

# REMOTE CONTROL RETIREMENT RICHES

JUNE/JULY 2020

A hand in a dark suit sleeve is shown from the left, palm up, holding a glowing white bar chart. The chart has seven bars of increasing height from left to right. A white arrow points upwards and to the right, starting from the top of the first bar and ending above the top of the seventh bar. The background is a dark, textured grey.

ON 1031  
EXCHANGES

RENTING THE  
AMERICAN DREAM

ONLINE EXPO 2020 RECAP

# 1-DAY ONLINE EXPO RECAP

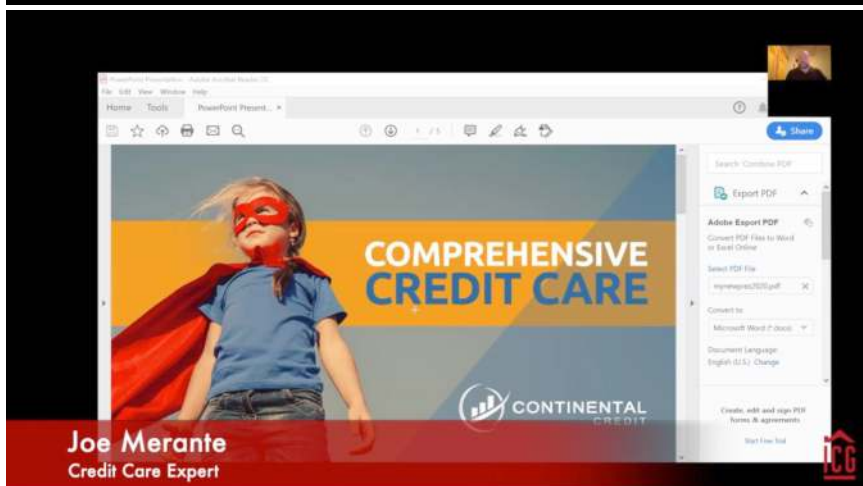
Our 1-Day Expo took place on Saturday May 16th. It was the first time it has been an online event by Zoom. Hundreds attended. Attendees joined from other countries, and other US states. That is one of the benefits of having a Zoom event. However, not being able to meet you in person was not something I preferred. We shortened the day to four hours. It took place between 10AM and 2PM PST. That time frame also worked for people in other countries.

Our market teams presented. I covered the COVID-19 period, and what we are learning as the data comes in. There were many questions, and we tried to answer as many as the time permitted. Our team copied all the texted questions, and we made sure any question was answered in the week or so following the event. Whether or not you were at the event, please feel free to email us questions at any time to [info@icgre.com](mailto:info@icgre.com).

Mary Jo Lafaye explained about getting reverse mortgage, with some real life examples. This is always handy to know about, as sometimes people want to build cash reserve or have credit lines, as well as improve cash flow. Joe Merante addressed our credit and how we may want to preserve and protect it in the face of a crisis. Attorney Brett Lytle talked about the correct ways to go about protecting what we have, entity formation, and insurance as the first line of defense.

I summarized the day at the end, and took a significant amount of questions.

For our first large online event, we all found it to be informative and pleasing. Your feedback is welcome. We are looking forward to our next online Zoom event on Saturday, September 12, 2020.



# RENTING THE AMERICAN DREAM

In an article in the Wall Street Journal from July 11th titled “For Rent: The American Dream”, by Ryan Dezember, we get further validation of our concept which has existed for decades: Buy single family homes in the suburbs of large metro areas, and rent them to families with kids. The “new” concept has been discovered by some big business people like B. Wayne Hughes, and companies such as Blackstone. They “discovered” what we have known for decades: Single Family rental homes in affordable markets are desirable, stable, and steady.

One thing the article completely misses, as do these big companies, is the powerful effect of buying these homes as an investor, putting only a down payment (say, 20%), and getting the incredible 30-year FIXED rate loan, which never changes with inflation. In fact they “brag” that they are “cash buyers” and hence can buy faster and easier, missing the entire point of the growth and IRR available to those who buy with a 30-year fixed rate loan.

Of course, when these large companies buy thousands of homes, they couldn't get the FNMA 30-year fixed rate loans even if they wanted. The

need to buy for cash, or get commercial financing, which is a lot worse than the FNMA fixed rate loans given to individuals.

The people who invest in the stocks of these companies (which have been recently touted as “the stars of Wall Street”, due to the popularity of single family homes), would be much better off investing instead in their own rental homes, financed with the 30-year fixed-rate loans. Especially during a period when these rates are the lowest ever.

Nevertheless, it's great to be validated by the “big boys”, after decades of doing this and seeing how single family home rental investments transform peoples' financial futures.

Some excerpts from the article:

“Americans are giving suburban home rentals a new look as they search for affordable space during an economic downturn”

“an economic downturn, the rising unaffordability of homeownership and a global pandemic push a new generation to suburban home rentals. Home offices, yards and space between neighbors are becoming must haves. Investors who spent the

last decade gobbling up these types of houses are emerging as beneficiaries of the Covid-19 era”

“Families with school-age children were the prize. They were likely to stay in houses longer than singles, willing to swallow annual rent increases if it meant not uprooting their children from schools and neighborhood friends.”

“Landlording is an ancient business, but leasing thousands of far-flung suburban houses had never been done before”. This point is erroneous. We, at ICG, have been doing it well over three decades.

“Mustering a down payment to buy a house is nearly impossible for many of these younger adults, who are buried in student debt.”

It's certainly rewarding to read the gushing description of what we have been doing for so long, as an amazing new revelation. It's also heartening to have our tried-and-true concept validated by some of the biggest companies in the investment industry.

We will discuss more during our 1-Day Expo on Saturday September 12th, which will be in the form of a webinar by Zoom.



# ON 1031 EXCHANGES



**WEIMING PENG**

*Asset Exchange Company,  
Tax Deferred 1031 Exchanges  
and Reverse Exchanges  
Explained in Detail.*



# *For a fully deferred exchange, an Exchanger must reinvest all net equity (cash) and acquire property (of equal or greater value) with the same or greater debt.*

## **REALIZED GAIN VS. RECOGNIZED GAIN**

Whenever property is sold, it is important to make the distinction between realized gain and recognized gain. Realized gain is defined as the net sale price minus the adjusted tax basis. Recognized gain is the taxable portion of the realized gain. The common objective in a tax deferred exchange is disposing of a property containing significant realized gain and acquiring a “like-kind” replacement property so there is no recognized gain. In order to defer all capital gain taxes, an Exchanger must “balance the exchange” by acquiring replacement property that is the same or greater value as the relinquished property, reinvest all net equity and replace any debt on the relinquished property with debt on the replacement property (although a reduction in debt can be offset with additional cash.)

## **THE EXCHANGE EQUATION**

The Exchanger can quickly calculate whether there will be recognized gain based on the following principals: Taxable “boot” is defined as non like-kind property the Exchanger may receive as part of an exchange. “Cash boot” is the receipt of cash and “mortgage boot” (also referred to as debt relief) is a reduction in the Exchanger’s mortgage liabilities on a replacement property. Generally, capital gain is recognized (and therefore taxable) to the extent there is boot. For a fully deferred exchange, an Exchanger must reinvest all net equity (cash) and acquire property (of equal or greater value) with the same or greater debt. Exchangers are not required to carry another loan. The debt can be replaced with money out of pocket, another loan, or a combination of the two when purchasing the replacement property.

Compare the relinquished property with the replacement property in terms of:

1. Value
2. Net Equity (after deducting costs of sale)
3. Debt

<b>Example 1</b>	<b>Relinquished Property</b>	<b>Replacement Property</b>
VALUE	\$450,000	\$600,000
NET EQUITY	\$200,000	\$200,000
DEBT	\$250,000	\$400,000

The Exchanger is acquiring property of greater value, reinvesting the entire net equity and increasing the mortgage on the replacement property. Analysis: There is no boot and no recognized gain.

<b>Example 1</b>	<b>Relinquished Property</b>	<b>Replacement Property</b>
VALUE	\$450,000	\$600,000
NET EQUITY	\$200,000	\$150,000
DEBT	\$250,000	\$450,000

The Exchanger keeps \$50,000 of the exchange proceeds, reinvesting only \$150,000 as a down payment on the replacement property. Analysis: There is \$50,000 of “cash boot” which results in recognized (taxable) gain.

<b>Example 1</b>	<b>Relinquished Property</b>	<b>Replacement Property</b>
VALUE	\$450,000	\$350,000
NET EQUITY	\$200,000	\$200,000
DEBT	\$250,000	\$150,000

The Exchanger acquires property of a lower value and, while reinvesting all equity in the replacement property, acquires less debt in the process. Analysis: The Exchanger has reduced the debt by \$100,000 (“mortgage boot”) which results in a recognized (taxable) gain of \$100,000



# *Time to buy* RALEIGH DURHAM

BY JAN WYNNS

If you are a follower of Adiel's long-term buy and hold real estate investment strategy, you are in luck. With current interest rates at a 50 year low, a wide open window of opportunity has been created just for ICG investors.

Because jobs continue to come into the Triangle Area, we grow, no matter what the rest of the economy is doing. To stimulate the economy, the "Feds" continue to lower interest rates, and the Triangle is enjoying the benefits.

Right now, you can capture a historic 50-year low fixed rate loan for the duration of your ownership, while you

wait for rental income and home values to increase. In Johnston County, we are ahead of 2019 in closed sales by 18.9% and down 6% on new listings. With more sales than listings, we will soon have a housing shortage. And, when that happens, values increase. What an opportune time to invest in the Research Triangle Area with a low interest rate and rising values.

(Note: The information below talks about "recovery." The word "recovery" does not apply to our area! Mid-March to early April, we saw a modest decline in activity. But, after that, our market regained steam and has kept going, and we are thriving.)

Here is an article about COVID-19 and how it has made the Research Triangle area real estate market even stronger.  
<https://www.newsobserver.com/news/business/article242699716.html>

Forbes lists the Raleigh-Cary MSA in Top 10: Cities Best-Positioned to Recover From Coronavirus

<https://www.forbes.com/sites/laurabegleybloom/2020/05/12/ranked-us-cities-coronavirus-recovery/#494986bdde92>

As a real estate broker, I am especially thankful to be working in such a robust and resilient area.

## WSJ: RECORD-LOW MORTGAGE RATES FUEL A JUMP IN HOME SALES

An article in the Wall Street Journal on Thursday, July 23rd, by Nicole Friedman, validates what we have been observing in the markets we are in.

Here is an excerpt from the article:

"A sluggish U.S. housing market is staging a recovery amid the pandemic, shaking off high unemployment and a rising number of infections as buyers with pent-up demand seize on record-low mortgage rates.

Sales of previously owned homes rose 20.7% in June over the prior month to a seasonally adjusted annual rate of 4.72 million, according to data from the National Association of Realtors released Wednesday, the biggest monthly increase on record going back to 1968. The surge in existing-home sales follows other recent bullish indicators such as rising new-

home sales, robust home-builder activity and a flood of mortgage applications. Driving sales are apartment renters seeking more space, young families moving to the suburbs, and wealthy city dwellers looking for second homes, brokers and economists say. At the same time, the supply of houses for sale remains low, with the pandemic making potential sellers cautious about letting people tour their homes. "The housing market is hot, red hot," said Lawrence Yun, chief economist for NAR, an industry trade group. "As we are coming out of the lockdown, we see this backlog of buyers...trying to take advantage of the record-low mortgage rates." Even with the jump in home sales, monthly activity remains well below levels that were seen before the spring lockdowns. June sales marked an 11.3% decrease from a year earlier. Many potential buyers remain on the sidelines, con-

cerned about job security or the health risks related to visiting homes."

Clearly, it is hard to predict the forward trajectory of the housing markets in many cities. However, so far single family homes have been one of the bright points in the entire economy. Renters seek single family homes for the safe social distancing and a yard, and buyers seek to buy single family homes for the same reason, as well as to take advantage of the lowest-ever interest rates.

This, coupled with the likely inflation expected post-pandemic, due to the trillions of new dollars printed by the US government, can create an attractive combination for investors, who have a 30-year FIXED rate loan at the lowest rate ever, heading into inflation, which keeps eroding the real value of that loan.

# WHY DON'T TENANTS JUST BUY?

A classic question I have been getting over the decades is: If the homes we buy are starting at as low as \$150,000 brand new, why are our tenants renting them, when they can simply buy them? Why would anyone rent?

We ask this question, and it seems so logical to us. However, we are already investors, or want to be investors, so our mindset is that of an investor. I, for example, think of the 30-year fixed rate loan as a financial gift.

Many people don't think like investors. They don't think that a mortgage can be a "gift". They look at a mortgage as enslaving debt. Many people are not in an investor's mindset, and they prefer renting for many reasons. One such reason is flexibility, the ability to move and change where they live whenever they want. They look at buying a home as too limiting and something that will force them to stay put and not move.

The Millennials especially, in percentages, have been avid renters. Statistically they don't seem to have the same affinity for buying as previous generation. One reason could be that they experienced the 2008 crash when they were young, and thus they don't necessarily think of buying a home as a safe transaction, or

as the most important purchase they will ever make. Millennials may also subscribe to the "nomad" spirit of flexibility in movement.

Student debt has been a burden on many, and the idea of adding more debt might not be appealing. Yes, for us this 30-year fixed-rate debt is a strong financial tool. For most, it is not something they have been educated on, and it is not how they may look at it.

We, as investors, are already likely "good with money". We are likely working, saving, and have enough for a down payment or several. Many people live in a different financial universe. They may not save much, and they may spend what they earn. Overall, they may not be investment and savings oriented. This is pretty common. A large group of people who live like this, may not have enough cash saved up for a down payment, regardless of how low the down payment may be.

Overall in the US, approximately 35% of the population are renters. That is about 115,000,000 people. The US has always had a large number of tenants relative to other countries.

There could be people who inherently are only interested in renting, such as a

visiting professor, or an engineer or other professional who was sent to a branch of the company in another city for a couple of year. These people, by definition, seek to be renters.

Overall, there are multiple reasons as to why people choose to be renters, whether they can afford to buy or not.

We don't lack for renters at any time (I have been doing this for 37 years now). Currently, as I have discussed before, we have been getting steady reports that people specifically seek to rent out single family homes, since these give them adequate social distancing, as well as a yard to roam in the case of further lock-downs. Paradoxically, it seems that renters for our single family homes have become more abundant due to the pandemic. Nevertheless, even after the pandemic subsidies, the reasons given in this article, as well as historic experience, show us that tenants are quite likely not to be scarce in large metropolitan areas in the Sun Belt states.

We will discuss this issue, among others, at our next Expo, on Saturday, September 12th, via Zoom. Everyone is invited to register for free (either on our website: [icgre.com/events](https://icgre.com/events), or by emailing us at [info@icgre.com](mailto:info@icgre.com)).

## *Retirement Riches Testimonials*

I've used Adiel Gorel's group for the purchase of 6 single family dwellings in the past. I have had only good experiences with them—they find very good realtors who know their markets (and understand what investors are looking for) and they line property management companies up for you.

I would say that if you are looking for a "hands-off approach" to buy and hold RE investing, his group is a very good resource. — **STEPHEN R.**

Adiel was the "guru" who was my inspiration for buying my first rental investment, which I got through his company. I have subsequently bought others elsewhere, but none went as smoothly as it did with his outfit. I have on occasion turned to him for advice on properties that he had nothing to do with, and he couldn't have been more helpful. I have dealt with many other real estate "experts" since--Adiel remains my favorite. He walks the talk. For any who want to get into real estate investment but want solid assistance, I can't recommend anyone higher. — **WADE H.**

I have attended two ICGRE Expo's and done a couple of market tours. I have purchased 2 properties and am in contract on two more with realtors I met through Adiel. I don't think I would have taken the big step to buy my first property if it wasn't for him. — **DENISE L.**

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### ADIEL'S CORNER

*Q: Aren't brand new home always more expensive than existing second-hand homes?*

A: Not necessarily. It depends on the neighborhood and the conditions. We carry a good buying power at ICG, so our brokers can sometimes negotiate great deals with builders. Builders can throw in extras that regular sellers cannot. It may just be a myth that newer home cost more. In some cases they even cost less than comparable properties, depending on the specific situation. Of course brand new homes have all brand new components, under warranty. They also have a modern floor plan which is likely more appealing to tenants. They are also likely more energy efficient, which is also attractive to tenants.

*Q: I bought one home in a market. Should my next home be in another market for diversification?*

A: Diversification is good. However, when you own one home in the \$200K range (or even under), that is not very much real estate. It may make sense to diversify after you own a few homes

in one market, which will still not be much real estate compared to the place you likely live in. Spreading out the homes gives geographic diversification. However, working with a familiar team of managers and brokers also has its pluses. In addition, many of the metro areas are very large, and some diversification can occur within the metro area as well. Overall, this is a secondary point and depends on individual preferences. It is not of primary importance.

*Q: Am I limited to 10 loans total? Does that include the loan on my residence?*

A: Yes, the FNMA limit is 10 loans including your residence loan. If you are a married couple, and you can each qualify separately, FNMA enables you to take title in both names, yet have only one of your names on the loan. This doubles the maximum to a potential of twenty loans. There are lenders for situations where you already have exceeded these limits, and their availability and the loans that they give vary, but normally are fairly close to the FNMA loans.

