I had really built up enough passive income to replace my dental income, and that's because I put everything back into paying the loans. I didn't take any cash flow off the table, because my dental practice provided that, so I just hammered everything back into knocking down those loans, the debt on those properties, and a miracle of miracles, I had these properties that were kicking off some pretty nice income.

Derek: Yeah.

David: I'm thinking everything's good. This was in 1998, Derek. Then part of the back story is my daughter, my only child, Jenna, in 1992, she was diagnosed with high risk leukemia, acute lymphocytic leukemia. That kind of turned the tables on everything that my wife and I we planned, both of us really, because we planned everything. We were going to have x number of kids in the family, and I was going to be doing this, and she was going to do that. We thought we had it all planned out, and life just kind of boom, threw us this major curve ball.

Derek: Yeah.

David: It was kind of a nightmare. Jenna survived. The good news is Jenna survived it, but our marriage didn't. That was the unfortunate thing. I could talk all day about that, too, and what I learned from that, but that's not the point here today. The point is that life is not always what we plan it to be, and that I had to get over the fact that I always want to be precise, because I was taught to be precise and to work hard and if I did the right thing, good things would happen. Well, that's not the way it happens in life.

I learned quickly that I had to adapt. I had to be flexible. I learned a lot of patience with my daughter's situation, and after the divorce, I got back and worked hard in the practice and paid off debt, and of course, half of the assets had been split up. I had to buy out my ex on that. I didn't have that cash flow anymore. It was gone. I was kind of rebuilding, but here's the neat thing, Derek, is I was able to rebuild that passive income. It didn't take me 15 years the second time. It took me only 5 years the second time.

Derek: Wow.

David: That's because of the experience and the network of people I had. That's one of the keys, I think, that you and I could both speak a lot about is the relationships that we build through our network is really one of the most ... The greatest assets that we can actually have, even outside of our formal education, which is important to a degree, but it's not everything.

Anyway. Went on down the road, and then Jenna, in 2004, subsequent to the surviving the leukemia, she also had epileptic seizures. She took a lot of meds to try to control that. She went into end stage liver failure. Her liver was shot. It's like the liver of a 70 year old alcoholic. There's no dialysis for a liver, so we had to put her on a transplant list. By God's grace, and unfortunately, the loss that another family suffered, the traffic loss of an accident of a young lady, they were wonderful benefactors to grant the organs to be given. Jenna was the recipient of a liver of a young 16 year old.

Jenna went through that really pretty arduous recovery. After the transplant, she has a lot of complications and just seemed like nothing's ever easy for her, but she's a survivor. That's the thing, she's a survivor. That was the time, when she was recovering, really it was about 12 months, in and out of the hospital. I would spend time with her, because I just finally realized that time was getting away, and I might not have another chance to spend time with my only child if I didn't do it now.

Derek: Yeah.

David: So here's the epiphany. It was my wake up call, Derek. I was out of my practice for big chunks of time. I mean, a couple of weeks at a time for this year period. I had an associate doctor who was in the practice, but he had never really climbed up to the level I really had hoped he would. What I found was that when I was out of the practice, the practice, everybody stepped up. The associate doctor stepped up. The staff stepped up, and the patients stepped up, meaning that where I thought they would only see me, because I was the senior doctor, and guess what? The patients didn't care. I mean, they cared, but they realized that Dr. Phelps couldn't be in the practice, because he's with his daughter. Well, that's where he should be.

Bottom line is, the practice actually did fine without me. Wow. What a blow to my ego, but actually it was a very good thing. It was a huge wake up call to me. That's what I ... One of the keys I take back to the doctors I help today is that you think it has to be all about you, because that's the way you're trained. You're trained to because of your technical expertise, the time you put into your formal education, yeah, that is important, but if you don't want to be, as I call it, chained to the chair, chained to the practice, then you've got to look at some different ways of doing things, not only in the practice, but outside the practice with wealth building.

I don't want to keep blabbering on here too long. I want to let you cut in, but that's the quick story and some of the realizations that I had to come to actually believe in before I could actually cut myself free and now have, today, an amazing life. If not for that adversity, Derek, I would probably still be plugging away like so many other chained to the practice, chained to the business entrepreneurs are.

Derek: Yeah, I found that through all the challenges that I've had to go through in my own life that my greatest growth and greatest opportunities have come when there have been major challenges. You really say it best in your ... One of the things I was reading said that until we are uncomfortable enough in our present situation then change is not likely to happen. That's been very true in my own life that when things have been comfortable, it's too easy just to go along with the routine, stay in your rut so to speak, and so it's really interesting how I would look back and say that I wouldn't trade any of the negative experiences that I've been through for anything, because they brought so much change and opportunity in my life. I wouldn't be where I am today. It sounds like it's been similar for you.

David: It's so true, Derek. Most people abhor change. I'm not saying I like change, but I look at it differently today. I realize that not everything I set out to do, or the way I see it in life is not the way it's always going to happen. Even putting my best foot forward and trying to mitigate all the risk I can and having a blueprint and a plan, it's not going to always happen. Now it's like when things don't go the way I think it should, I'm not that thrown off course. I'm more at peace with it, and I say, "You know what, it's okay. We'll go a different route, or we'll can this plan, or what it was that didn't work. It's okay," but 25 years ago, oh my gosh, to have anything not work out the way it was supposed to work out, I was a basket case.

Derek: Yeah.

David: Because, why me? Why did this not work out? What did I do wrong? I really think God has such a strong bearing on our lives if we'll let him take the lead and of course, most of us don't want to let that happen. I'm a big person who tries to make it happen on my own.

Derek: Yeah. I completely understand that. I definitely, in my own life, I love having control. I like being able to call the shots, and having things work out exactly as I plan. You're right. As I've, I guess, matured, it's been much easier to go through life just accepting change, accepting things not working out the way you plan, and just kind of almost ... I look at life now as just basically being on an inner tube, floating down a river. If you go with the current, and you just enjoy the ride, it's great. The more you try to fight and paddle to go certain directions, then you just make life a lot more difficult for yourself. So I'm enjoying things a lot more, much like you.

David: That's a great metaphor. I love the river, because that's so true. Don't fight the current, just go with it.

Derek: Yeah, absolutely. Well, one of the big ways that you've been able to create passive income streams and create wealth is through investment of real estate, and I'm curious to find out from you if you feel that there are still good deals out there in the real estate market. Obviously real estate crashed in 2008. People lost a lot of money in real estate. There's probably people listening to this that are probably fearful or hesitant.

There's always those people that'll say, "Well, all the good deals have been taken. You can't make money in real estate anymore," which is not something that I believe, but I was just wondering, where are the opportunities today?

David: That's a great question. In fact, I was having that very conversation this morning with one of the dentists who are part of the Mastermind, and he was kind of posing the same thing. Are all the good deals gone? What I told him was, "Look, you have to look back historically. The markets, the economy, they always are going to cycle. Always going to be cycles there. We can't predict the top. We can't predict the bottom. The main thing is to look for value." We're speaking particularly about the stock market. I don't understand Wall Street and the stock market. I think the same thing's true there. They'll talk about investing for value.

In real estate, it makes a lot more sense to me to look at value. I invest for cash flow. The people who lose money in the down markets are those who are, what I call, speculators. Speculators are those who are buying or investing, if you will, based on a price increase. Sure, when the market's on the rise, there tends to be of course the top, of course that bubble, kind of a feeding frenzy on the speculation side.

Derek: Sure.

David: If you buy for value, which means buy for cash flow relative to the price you're paying, there are many markets in this country, in the continental United States, where there's great cash flow markets, and I don't really care, Derek, if I'm buying at the top of the market or middle of the market, or certainly at the bottom of the market when most people aren't buying, because they're afraid. You buy for cash flow, because think about a single family house. That's the asset class I like the most, because it's so predictable. Everybody needs shelter. People will do whatever they have to have a good roof over their heads, and there's, I think, a bread and butter sweet spot for that kind of investment in single family, but everybody needs to have a roof over their heads.

No matter what the market's doing, there are always good deals out there. Now as the market bubbles up and rises, they're a little bit harder to find, but that comes back to, again, what I tell people is, that's your network. I don't particularly have to go out there and turn up all the leads and opportunities I need today. I have good friends, and we have people in Mastermind who are in different parts of the country, so I can geographically diversify.

We'll do a lot of joint ventures. Meaning that I'll put something into the deal, and if I'm not the boots on the ground manager of that particular property investment, then typically I'll be putting capital in. I'll put capital from the IRA account, the term account, or tax paid money outside, whatever it may be, and my partner, who is somebody I know who I can trust, I have a relationship with, they'll do the management side. That works very well, because I have participations in many, many deals that are around the country, not just in one particular area.

So the deals are there. The opportunity's there, no matter whether the market's high or low, because you buy for cash flow. I'll just say, Derek, I've been doing this since 1980, I've been through 4 major cycles, including the last one in 2007, 2008, and frankly, when the market goes downhill a little bit, no matter where you are in the country ... In North Texas, we probably lost 15, maybe at tops 18% of values back in 8, 9, and 10.

When I went and asked my properties, I'm being facetious here, but I knocked on the door and asked my properties, "Hey, do you know you're not worth today as you were last year?" Guess what? They didn't blink. The properties kept paying. Why? Because they're good properties, and the tenants, they didn't leave. I didn't raise rents during that period of time aggressively.

Derek: Right.

David: But I didn't lose cash flow. It's a dividend that kept paying. Now, guess what? The market's back up again. It's kind of like they talk about dollar cost averaging in the stock market, you buy good deals all the time, and they'll average out. The main thing is you're buying for cash flow.

Derek: Very good. What does ... In talking with Jason, who's a friend of ours, he's talked about the difference between cash flow versus return on investment. Are those two different ways of investing in real estate, or do you look at them as the same?

David: Well, cash flow is a component of return on investment.

Derek: It is, right.

David: Return on investment, if you look at what we call it the "cash on cash future investment," that's if you put a certain amount of cash into the acquisition of a capital asset, like real estate, then after all expenses, which in real estate would be your taxes and insurance and management fees, vacancy turnover, repairs, that kind of thing, then you look at what your net return is on an annual basis, and that relative to the cash you put into it, and that'll give you what's called a cash on cash return, or return on investment.

The cool thing about real estate that is not really available in any other investment asset classes that I'm aware of is that we have the ability to leverage. You can leverage today on pretty much a 4 to 1 basis, where you can put like 20% down, very conventionally, and leverage the other 80% of the acquisition. Today we have such low, fixed interest rates available, it's kind of a perfect storm right now if you will, that the leverage opportunities are there, so that now, the cash on cash return, because we're not putting 100% cash into acquire a property if we're using fixed rate debt leverage.

Now our cash on cash return goes up way into the double digits. We could have a whole discussion on leverage, as you well know. We won't go that deep into it today, but that's one of the huge opportunities out there right now is the leverage. If somebody really wants to increase their wealth building, their equity, and their passive cash flow, leverage is the fast track. You just got to know how to do it, do it the right way, be safe about it, and leverage into capital assets that produce that cash flow.

Derek: Thank you so much for being on the show today and really inspiring all of us.

David: Derek, it's been a real pleasure. Thank you for your time and for this great call today.

You've been listening to another episode of the *Dentist Freedom Blueprint* podcast with David Phelps and Evan Harris. The place to be to create your freedom lifestyle with more time off, security and peace of mind. Please subscribe, download the podcast, and share it with others who want to create real freedom in their lives and practices.