# Ep #158: Dennis Koelsch - Creating Wealth and Passive Income Without Time, Tenants or Contractors


## Full Episode Transcript

**With Your Host**

**Dr. David Phelps**

**Dentist Freedom Blueprint with Dr. David Phelps and Evan Harris**

Dennis Koelsch: As a doc, we're going to go out and buy houses. They're going to be leveraged homes, they're going to have mortgages on them and we're going to take over financing. We're going to buy subject to existing financing, we're going to have Sarah sell us carry-back financing. We're going to buy for, I just came up with these numbers, we're going to buy for a minimum of 15 percent below market with no more than 15 percent down. Now, how I came up with that, I have no idea, but I did.

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps. 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 Phelps: Good day everyone, this is Dr. David Phelps with the Freedom Founders mastermind community and the Dennis Freedom Blueprint podcast. I've got a really fun interview today with somebody I have known and respected in the real estate arena for many, many years. In fact, this gentleman and I go back with some really classic favorite mentors of ours that we'll talk a little bit about here in the interview. Back in real estate days, many people that have listened to this podcast, some may know, some may not know, while I was a dentist for many, many years, starting back in 1983, I was also an active real estate investor. Not a rehabber, not a boots on the ground, redoing houses, fixing and flipping, but an investor, and I started back in 1980 while I was in my first year of dental school and really learned hands on how to do it. That's not the way I recommend people that I associate with today, that's not how I recommend my dental colleagues, my veterinary friends, my chiropractic friends, to get involved in real estate. There are better ways, and so my good friend and guest today is going to help us break this model down, so Dennis Koelsch, how are you sir?

Dennis Koelsch: Very good David, thanks for inviting me.

David Phelps: Thanks for being here, Dennis. Dennis, I'm going to get a little bit of your background so people know where we're starting from. Dennis has resided in St. Petersburg, Florida since he was seven years old. He graduated from the University of South Florida in 1971, joined a small family real estate business learning the trade and selling and listing houses, apartments, commercial, residential properties of all kinds. He gradually realized the futility of working for a commission. Now Dennis, I think that's what we all term trading time for dollars. That's where we start, right? We start in some kind of business or career, we trade time for dollars. You were selling real estate, getting the commission, and you figured out that being an owner had more attributes to it, so we'll talk about that. We'll talk about that. You developed and utilized many techniques aimed at the acquisition and ownership of real estate for your own personal portfolio. You learned a lot about management, which is critical, negotiation skills, other aspects we'll talk about.

You learned a lot from some key people that I mentioned earlier in general, some representers, mentors over the early years, and I'm going to mention these people's names because they impacted you, Dennis, they impacted me greatly. Some are gone, some are no longer with us, but Warren Harding, certainly, Jack Miller, John

Shaw, Jimmy Napier, Pete Fortunato. Some of the keys called them the four horsemen. Just stellar people who understood ins and outs, the creative aspects of real estate, and I think blessed all of us who followed them for so many years. I certainly give them great credence in what they helped me do outside of my dental practice.

Some of your professional landmarks, you wrote and taught at St. Pete junior college the first college level course on real estate exchanging in Florida in the early eighties. You wrote it and taught it. That's awesome, I did not know that about you. You were president of the St. Petersburg board of realtors and president of the Florida real estate exchangers. You definitely come with a huge amount of respect, I'm just telling the audience, huge amount of respect within the circles that we ran with, and to some degree, still do. I don't know how fast we're running today, because life's good when you understand how to utilize and leverage, optimize the capital assets we know as real estate.

One of the things I want to bring out to our listeners today, Dennis, is something I really harp on a lot. There's a lot of doctors, professional practice people who they've been in the stock market, they're still in the stock market. They see the volatility, they get excited when it goes up, and of course the horror stories when it doesn't. Typical cyclical drop, and they lose 30, 40, 50 percent of the portfolio and have to start back over again to write it back up versus what you and I and many others have experienced in real estate in that it's if you do real estate the right way, if you invest, not speculate, that you can build these passive income streams that can be sustainable and indexed to inflation over many years, so there's a big difference.

The problem for most dentists, and you know this well, is that as a busy professional practice owner or any business owner, if it's not in real estate, then how do you get involved and do quote real estate investing the right way without getting wrapped around your axel, trying to deal with tenants and contractors and management companies. It's a two-edged sword. There's opportunity there, but there's also the fallout of there's not enough time to get good at both. Let's start there, because you've worked with a lot of people that are in the professional practice arena. You've got some great case studies. What do you see, what do your eyes tell you? What's your experience been?

Dennis Koelsch: Well David, I think it's interesting for someone like a professional person, doctor, dentist, or whatever, who makes at least a couple hundred dollars an hour anyway, it's funny for them to do something that is much less costly. Instead of them going out and buying or acquiring real estate that they're going to manage and be involved with and select tenants and get contracts and this and that and the other thing, I would say they should find someone who has a passion for real estate who will do that work for a piece of the action. Just hiring a manager for 10 or 12 or 15 percent to manage your property, I don't think you get near the bang for the buck. Yes, you have someone overlooking the property, but they're doing a mediocre job, typically. It's hard to find a good manager who has your best interests at heart. I would much rather have someone on my team who is going to enjoy the fruits of the labor years down the road and has a vested interest and will stay married to the project for many, many years.

With my chiropractor doctor who I joint ventured with 41 years ago, on March 7th, it'll be our 41st anniversary, and we still own two-thirds of the homes that we bought initially back from '76 to '82. If I was just a fee manager, I would not have hung around that long. I would have moved on and found other projects and so on, and I might have even changed physical locations. This way he got my loyalty and my commitment for a long, long term, because I have a piece of the action, and in my case, it's 50 percent of the action.

David Phelps: All right, so let's break this down to make sure out listeners understand. You alluded to the fact that most of us, most people understand that if you own real estate, rental real estate of any kind, that typically there's management companies out there that for a fee, you said some percentage of topline gross scheduled rent will quote manage the property. Our experience, your experience, really everybody's experience is most of the time, the best you get is average. I mean, certainly there's outliers. There's still some stellar companies, but they're few and far between, and average or less than average is usually what you find. They have no vested interest, as you said. They're taking topline commissions off the top. They really don't care about the property long-term. It is what it is, not blaming them, it's just that's the model and they can only be optimized to a certain extent.

Now, what you're talking about, Dennis, is you're not talking about the Dennis Koelsch management company, per se, you're talking about Dennis Koelsch as an equity interest holder in a particular property or project, correct?

Dennis Koelsch: Absolutely, absolutely.

David Phelps: That's the different, that's the difference. You mentioned vested interest, so this is where you have a vested interest. Let's break this model down, 41 years ago, well first of all, I think we gotta talk about how did you connect with your joint venture partner, I'd say the person who brought the capital and/or credit to the project, or were you walking down the street, did you walk into offices and just say hey, I'm Dennis Koelsch, here's my card, I'd like to do business, how did that work out?

Dennis Koelsch: No, I had the good fortune of being in a minor car accident 41 years ago. My automobile mechanic recommended a chiropractor. Of course, we all get our medical advice from auto mechanics.

David Phelps: That's the best place, right?

Dennis Koelsch: He was working on me. Of course, chiropractors you see them three times a week or until the boat's paid off, and so after, you'll talk about the weather, you'll talk about sports. One day I said to him, I said hey doc, tell me about your investments, and he did. He told me about the investments he was involved with, they were the goofiest things you ever heard of. One was ZoneBall, he literally invested in something called ZoneBall, which was going to replace baseball. Of course, we know it probably didn't. It was when electronic games were coming online back in the late seventies, and he invested in a company that was going to ship pinball machines to Abu Dhabi. Of course, no one told him that Abu Dhabi had electricity to and they were going to get electronic games, so he lost another 50 grand on that. He lost a total of 100 grand on those two ventures alone.

I said doc, I said first of all you need a guardian and you shouldn't be allowed to write checks, but secondly, have you ever heard about real estate? It's those square things with roofs that people live. I said doc, if I can show you how you can own real estate and your phone would never ring, you'll never talk to a tenant, would you be interested? He said oh absolutely, love to hear about that. I said well, I'm busy, busy, busy, don't have time right now, but I'll see you in a couple days and I'll tell you all about it. Well, the reality was I hadn't thought about it myself, so I had to go home and formulate a plan because I knew I was going to see him in a couple days. The plan was I was going to, I said doc, we're going to go out and buy houses. They're going to be leveraged homes. They're going to have them ready to sell them, and we're going to take over financing. We're going to buy subject to existing financing, we're going to have Sarah sell us carry-back financing. We're going to buy for, and I just came up with these numbers. We're going to buy for a minimum of 15 percent below market with no more than 15 percent down. Now, how I came up with that, I had no idea, but I did.

I said if you're in, we'll start buying houses. All of a sudden here I was, a broke kid in my twenties, I had no money, and I had someone who was going to write these checks. You can do this today, but just add a zero or two zeros to everything. We'd go out and we'd buy little houses for 20,000 or 25,000 with two or three or four thousand dollars down. Pretty soon after about six years of doing this, and of course, I worked as an agent also, so I made a living, but after six years of doing this, we had 22 houses. I was matching them, they were pretty much breaking even. I said, now doc was about 50 at the time or something. I was about 30 or 27 or something. I said doc, we're not going to take a penny of cash flow out of this venture. You're going to keep bending bones until you retire and I'm going to keep being an agent. What we're going to do though is we're going to keep making the homes more attractive, making them current, making them acceptable to tenants, and we're also going to retire debt. Any additional cash flow, we're going to just pay off debt. We had accelerated debt payment. Literally the day he retired when he was 62, he was through bending bones, everything was free and clear and we could start dispersing nice cash flow.

Back then, that was 25 years ago so with the thing for free and clear, he'd get 500 a month, I'd get 500 a month. Then a couple years later he'd get 750, I'd get 750. Well now, he's getting about 4,000 a month and I'm getting about 4,000 a month on two-thirds of the original investment of number of homes. We've sold a third of them already. It was a great venture. What was important, while he was stable, he was willing to go for the long game, in this case, 41 years, as was I. I had a commitment, it was my passion. He's thrilled to death, and plus, he never second guessed a decision I made. I said doc, your job is to be a chiropractor and my job is to real estate. I don't want you ever to second-guess what I do, because I'm the pro. It was sort of a dictatorial approach, but somehow it worked with this guy. It won't work with everyone. He was lucky that he found me, but I was lucky that I found him. We had a very symbiotic relationship.

David Phelps: Yeah, very much, very much. We know Dennis, with any kind of real estate, any kind of building requires maintenance and capital expenditures to replace mechanical and structural from time to time. How did that work out in this joint venture relationship? When something did need to be replaced, how did you guys work that out?

Dennis Koelsch: I would write a check. If there was a deficit in the account, there might not be a dispersement, a cash flow dispersement for a month or two or three until that was paid back. I never went to him and had him, I never had an assessment against him. I'm a big boy, I can write a few checks. The interesting thing David is that after about 1982, I no longer needed any outside investors. I had him and a few other ones. I was pretty much there where I had enough cash flow from some of these investments, plus my real estate business was doing well enough that I did not need it. I could start going out and buying on my own.

Now, let me give you if I may, if I may jump ahead a little bit, in '08, I realized that as being a prime time to buy real estate because of the crash, but I did not want to add to my portfolio, or let's say I did not want to add to my workload. I wanted to do more traveling and this, that, and the other thing. I found a guy just like me, hardworking, sharp, motivated, has a passion for real estate, and I said, his name is Baron, I said Baron, here's the deal. You're going to go out and find houses that we can buy for oh, back then 20, 25 percent, 30 percent below market. I said you're going to find the house, and I was in a position to write cash, cash checks, and I said I'm going to pay cash for these homes. Let's assume back then, they might have been formerly $200,000 homes dropping to $100,000 homes that he could buy for 70 or 80,000. I would write a check for 70 or 80,000, we'd own the home free and clear. I'd have an undivided three-quarters, 75 percent interest, and he got 25 percent interest.

That's a good formula also if you're liquid enough and have some cash. It was great for him, because he owned 25 percent of a free and clear asset, I had controls where if he scampered or ran away or whatever, I was the guy pulling the strings, trust, so I had all the controls I needed. I had the protections. We bought 25 percent below market, he had 25 percent ownership. All the management is handled, and he gets a nice cash flow, and I'm thrilled to death with that program too.

David Phelps: What I'm hearing from you is that you've now flipped the switch, so to speak, and the model that you started with where you had another capital investor, your chiropractor friend of 41 years and you were the active member. Now you're at a point in your life where you don't need more leverage, but you still enjoy the art of putting deals together. You still enjoy the art when there's opportunity to grab that opportunity. You just don't need to be the guy doing the work anymore, is that what I'm hearing?

Dennis Koelsch: That's what you're hearing, exactly right. I'm helping this fellow get started, and he's been very loyal, very good. He's been a very good choice for me, actually.

David Phelps: Yeah, you're passing it on. Really, you created a legacy, both financial but also in mentoring and helping another young entrepreneur come up through the same pathway that you figured out many years ago when you decided to go from commission-based trading type of dollars to capital assets. One of the things that you didn't really say it this way, but let's kind of hone in on it from your standpoint, back when you were doing the deals with the chiropractor friend, you were doing these deals, you were acquiring your interest in these real estate properties Dennis with no money out of your own pocket.

Dennis Koelsch: That's true. Now, I would recommend if you do it, if you were me, if I were to back, I would say doc, you're going to put up the money, I'm going to put up $100. I'd put up some monetary amount just to establish a basis, establish a starting point. I think that's something that's important. If you're that broke, you can even give them $100 note, I promise you someday $100.

David Phelps: Yeah, still establishes basis either way, so very good on that, very good.

Dennis Koelsch: Now I did, if I may, let me tell you if I may about one little deal I did, it actually was before I met the chiropractor, I founded an industrial property that was really a steal, it was a real estate owned by the back. It was probably 1973, I was 23 years old. I found this opportunity, it was a steal, and I wanted to buy it so badly, but of course I was broke. I gathered five investors, five people with money, who knew industries and I said listen, this home is $96,000. Each one of you is going to put up 25 percent of 96,000. What's that, 19,000 apiece, let's say, and you're going to own one-sixth, I'm sorry, I take that back. You're going to own yeah, one-sixth of the property. There's five of them, each one bought one-sixth for one-fifth the price. Yes, you've got the other six on the property.

David Phelps: I'm wondering, is this somebody I know?

Dennis Koelsch: … the property, and I thought about it. Instead of me earning a $5,000 commission by being an agent on that transaction, I earned $250 a month, my share, my one-sixth share cash flow, plus we sold the property after eight years, I walked away with another $25,000. Now, that may not sound like much now, but that was huge back then.

David Phelps: Sure, yeah, like you said, just add a zero if you want to equate it to today's value. That's really what we'd call today a syndication, where you bring multiple investors in on a project like that. You did a mini syndication to put that one together.

Dennis Koelsch: I'm not that sophisticated to use big works like that, David.

David Phelps: Well, I know, but some might like to know what that is. Yeah, the big words don't matter. Really Dennis, what we're talking about here, let's just break it down to the brass tacks, we're talking about relationships. Real estate is the vehicle and you and I and other people would agree that we believe real estate is the most fabulous asset to build wealth, because there's so many ways to slice it and cut it, tax preferences, everything's unbeatable. Again the problem, most people look at real estate as the actual sticks and bricks, the building, and they try to figure all that stuff out and said, well wait a minute, focus on what you bring to the table.

Dennis Koelsch: The benefits, the benefits to real estate are so amazing, and that's why I truly had a passion for it, and for the first 20 years of my professional life, that was my only focus was real estate, and it paid off.

David Phelps: It pays off, it's fun, and what you do so well is you really, you solve problems. You look at opportunities, you can see the opportunity, you seize the opportunity. You don't have to have the money to do it, but you need to know how to put the deal together and usually know a few people who trust you like you and want in on your deal because you established reputation and rapport, and that's something anybody can do. I'm talking really more to the boots on the ground. I'm not talking about the doctors now, okay, I want to make clear that they need to find people like you, and we'll talk about that in a minute. That's what you've done, that's the entrepreneurial part of America, capitalist America that most of us love because you can go out and you can find a place to solve problems, and you just did it so well in real estate and utilized real estate to make that happen.

Let me ask you a question about today's historically low interest rates. You talked about that the leveraging that you and your chiropractor did was subject to, so people understand, that's buying a property and taking it over subject to the existing loan. You might buy a property from Mr. and Mrs. Smith and they have a bank loan on the property. You'd buy the property and acknowledge the fact there's financing on it and acknowledge the fact that you're going to pay it. You basically had leveraged financing in place, or in other cases, if a property was free and clear, you'd be a good negotiator, you many times could negotiate the seller to carry back financing on a good chunk of their equity. Those are two ways to leverage. What about today with today's low interest rate market now, you and I probably aren't running to the banks to get our financing, we probably haven't done that for many years. I do tell professionals who have a good W-2 and a good credit score that with low interest rates today, there may be an opportunity for the capital partner, in this case, the chiropractor, to use his credit and go get new financing if the opportunity and the cash, in this case, the cash price, made sense. Would you like to lead into that a little bit?

Dennis Koelsch: Well, I hate debt. There's good debt and bad debt, which we all know. Debt is so dangerous though, even for a professional person, it's dangerous. The approach I would rather take rather than go to a real lender would be a motivated seller, and you say Mr. Seller, when you sell this for cash, what are you going to do with the money, because we all know that interest rates are low, and so your CD at the bank who's going to make a half a percent a year, if I can show you how you can make five or six or seven times that, maybe three, three and a half percent on that money, would you be interested? It'll be great collateral, in fact, you're living at it right now. We're going to promise to pay, and you're going to get a monthly check. That's much more, I think that's sale-able if you present it along those terms. People, smart people shouldn't be afraid to put their money in the stock market. They should be reluctant to leave their money in a CD in the bank where they're not making anything. Them being the bank is a great transition if they want to start easy. It makes a lot of sense for retired people and so on. That's the approach I would take.

The beauty of real estate today is, the bad thing about the stock market is that everyone all over America knows what IBM stock is worth today, doesn't matter, but people on the same block of where there's houses, two people on the same different houses may not have any idea what their home is worth. They may have very undervalued, overvalued figures. That's where negotiation comes in, and that's where you can find opportunities. Real estate is very regionalized, it's not national.

David Phelps: Yeah, exactly, it's a very inefficient market from that standpoint, but that's where the opportunities are, so as you said, you could have some division block on the street with all the houses built basically the same time, with just very little variation in floor plan or square footage, and yet whether you look at a cash price or terms, with as you mentioned, like seller financing, carrying back the equity, there's all kinds of ways to make it work, but you've gotta have the ability, or you've gotta know somebody. Again, I'm going back to you being the active member here, you're the one that understands this, you're the one that made all this happen. That's what you brought to the table. That's what you brought to the joint venture is your ability to find the deals and negotiate the deals and then manage them. That's a lot of putting a deal together.

Some people think well, the cash or the capital rules the roost, and I would say well, I would think twice about that. Yeah, there's a place for that, but someone like you is a much more rare commodity than the money out there. In other words, there's lots of money looking for deal flow and yield today, but finding the Dennis Koelschs of the world or the young man that you're mentoring now, that's more difficult. I've got a mastermind, I run … for professional practice owners, and really, what I do is connect the dots to people like you, Dennis, who are still active. I don't think we can call you, I don't think you're going to go out there and run this program anymore because you're way on the other side. I try to connect the doctors with people like you who have good boots on the ground businesses and they find and negotiate and manage the deals. If some of our listeners are thinking I'd like to do this, wherever they are in the country, how would you recommend they try to find the right person? We gotta define what that right person looks like. How should they go about that?

Dennis Koelsch: Well you know, that's a good question. I think I would do a couple things. I think I'd go to the local university, local college that offers a real estate program, and I'd talk to the guy that teaches management, property management. I'd say I would like to take one or two or three of your best students out to dinner and I want to talk to them about opportunities in real estate. Here's my card, please pass it onto them. I think that's one approach I would use, try to meet some young people that maybe have a passion for real estate but don't know quite how they can make it grow. If they're smart, which they're his best students, so by that information, they're smart. If they're smart, they're going to know that ownership or part ownership is much better than just being a wage slave or working for tips, and that's what missions are.

That's number one. Number two is I'd talk to a good property management company in town. I want a joint venture on good deals, and these are again, these are properties that we can buy for a little bit below market for motivated sellers, or in this day and age, maybe it's only 10 or 15 or 20 percent below, but I will do the financing, but I want a joint venture with someone that's going to be long term, stable, and that's what you want. You don't want someone who just moved into town two years ago to be your guy. You want someone who has roots in the community, who plans to stay there for a long time, and who's maybe been in the business for a while. I think that college idea, I think it makes all kinds of sense. Young people are hungry and they want to have an opportunity, and they want to excel versus just again, work for tips. I don't want to demean people that are in that profession, but face it.

David Phelps: No.

Dennis Koelsch: As an example, I bought a house, an agent in our office, I'm talking back in the seventies, got a listing and he told me about it. Well, I bought it, I bought that house. He made his $1,000, $2,000 commission as the broker deal. I've been making two or three or five thousand dollars per year for 40 years on that house.

David Phelps: Yeah, big difference.

Dennis Koelsch: Who made the better deal? Plus, I own the home, it's been free and clear for years, and it's worth a couple hundred thousand dollars. You need a long horizon, and both the investor, the guy who writes the checks, and the working partner need a long horizon. I had no idea my joint venture with this chiropractor would be 41 years. By the way, last March 7th, I went up to Appleton, Wisconsin, where he retired to. Now, can you imagine leaving Florida to return to Appleton, Wisconsin?

David Phelps: That's kind of reverse, isn't it?

Dennis Koelsch: I gave him, we went out to dinner. He's in his eighties now. I have him a nice plaque. It says, to Richard Gildon, this plaque commemorates the fortieth anniversary of our first joint venture. Thank you for your trust, confidence, and lack of interference.

David Phelps: There you go.

Dennis Koelsch: On this joint venture, and it's a nice plaque and so on. I appreciate him and how loyal he's been to me all these years, and he appreciates me.

David Phelps: That kind of relationship, you're not going to find at your local bank, are you Dennis?

Dennis Koelsch: No, I can tell you some bank stories too. Don't deal with bankers.

David Phelps: Well, really, really good. This has been a lot of fun. Dennis, I love it because you really speak to the point that I try to make over and over again to the doctors is real estate is a wonderful opportunity to build wealth in long-term sustainable, predictable cash flow, which is really the whole goal, to develop passive income streams so that when they equal your active income, you can quote retire, whatever that means to you. I don't like the word retire, because I don't believe in retirement, but let's say evolve to your next stage in life, you've got freedom to do what you want to do, but you can't do that if your whole lifestyle is dependent upon you, whatever you do, no matter what your dollar per hour revenue is, it's still, it's pinned on you, so you have no true freedom. How do you develop that, what's more predictable?

Well, you said it well. I truly believe as you do that real estate provides that predictability. Other asset classes that I don't understand as well and just don't seem to be predictable, I stay away from. Real estate's not easy, but it's easier if you find the right people, and that was the point of our conversation today is do it with other people, verify, build the trust, look at the track record, develop the right relationships, and you can build whatever long-term lifestyle that you want to if you just set it up the right way.

Dennis Koelsch: Well David, you're right. It's capital versus labor. Now, you guys are skilled, you use your labor, you make a lot of money for it. Well, I'm not skilled, so I just had to have something else working for me. That's what capital does. Backtracking a little bit about my joint venture, my latest with Baron on these properties we've bought, another reason I did it, I have a selfish motivation. Another reason I did it is that in the event I either predecease my wife or no longer to carry on, here I am grooming someone to come in and help my wife out as far as managing properties, overseeing the situation, knowing who the tradesmen are to deal with, knowing how to address issues, knowing how to find tenants. I'm grooming someone that perhaps can step in if I'm not longer available. That's part of my method to my madness on that one too.

David Phelps: Yeah, no, very wise, very wise, and a good point to bring out. All right, well Dennis Koelsch, thank you so much, it's great to connect with you again over so many years, and just to catch up, see life is treating you well, continue on your mission, and keep mentoring the underfolks like Baron, because that's what it's all about, passing on what you've learned. Well done, sir.

Dennis Koelsch: Thank you David, any time, appreciate it.

David Phelps: All right, talk to you later.

Dennis Koelsch: Yeah, goodbye.

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