A Doctor's Guide: How To Create Passive Income With Real Estate Syndications

Hi. My name is **Dr. Jeff Anzalone** and I'm a periodontist practicing in Louisiana. A few short years ago I started to worry about my family's financial future.

As a solo practitioner, if something happened to me, then no other income would be coming in.

Not good.

This fact alone made me take a hard look at our financial future and I realized that **something needed to be done**.

Most people have only ONE source of income, their active or earned income from their job. Myself included….until a few short years ago.

Now I've learned how to build **multiple streams of passive income** so that slowly but surely I'm replacing my active income each year.

But before I get into specifics, let me tell you where I started from….

My Story

After completing dental school and a surgical residency at LSU, I owed close to **$300,000** in student loans. My wife and I also had other debt including an interest-only mortgage!

Two weeks before graduation, my job offer to join a group practice fell through, leaving us with a two-month-old and nowhere to go. Not good. After much prayer and connecting with other docs in the area, I received the help I needed to learn the business aspects of running a practice.

This inspired me to write my first book that is still currently available on Amazon, "***What They Don't Teach You In Dental School***."

I learned what it took to start a practice from scratch, and after seven long and intentional years, we became **debt-free**. ☺

Along the way, I became passionate about sharing my debt-free journey and investment principles to other doctors and high-income professionals.

That's how the **Debt Free Doctor** site originally started, to help other health care professionals learn the strategies they needed to get out of debt and invest smartly.

Once we became debt-free, I began searching for ways to:

- put our money to work for us
- shelter our income from taxes

This was especially crucial since, once the majority of the practice and equipment had been depreciated, our **tax bill skyrocketed**.

During my research, I noticed that most people who were achieving **financial freedom** quickly were doing so through investing in real estate.

This sounded interesting to me, but I knew that I didn't want to be a landlord and give up precious family time.

Most of these people were **passively investing** in real estate via syndications, so I decided to give it a try.

After trial and error, I figured out what it took to invest in cash flowing real estate while also drastically reducing our tax bill.

I now have the time and resources to enjoy my life and family without having to constantly trade my valuable time for money.

Are you ready to learn how to start creating multiple passive income streams so you can live your life on your own terms?

If so, then let's get into it….

How Much Money Is Enough?

A hot topic these days among the FIRE (Financial Independence Retire Early) community is financial freedom.

Specifically:

- "*How much is enough*?"
- "*How much money do I need to I can stop working and enjoy life*?"

To answer this, it depends on who you ask.

According to research, if you ask someone about their "*magic*" number that recently graduated dental/medical school, their answer is going to be higher such as:

- **$12 million - $20 million dollars**

With student loan debt continuing to rise, doctors starting off older in practice and insurance reimbursements declining, being able to attain this amount is going to be very tough.

But if you asked someone closer to retirement, say 55-60 years old, they'll usually stick closer to the **$6 million to $8 million** dollar range. Yes it's doable but not probable.

When these same people are asked, "*How did you come up with your number*?" they're not sure.

I had a number in mind when I first started practicing and can't remember how I came up with it either.

Some people recall a conversation with a financial planner in the past while others may state they remember reading an article about it.

Look, I'm all about **setting goals**, both personal and financial. But the problem is when goals are set that aren't well defined and have a clear roadmap of how to obtain them.

Take losing weight for example. Most that set weight loss goals don't reach them because they don't have a specific plan to achieve them.

Yes, exercising and eating right is important, but specifically, what types of exercise and foods need to be eaten? It's got to be precise to work.

Unfortunately for doctors, we start behind the eight ball after our training is completed. Most of us begin with six-figure student loan debt in our 30's. Because of this timetable and circumstances, accumulating **$12+ million dollars** during our working careers is tough.

And that's problem. A significant problem.

What Can You Do?

The uncertainty that the traditional financial planning model creates is the very reason that most dentists/physicians work MUCH longer than necessary.

Sometimes working even while suffering from physical pain because in the back of their mind, **they really don't know how much is enough**.

Recently I read about a dentist in his mid 30's that had built a practice collecting $1.8 million annually within four years of starting it. Impressive!

Unfortunately, he stated that even though he'd achieved this in such a short time span, it was ALREADY beginning to take a mental and physical toll on him.

He was already having thoughts of selling his practice and taking time to determine what he wanted to do…all before the age of 40.

The problem this dentist was facing is not uncommon....most don't know **how to create sustainable cash flow income from investment assets**.

He ONLY knows how to generate revenue from laboring (with his hands) like most of us. Focusing on active/earned income instead of passive income.

Start With The End In Mind

The dentist above is a perfect example of someone that should "*start with the end in mind*."

I'll never forget my cousin (attorney that retired before 50) visited us when I first started practicing.

His first suggestion was to develop an "exit" strategy and **start with the end in mind**. I'll admit, back then as a green 31-year old, I thought he was nuts.

Exit strategy? I was barely into my first month of treating patients and this guy was already talking about exiting. What did he know?

Reflecting back reminding me of an old Shania Twain song, "**Don't be stupid**."

Yes, I was stupid back then, but at least I remembered the story sooner rather than later.

What this dentist, and all of us should do, is reverse engineer our situation. By that I mean to take your monthly income and figure out how much in capital assets (passive real estate investments) that is needed to replace it.

Speaking of passive real estate, let's get into how we can start our exit strategy…

Real Estate Syndication

What's a real estate syndication? It wasn't that many years ago that I was asking the same question.

A real estate syndication is simply the pooling of funds from a group of investors in order to purchase a property that's more expensive than any of them could have afforded on their own.

Who Can Invest?

Most syndication deals are only offered to **accredited investors** only. This is someone that meets one of the following requirements:

1) Have an income of at least **$200,000** each year for the last two years, or
2) If married, have a combined income of at least **$300,000**/year for the last two years, or
3) Have a net worth of at least $1 million, excluding your primary residence

Who's Involved With A Real Estate Syndication?

There are typically two parties involved with a real estate syndication.

Syndicator/General Partner (Sponsor/GP)

This is an individual or company that's in charge of finding, acquiring and managing the real estate. They have a history of real estate experience and the ability to underwrite and do due diligence on the real estate.

The Sponsor is usually responsible for investing anywhere from **5-20%** of the total required equity capital.

Investors (Limited Partners/LP)

The second party is the investors who invest with the sponsor and own a percentage of the real estate.

Here's the part that got me excited about becoming an investor…

They don't have to be involved with:

- acquiring the property
- arranging financing
- managing the property

Investors are usually responsible for investing between **80-95%** of the total.

How Do Investors Make Money?

The Investors (LP) in syndications are typically compensated in three ways:

1) Preferred return

The preferred return is a threshold return offered to the LP before the GP receives payment. The standard preferred return is **8%**.

That is, the LP will receive a return of up to 8% **before** the GP is paid. If the real estate cash flows 8%, the LP receive the 8% preferred return and the GP does not receive a profit split.

If the real estate cash flows less than 8%, the LP receives a return of less than 8%. If the real estate cash flows more than 8%, the LP receive their 8% preferred return and the remaining profits are split between the LP and GP.

2) Profit Split

If a preferred return is offered, the remaining profits are split between the LP and GP. The typical profit splits are either 80/20 or 70/30 (LP/GP).

The LP will receive their distributions from the profit split on an ongoing basis during the business plan (if the cash flow exceeds the preferred return) and/or at the sale of the real estate.

Typically, the distributions from profit splits are considered a return of capital. That is, the profit split distributions reduce the LP's capital account and therefore the preferred return.

However, some GPs will continue to pay out an 8% preferred return based on the initial equity investment and catch-up with the profits from sale.

3) Refinance or Supplemental loan

If the GP refinances into a new loan and/or secures a supplemental loan, the LP will typically receive a distribution that is a portion of their initial equity investment.

Similar to the profit split, the proceeds from a refinance or supplemental loan are typically considered a return of capital. That is, the proceeds reduce the LP's capital account.

5 Reasons To Invest In Syndications

1) Tax Benefits

This is one of my favorite reasons why I think high-income earners should consider investing in real estate. I'm all for doing everything I can to legally lower my taxes and real estate allows you to accomplish this.

How? The first way is by **depreciation**. The IRS allows us to write off apartment buildings (real estate) via a cost segregation study over 27 years. By doing so, we're able to lower any taxes owed on the cash flow by depreciating the buildings and any equipment sitting on the land.

Each year, the sponsors of the syndication deals I'm in send me a **K1 tax form** that gives a paper loss despite having a gain.

Certain repairs, capital expenditures (appliances, roofs, windows, plumbing, etc.), can be deducted as depreciation reducing your tax bill on income.

Another huge tax benefit is the 1031 Exchange. Again, the IRS encourages U.S. citizens to own real estate by offering something that can *defer* taxes.

This strategy allows you to defer paying capital gains taxes on an investment property when it is sold as long as you roll the entire amount you originally bought the deal for into a new deal.

This is how the rich get REALLY rich.

2) Appreciation

When real estate investors talk about appreciation, they're referring to the increase in the value of an investment property over time. It's an important variable which plays a key role in defining the profit from a property for a real estate investor.

Whenever someone is considering investing in apartment syndications, they should pay attention to what improvements are being performed in order to increase the future value.

The syndication deals I'm currently in are **value-add** properties which produces forced appreciation.

This is caused by the improvements made such as:

- painting
- landscaping
- remodeling
- parking lot repairs/replacements
- addition of new facilities (i.e. swimming pool, playground, etc.)
- addition of new services such as a laundry room

By making these improvements, **rent can gradually be raised** over the normal 5-7 year hold period these deals have before turning around and selling them at a higher price due to this forced appreciation.

Income producing real estate increase in value either because:

- you physically improve the property
- increase the rents
- reduce the expenses
- (or all of the above)

3) Cash Flow

Most docs that I know that invest in real estate do so in order to create an additional positive cash flow stream.

Here are some facts that should get your attention:

- 41% of doctors have **less than** $500,000 in retirement savings
- Most doctors are relying on only ONE source of income
- Majority are investing only in retirement accounts

According to Thomas Corley author of Rich Habits, in studying self-made millionaires, he found that:

- 65% had three income streams
- 45% have four income streams
- 29% have five income streams

Why do you think doctors stop at ONLY creating one income stream?

The goal is to create multiple streams of income through passive investments.

When you invest properly in a correctly managed apartment complex, it produces a positive cash flow in excess of expenses.

4) Treating patients is hard work, income is not guaranteed

It's funny how people laugh when I tell them how physically demanding dentistry/treating patients is on the body.

I personally know several dentists that had to stop working due to back, neck and wrist pain.

More physicians are opting out and having to retire earlier due to longer hours and having to see more patients to keep up with insurance cuts.

When we get out of training, we never give much thought that **our earned income isn't guaranteed**.

Let that last sentence sink in…

We think we're invincible because we're young and full of energy but the reality is that most people won't be able to work as long as they expect to.

So much for job security.

My hand surgeon friend called me last year while skiing and told me he fell and broke his wrist (how ironic).

For dentists or surgeons that depend on their hands for income, getting in an accident can change their practice horizon in a blink of an eye.

If you don't plan carefully, you could lose everything.

But on the flip side, if you had $15,000 – $20,000 of passive income coming in each month, things would be MUCH different.

5) Avoid capital depletion

Recently during one of our cases, my dental assistant asked me what I would do if I won $10 million dollars. Specifically, she wanted to know about all the different things I'd buy (as she loves to spend money) because in her mind, nobody could EVER spend that kind of money.

I told her that I'd give away $2 million dollars leaving me with $8 million. Then I'd take that $8 million and invest for passive income. Most of the multifamily syndication deals I'm currently in are paying an 8% preferred return monthly.

So I told her that if I did that, we could figure out the passive income based on this calculation:

8,000,000 x .08 = $640,000

So in order to avoid depleting the capital, I'd have an investment that's spinning off **$53,000/month virtually tax-free**.

I don't think this satisfied her answer as she mainly wanted to know what type of vehicle or house I'd purchase. I told her that I'd be able to buy anything I wanted to with that money that was coming in each month without having to worry about it running out.

For most of us, we have to try to figure out how much to save in stocks or mutual funds in order to never run out.

During retirement, you can go through several millions of dollars quickly especially when you add in housing costs and healthcare.

If you've not created passive income streams, you'll more than likely be watching the market each month **worrying as your nest egg continues to dwindle**.

But with passive investments such as multifamily syndication deals, you can live off the monthly (or quarterly) distributions while your capital is preserved.

Are you ready to learn more about building passive income streams?

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