THE BUSY PROFESSIONAL'S GUIDE TO PASSIVE REAL ESTATE INVESTING

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A PHYSICIAN'S PATH TO BUILDING WEALTH, CREATING FINANCIAL FREEDOM & LEAVING A LEGACY

VANESSA PETERS, MD

For Griff and Mason—here’s to our future adventures

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INTRODUCTION

A Tale of Two Doctors

Susan groans as the alarm chirps loudly, awakening her from a restless sleep. Morning already? She hasn't been sleeping well lately. She drags herself out of bed with a sense of foreboding, a generalized feeling of anxiety. She can't quite put her finger on what is bothering her.

As she drives to work in her late-model Mercedes, Susan finds herself dreading the day ahead. She's a busy family doctor; there are mountains of paperwork awaiting her attention. The extensive documentation in the electronic health record often takes longer than the patient encounter. Fighting with the insurance companies to provide appropriate care is another responsibility of the job. While she loves her patients, Susan often feels rushed and running behind, and this gets in the way of forming the meaningful connections that drew her to Family Medicine in the first place. She feels like she is not making the difference she hoped. Just another cog in the wheel of a big machine.

But I have a great life, she reminds herself. *I have a wonderful husband, two beautiful children, a lovely spacious luxury home in a* *gated community. The children attend a prestigious private school and we enjoy resort-style vacation several times a year.* This is the life she envisioned for herself. However, when she takes her family on vacation, she worries. While they deserve a nice trip, not only is it costly, but she doesn't have any income when she is not in the office seeing patients.

What is bothering her, she realizes during her thirty-minute commute, is that she feels trapped by the perfect life she has created. She makes a healthy six-figure income, but their bloated expenses and taxes leave a surprisingly small surplus, if any, at the end of the month. She contributes to her 401(k) plan, health savings account, and profit-sharing plan. Now in her forties with her retirement accounts only approaching the mid six-figures, she is starting to feel uneasy about her potential to save for a comfortable retirement. She is concerned about the lack of control she has over her nest egg, which is primarily in mutual funds. She knows she should be more involved, but honestly, she tries not to check the balance too often. The wild fluctuations in the stock market make her nervous. She knows that she needs at least four million dollars to retire with her current lifestyle. This would require her to work well into her late sixties. However, unlike so many of her physician mentors, she is not interested in working until she can no longer work.

She is a hamster on a wheel, running as fast as she can, but the destination never gets any closer.

Susan sighs, takes a deep breath and knocks on the exam room door to see her first patient this morning. This starts what is sure to be a jam-packed ten-hour day. She hopes that she can keep-on track. She has plans to go out this evening with her husband and does not want to work late at night, as she does most nights.

She pushes her anxiety and feelings of being overwhelmed deep down and puts on a bright smile to greet Mrs. Delaney. *Later,* she thinks. *I'll worry about my future later*.

Denise wakes up as the sun peeks over the horizon, excited and energized for another day. She meditates and does some gentle yoga before her family awakens. She relaxes with her coffee and enjoys time with her children before walking them to school, just a few blocks from their modest home.

Today she drives to her Family Medicine clinic, where she practices three days each week. Denise realized early in her career that living below her means would provide her with the freedom to tailor her work life to her needs. While no slouch, she understands that her older colleagues identified so strongly as "doctor" that it left little time for anything else except working sixty-hour weeks. Spending time with family, meaningful interests, hobbies, or travel all took a backseat.

Instead, Denise has thoughtfully and carefully plotted her path. While spending less than she made, she paid off her high-interest student loan debt first, kept expenses low, and started investing in real estate. While she contributes to a 401(k) for the company match, any additional money is funneled into creating passive income.

Rather than invest in active forms of real estates like flips, buy-and-hold single-family, or small multi-family homes, Denise skipped straight to investing passively in syndication real estate. While she loves real estate, she is smart enough to know that if she gets involved in finding, vetting and underwriting deals, overseeing construction, and being responsible for a home across the country, these tasks would take away from her precious limited time. The best use of her time is being a doctor, spending time with her family, and on activities that renew and invigorate her.

Denise is able to save $100,000 of her income annually for investing, despite not making as much money as her specialist colleagues, through her methodical planning. She invests this amount yearly and now after eight years is financially free.

This means she has choices. She has taken her hard-earned money and put it to work for her. Denise generates passive wealth twenty-four seven while she is sleeping, seeing patients, or on vacation.

She has built up her passive income such that it covers all of her basic expenses, allowing her to create a life that nourishes every part of her. Working part-time at the clinic, she is able to attend the last-minute events at her children's school and also volunteer in the classroom. She also spends time outdoors every day, a luxury she could not afford when working full-time. By creating the life she wants, the pace of her life is much more relaxed. Time seems to expand, instead of being a constantly panicked rush.

Denise loves travelling and plans several far-flung trips each year. She is excited to take a six-week sabbatical next year and explore Europe with her family. Even more than these experiences, being more available to her spouse and children has improved their relationships. They can sense her contentment and—as they say—happy wife, happy life!

She never thought that she would be so excited by life in her forties. Her life will just keep getting better and she's genuinely content and happy.

CHAPTER ONE

What Is NOT Passive Real Estate Investing?

Let's start with what passive real estate investing is *not*.

Many people are interested in real estate. They realize that investing in property can provide a path to wealth based on a physical asset. As the old adage goes, "Land, they're not making any more of it." However, as investing in real estate has become more popular, so have the courses, conferences, and TV shows that expound on all of the ways to get rich in real estate. You can go to a weekend conference to learn how to fix and flip homes. The Home and Garden Network shows you how easy it is to transform a house from drab to fabulous in a few weeks. Purchasing single-family homes to rent out is a very common way people enter the market. If your own area is too expensive, like where I live in San Diego, the next common step is to check out homes in other states—out-of-state investing.

Out-of-state investing is often done through a company that provides "turnkey" homes: houses that are renovated and ready to rent out. Sometimes it may even include the property management.

In my search for a way into the real estate market, I attended some local Meetups in San Diego. I encountered a lot of folks that were investing out of state. Some were buying in North Carolina, others in Ohio, Arizona, Florida or Texas. Anywhere but California (and New York). I could see the trajectory that they were taking. It was all about scaling your number of units. Getting more "doors."

I'll walk you through a typical scenario of a new real estate investor. The goal for many new investors is to use as little cash as possible, because they don't usually have much to start.

Purchase a single-family home or a small multiplex, like a duplex. Rehab it if needed to increase the value, rent it out and pocket the profits. If you can afford to purchase another one, great. Otherwise wait two to five years, then sell it and invest those proceeds into another, larger property, or do a 1031 Exchange.

A 1031 Exchange, or "like-kind exchange," is a way to take the equity from a real estate transaction and place it into another property in a defined period of time to avoid paying taxes on the profit. If you are able to exchange up to a four-plex then you have a more valuable property and more rental income. You've increased your door count. Again, in a few years, you can 1031 into another property, this time maybe a ten-to-fifteen-unit apartment building.

Other people will stick to the SFH (single-family homes) or small duplexes and purchase as many as they can. This can be up to ten, as the banks typically limit the number of mortgages an individual will qualify for.

Taking this path, which was what everyone I talked to was doing, didn't feel right to me. Investing in a property that was a plane ride away in an area I didn't personally know, with tenants that I wasn't picking, made me very nervous. Doing rehab on a property from afar scared the bejesus out of me too. Using one of the turnkey companies was an option to avoid the construction headaches, but the fact remained that I would be trusting a company and property manager that may not be aligned with my interests.

I'm very conservative with my investments. I work damn hard for my money and want to keep it safe. Personally, the risks of investing in a single property out of state were too much for me.

Another downside with any single family or small multifamily property is that a short vacancy can kill your profits for a year. You could find yourself paying mortgage, taxes and insurance on a place that is empty.

Speed Bumps on the Fast Track to Building Your Real Estate Empire

You'll likely encounter speed bumps—i.e., problems—if you build your portfolio the non-passive way. The first problem is finding the deal. If you want to find a home worth buying, you will spend a significant amount of time and energy scouring the resources available to you. I can attest to this. When I caught the real estate investment bug, I was determined to buy something—anything! I had a realtor friend start sending me homes for sale. I was getting an email from his MLS listing criteria about every five minutes. I was eager to check them all out; I was constantly distracted. Each time I got a new property email, I ran the investment numbers with an online calculator tool. The quick math people typically use to determine rental property cash flow is woefully inadequate. You need to add in property taxes, insurance, mortgage, utilities, capital expenses, vacancy rate, HOA or condo fees, and any miscellaneous expenses, not just the sale price. I was continually surprised at how little, or even negative, cash flow I would be getting from the properties that had initially looked promising.

Not only that, but I was not getting my *real* work done! It took about a week for me to realize that not only were there no deals in

San Diego County. I was not able to find any deals, no matter where they were, maintain my sanity, and stay employed.

The second obstacle in growing your real estate empire is the amount of responsibility and work involved with directly owning a home/small multifamily. Flipping a home is a tremendous amount of work. If you're working full-time, all this responsibility needs to be outsourced. Otherwise you'll never complete the work in a timely fashion. Owning a rental property requires maintenance and upkeep, just like your primary residence. If the water heater or HVAC goes out, you need to replace it. If the roof needs replacing, there goes almost two years of profit.

The third obstacle is the vacancy rate. When you own a single-family home (SFH) you are either at 100% or 0% vacancy. If your place is empty, you are responsible for the mortgage until you get a tenant. This could potentially take away months of positive cash flow. And while "passive loss" sounds like it might be a good thing, think again. If you are a high-earning professional, you typically cannot deduct all of the losses because your income would be too high.

Oh wait, there is a fourth problem: property management. If you have, or are trying to have, a life and if your property is more than an hour away from where you live, you need to outsource your property management. Not only is this expensive (often 10% for SFH), but many of the property managers out there are not very good. Often their bread is buttered by having tenant turnover. They don't have any real incentive to keep your place occupied. They're not paying the mortgage. Topping it off, if they're out of state, you are really at their mercy.

And there is a fifth problem (I was way off on the number of problems): truly bad tenants. I'm talking about the ones that need to be evicted. The cost of evicting a tenant is going to squash your cash flow big time. Depending on the state, you will probably lose at least a few months' rent. But the place isn't just empty, collecting cobwebs. In this case, there is an unhappy tenant living there who is likely treating your beloved rental like crap. When they finally leave, you may be left with a mess to clean up that can top thousands of dollars.

Here's a true story that illustrates some of these speed bumps:

A couple of years ago I was determined to buy a property in my area. I found a small multifamily property with four units in my town. It was close to my work, it was affordable, and the rental calculator showed that it would bring in $1,063 per month. I felt that this property was going to start my real estate empire. I excitedly told my husband about it and showed him my glossy PDF document with pictures and projections.

I couldn't quite read him while I was explaining why this investment was such a good idea, but I got the distinct feeling he wasn't as excited as I was. He explained that there was absolutely no way we were going to purchase a run-down multiplex in "the ghetto" for him to take care of while I was busy working. I tried to explain that we could get property managers, but he countered with a story of when he was a kid cleaning up after tenants in that very area of town. His father had been a landlord and owned several working-class homes. My husband and his brother were responsible for cleaning up after tenants left. He recalled a time when tenants were evicted and there was crushed up macaroni ground into the carpet and the toilet was a hazardous waste area.

I will admit that I was pretty disappointed in his reaction. However, I knew that we needed to be on the same page. He was right, I would be putting a lot of responsibility on him. So, like water always finds a path, I started searching for another way to invest in real estate.

CHAPTER TWO

What Is TRULY Passive Real Estate Investing?

As I continued searching for ways to invest, I scoured Bigger Pockets, a real estate forum (www.bigger pockets.com). That site had several posts on *syndication*. What the heck was that? As it turns out, it is not related to *Seinfeld* reruns.

Syndication, in a Very Small Nutshell

Syndication is the pooling of resources to purchase a large asset, such as an apartment building. The investors are passive, limited partners (LP). The other partner is the General Partner (GP), also called a sponsor, operator or syndicator. The General Partner is the active partner that finds and analyzes the deal and creates the business plan.

Syndications are private placement investments. These types of investments are regulated by the Securities and Exchange Commission (SEC) under Regulation D, Rules (a), (b), and (c). Most of these investments require the investor to be accredited.

To be an accredited investor, a person must have an annual income exceeding $200,000, or $300,000 for joint income, for the previous two years with the expectation of earning the same or higher income in the current year. A person is also considered an accredited investor if he has a net worth exceeding one million, either individually or jointly with his spouse, excluding their primary residence.

You may be wondering, "How have I not heard about these types of investments?" The laws associated with the most commonly structured deals state that the offering must not be generally solicited or advertised. On top of this, the issuer, investment advisor or the broker-dealer, must have a *pre-existing substantive relationship* with any accredited investors. Therefore, you really have to know someone who is knowledgeable about syndications or stumble on them through your own research.

Dr. V's Step-by-Step Guide to Passive Real Estate Investing

Step One: Review. Once I become aware of a potential deal, typically in the commercial niches of multifamily (apartments), self-storage, or mobile home parks, I receive the Investment Summary, also known as a "deck," for review. The investment summary is 20–30 pages long and contains information about the deal. This is created by the General Partners. The deck is a colorful document with photographs and graphics to explain the deal, the market, financial projections and debt financing, the business plan, and to introduce the GPs and previous projects.

Step Two: Due Diligence. The next step is to perform due diligence on the details outlined in the deck. Research the operators, market, the building, and review the financial projections and assumptions. I usually make a few calls to people

I may know in that market and speak to the operators. A recorded webinar done by the operator/general partner is always helpful to answer most of my questions. Sometimes I will fly out to view the asset myself.

Step Three: Invest. Once I have decided that this property is a good fit for my portfolio, I contact the investor liaison and advise them how much I would like to invest. This is also called “placing a soft hold,” which is basically reserving your place in the deal while you continue to do your research and review the Private Placement Memorandum (PPM).

The PPM is a legal document required by the SEC. It tends to be 100 to 150 pages long. It contains a description of the offering, the risks and includes the partnership agreement, investment summary and subscription agreement. The entire PPM can be daunting and the risk section can be alarming, similar to a Surgeon General’s warning or your latest prescription refill. It highlights every possible risk that could happen.

Much of the wording in the PPM is similar for any private placement and is mandated by the SEC, even down to the font size and bolding. The government wants to be sure that you are aware of all the facts, that this is not an insured investment and is not backed by any government agency. They are looking to protect us, the investors.

While it is true that there is risk with every investment, it’s important to look at the track record of your sponsor and the history of these commercial investments in a severe downturn. The banks will not lend millions of dollars to a sponsor unless they have previous experience and have a solid business plan. The banks look for conservative underwriting, adequate insurance coverage, and a property condition report completed by outside experts.

After I have reviewed the PPM and completed my due diligence, I sign the PPM. This is almost always done electronically. Once signed, I can wire my funds to the operator. The wiring instructions are provided in the PPM. They are never provided by email for security purposes. It is safest and most expedient to wire funds instead of sending a personal or cashier's check.

Step Four: Relax! That's it for active participation on my part. Literally. Once I have wired the funds, I wait for a notification that the property has closed. Then I just sit back, relax, and smile as I get a direct deposit either monthly or quarterly directly into my account. The first check will usually be deposited sixty to ninety days after closing. I will get monthly updates advising me of the progress with the building and the operator will send quarterly reports with financials for my review.

CHAPTER THREE

Time—Not Money—Is What You're After

Our most precious resource is time. Time is the non-renewable resource that, once past, is gone forever. Many busy professionals provide a service for money. *TIME=MONEY*. When not working, professionals are not paid, whether they are taking a vacation, have an illness, or are going to their children's school assembly.

The biggest lesson I have learned is that time is a factor of whatever I do. Will this activity take up my precious time or will it help me create more time? Since we can't actually manufacture time, the next best thing is maximize our time. We all have the same twenty-four hours in a day, 168 hours in a week.

But time can do funny things. Do you remember as a child, waiting for Christmas or your birthday? Days seemed like weeks and hours seemed like days. Young people yearn for time to pass quickly so that they can reach milestones like the next grade or their sixteenth birthday. However, as we get older and busier, time seems to fly by at an alarming rate. Sometimes I feel like the time is speeding up as the weeks pass—another Monday already? How can it already be July?

The most commonly answer to the question “How are you?” is “Fine.” But the next answer—sometimes even tacked onto “fine”—is “busy.”

“Oh, thanks for asking. I’m fine, but busy.” It’s almost expected, really. Like it’s a badge of honor to be too busy to enjoy your life. As if being busy is what is expected, a status symbol. But imagine instead this exchange:

“How are you?”

“Oh, thanks for asking! I am fantastic! I just had a leisurely breakfast, went for a hike and had lunch with a good friend. This afternoon I am going to relax, and maybe read a book or take a nap.”

You would assume that the person responding to that question was retired, unemployed, or independently wealthy. This is because we expect any self-respecting person to be busy. They are busy to the point of fatigue, stress, anxiety, and lack of self-care. Busy people don’t have time to exercise, eat well, get enough sleep, or relax with their friends and family.

Why are we so busy? There are multitudes of reasons we can’t get into here, but a big one is *money*. We work very hard in our society, the United States in particular. We work for money to supply us with the essentials for life.

I went on a trip to Italy with my family recently. Several things struck me while we were there. One was that the Italians enjoy a distinctly different pace of life. Things moved much slower there. Eating was a several hour event, cappuccinos were sipped instead of gulped, and people moved at a leisurely pace. Even the airlines were slower; we quickly learned that the departure times were more like suggestions. Most planes departed about an hour or more after the expected time. The afternoons were a long siesta time for relaxing and resting. Our tummies on US time took a few days to accommodate to eating dinner at 9:00 p.m., at the earliest. Once we embraced it, the slower pace was calming. Your parasympathetic nervous system was activated, and, lo and behold, time seemed to slow down. When your sympathetic nervous system, your “fight-or-flight” response, is always on alert you feel rushed and on guard. Time will seem to slip away from you.

Physicians work hard for our money. There is no doubt about that. We worked hard to achieve our goals of becoming doctors with grueling training in medical school, residency, and fellowship. We lived lives of scarcity while in training, many of us racking up large student loans and debt. Due to long years of training we enter the workforce later than our peers. If you pursue a fellowship subspecialty, it is common to be in your mid to late thirties when you finish.

To make more money, you need to work longer or work harder. See more clients, patients, or complete more projects, all of which require your effort. To maximize your earning potential, you need to focus on activities that are the *highest and best use of your time*. However, even when you have optimized your time, there is still only one of you, and only twenty-four hours in a day. If you only focus on increasing your income by working more, other areas of your life will inevitably suffer—your health, your family and your sanity. All of this sacrifice will eventually making you wonder if you’ve chosen the right path.

How can you take your high earnings and leverage them to create financial freedom?

To me, financial freedom means that your basic expenses are covered if you cannot or choose not to work. To get there, you don’t need to work harder, you need to work smarter by making your money work for you. So that when you are taking time away from your job (sleeping, traveling, relaxing) your money continues to generate income.

Introduction to VMD Investing

Build Wealth. Experience Freedom. Leave a Legacy.

VMD Investing helps busy professionals build wealth with passive, income-producing real estate that provides double-digit returns and a proven roadmap to financial freedom.

VMD Investing is here to fast-track you towards your ideal investment opportunities. We understand how it feels to watch helplessly as the balance of your portfolio swings wildly with the whims of the market.

We focus on education and investment opportunities in real estate syndication to create strong passive income with wealth accumulation, hassle-free ownership in some of the strongest real estate niches such as **multifamily apartments, self-storage and manufactured home parks**. Our operator partners are some of the most respected and experienced in their respective niches.

We are passionate about teaching fellow professionals how they can take control of their investments and transcend the time equals money equation.

Step 1

- Sign up for the Investor's Circle
- It's free and easy.

Step 2

- Connect with us
- We will contact you to learn about your goals, frustrations and current situation. We will look for resources and investments that match your goals.

Step 3

- Invest
- We will keep you informed with our investment offerings and when you see one that fits with your needs, we will guide you through the process.

Step 4

- Experience Freedom
- Congratulations, you've taken control of your investments and your money is working hard for you while you are relaxing, spending time with your family or on vacation.

If you would like to have a quick introduction so we can learn more about you, discuss our model, and share ideas, please contact me at vanessa@vmdinvesting.com to find a time to connect.

About the Author

Vanessa Peters, MD, is the founder of VMD Investing and has been investing in real estate for eleven years in single family homes, commercial retail, apartment communities, self-storage and manufactured home parks. She has invested in over 2,500 units across eleven properties and four funds.

She is passionate about helping busy professionals build wealth through passive, income-producing real estate that provides attractive returns and a proven roadmap to financial freedom.

Vanessa Peters earned her medical degree at the University of Calgary, Alberta, Canada, and moved to the US from Canada in 2002. Dr. Peters is a Family Physician and Chief Physician Officer for Graybill Medical Group, a primary-care-owned medical group in North San Diego County with twelve locations and 80-plus providers.

She is involved in her community and is on the Board of Directors for Interfaith Community Services, a nonprofit that focuses on reducing homelessness in San Diego County. She lives in Escondido with her husband and son and enjoys cooking, hiking, traveling, and yoga.