Ep #178: Jim Ingersoll - Manage Risk, Remove Fear, and Take Action!

Full Episode Transcript

With Your Host

Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps and Evan Harris

You're listening to a special edition of the Dentist Freedom Blueprint Podcast. This four episode summer series is your all access pass inside the closed doors of the Freedom Founders Mastermind. You'll hear special presentations from your host, Dr. David Phelps, and some of his top trusted advisors, as they give straightforward advice to transform your practice into a self-sufficient cash machine to compound your net worth and to multiple your cash flow streams with hassle free real estate. These never before released presentations were recorded live from within the Freedom Founders Mastermind in Dallas, Texas. More at FreedomFounders.com.

Jim Ingersoll: How are you guys?

Audience: Good.

Jim Ingersoll: It's late in the day. Are you awake, alive?

Jim Ingersoll: You feel great?

Jim Ingersoll: All right. Good. This 20 minute presentation I'm gonna talk about ties into our small group meetings we did at the tables a little while ago, because the questions I got, some of them are covered in this. So, I created a presentation to help you eliminate fear in investing, to get rid of some of the anxiety, because at the end of the day, real estate investing is risky, like every form of investing. Anybody who tells you there are zero risks in anything you're doing is probably not telling you the truth, right? For everything we do in life there's some level of risk. In real estate, there is as well, but the key is to be able to manage it, so you can get rid of the fear, get rid of your anxiety, put stress to the side, and feel good about your investments, so you can move forward. That's what this is all about.

I've got six steps to minimizing your risk when investing in real estate. Here they are. Buy the right house for the right price in the right location. Number two, know what you're buying. Have a great team behind you. Protection from the history of the house, privacy, and know who you're working with. If you do these six things, you can feel a lot better about your house that you're gonna invest in, but really number one is super important. It's super easy too, by the way. Super easy. Easiest math you'll ever see. Let me jump into that.

In real estate, when you're investing, you make money when you buy. You guys agree? You need to. Personally, I hate shopping for clothes. Does anybody else? Okay. All the guys raised their hand, right? But when I do shop for clothes, and my wife makes me go to Macy's, I'm just sort of drawn to the clearance racks. Anyone else? I really don't like paying full price for anything in life, including my clothes, my car, and my houses. Oh. Did you say houses? Yes. You need to buy your houses on sale, just like you do when you go to Macy's and you look for the clearance rack, but it doesn't work quite that way.

It starts with what's called a motivated seller. You gotta have somebody sort of with a desperate life situation that's willing to sell you their house for quick cash in order for you to buy that house at a big discount. The discount is really important. Here's the simplest math formula for all you guys that have gone through all this math and science to be a dentist right? Lots of math and science, everybody? I was an electrical engineer. I had lots of math and science as well. Here's a super easy formula for you. Max offer. ARV stands for after repair value. Now, somebody asked me at a table earlier today, "How do you come up with the after repair value?"

Well, it starts with the comps. That's where you look at the comparables of the houses around the one you want to invest in, and you find one that's similar in size, similar in bedrooms, similar in the number of bathrooms. Comps and values on houses varies quickly. In our market, in Richmond, Virginia, there's parts of the city that are high gentrification with a lot of revitalization. They change block by block, sometimes almost across the street from one another. So, you've got to be able to pull your comps. If you've never pulled your own comps before, then you might want to try to put a competent realtor on your team to help you. You don't want that number to be wrong. So, ARV, after repair value, very basic. That's what the house is gonna be worth when you're done fixing it up. You're gonna comp it against maybe a flip nearby or somebody who's done a good job maintaining the house for a long time.

Then what you do is you figure out what you want your gross margin to be. I wrote two real estate books. They're both on Amazon. My last one I wrote I think four to five years ago. In that book, I use this formula with .6, because that's where we were at in the market. Five years ago, we could go out and I could buy as many houses as I wanted at 60% or less, 50%, 40%. The market's shifted. It's hard to get there not. In fact, it's becoming difficult to get 70% in a lot of markets, but that's a good guideline. Wouldn't you agree, Bill? From a lender perspective, it's a good guideline.

You take 70% of what you think the house is worth all fixed up, looking good, matching the other comps in your area, and then subtract out your repairs. If you can't come up with your own repairs, you need a strong contractor onto your team to help you out. You've got to know how much it's gonna cost to put a new kitchen in, a new bathroom, a new roof, some new windows, maybe a new heating and air system. It's that easy. Once you know those three numbers, after repair value and your repairs, you can calculate your offer.

Is that still relevant in today's market, 70%? Wholesalers are jacking up their deals in my market to 85%. I would not recommend buying at 85%. You don't need to. You can buy cheaper. Remember, you make money, the equity and the deal, when you buy. The more equity you have the day you buy, the less risk that you have, even if the market does shift. You follow my thinking on that? So, it's very important. You can deviate from that a little bit, but you better know what you're doing. If you're able to buy differently, maybe eliminate some of the other fees and things, you might be able to.

All right. Another question I get a lot is, "Can I just look online and buy houses without ever going to the house?" Now, imagine the house in this picture right here, how it looks from the front of the house. It probably looks okay, because you can't see the giant hole in the side, right? You also can't see other things, like is it on a giant hill? Is there a cemetery behind the house? Is two doors down the projects? So, you can do a lot of research online, but at the end of the day, you need somebody to go into that house and look at it for you or get out there and do it yourself, your boots on the ground team, or you need to go look at it, so you know exactly what you're buying.

If you don't go to the house, if you don't send somebody under the house, or somebody experienced doesn't walk through your house, you're gonna end up with things like termite damage, mold, structural problems. There are the things that paralyze people from doing deals. I'm gonna give you guys some guidelines on how to eliminate that fear. The way that you do that is called due diligence, and you got to do the due, so you know what you're buying and what you don't want to buy, you do want to buy or you don't want to buy. You can mitigate all of this risk by having somebody good on your team do that work for you. If you do have it, they know how to fix it when you're done. This goes right into your team. Your team is so important, the whole foundation of Freedom Founders. Your network is your what?

Jim Ingersoll: Net worth. Right. Your network in real estate extends to a lot of different thing. It includes your ability to source deals. It includes your legal team. It includes your contractors. I have a lot of contractors that I have to rely on. To build a team of reliable contractors takes effort. Your legal team, your realtor, your funding sources, your deal sources, all of these are some of the parts and pieces of a team that you're gonna want. Now, what if you want to go out there and you want to invest in another market? I was talking to May earlier, and she's in LA. Maybe Mae doesn't want to invest in LA, because a three bedroom house, she told me, is $900,000. Hard to cash flow that, right?

But maybe you want to go to Pensacola, Florida, Indiana, Mississippi, Kansas City, Detroit, somewhere where you get a better deal as far as the price to the rent ratio. That's another thing we talked about at our table earlier, the rent to price ratio. You want that to be high to maximize your cash flow. How do you invest outside of your market, when you live in LA, but you want to invest in South Bend, Indiana, or Columbus, Ohio, or even where I'm at in Richmond? You need four people on your team that you can rely on heavily, your deal sourcing, you need a contractor, a property manager, and somebody to help you with the legal side of your deals. If you have that, you can go invest outside in other markets, and you may or may not need a funding source. That's some of the pieces you need to put together if you're gonna invest somewhere else, or one very strong catylist who can help you manage all four of those.

How about protection from history? What can go wrong in the history of the house? Now, I'm not talking about like if somebody got killed in the house or the house flooded, since we have a hurricane coming, right? I'm talking about the legal part, unknown liens, mortgages, unknown errors, people that may have an interest in the house, and they don't even know that they have a partial interest in the house, IRS liens. We see it a lot. We see errors in property records, easements, things like this. The reason you don't need to worry about this component of your deal is because you have a strong legal team doing the title work, and you should get title insurance to help mitigate that.

All right. Last thing, privacy. Why does privacy matter? Why does it matter who owns the actual house? Think about that for a minute. In which part of the deal do you want to be in, because the art of the deal in real estate is there's a million ways to slice it up. In a few months from now, we're gonna celebrate Thanksgiving, right? Anybody like turkey? Real estate's the same way. You can slice up your deal just like you do a turkey at Thanksgiving, and there's a million ways to do it, a lot of different ways to hold title, and the key is you want your transactions to be private. This is really important. Do you want people to know where you live that are involved with your houses?

There's somebody that I know named April. She called me on a Monday last year saying a tenant showed up on her front porch on a Sunday night. Now, usually as landlords, we go knocking on doors to collect money, right? In this case, she had used her personal name on the lease, and her address was on the lease. She was absolutely freaked out like you wouldn't believe, because a tenant showed up knocking on her door on a Sunday night. So, don't let people know where you live. Don't use your personal name in all your transactions. Find other ways to get around that. What I like to do for my address is use a PO box at the UPS store. It works very well. I've had tenants show up at the UPS store to pay rent. They thought that was my physical address. I don't want people to know where I live. I want to keep my wife, my kids, my grandkids now private and out of my real estate life as much as I can.

How about who owns the house? Do you want to own it personally? Do you want to own it in an LLC? Do you want to own it in a trust? Okay? That's kind of the natural progression a lot of investors go through. I own everything in a trust. With a trust if somebody goes to figure out all of the assets that I live, they'll never be able to put a map together to figure it out, because every trust has a different name. An LLC can also be very good. It protects you personally with a really big shield, as long as you follow the rules of the LLC. Now, if you're just getting started, you may have to initially buy it in your personal name, if you're getting a Fannie Mae type conventional mortgage, but you might want to consider deeding it over to another entity later to protect that.

Your contractors, your tenants, people that you do business with should know that they're dealing with a business, not with an individual. So, when I have tenants ask me if they can do something, whether it's paint a room, or get a ceiling fan, or some kind of upgrade, or anything really, my natural response is, "I have to ask my boss," which is, by the way, my wife, right? See, I don't want my tenants to think that I own anything. I am just a property manager when I'm dealing with my tenants. Okay? You see how that works? That way they don't really know who's involved, and they treat it as a business that way, and it works very, very well. Who do your tenants think owns the house? Do they know where you live?

Why the way, these are all cases that make it a good reason for you to want to be the lender in transactions and not the owner. With ownership comes risk. You can be sued. The lender never gets sued, ever. Do people know where you live? I say you should never own the house personally, and if you really want great privacy, consider using an LLC or a trust. Now, I say all that, because I want to eliminate fear, and I hope I didn't create fear, because I've only got 20 minutes to cover this. But all of these five or six points are very easily managed, if you're dealing with the right people. This group of people, the Freedom Founders, can get you over that hump very quickly.

Don't let something little hold you up from taking action. You've got to be willing to take massive action and get it done. Last thing. My wife, Cheryl, and I, she didn't join me this time, but we always say, "Be careful who has keys to your house." Who do you work with in the real estate business that has keys to all your houses? It's contractors and tenants. Be careful on both accounts who you let into your house. These are assets that you're gonna manage.

Also, be careful of note payers, if you're creating financing. It is a wonderful thing when you create a note and the owner of the house pays you on time every month with mailbox money. You can get there, but you've got to do some due diligence. Know who your deal makers are, who you're sourcing deals from, who your investors are. That's why the trusted network of Freedom Founders is really so very, very powerful.

All right. That was it. Buy the right house for the right price. I gave you a very simple formula that creates a 30% margin. That means you can be off 30% and still not lose money. Know what you're buying, and where it's at, and what it's worth, and how much it needs in repairs. Build a great team, realtor, legal team, deal sourcing, funding. This is a team sport, real estate investing. You got to protect yourself from the history of the house. Also, be sure you've got protection with homeowner's insurance. If you're lending somebody money, make sure you're named on that homeowner's insurance as well, so you get title insurance as a lender. You get homeowner's insurance protection. It takes a lot of the risk away.

Privacy, very important. Don't let people know where you live, and don't let them know that you own houses. Finally, super important, know who you're working with. Characters and credibility are ultra important when investing in real estate. Those six things should help you get past anxiety, past the stress, past the fear, so you can get out there and get some deal flow going for yourself, as we leave here at the end of this weekend.

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