Real Estate Investment Strategies with Dave Van Horn

Full Episode Transcript

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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: Hey everyone! This is Dr. David Phelps of the Freedom Founders Mastermind Community back with you with another one of my expert interview calls today, really who's become a great friend, a mentor in many areas. It's Mr. Dave Van Horn. Dave, how are you doing today?

Dave: How you doing David? It's great to be on.

David: Thanks for taking some time today. We'll get to your background here in just a minute. Our topic today is very timely and I won't actually say the date, because I like to leave these a little bit evergreen, but let’s just say, Dave, for purposes of our discussion today that the economy has been somewhat turbulent, particularly the market. Wall Street, stock markets, there's some turbulence out there. There's a lot of talk with people on the street that the markets are kind of topping out again. People start to wake up when they see that. People that are typically, been riding along with their investments in the stock market. You and I and people we run in, the circles we run in look at a different avenue where we've kind of I think taken more control over our investment portfolio which is absolutely geared toward wealth building.

Before we jump into some of those topics, Dave, let’s talk a little bit about why I have you on the call today and what you bring. You've got a very, very broad background and I know you started out many years ago when you got out of college. You actually got into construction first for a number of years. You had your own construction business and then I think your mom at one point told you when you were kind of getting tired of that, I think you had a back injury. She said, "Why don't you try real estate?" Isn't that how that kind of started out and then you went and got your real estate license? Take us back there.

Dave: Actually you're right. I got out of college and I couldn't get a job. Imagine that. I had been working for a painting company in college and just carried on and ended up doing that for like another thirteen years and then I started my own company and I actually had my own company for a good ten years and then I got hurt. I had gotten in real estate when I was about 26, because I hated ... Not that I hated construction, it just was brutal and it beat you up. I knew I couldn't build well so I had the impression that the more I worked, if I worked more I'd make more money and I could become wealthy some day and it really doesn't work that way. You can work yourself to death is what I'm getting at. It's not as easy as, "Well, I'll have three jobs and I'll enough money," right?

David: Right. Obviously, like so many people, you have a strong work ethic so you did work hard and I think at one point you were named the top agent in your company and then you promoted to assistant manager and you're now training people. You were working hard and obviously making pretty good money for trading time for dollars, as you just alluded to. What was next? What was your next kind of epiphany or realization as were doing a lot of sales and training other people to do sales, what did you find out as the next course of your wealth development portfolio?

Dave: It was really real estate. Because I was in real estate and I was fixing up real estate, what I noticed was I was making the brokerage wealthy and I was making the builders wealthy but I wasn't making Dave wealthy and it took a while to where I was ... Because I had two jobs, I was living on one job, saving the other and putting that money into real estate and then I built up a real estate portfolio pretty rapidly when you think about it and by age 42 I'd gotten hurt and had to get out of construction but I had acquired enough real estate that I didn't have to work and then I went into real estate full time and had a title company and was doing property management. Then the market had a downturn. When the market downturned, that's when I got into the note space that I'm in today.

I'm actually working with a famous economist right now. Actually he was number two market watch forecasted a year. He's been doing some modeling with us. One of the things he has pointed out to me is there's literally two major market downturns in about every ten year period, roughly. When you think about it that was great for my grandfather who retired at 65 and by 66 he was dead. It didn't matter. But then I saw my father who retired at 65 and by age 70 there was a major downturn and my father's 401K literally went to a 201K and he had to go back to work at age 70, driving a van for senior citizens like himself. You saw a big change and if you think about it, if we live to be 85, right Dave, on average and we retire at 65 I could be looking at four potential downturns. If I'm relying on this nest-egg that's going to carry me through just on me drawing from it, how does that plan work?

David: Well Dave, that's the exact same fear factor that all of the people that I help, dentists and chiropractors, physicians, vets, that's exactly what they fear today. Some of them tried to retire, go back fifteen years ago to the dot-com bubble. When that burst there was a lot of guys and gals trying to get out of practice and they thought they were on easy street and bam! The same thing happened. Their 401Ks, whatever they had built up in the market cratered, back to work. They'd sold their practices, they're going back to work as associates. Same thing in the 2008 downturn. Either the docs have to come back out of retirement or they have to delay indefinitely when they can get off that treadmill and so again today, the same thing they're facing.

If that nest-egg you talked about is being commoditized, it's shrinking because of factors in the marketplace that we won't go into here, but same thing they're all looking for, "How do I build wealth outside of my practice?" Most of them Dave, at least know about real estate and know that there's people who have made money in real estate. Some of the famous ones like Donald Trump's out there today, of course in a big way. He's made money in real estate. He's lost a lot but he's made a lot. They're thinking, "Okay, this real estate thing sounds great, but I got this whole thing about tenants and dealing with toilets."

Dave, you built up this portfolio, you had a lot of rental property units. That was your plan B and it worked. It let you convert from management and doing that to the next step. Let's talk about that transformation where you decided there's another way to invest in real estate and maybe take some of the management effort out of the picture. What did that look like?

Dave: You're absolutely right. I've always loved real estate and I'm coming from a real estate world. I'm not saying I don't love people but whenever you involve people things get more challenging, right? By that I mean, dealing with tenants, townships, contractors, all those types of things. That's where things become a little bit more difficult to manage, especially in volume. As I acquired more and more units, I had actually gotten up to forty units I owned of my own and I was managing over a hundred units for other folks and then I was actually doing rehab loans for people out of lines of credit that I had on my apartment buildings and out of my retirement account. I was like, "Wow, these mortgages are so much less hassle than the properties."

With the properties I was going to court every other week. I was doing these evictions and I was doing inspections with HUD inspectors and with the township inspectors and it just became like I was a full time inspector and I was in court evicting people all the time. I had properties with maintenance where I actually put three kitchens in a property in ten years. Then it gets old. It starts to be like, "This is turning into a real ongoing thing, whereas over here I have my notes and they just seem to be a lot less work." Granted, you could end up taking a note back some day but it was minimal, it was a one-off thing. It wasn't like all my notes I ended up with the property or anything.

It was still a real estate backed investment but became much more passive and I was all about as much passive income as I could get and if I could get tax-free passive income that was even better and my goal was to acquire as much of that as I can by retirement.

David: Let’s talk a little bit about specifically what these notes are. You're in effect acting as a bank or a lender when you're talking about ... Say you used some of your lines of credit that were based off of equity you had in your apartment complexes and other money you had, you were acting as a banker for certain people in your arena that were doing rehabs. You were lending them the money and securing your loan on the property or properties they were rehabbing, is that correct?

Dave: Yes. I was actually just using leverage. Obviously, there's a couple of way to wealth, right? One is earned income, but the other way to wealth is to leverage money or people and what I was doing was leveraging the bank's money by taking a line of credit on my apartment building and I was using that money to lend out on a mortgage to a fellow rehaber who was rehabbing a property and I would put a first mortgage on his property, secured to the property. So I started out with a first mortgage, really a commercial rehab loan that was a first mortgage for friends of mine. We would lend each other money that way to do our real-estate renovation projects and that's how it started.

Of course today, I've moved on into institutional notes that we buy from banks that are distressed which is definitely a more advanced type of thing, but it's the same idea. Today we deal in first and second mortgages that are secured to properties that are one to four family owner-occupied type mortgages. That's kind of the space that I'm in today. I like that space because people need a place to live, right? It's like Maslow's Hierarchy of Needs, right? Everybody needs housing and I like that vested interested in a mortgage because people are more inclined to pay you. I still have collateral as well, so when you look at all those pieces, it's an interesting model to get passive income.

David: How does one do this? Because if somebody wanted to get involved in rental property acquisition in any city, township, metropolitan area, there are ways to do that. One can go out and get involved with real estate clubs or you could maybe find a real estate agent or broker who specializes in investor properties. There's the MLS that comes out and shows properties for sale, so if someone wanted to kind of do this in terms of buying equities or buying rental properties, if they wanted to go that route there is kind of a pathway that's sort of known to most people, whether you're in that market or not.

On the sites you're talking about with paper or notes secured by real estate, where does someone get started with that? You talked about loaning to your friends. Let's talk about someone who's really not like you that's been plugged into the real estate market as a broker or construction and maybe doesn't have a lot of friends in that arena. They have friends but not friends in that arena. How could somebody, an individual sort of get started doing that? Where would they go?

Dave: You're kind of right. A lot of people say that to me. They go, "This note thing, I haven't really heard much about that. That's not as common as just investing in real estate." A lot of times I tell people in the beginning, I say, "You know what? We're all in this note business you just might not realize it, right? Because we all have credit cards, we all have student loans, we have auto debt, we all have mortgages, we all have medical debt so we don't realize we really are in this note business and we all tend to write checks to the bank but we never thought about receiving the checks." That's what I tell people.

At first, it's kind of a concept for people because it's almost like they don't know it exists although they're playing in it every day. When you point that out to folks then they realize, "Okay, I get it now." Then they realize there are places to buy mortgages. Everything from option.com to notemls.com to exchanges like FCI exchange and then other hedge funds or servicing companies sell notes as well. We're considered a specialty servicer, my company PPR. We sell notes so there are different opportunities for people to buy these types of notes but one of the things that we've got together with Freedom Founders is that we have a fund where investors can invest in a pool of mortgages basically to spread their risks around if you think about it.

If you invest in a note fund and they own a couple hundred notes and a note goes bad, it's not the end of the world. It would be like the bank does, right? That's what the bank does with their portfolio. Or you can be an individual note buyer, almost like a real estate investor where you go out and invest in an individual note, so there's two ways to invest and they are a little bit different than each other but you get the idea.

David: Getting plugged in with a community, as you mentioned, Dave. I know you've been and you're instrumental in facilitating both through the note academy that you've done through your company, PPR and through other strategic investor groups that you put together. I think we both have found respectively that creating a community of like-minded people who all have similar goals and you actually create an economy or you create an exchange there because you've got people that have money to loan, you have people that need to borrow money, as you've already mentioned on this call to put it into their real estate businesses. There's lots of opportunities there.

As you mentioned too, I like the funds. There was a time in the past when putting money into a fund that I didn't have any particular interest in a property or in this case a note, I was a little bit askance of that because like a lot of people I kind of like to control things. What I learned over time Dave, is that really it starts with the people that you're dealing with. Everything I look at in real estate today starts with the character of the person or the business and I teach people in Freedom Founders, "Before you get involved in anything, whether you're buying a property and going to have management company behind you or you're going to invest in a note or in a fund, go find out who are the principals. What's their track record in the community. Who else has done business with them and when you do that you and you get to really rub shoulders and not just hear somebody pitch something over a webinar or one time from a stage.

You get to really know people. That's where I develop my confidence and truthfully today Dave, I'm like you. I want passive income. I do enjoy the thrill of putting deals together. That's fun but there's a certain point where it's just like I want to park money in a place where I know it's getting a good return and I don't have to manage all of the stuff. What's your take on that? Because you've gone through the same evolution. I know you do some of your own one-opt deals but also you like to have money where it's just working for you without you having to touch it every week or every few months, right?

Dave: Yeah. Absolutely. I'm in a couple of commercial real estate funds, right, for example. I could have just said, "Well no, I want to go do this large commercial project myself." Well you know, I don't have the team or I don't have all the experts. I'd have to put all that together or I'd have to specialize in that and there's just not enough hours in a day sometimes where it's much easier for me to just invest as a passive participant and still enjoy some of the benefits of the commercial real estate project. Just like people do with our note funds. We know what we're doing with that. That's something we're experts in. We do that every day. We're good with collections. We have all the asset managers. We have all the staff. We have all the acquisitions people.

For an individual to do that themselves, I'm not saying they couldn't do it, it's just that it would be a lot of work, that's what it would be. Why not leverage the skill sets of other people and then still benefit in some way by being a money partner, for lack of a better word, really?

David: It works so well Dave. I could tell listeners today that I've been up to your offices in New Town and I was not amazed because I know you, but I was very impressed by number one, the caliber of people that you have in your partners, John and Bob and the way you have put together a team and the underwriting and the vetting you do is way, way, way, way beyond anything I would ever want to try to duplicate and it makes no sense for me to try to do that. On other things that I can do well in my life or different aspects of real estate investing sure, I have my own process but when I want to get involved and diversified and do something that you guys do so well it just makes so much sense for me be a money partner.

Dave, let’s talk a little bit about one more piece of this puzzle, which we don't have to go into great detail on but something that your company, PPR Note Company specializes in today is your buying what we call a non-performing or defaulted or delinquent paper from the banks. That's what your hedge fund does. Talk a little bit about that. Who supplies that? Where does that type of asset class come from and it sure sounds risky to me, so how do you make sense out of that?

Dave: It's all about managing risk and having knowledge in that space, right? You were joking around about skill sets, right? It would be like me trying to fix my own teeth, right? I wouldn't give myself a root canal because that would be risky in my case. It's like anything. The more you know about it, you start to take the risk off the table. I know when I was first telling my family that I was going to have rental properties with tenants, they were like, "You're crazy. Do you really want to manage all these people." I went to school to be a property manager and got more and more experience. I took some of that risk off the table just by my skill sets of screening tenants and knowing the right properties, that kind of thing.

It's kind of the same idea but with mortgages. It took a little bit of time to analyze notes and to get a history and track record, but really it's through data analysis. I know you met my partner, John. He's kind of like a walking spreadsheet type of guy. That's all they do is analytics and web scraping and those types of activities and over time that data that they collect starts to become the DNA of the business and they can kind of predict the outcome, actually accurately predict the outcome of a pool of loans even before they buy them based on their makeup.

That part starts to get more fun and interesting as time as times goes on.

It starts to take the risk off the table, especially with statistical types of assets. With first mortgages, if you can buy a loan at a discount that could potentially have a high yield, that also has collateral it can be a very unique and profitable investment.

David: Yeah. Investing in paper notes or in funds that specialize in investing in those assets, that's a great place for people that are just learning about the world of self-directed retirement accounts, right? That's the perfect place to get some of that money working and it's tied to real estate.

Dave: It's a perfect example. A lot of the capital that we raise, especially in our funds is self-directed IRA money and one of the reasons that we keep a relatively low minimum is so that people can put in other types of accounts, whether it's an HSA, an education savings account or whether it's just a regular IRA or Roth IRA where people can get started and get their funds moving with a nice yield that's very passive. I was just telling a buddy of mine the story about my cousin who had invested quite a bit of money with us from the beginning and we started in 2007. He had to get a statement from us about how much money he made.

He was going to refinance his house and the bank is like, "Well where did all this money come from?" So you have to document it. He gives them the statement of all this money he had made in notes in these funds and he was amazed. He had made over like a half million dollars in preferred returns and he's like, "I didn't realize I made that much money. I didn't realize how much money these funds had made me over the last seven or eight years." It was pretty amazing.

He goes, "I took that to the bank and if I had told them I was investing in delinquent mortgages they would look at me like I was crazy but when I show them my statement for the last eight years, they're like, 'Wow! This guy made a lot of money.'" He goes even his accountant has said stuff to him, like he can't believe he makes that kind of money in that investment. Some people are more familiar with it than others. It can be very profitable way to make total mailbox money. My cousin is not a handy guy. He's a very busy guy and he's a high income earner. He just doesn't have time to do a lot of real estate himself.

David: Exactly. If people want to know more about the funds that you offer, they can go to www.freedomfounders.com/investors for more information about the fund and what's required for credit investors who want to get involved in that. Dave, last question I've got for you is, we just talked earlier on the call about the fact the marketplace is looking somewhat volatile. There's some turbulence and gyrations. Real estate which you alluded to also has up and down cycles. How are we able to better protect and hedge ourselves against those down cycles better than I think people can who are investing in Wall Street with the stock market? How can we be better about handling that, knowing that there are cycles?

Dave: The first things thing that comes to mind for me, and I'm not knocking Wall Street. I invest in all kinds of things myself so I just want to clear the air with that. It's not like I'm the type of guy that says this investment is bad but what I've got is good. I do point factual things out to people and realistic, logical things out to people. The market is a volatile market, the stock market. It is volatile. It does go up and down but it's quick and easy to get in and out of, that type of thing.

Real estate on the other hand is a little bit slower moving type thing and it's usually not jumping up and down quite that rapidly, normally, right? Unless you're in Southern California or somewhere that's a really active market. Most of the time real estate is a slow and steady type of movement and sure, we've had downturns and come out of those downturns but it's a slower moving thing. It does give you more time to react or to prepare but as the market improves it does a couple things:

One is it just changes the strategies we use but the good news is the value of our current portfolio starts to go through the roof, which is kind of nice. If you are holding a note, your notes can actually become more valuable as the market goes up. There can be positives or negatives from it but we tend to make the same types of margins in up or down markets, it's just how we do it. When you buy a delinquent loan that you pay more for it, well you can't discount it as much for example and there the types of examples but you can still make similar margins.

When note prices are down, which means real estate prices are also down, it usually takes a longer time to exit your deal. Some of it's a time for money equation, that type of thing but it's really just an adjustment of strategy. It's not a situation where you're not making any money at all type of thing. I'm sure you know this, a lot of real estate investors for example, make a lot of their money in a down market and then as the market is going up some guys are still making a lot. There's always somebody that's making money in the home markets it seems like.

David: Exactly. It's about positioning, being adaptable and having your finger on the pulse of the market and knowing how to play in all the different markets which just comes from experience. That's really what it comes down to.

Well, Dave Van Horn, always appreciate the time that you give to our listeners and your contributions, participation with

Freedom Founders. You can find out more about Mr. Dave Van Horn and his partners at the PPR Note Company at www.PPRnoteco.com.

Dave: That's correct David.

David: All right. Dave, thanks so much. We will see you soon. Appreciate. Have a great day.

Dave: Thanks David. I love the opportunity. Talk to you soon Dave. Take care.

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