

Ep #238: Dr. Cherry Chen - The Real Estate Physician



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David Phelps: Good day everyone. This is Dr. David Phelps of the Freedom Founders Mastermind Community and Dentist Freedom Blueprint Podcast. Well, today I've got... Going to be a fun interview with a colleague in the health industry, a person that I have definitely developed a strong interest in following just because, well, she's actually following the path that I followed when I was starting my career in dentistry. Many of you know that my story that dentistry was my chosen career profession. But, while I was still in school, in college, and then in dental school, I was starting to buy real estate. Well, my guest today is really doing kind of the same thing, maybe a slightly different path. And we'll talk about how that maybe is different than what I did, but still the same mindset. So, without further ado, I've got Dr. Cherry Chen with me today, MD right here in Dallas, Texas. Cherry, how are you doing?

Cherry Chen: Good. Hi David. How are you? It's my pleasure to be on the show. I'm happy we can reconnect here.

David Phelps: Yeah, we connected earlier in the year and made a point in the same metropolitan area here in Dallas to get together. We did that a few months ago. Had a really nice conversation where you and I were talking a little bit before we started this today. You know, it's nice to be in a community, whatever your focus, you know, where you can be around people that have kind of the same

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mindset, the drive, the same spirit. And that's not always feasible to do. You know, where we live or maybe other social circles we run in, not everybody understands this. Right? I mean, I find that to be very common. I'm not saying that anybody is superior group, straight right off the bat, but it's nice to find people who kind of get who you are. Is that a fair statement?

Cherry Chen: Yeah, and I mean, credit to you, you've built a nice community and I'm trying to do that too. I think no matter what profession or job you have, dentists, physicians, pharmacist, any profession, I think we all kind of share the same desires or wants. And that's seeking fulfillment and whether that is derived from your job initially, I think at some point we all want to expand beyond that, and be creative. And life means a lot more than your career.

David Phelps: Yeah, well said, well said. People want to know a little bit more about you. So, let's dig in there a little bit. So, your company is the Real Estate Physician. Just to be clear, that doesn't mean you're the doctor that goes in, and actually fixes the structure of real estate. Right? Just to be clear.

Cherry Chen: Oh gosh, no.

David Phelps: Okay, okay. Just want to set the record straight. When I say physician, we'll talk about what that means in a minute. But that's the company real estate physician. TheRealEstatePhysician.com, website. Your Facebook group is The Real Estate Physician. Easy to remember. But you're an internist by your training, Texas A&M University Medical, and then you went to Oregon for additional training, correct?

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Cherry Chen: Yes, that's correct. So I'm also here local where you are in Dallas where I work full time as internal medicine. I work as a hospitalist and that's... I've been doing that for, I guess, I'm going on my fifth year now. I created the platform Real Estate Physician and thank goodness we do not fix houses. I created the platform last year because it just, like we were discussing, in just in my own evolution of my investment philosophy, seeking resources, seeking mentorships, or you know, realizing what is out there besides the stock market that I feel like we were limited to in scope, and what we're able to invest. And, so I've been investing in real estate and in my specific area of commercial real estate for over four years. I've found that there's actually great value in sharing this with my colleagues and my network. Even that it's an option many people don't even hear about or know how to go about investing outside of Wall Street.

David Phelps: Yeah. We share similar beliefs there. And you're right, my belief is that Wall Street investing is the default. It's what society advisers tell you to go. Well, why? Well, because it's "easy", but then easy doesn't necessarily mean it's good. That's the reason why I say, in fact, the reason I think we enjoy real estate is because it's an inefficient market as opposed to Wall Street being an efficient market.

Efficiency brings ease, but it also dilutes the availability for opportunity. And I'm a big believer that really with Wall Street, all you're buying when you're an investor as an individual with no leverage, with no... I'm not going to say, insider trading, but look, let's face it. There's insider knowledge going on even though it's illegal in the Wall Street. Without that leverage, beyond being an individual, you're just buying the market and what's that market look

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like? It's volatile. Now, real estate can also have volatility to it. However, the inefficiency of the real estate market means that we can be selective about where, what asset class and actually with whom. Because as you said, we don't want to be the actual fixers and that of the property. That's not our goal, but there's people that do that very well. So, I want to back into what first peaked your interest in alternative investing. Where did that come from? You know, I started by reading books and trying to figure it out. What led you to real estate?

Cherry Chen: Yeah. No, I mean it's really interesting what you said because you know, because Wall Street is all we know. So we think it's safe. It's the default, no real estate, Wall Street stock market. There's no right or wrong. And I always go back to everyone has their own investment philosophy and that includes risks, and then, things like real estate. Or, they say it's risky or alternative because it's not Wall Street. So, for me, my interest started four years ago when I was saving up some money. I said, "Okay, well what else can I invest in?" I started looking because my 401K was so limited I couldn't take it out. There's only a specific amount I could put in. They take fees, and I didn't even know what I was investing in. You're like, "Okay, I'll just put it into a target fund."

So, certainly that's what I was comfortable with because that's all I knew, but there were limitations within that. And so, like you said, it's volatile. It's not predictable. You don't really have control of the conditions. Tomorrow can go up 20%, next day go down 30%, has nothing to do with, you know within your control. So, I started looking and I think most people, when they think real estate, they think a single family rental. We've all lived in an apartment or we've all lived in a house growing up at some point. So, it

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makes sense. You said I can go buy a house and lease it out. And so, that's what I started looking, and that's where I did my own research and kind of stumbled across, you know doing that research, multifamily or apartments because I was wanting to go through as the perspective of an investor. I did not want to personally manage the properties.

So, then you start learning about the limitations of a single family versus a commercial property, like an apartment. And there's many differences. What makes it a very distinct vehicle for investing that makes it different than single family. And what drew me to it was, one, I've always gone through it from the perspective I love my profession. I want to keep doing my job as a physician, but I want to be able to participate and invest in real estate and I want to be as passive as I could be. Commercial real estate through syndication structure allowed me to do that. So, that's what I went down exploring and have invested in.

David Phelps: So, yeah, I agree that... There's pros and cons to everything. Single family is potentially not as quickly scalable. It maybe gives more control. But of course with control comes time and oversight, and as you said, we are always having to balance that. And I think that's a key thing, particularly for people that are high income, higher income individuals. You've got to realize what your value of time is. And if you're going to get involved in something else, then you're going to be leading something else over here. It's again, it's a philosophy, right? I started with single family, but I've also, as you've done, I've moved into other scalable arenas and for me, and I want to get your perspective on this Cherry, is as you moved from some experience with single family and realizing that that

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was probably taking more time than the return on it. Unless you've got a team, you're building it out, which is not what we both have said we want to do.

Then, finding the opportunity of syndications, multifamily, that asset class one can study, learn about, become pretty informed, key for us to be "passive, or more passive" is we've got to find the right operator, a syndication opportunity looks good. Talk to us in general about finding the right people, and did you have to go through different people, and how did you do some kind of due diligence to see is this the right group that can be a good operator? Give us that insight.

Cherry Chen: Yeah, so, like anything, you have to get educated on the basics. And for me, a lot of that included books, but certainly for me it's podcast, and you know, podcasts like yours. There's podcasts for physicians, just like you have podcasts for dentists. There's podcasts for investing in real estate in general that covers all the gamuts of turnkey single family, multifamily versus just podcasts for multifamily syndication.

So, for me personally, that was really valuable because I learned well that way, and I could pick up pockets of time for learning, and certainly nothing beats meeting people in person, shaking your hand, and talking to them on the phone. So, I would go to conferences for these specific industries that meet people and talk to them, and get them on the phone, tour properties. So, that's what makes real estate different.

It's very tangible. It's very real. You can touch it. And there's people who've been doing this for years. It's a business, you know, and so they know the market more than you. Like we were talking about leverage, leveraging

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their knowledge or their experience because you can't do it all on your own. I always like to say, "What is the highest and best use of your time? Just because you can do it doesn't mean you should." And like we said, it's your knowledge or capital, your philosophy, and your time. And I think when I look at anything besides investments, other hobbies, or even my own clinical work, how does my time and the best use of it, divide it up, and how do I leverage that specifically in each different part of my life?

David Phelps: You know, Cherry, one of many quotes that I've heard from Tony Robbins, I'll just pick one here, is he says that trading your time for dollars, you know active income, what we do in a career business. Trading time for dollars is the worst trade you can make. Now, there's nothing like doing something with our brands, whatever it is, that actually impacts and serves other people. So, his statement in context of if you want to scale, if you want to grow your impact, then yes, doing it by yourself without leveraging other people, leveraging maybe capital, you know there's all different kinds of ways to leverage, right? In a win/win way.

So, I think with that concept what he's saying, and I'd like your input on this, what he's saying is it's great to be trained, educated to do something like practice medicine, or dentistry, or veterinary medicine, whatever it is you do, butcher, baker, candlestick maker, I don't care. Right? Whatever you're passionate about, and you love to do that, and serve in that way. But the ability to grow a bigger base or wider impact, whatever it is in your heart, then you've got to utilize some leverage somewhere. Would you say that's correct, or you have any additional insights into that?

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Cherry Chen: Yeah, and I think investing is just one specific area. And I think what a lot of us going through dental school medicine is that we were so used to doing everything on our own. And we learn, and we can become the expert and we can figure it out. So, I think that's where some people can get caught up, whether they start investing and think, "Well, why don't I just go do it myself? I'm going to put the deal together or I'll just go hunt and do everything."

I always say, "Well, then it goes back to if that's the highest and best use of your time, and you find fulfillment in that, go right ahead." But for me, I want to practice medicine and I want somebody else to manage some real estate. That's where I kind of draw my line is just because I can, I could spend 24 hours going managing properties, but that's not the best use of my time.

David Phelps: Exactly. I think our similarities, our commonalities, in what we both love to do is... Now, I'm not clinical anymore, but I was doing both. I think again, based on what your passion is, both medicine but also, you love the fact that you've found this investment vehicle, real estate. You see the benefits yourself, but you're speaking because of your platform. The Real Estate Physician is, it's a way for you also to involve your colleagues and not everybody in your community, your circle of influence, has the wherewithal, particularly because you're still young. Anybody who's less than 50 years old is young to me. And you're way, way younger than that. So, you're young, and you have taken time. So, again, we'll talk about time here, but time to go to conferences, to meet people.

In other words, you're doing some heavy lifting there, which means now you become an authority for people

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who would find trust and belief in you. Because especially in your tribe, the medical community, because you're one of them. I'm a dentist, and if you've done something and you've done some of that lifting to people, and kind of organize things, then you become a portal or what I call, speed to goal. As you said, if someone thinks that they want to do, go figure out how to manage, and put together syndications. Yeah you could, you certainly can do that. Got the brain power. But do you have the time capacity to do it? Are you leaving other things on the table? So, your community is really leveraging your connections and what our respective communities do is we bring collectively private capital, investment capital, to the best opportunities that you and I are able to find through our diligence and connections, right?

Cherry Chen: Right, no. That's totally correct. And you know, it's something I take obviously great responsibility in, and I never convince people investing in commercial real estate is the way to go. It's if it's something you're interested in. I've done the homework, and it's stuff, you know, a resource I wish I had starting out just probably the same as you, when you're going to invest. None of this information is new. People have been doing it for a long time. Investing real estate, or investing in syndications, but you know, in the circles we run in we don't hear about, or we don't get exposed to it. And then, secondly if we are, just going back to again, the best use of your time. I'm tired as a physician at the end of the day. I don't have time to go to these conferences or much look up.

But so, I do as much of that homework up front as possible, and share that with people who are interested, and for them to at least take the next step, whether they take that information and say, "Oh, it is for me, or it is not

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for me." That's even better. And for them to be able to at least ask the right question. I think being as informed as possible rather than kind of the backseat approach of just putting your money away in a retirement account, and 40 years you're like "Oh, it wasn't enough. Or the fees, or the volatility of the rules and restrictions." So, it goes back to being just as informed as possible. And I found this to be a really great vehicle for busy professionals to invest really how to put their capital to work as efficiently as possible. Understanding kind of the tax incentives or the efficiencies in investing real estate over stocks for example.

David Phelps: Cherry, are there any mistakes that you have made in your relatively short career? Mistakes or lessons learned? You know, one or a couple of things that you would pass on to our listeners today?

Cherry Chen: Mistakes. So, I started my first syndication investment about four years ago, and it's actually coming full cycle, and actually turned out to be a really great investment. So, I can't say I have. I've been investing five years, and that's the experience I have. I can't speak for others. And so, I definitely would say people, you either kind of fall in two spectrums where you are overwhelmed and kind of paralyzed, the analysis paralysis. Or you jump in too quickly.

So, I think that's where it's really important to start from the end. Knowing my goal was being passive. My goal is, okay, what number does that mean to me? Okay, my goal, what vehicle is best for that goal, and how do I work backwards to present, rather than going from present forward? I think that can provide you with a lot of insight and foresight so that you don't jump in too quickly, or that

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you don't get overwhelmed, and can find a direction to go to.

So, that's probably the best advice I could give. That's the point of, you know, jumping on podcasts and listening to other stories like yours so that you learn from somebody who done it, and there's always somebody out there who's done something you want to do, and to learn from their story. Whether you do it or not, you gain another perspective and you can kind of add that to your toolbox when you think about all the options that are out there for you.

David Phelps: That's so good. You know, the people I like to listen to are those people who have been doing something, whatever it is, investing in real estate in this case, for some period of time and they're open to sharing not just all glorious successes because you know, we all were proud of what we've maybe figured out or maybe through luck has worked out, whatever it is. But I think what's even more revealing is, for people who are transparent, is to share what didn't work. Again, that's why I like, you know, what lessons people learn. I want to know what kind of war stories they have, what they've gone through, and really then what that taught them. Because that's how I think we really learn well about how to be prudent investors in our own right.

Cherry Chen: Yeah, no for sure. I think you learn the most from your mistakes. And so, I can't say that I have a horror story to share, whether that's luck or you know, some part due to the market's doing so well the last couple years. Certainly, I always tell people that you can never go wrong educating yourself and finding people that have done it before you so that when an opportunity comes up, you

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can identify it and you can ask the right questions and then go find the people and seek guidance.

David Phelps: Yeah, you said it twice and I'm a big believer, is learning how to ask the right questions. That's the key to anything in life, is you've got to learn to ask the right questions and of the right people. But yeah, you put those two together and that's going to give you a lot more runway in anything in life that you're doing. In real estate, I have found as long as I'm focused as an investor and not a speculator, we know there's big difference and there's a lot of people that speculate and when the market's hot in a certain area that yes, speculators can make money, but there's always that bigger downside. So that downside risk there.

But as an investor, as long as I've invested in what I consider solid assets in the right areas, and again, assuming I'm not managing and "partnering up", or doing something in conjunction with someone who's got an operator. If I do those things, even if I don't, you know, go into an actual acquisition as something that was the best because I could always do better later. I've found that even when I've done maybe a poor job, especially early in my career, as you said, we are going to make mistakes. But I've found that real estate is really pretty kind over time, kind, K-I-N-D, kind over time, as an investor. And particularly you mentioned that in a bull market like we've had, I think that covers up for a lot of people's mistakes, but even then, I've gone through some of the recessions. And as long as my properties were focused on good, sustainable cashflow, and not in a volatile market where I was depending upon high leverage, and value is going up, and up, and up to make my profit, that it didn't matter so much when there was a fluctuation.

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How are you... You started investing, you know, during this bull run. I know you're very educated about the economic cycles. We're all thinking, I think everybody knows that this bull run is not going to continue forever. No one has a crystal ball to say, "Hey, it's going..." People try to prognosticate and say, "Oh, I think it's coming this year or next year, whatever." But how are you looking at, from your own standpoint and with syndications, that you and your partners are putting together, how are you trying to hedge your bets against another 2008?

Cherry Chen: Right, and you know, oh my gosh, obviously I do not know the answer of when the next economic downturn is coming. But I think, you know, there are a couple of things about real estate that make me feel actually very comfortable. And one is, even though we've had a bull market, thankfully all the deals I've been in have been very good. But I've also heard from other investors that their deals have not been good, even in this bull market. Like you said, to understand the right kinds of markets that are backed by population and job growth, and diversity of jobs, and the solid fundamentals that don't change with time. Those are solid fundamentals running behind driving the demand for these tenants, and household people always need a place and a roof over their head. So, even in this good time, there had been bad deals, you know?

So, I think, once again, going back to understanding the fundamentals, and certainly vetting the operators very appropriately because there are good deals, and bad times, and bad deals in good times. And so, understanding and sticking to the fundamentals. Then, secondly once you can dig a layer deep into, okay, well what are the specifics of the steel? Like you said, what

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are some things we are hedging against? How conservative are we with our business plan, and our underwriting? And that goes back, again, to what makes me feel comfortable. And we'll say it's because everything is very objective. You know, when we acquire an apartment complex, we have the rent rolls from the last 12 months. I can't make that up. I have the exact income, I have the exact expenses. All of that is objective, and you can verify it. And of course, moving forward, we all have to make some sort of assumptions.

We can't predict the future. And then, we look at, well how can we be conservative and what are the metrics that can lead us to believe that we are being conservative rather than aggressive? How do we run, no test, the strength of our projections to be able to still protect our investors? Because first and foremost, we want to focus on capital preservation. And so, should there be a downturn on like 2008, where it affected more single family than multifamily because we have the leverage of the economy. Well, at the worst it was maybe 10% vacancy in these apartment units. Well, we're going to run down to 20% vacancy, your numbers still work. And so, I like how we can run numbers.

It's very objective, it's very logical, and certainly, there are markets and market cycles on the macro outlook, but kind of understanding the basic and the fundamentals, and then drilling down to how conservative and how we can protect our investors capital first. I think that made me feel very comfortable in investing in these deals myself, and sharing them with the other people who are interested.

David Phelps: Yeah, well stated. I think you're right. It is so objective on the numbers, and when you take cash flowing asset,

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multifamily, you've got those numbers and you can stress test, as you said, you can stress test different levels of vacancy beyond what the normal run rate is today. You can stress test against that, and then you, as an investor, can make your decision. What's your level of comfort? Is the operator showing that the model works at 15%, 20%? I'd say 25, you know, where are you personally happy? If those numbers don't suit you, then don't do it. Some of it's a little bit of a gut feel, and what you know about a certain area, but it's all part of the educational process that makes, I think, real estate fun because again, the inefficiency of the model means that we can look at different areas. And the opportunity is there in the value add.

And that's something that last question for you would be along those lines. It sounds like the syndications that you and your partners look for would be primarily value add opportunities versus a lot of people today because of where the market is, and credit's pretty easy. I see heavier duty redevelopments in some cases or even new construction. What's you're feeling on that? Again, it's personal philosophy. There's no right or wrong here, but what do you look at? What do you like?

Cherry Chen: Yeah, and I would say our core is multifamily value add. We also do some self storage and mobile home parks. Those are also value add strategy because one, like you said, we invest first and foremost for capital preservation, and we have stabilized properties. We go in day one, it's already cash flowing and we can have some sort of investor returns expected from that.

And so, the value add is where then you can, in real estate, force the appreciation by improving income,

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decreasing expenses. Then, that can help you project your business plan into the future. So, we like those projects and those are the core of our projects. Some people do the deep value add where it's maybe 50% make end, or worse. But you go in there, you don't have cashflow because you have to kind of redo the whole project.

But maybe there is a potential for a bigger gain. So, that also exists out there, but we don't focus on that because we want the stability, predictability. And that's why I invested in this class to begin with. I can, to the best of my knowledge and the way I invest, have a stable, predictable income. And you know, I can methodically build that up to say, "Okay, well now I have my monthly passive income that would offset my daily expenses." And that, I think, when people reach that, really kind of gives you freedom to take a step back, have more depth and bandwidth to explore other things, to take a day off, work two fewer shifts. Everyone has different goals surrounding that. And I think to have that option really is wonderful. And that's what I work for in building this and helping others learn the same.

David Phelps: Yeah. Fantastic. So, which tall skyscraper in downtown Dallas is going to have Chen on the top of it by 2023? That's my prediction. Which building do you have a targeted yet?

Cherry Chen: Only four years, I would say. None of them. Yeah. Hopefully, my ideal escape in the mountains, hiking in the middle of nowhere.

David Phelps: Yeah. No Cherry Chen Trump in your future, huh?

Cherry Chen: Oh no, we don't have any intentions of that.

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David Phelps: All right. Super good. Well, Dr. Cherry Chen, it's been a real pleasure to have you on today sharing your story, your passion with our group. So much in common with what we believe in, you know, in our respective tribes. You can get connected with Cherry at therealestatephysician.com and the same name on Facebook groups. So, a bunch of you connect with her. I found Cherry to be just, as you can tell today on our call, very authentic, very transparent, very giving, very sharing, and of course a very smart investor because she does her homework. So Cherry, thanks for being here today.

Cherry Chen: Thank you so much for having me, David. And hopefully we were able to learn from each other and share with the community and we'll have to reconnect.

David Phelps: Perfect. All right. Until next time, it's been David Phelps with Dr. Cherry Chen.

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