EPISODE 703

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Josh Plave. Thanks for being on the show, Josh.

[00:00:30] JP: Hey, Whitney. Thanks for having me.

[00:00:32] WS: Josh is a multifamily syndicator who specializes in streamlining the process of using retirement funds to invest in real estate. Through his company Wall to Main, Josh provides all the tips and tricks needed to invest quickly, safely and cheaply with an existing retirement account.

Josh, thank you again for your time. This is a great subject and topic, because it's something that seems to be made very complicated in our industry, but it's something that we all need to know it doesn't have to be that complicated. I mean, we have investors doing this on every deal that we put out. We're going through that process with lots of people and trying to explain how to do that. I'm looking forward to just hearing how you have really made some actionable steps for this and simplified this process for your investors and many others. Welcome to the show. Give us a little more, Josh, about maybe where you're located and your syndication business.

[00:01:23] JP: Hey, everyone. My name is Josh Plave. I am from Denver, Colorado currently. I run Wall to Main, which is essentially, just a site where you can learn and understand how to effectively move your current retirement account into a passively invested, self-directed retirement account. I help streamline the process for folks and it comes from my own background. I started my first Roth IRA when I was 16-years-old. I got started really early. For whatever reason, I'm not sure why I've been interested in retirement accounts for so long. Yeah, that's where I started off with.

[00:01:56] WS: Nice. What's your real estate business? Are you syndicating deals? Are you working in multifamily? What does that look like for these investors to need to use these accounts?

[00:02:05] JP: Yeah. I specialize in multifamily. We operate amongst the I think, multifamily sphere. That's my mentorship group. We look for deals across the south and southeast, the typical workforce housing, class B, C plus, that sort of thing. Personally, I got started when a background of my story. I got started when my grandfather and my mother, a few years apart passed away, and it left a couple of inherited IRAs for myself and my sisters. I needed to have a strategy of what to do and how to preserve their legacy, how to move it forward.

At the time, I was struggling with my own career, wondering where I wanted to take things and what I wanted to do. I realized that real estate was the direction I wanted to take it through a long process that a lot of us go through Rich Dad Poor Dad webinars, that whole thing, meetups and everything. Eventually, landed on multifamily. In order to get multifamily going and get it started, I knew it would take a bit of time to get that operational. We actually used our retirement funds to begin doing private money lending. I began with that. We have a few of those deals still ongoing and we've been doing multifamily for the last few years as well.

[00:03:17] WS: Nice. Well, let's jump right into just retirement accounts and actionable steps that that the investor can take, that's listening to be able to use those funds. As an operator, I want to know these things as well. I hope the listener, who's also an operator getting that first deal, you're having these conversations with investors, it's important that you understand some of these things and have some of these steps ready to go. When you're speaking to that investor, you can say, “Oh, no. You can use your retirement account.” I would say, and a lot of people don't know that they can even use their retirement account in this way. Would you say that's accurate, Josh?

[00:03:51] JP: I run into that all the time. Folks just don't really have an awareness of the fact that you can use IRAs, 401ks, 403bs, really any plan under the sun. I like to say that you need to have control over it. Currently, the way it would work is you need to – it needs to be with a custodian that you're currently choosing the investments for. What I mean by that is if it's with a current employer, then you're going to have a hard time, because you need to have the opportunity to do what's called an in-service rollover. A lot of plans at employers don't allow for this, unfortunately.

If the bulk of your retirement funds are currently with an employer, it's probably not a method you can do until you leave your current employer. If you have funds outside of that that it's a great opportunity for you. What you essentially can do with a self-directed retirement account is you can actually take existing funds and they're not limited to stocks and bonds and mutual funds. You can invest in virtually anything you want. The only limitations are in collectibles, like art, jewelry or cars, in life insurance and shares and as corporations.

Other than that, you can as long as you think it's a viable investment, you can go for it. I mean, Whitney, you might be interested. I have the best investments. I've heard, have involved race horses, studying operations, things like that. There's plenty of places you can take an account like this.

[00:05:13] WS: Yes, it's interesting. I think I had a guest one time that was investing in race horses. They're syndicating race horses. I'm like, "Wow." That seems so off the wall. He could have investors that's using their IRA to invest with him, couldn't he? I mean, it's so neat to think about that how far we can go with some of this. Let's get to some actionable steps that the investor needs to know.

Initially, it's like, where do I even go to figure this out? I have this IRA sitting over here that I've been contributing to, but I don't know really what to do to get it to that deal, or that real estate deal that I'm trying to invest in. Give us some actionable steps.

[00:05:50] JP: Sure. Well, I'm a huge advocate for checkbook control. I don't have any horse in the race. There's no reason in my opinion, to keep it at a custodian, who they're slower, they charge a lot more, they charge on the entire account base, not on how much is currently being left at the custodian. It takes a while. When we have a deal and we have the – we present the webinar and the presentation and then we have a fund deadline. Sometimes the fund deadline can be three or four weeks out.

Oftentimes with the custodian, it can take that long. Paperwork might take a while. Some custodians, they just drag their feet, unfortunately. With checkbook control, it moves a lot faster. What checkbook control is essentially is there are these custodians that we're talking about. They are just like your current custodian that your account is likely with, a Vanguard, Schwab, a TIAA. Those custodians they specialize in stocks and bonds. Their brokerage houses are set up for those equities. These types of custodians, they focus on alternative asset classes, like real estate, Bitcoin, things of that nature. Things that aren't held at a typical custodian.

No matter what you're going to move your money over to a custodian like this. With a checkbook account though, once you move it over to that custodian at the same time, whoever you choose to work with a service provider, they will open up an LLC at the same time. The custodial account will actually make – they will take 100% of the shares. They will invest 100% of the funds into those shares of the LLC. At that point, you then become the manager of that LLC. You can open up a checking account and have direct control over the investments and make decisions very rapidly.

I like to say that you can find a deal over breakfast and fund it by lunch. It's very quick. It's easy and the nice thing is if you open it up with the right folks, you can actually have them – they can advise you. Custodians are not fiduciaries. They're not actually obligated to give you advice, or look after your money that's in your best interest. If you go with one of these service providers, you can actually open up an LLC. They advise your LLC, not the custodial account, and so they can help you with any prohibited transactions. We can cover those maybe. Yeah, they can let you know if any investment you're making is wise, if it's maybe something that you should think about twice. It's just as safe and it's fast, it's effective. Annual fees are really low. They're between a $130 and $180. It's something that I heavily advocate for.

[00:08:22] WS: How do we find that individual that's not the typical a custodian, like a Charles Schwab or something, but that we need to find so we can have checkbook control like you're talking about?

[00:08:33] JP: Yeah. There's a few out there. I work with two groups. One of them is Safeguard Advisors. They helped my family open up seven separate accounts that are all humming a lot right along. The other group is Rocket Dollar. Safeguard Advisors is the group that I was talking about that can help advise. Rocket Dollar is an online streamlined, very efficient operation, extremely low-cost to open, extremely low-cost to continue going on. There's a few others out there. Those are just the two that I happen to have experience with and have found very helpful.

[00:09:07] WS: If the investor has this IRA that's just been sitting over there for years they've been contributing to, they can contact somebody like Rocket Dollar and they're going to help them to convert that to a checkbook IRA.

[00:09:18] JP: Exactly. The whole process is really simple. What I'll say is it's made a lot more simple if all your assets are in cash. If you keep them in stocks, the process can take a few weeks. If it's just cash, it's a matter of just opening the two different accounts and then wiring funds over. That can be done somewhere between two and three weeks most likely. I've had one opened in five to six days. It's just a matter of just staying on top of it. It's not a ton of moving pieces, but if you keep your eye on it, it can actually move fairly quickly, fairly swiftly and you'll be ready to go in no time.

[00:09:53] WS: What's other management issues that we need to think about as we open this checkbook IRA?

[00:09:59] JP: Yeah. Things you'll want to do, you'll need to cover your bases with what you're allowed to do and what you're not allowed to do. What I like to think of is I like to imagine my retirement account as if it's an entirely different person. You yourself are what's called a disqualified person. You can't really interact with your retirement account. If you have a let's say, a retirement account and you buy a rental property, you personally can't rent from that property. You can't even stay in it for free. It goes the same way with a vacation home. You can't stay in it for free. You can't benefit in any way from the actions of your retirement account.

Then it goes in the other direction as well. Your retirement account can't benefit from the actions of current day you. Let's say, you invest in a property that needs to be flipped. You can help make decisions on crews and things like that, but you cannot pick up a hammer and swing it inside the house. That's called sweat equity. You're not allowed to actually – you cannot benefit the retirement account. They're completely separate.

All income that comes into a retirement account actually needs to be passive. You need to be aware of these kinds of things. Additionally, there are other things like disqualified person. I mentioned, the first one was you. Other disqualified people are linear ascendants, like your parents and grandparents. Then linear descendants, like your children and grandchildren and then spouses at any level also, so in-laws, but also your own spouse. Luckily, brothers and sisters are okay, aunts, uncles, cousins, nephews, anything off at the side is fine.

The nice thing is you can actually get around this by if you recall, I mentioned that everybody needs to think of their retirement account as if it's a different person. You're disqualified people. Their retirement accounts are different people as well. You can actually if you're using your retirement account, you can invest alongside with their retirement account. You never want to invest, let's say if you're passively investing in a deal and you're using retirement funds. You can't invest in it if your spouse is using normal everyday cash. That would be a prohibited transaction, but if your spouse actually uses a retirement account, your two retirement accounts can go and invest together and that's what my family's done. We all pool our retirement accounts together in one large holding company. It makes a better use of our dollars overall.

We can get into if minimums in an investment are 50 or 75, let's say they're 75, me and my two sisters, we can each put in 25, meet that minimum on a lower level personally and spread out our investment risk and also just overall, be able to diversify our portfolio across many more deals.

[00:12:30] WS: Nice. You all created an entity and you all invested through that entity from each of your individual accounts. Is that accurate?

[00:12:38] JP: Exactly. Yes.

[00:12:39] WS: Okay. Interesting. Any tax implications that the individual needs to be thinking about, or anything else that helps them to plan long-term?

[00:12:47] JP: Yeah. There are there are essentially two different types of self-directed accounts. There's a self-directed IRA and a solo 401k. The solo 401k is completely exempt from any tax. Unfortunately, the self-directed IRA has a tax implication when investing passively in multifamily. Let's cover that. When you invest in a leveraged asset, what occurs is –

[00:13:09] WS: When you say leverage, you mean has debt on it.

[00:13:11] JP: Yeah, has debt on it. Exactly. When congress created the IRA, they essentially wanted to get you to look after your tax deferred dollars. They wanted you to defer tax and invest for your future. When you bring in debt into a deal, you're actually bringing in money from outside of your retirement account and your retirement account is benefiting from that.

Let's say that you invest in a deal that has 75% leverage. 25% of that, obviously is equity. It's the down payment. 25% of that, of all income that comes in is generated by your IRA and it's completely tax-free. You're never taxed on income that is derived from your equity. When you bring in outside dollars, there is a tax on the dollars that come in from an outside source. If it's 75% leverage for the year, you're going to pay taxes on 75% of the income.

Now on the flip side, the nice thing is because it's outside dollars, those outside dollars can actually make use of depreciation and of operating expenses. They can use their portion of that. It's getting taxed at 75%, you can actually use 75% of the depreciation for the year. It helps to offset it pretty well. Built the, I believe, the industry's first UBIT calculator. That has allowed me to take a look at what returns will look like after taxes. When I present my investors with an opportunity, I present them with not only the expected returns, but expected taxes. What we noticed is the depreciation in the different operating expenses, they're able to offset your taxes, which I should mention, I haven't actually mentioned what the name is. There is the income which is UDFI, Unrelated Debt Financed Income. Then the tax that generates is UBIT, or Unrelated Business Income Tax.

The UBIT is able to be offset for the first three to four years on most deals. You'll be cash-flowing for the first couple years and most of those operating expenses will be able to wipe out the expected UBIT. When it comes to a sale, capital gains events are – they tend to be the ones that result in in the UBIT tax impacting your investment. It can be a larger amount. Luckily, it only really presents itself, it only rears its head when you actually do have a capital gains event.

What we noticed is it tends to impact on an annual basis, tends to impact your investment by about 3% to 4%. A lot of multifamily deals after sale, after proceeds and appreciation, they tend to aim for somewhere around 20% annually. We see that that gets knocked down to 16% or 17%. The less that first number comes down, if it comes down to a 17% annual return, it gets knocked down even less and it hovers somewhere around that 13%, 14%. It doesn't drop too far, but it matches in lockstep with a 3% to 4% drop.

You have to keep this in mind. If you're investing with your self-directed IRA, you need to understand that you will be having to pay UBIT taxes. If you take a look at the investment and it's expecting to pump out a certain return and you can take a step back from that and see that you're – but you still might generate a 16% to 17% return. As long as you understand that and have that expectation, understand you're going to pay that tax and you deem that to be an investment that is still worth your time, then you can still proceed, you just need to understand the whole picture.

[00:16:29] WS: Nice. Yeah. I mean, there are numerous things that we need to consider and think about when we're going to use a an IRA to invest. Are there any kinds of advisors that you've met, or that you would recommend someone speak to outside of just the custodian that will help think through the tax implications?

[00:16:48] JP: Any CPA who focuses on real estate can really help you nail down a strategy. There's some implications when you have to pay this tax. Let's say, you go into an investment and it sells some time in around, let's say right now, mid-September, late September. You get your proceeds now and you have this large expected UBIT bill. You don't have to pay that until tax day, or whatever the tax day is for your account.

You can't go and take all of the proceeds and immediately throw them into another deal, because you're going to be stuck in another opportunity down the line for the next four to five years potentially. It's illiquid. You can't pull it out. If you've invested all those funds, there's a tax implication of having to pay the UBIT.

What you need to do is you really need to plan ahead with your CPA on these kinds of things, someone who's familiar with self-directed retirement accounts, understanding when UBIT needs to be paid, how it gets reported. It ends up being reported on a 990T on your tax return. Yeah, somebody who understands the process is critical when undergoing this.

[00:17:57] WS: Nice. Well, any quick tips before we have to move on as far as things you've learned personally by you and your sisters using this method to invest and grow your retirement accounts through using a checkbook IRA?

[00:18:10] JP: What I would say is it's when you first get started, it can be daunting. There's some stuff to learn and I provide a lot of – I like to think that my website provides some great learning content that distills it down into simple, easy to understand content. When it comes down to it, once you get into the flow of things, it just becomes like another account. It becomes just like cash. You understand how it needs to operate. It's just some slightly different steps.

What I would say is just don't be intimidated by the process. I have a couple videos, they take 30 minutes to digest. Once you get through that and you understand a couple different concepts, you're good to go for life. You just keep wheeling, dealing, finding deals, vetting deals and moving on from there. It's really no different. It's just a matter of who you can invest in, the types of deals you can get involved in. Once you understand that, it simplifies the process entirely.

[00:19:02] WS: Josh, what's been the hardest part of this syndication journey or process for you?

[00:19:07] JP: For me, it was acquisitions. I tried originally getting involved in acquisitions and it's a hard game out there. There's just not a ton of great opportunities sometimes. If you don't really hammer the brokers too hard, then it's not – it's going to be a little a bit of a struggle. I found that my personality was better tuned towards breaking down my background – not my background, but my family has a bunch of teachers. I for whatever reason, are I'm well attuned to helping others understand and work through a process and working it into a curriculum.

I found that I was able to provide this opportunity for folks to understand how they can get involved, how operators can get their investors involved and understand what they can do with their current funds. Just understanding that that point was critical in my shift as I moved from acquisitions over to more of a educational and capital raising standpoint, and focusing on that one niche at a time. I really like to focus on one thing at a time, make sure that I'm giving it my all on one specific topic. Yeah, the pivot was hard, but it's been really fun and it's been rewarding.

[00:20:23] WS: What's the way that you've improved your business recently that we can apply to ours?

[00:20:27] JP: It comes down to the focus. When I started this, I didn't really understand how I was going to scale. I think, the really critical and important thing here is automation and just understanding how you can communicate with your investors on a larger scale. It's tough to try to answer the same questions over and over, but especially when you're teaching something like this and you're educating others on what they can do. There's only so many questions that you can ask about self-directed retirement accounts and how it applies when passively investing.

Being able to automate this process and automate the touch points and the education and the different topics I need to cover with my investors was really important. It's made things super simple and it's also made my messaging more clear and consistent.

[00:21:12] WS: What's your best source for meeting new investors?

[00:21:14] JP: My best source, I would say is podcasts like this, helping others understand what they can do. I originally thought when I started off that my avatar was going to be a software engineer, or somebody who just had a lot of retirement funds, somebody who had a long career and can maybe transition it.

I found that actually, the people that I'm best serving, they are folks who are already interested in real estate and they don't really know how their retirement account can play into it.

Understanding that part has been really critical. Yeah, it's helped me focus once I have shifted my messaging towards that.

[00:21:52] WS: What's the number one thing that's contributed to your success?

[00:21:55] JP: It's so cliché, just persistence and consistency, taking little steps every single day and just making sure you're hammering out what you need to do every single day is important. You've been doing a daily podcast every single day for a long time and I'm sure for the first few months, it was and for a while, it might be frustrating. I've heard it from other people starting a podcast is frustrating. Starting a capital raising business is frustrating, because it takes a while to gain traction. Once you start getting that snowball effect and understanding that every day inputs really make a difference, it starts to really show and the effect grows over time.

[00:22:30] WS: How do you like to give back?

[00:22:32] JP: As I mentioned at the beginning of the podcast, my mother passed away. She passed away from ALS. We really like to give back to ALS foundations. My wife and I got married last year and we gave a significant amount of our gifts over to ALS, because it's something that impacted our family. Every family unfortunately has something that has touched them in a way. I think it's really important to focus your energy on what impacted your family and how you can make a personal difference.

[00:22:59] WS: Nice. Well Josh, I'm grateful for your time, grateful for just walking us through some actionable steps, to using our IRA and converting it into a checkbook so we can take control, and just the importance of that and how you've done that personally and how you're helping many people through information on your website as well, and the calculator that you created. Tell the listeners how they can get in touch with you and learn more about you.

[00:23:23] JP: Yeah. If you go to my website, walltomain.com, you can find all of our lessons. We're currently offering a free PDF. It's called the top 10 tips and tricks when passively investing in multifamily with your retirement account. We give folks some relatively unknown tools that will help them make the right investing decisions. In that website as well, we have as I mentioned, a bunch of different lessons, video and text-based and it just helps you run through all the steps you need to take to get it done.

[00:23:51] WS: Awesome. That's a wrap, Josh. Thank you very much.

[END OF INTERVIEW]

[00:23:54] WS: Don't go yet. Thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook, so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show. Subscribe too, so you can get the latest episodes.

Lastly, I want to keep you updated, so head over to lifebridgecapital.com and sign up for the newsletter. If you're interested in partnering with me, sign up on the contact us page so you can talk to me directly. Have a blessed day and I will talk to you tomorrow.

[OUTRO]

[00:24:34] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Lifebridge Capital. Lifebridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Lifebridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success

[END]