

**Ep #299: Eddie Speed - Where the Opportunities Are
in Real Estate Investment in 2021**



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Dr. David Phelps

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David Phelps: Hi, David here. This is a continuation of a conversation that I had with Mr. Eddie Speed of Colonial Funding Group, starting with the topic of owning debt, owning financing as an asset, not a liability. If you missed last week's recording you need to go back and pick that up. This week we'll be talking about where the opportunities are today in the marketplace that we have today. Going forward, the volatility we have and being safe as individual investors in the real estate alternative space. How we do that, where we find the opportunities, why it makes a lot of sense. Enjoy this episode.

Where are the opportunities and particularly, Eddie, opportunities for people that want to stay in the alternative space, real estate per se, but they'd like to be passive. They'd like to preserve capital, probably number one, but still have better than returns they could get elsewhere. And we would love the real estate collateral, what are some opportunities there for Private Capital Day that's seeking decent yields and preservation of capital?

Eddie Speed: Well, I think one of the things David, is the banks just opened up the biggest opportunity we've had in 10 years. I

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mean, flat out who wouldn't rather be the bank than... Who would rather be a landlord than the bank if all things were equal? Well, if you're going to buy a property and there's a chance it's going to go down in value, wouldn't you rather be the bank on it where the buyer has equity?

David Phelps: Yes.

Eddie Speed: Right? You don't have a 100% of the property value invested in the note, right?

David Phelps: Yeah. Maybe, 75.

Eddie Speed: Exactly.

David Phelps: Right.

Eddie Speed: And you got now, the mortgage industry's left all these people behind and I'm not picking a fight with the mortgage industry. I think they have their own reasons to do it, but I'll bet you David Phelps and Eddie Speed could sort through those 35% of people that can't get a mortgage and find... I bet we could find an Eddie Speed out there that needed a loan.

David Phelps: Exactly.

Eddie Speed: Right. I don't personally need a loan to go buy a new house cause I'm not looking for a new house. But for the people that are, there's an Eddie Speed out there that's my story. They have capital, they have good credit. They have a long established business. And the mortgage industry says, "Nope, we're not making loans to you guys today." And by the way, last month, David, the numbers aren't in for this month. But the last month, according to Ellie Mae, the average down payment on a new purchase was 16%. That's conventional mortgages. That's

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not... I mean that shows you there are people with good money and good credit that are looking for alternatives.

David Phelps: So what's the best way as a passive investor to enter this opportunity marketplace? You're not suggesting that as a private investor with capital, that we go around the local community and walk into realtors offices' and say, "Hey, if you've got somebody who is self-employed, I'll bankroll the funding of their house. I'd be happy to do that." It's not exactly... I wanted to make sure our listeners understand. So, why don't you take us through the kind of, the side door, the back door to solving, as you said very well, this exacerbated, not new to us, but exacerbated void in the marketplace. And to be clear for people listening today, this is it. This is how you make your play in the alternative space.

Wall Street... I have no idea how an individual can sift-and-sort and claim to have any intel that allows you to have a game up there. But in the alternative space, there are so many slices of the onion. We're talking about one today. But how does one position themselves Eddie, to potentially take the opportunities that are coming because of this void in the marketplace, the retail space who is not going to manage anymore because of changes in the market?

Eddie Speed: David, I don't know of your audience. And I've had the opportunity to get to meet pieces of your audience many times. So I don't know exactly what the number is, but there's going to be some percentage of them that have rental houses.

David Phelps: Sure. Right.

Eddie Speed: So if you have a rent house, instead of keeping it a rent house, you can just turn around and owner finance it. And you can owner finance it to somebody now that's better qualified

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and with more significant down payment. And just the more likely you're going to make a trouble free loan, where you're not going to have any aggravation down the road, just completely passive. Have the loan service and you just get a check wired to you every month. Because of this setup that we've done, right? The odds of that are extremely in your favor right now. So you and I would call it, note out your rental portfolio.

David Phelps: Well, Eddie we've done in our own portfolio, dozens. Probably several dozen since 2015 of noting out a number. And I can tell you that we've had maybe two, that we've had to actually go into a collection, out of probably as many as 28, 32 properties. And it's not a big deal to resell a house. But even through COVID, we have not had a preponderance of people pushing back and we can't make the payments this month. And all of ours are professional loan services, as you said third party. So we're not even in the mix there. So it definitely eases my mind at night that I don't have 30 some rentals out there and I've got no payments, with buyers who want those properties and the few that have a life circumstance that comes up where they can't stay in the property... Eddie, I can tell you, we have not gone through a full foreclosure in years.

There's always an exit strategy. Take the house back, resell it again. We deal with people that are... across the board, are pretty rational people. Even if life circumstances happened to them, they're people that we can solve a problem. So it's been a game changer for us to take advantage of the marketplace there. So that's an opportunity. You've got rental property, whether it's been good or bad experience for you, but an opportunity to exit with noting it out, carrying the financing. As you said, exchanging a tenant for a buyer's hat, a buyer's mentality... larger down payment. You get a chance to vet that buyer. And sometimes Eddie, we've sold to our tenants. Well,

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they have a track record with us. We know who they are and they wanted the opportunity. So there's lots of ways to do this. Something that you go into great detail in teaching in your courses, how to do this and do it the right way.

Eddie Speed: So clearly, that's a way to reposition your risk in a deal. It's a way to probably increase your cashflow. I'm going to throw it out, kind of a guess number out there, but it's probably fairly accurate. You could probably increase your cashflow with 40% from a rental, if you just carry it on or financing on it. Is that about what you've seen, do?

David Phelps: I would say increase your cash flow and definitely decrease your time involvement in the management or oversight of management. And for a lot of people, Eddie that's as big as the increase in cashflow, it honestly is. People that are busy in their lives and their businesses or their practices, if they don't have a good system of business, of managing rentals... And you can have that, you can develop that. But most don't, then having the note income just takes a big drain off of that time element that just wears you down after a while.

Eddie Speed: The other side is we are going to see a drastic increase in the amount of people carrying owner financing on property. So for the last years, probably 2014 to 2019, we've harbored somewhere around a 100,000 seller finance transactions a year, nationwide. Now that's nothing compared to mortgage banking. It's about a 100,000 transactions, there's a lot more of it than people think. Right? Now, you can imagine some of those loans are really good loans and well underwritten. And some of them are, well, they're not so detailed, right? So you have to learn to sort through it.

But David, I really believe just pure looking at where financing is already showing us it's going, right? And I call this a crash in

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slow motion. And I don't even think the crash is... I think there are symptoms of the crash. Deals are ending up with an entitled company, but they're not getting closed. It fell apart and financing is... There are some symptoms out, but pretty much nobody's going to deny real estate is not declining at the moment.

David Phelps: Right.

Eddie Speed: You can sell anything for any price. If you've got something, a piece of junk that you need to get rid of-

David Phelps: Sell it now.

Eddie Speed: You'd be having a good time doing it, we'll agree on that.

David Phelps: Yes.

Eddie Speed: But the other side is, that we're going to see... I believe within a year or so, it could be a year and a half, we'll see double that amount of seller financing. Wow. Double the amount? So there's going to be a huge need for the passive investor that comes in with capital, that can just fund those notes and he learns up exactly where you are. You're just getting a check every month.

David Phelps: Yep. And so then people that do carry the financing on their properties, there's always the opportunity for those who would like to turn in their income stream and recoup the cash back out. Because again, life changes, circumstances, change. That's a whole another marketplace that really you've made for decades. People that are carrying back financing and they want that cash out. There's a place there, again, to purchase notes that have gone through some level of due diligence. Something, again, that we could go a deeper dive another time, but

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something, you do a lot of training in that, in note school. So really I think, again, the opportunity, Eddie you spelled it out well, is that the market's shifting the, market's changing. There's constantly going to be voids in the retail space, which opens up the door for people that are positioned or have access to the positioning of these opportunities.

If you have inventory you're carrying, or you have access to inventory from buying from the burned-out landlords, there could be an opportunity to turn those properties around. And inventory those back out, again, carrying financing, just what you got through saying... So, that's an opportunity existing. Or buying available port inventory in the equity side. And then for all those that are going to be carrying financing, own a secondary market out there. Then there's going to be a number of those, a certain percentage of those that will want to cash in the income stream for the actual cash that they want to do something else with in their life. And that's another marketplace. So a couple of good places for positioning.

Eddie, best place for people to go, to get some more information about what you do, Note School and training... I mean noteschool.com.

Blogs, articles, all there for people that can access... You've got a lot of timely information. You're always putting out good information and intel. And I think that's one thing that people could take from our discussion today is, well, how can I learn more? How can I keep up with what's going on? Any other suggestions from you?

Eddie Speed: You know, we're real big in... And I know you know this David, but we're real big in teaching people, retirement account building using tax advantaged accounts. And they could be things to send their kids to school, like a Coverdell educational

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account, or it could be a health savings account. It doesn't have to be necessarily an IRA, but it could be. But we've got some good stuff in that regard, they could go to noteschool.com/getstarted. And we've got a solid, short ebook that would just kind of un-show some things. And then we'll give them a little workshop and... The best way people learn is case studies. And we're pretty good at doing that. So, we'll use case studies and kind of unfold a deal. In fact David, we'll show them a partial, right. And we'll just show them the example of, if you wanted to be a little more involved, you could be passive, but if you wanted to be a little more involved, you can actually use some... I would call it financial modeling techniques, right, deal architect. I got that from you, David. Did you invent that?

David Phelps: Well, I picked it up from somebody else. I mean, that's how most things happen, Eddie. You grab something and then if you don't know who you got it from it just falls on you. But no, I like the term a lot, deal architect. It's good.

Eddie Speed: A buddy of mine says, after he gives you credit twice, he takes it.

David Phelps: There you go. Fair enough, right? That's the way the world works. All right. Well, what I have found is that, as I said earlier, a lot of our members, busy professional practice owners, doctors, dentists, chiropractors, vets, there's a lot of ways for them to enter this realm. And generational, which we didn't talk about today. But generational legacy, what you could do with your kids or grandkids, or nieces and nephews in setting up accounts, whether it be ROSS or #ESUS, or you can use health savings accounts. So many places to generate predictable returns and not have the muss and the fuss of either Wall Street volatility, or nestling rental ownership.

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There's a place for everything here and I just want people to get a little bit of an eye to this other side of real estate that most people never see. They never understand the opportunities here and we just covered the surface today. There's such a deep dive. We have a number of our members... Eddie and you know this, because they have their adult kids that are 18, 20, 22, that they specifically sent them to Trade School to go learn the trade itself. Because, they want them to understand it and they want someone to be active. So usually, the younger generation is good to be active. Mom or dad can be the private capital investor.

There's lots of ways to work this, if you just think a little bit differently and you have to open your eyes to the possibilities. Eddie, you do that for a lot of people and you do it very, very well. So I want to thank you for your time today. It's always great to catch up with you and we'll keep our fingers on the pulse of the market. Maybe we'll come back and maybe at least once a quarter we'll update, and you can give us a little more data points on what you see happening, as we roll forward from this COVID situation.

Eddie Speed: That'd be awesome. I had a great time.

David Phelps: All right. Thanks, Eddie.

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