# REMOTE CONTROL RETIREMENT RICHES

MAY-JULY 2021


## HOW HARD AND SOFT CREDIT PULLS AFFECT YOUR SCORE

MANY HOUSING MARKETS SHOW SIGNS OF COOLING.

## WILL IT INCREASE SCARCE INVENTORY?

## IS THE CURRENT HOUSING MARKET A BUBBLE?

# OUR MAY 15TH 2021 EXPO

Our Expo on May 15th 2021 was a lot of fun. The event had several hundred investors in attendance by Zoom. During the expo we discussed the issues of low supply vs. high demand, and the need to wait for supply to catch up. The rise in building materials cost and how it's contributing to price increases was another topic of discussion.

There were many brilliant questions asked throughout the day.

Lucian Ioja spoke about the upcoming inflation and how to protect ourselves from its ravages. Fortunately for us, holding real estate is a classic inflation hedge, and when coupled with fixed-rate 30-year loans at some of the lowest interest rates in history, inflation is sure to erode these fixed-rate loans faster as it increases.

In our case, inflation is actually a positive force for our future financial strength,

Aaron Ruiz talked about insurance considerations, some things to watch out for in insurance policies, liability coverage, roof coverage issues to consider, and overall covered useful insurance-related information.

Weiming Peng talked about the 1031 tax-deferred exchange. He explained about the timelines, the procedures, covered reverse exchanges, and overall illuminated this important issue. I can add that as of the summer of 2021, it's hard to execute 1031 exchanges due to lack of target properties to purchase, especially ones that will be available during the stringent exchange timelines.

The event ended at 2:00PM PST. We had investors join in from all over the world. That is one of the benefits of an online event.

**OUR NEXT EVENT IS ON SATURDAY, THE 11TH OF SEPTEMBER, 2021.**

# IS THE CURRENT HOUSING MARKET A BUBBLE?

The question as to whether the current housing price increases in many markets is reminiscent of the boom of 2004-2006, to be followed by a painful recession, is asked frequently.

I believe the current conditions are vastly different that the ones before the recession of 2008.

There is a good article in Forbes by Paul Elizalde from June 21, 2021, a good portion of which I copy here for your convenience. It's called "3 Reasons Why The Real Estate Market Boom Is Not A Bubble":

"According to every available measure, median home sales prices in the U.S. are at a record high, and they show little signs of cooling off.

To some, this brings back memories of the real estate debacle of the 2000s, and they wonder if this bull market will end up, like then, in a big crash. Good news: today's strong housing market is radically different, far healthier and it could chug along for many more years.

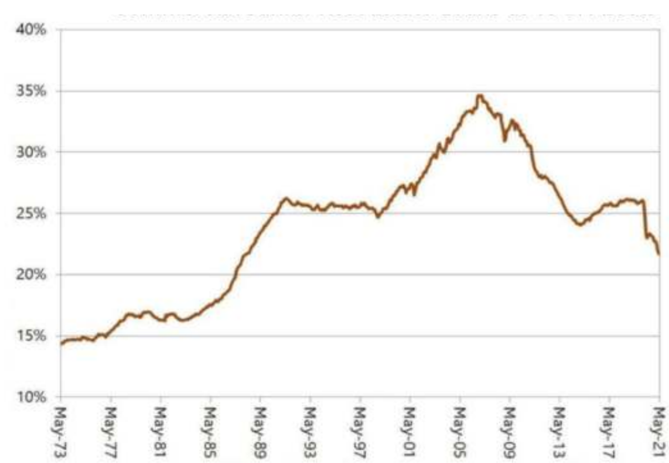
Back in the mid-2000s, after a systematic dismantling of financial regulations, the real estate market rallied for all the wrong reasons: "no-doc" mortgages (those approved without verifying the borrower's financial condition), an appraisal industry gone awry and paid-for AAA credit ratings for derivative products backed by junk-quality mortgage loans. The real estate boom was built on a flimsy foundation and, accordingly, it came crashing down. The ensuing crisis was severe.

## REASON 1:
## NO CREDIT BOOM

Very little of that is happening today. Banks have adopted (or forced to adopt) much more stringent lending standards, leading to the lowest ratio of real estate loans to total loans for commercial banks since the 1980s.

Since boom-and-bust real estate crises are most often rooted in lending bubbles, the decline in real estate lending suggests that the driver of today's bull market in residential property is not because of speculation. Rather, it is the consequence of a demand-supply imbalance that was years in the making.

**COMMERCIAL BANKS:**
**REAL ESTATE LOANS AS % OF ASSETS**

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# How Hard and Soft Credit Pulls Affect Your Score

**JOE MERANTE**
*Continental Credit*

You all know this person, and if you don't it's probably because it's you. The person who opens their wallet or purse, only to receive an explosion of store credit cards like an erupting volcano. This is all due to that delightful store clerk asking them at every store if they want that tremendous 20% off today's purchases by applying for their store card. Other than having too many revolving accounts, these types of individuals are also being crippled with "too many inquiries" (as indicated on their credit report).

Here is the reality. The impact of applying for this card - or anytime you are applying for debt - will fluctuate from person to person based on their unique report and history. In the overall scheme of things, a single credit inquiry can be big, typically ranging from 2 to 5 points lost or one percent of your score. This can really add up over the year. Fair Isaac Corporation's algorithms will view someone as a greater risk when they see them applying for multiple new credit lines in a short period of time. Think about it; if you have someone applying for a mortgage, car loan, and credit card all in the same week they have a much better chance of overextending themselves than someone that pulls their credit once every six months. Statistically, people with six inquiries or more on their credit report in the last 12 months are up to eight times more likely to declare bankruptcy than someone with no inquiries at all.

Let's not forget what a credit score is. It's a tool invented to make people pay their bills on time and assess their risk. So, the more bills you have to worry about each month, the greater the risk you are going to miss one. Something to think about the next time you are tempted to save that 20% while at the mall, or when that new-car smell starts becoming really appealing.

People often ask me if checking your own credit will result in a hard inquiry. The short answer is no. Online reports are soft credit check, so it won't lower your scores. The difference between a hard and soft inquiry generally comes down to whether you gave


the lender permission to check your credit. If you did, it may be reported as a hard inquiry. If you didn't, it should be reported as a soft inquiry.

Here are some examples of when a hard inquiry or a soft inquiry might be placed on your credit reports.

## COMMON HARD INQUIRIES

- Mortgage applications
- Credit Card applications
- Personal loan applications
- Student loan applications
- Auto loan applications

## COMMON SOFT INQUIRIES

- Checking your credit score online
- "Prequalified" credit card offers
- "Prequalified" insurance quotes
- Employment verification (i.e., background check)

***Let's not forget what a credit score is. It's a tool invented to make people pay their bills on time and assess their risk. So, the more bills you have to worry about each month, the greater the risk you are going to miss one.***

So "maybe" this is you or maybe you are with the other 99.9% of us who just complain that we have unauthorized inquiries on our report doing who knows what amount of damage. Regardless of how those shady inquiries got on in the first place, if you contact us to remove them, they will be leaving in a haste. By the time we are finished, those bureaus will have to verify all sorts of information about the inquiry, and the bureaus and creditors can seldom be bothered with this process. Let us know how we can help you with your score today.

*IS THE CURRENT HOUSING MARKET A BUBBLE?,*
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## REASON 2:
## HUGE SHORTAGE OF HOMES

The real estate crisis of 2008 hit builders hard, and it took a long time for them to get back on their feet and resume normal operations. As a result, the supply of new units fell well behind the mounting need for the demand arising simply from the growth in the number of households.

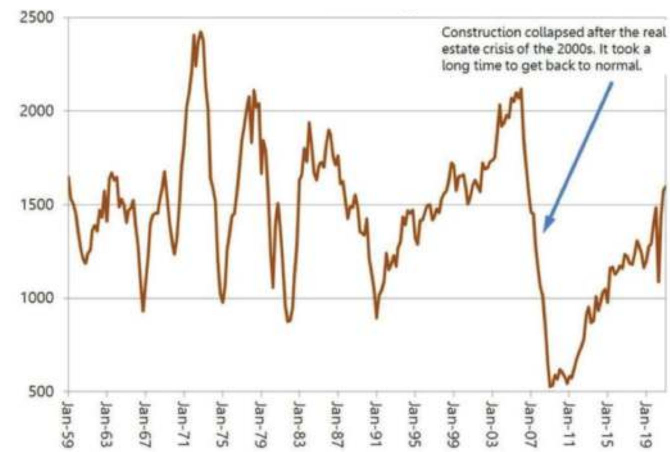
**MORTGAGE PAYMENTS FOR THE MEDIAN HOME ARE THE MOST AFFORDABLE SINCE RECORDS STARTED**


This supply demand imbalance grew largely under the radar, for two reasons. One is that it took some time for consumers to rebuild their own finances before they were ready to buy homes. The other, related reason, is that the very number of new households dipped in the aftermath of the crisis, as it often does after a recession.

In fact, according to the U.S. Census Bureau, there were fewer households in 2020 than in 2019–the first time ever that this number shrank from one year to the next. This is due to the unique characteristics of the 2020 recession (lockdowns in place, forcing some to consolidate living quarters), and it set up the conditions for the sharp snap-back of demand for new homes taking place today.

Thanks to stimulus packages and depressed spending patterns during the pandemic, the savings rate also grew to the highest on record after the pandemic, setting the stage for a sharp rebound in the number of new households this year, and possibly the next. This will contribute to the housing deficit, prolonging the conditions for strong demand.

**HOUSING STARTS (THOUSAND UNITS)**




## REASON 3:
## HOMES ARE MORE AFFORDABLE THAN EVER

Most remarkably, homes are at their most affordable in more than a generation. Mortgage payments for the median U.S. home have not been this low as a percentage of household income since at least 1984, when the series for household income began, and probably for several decades before that.

Mortgage rates (or home prices) would have to roughly double for this percentage to climb from less than one-quarter of household income, as it is today, to about one-third, where it was for a decade before the pandemic. Moreover, this is based on the full median price of a U.S. home. Considering that mortgages typically cover 70% of the purchase price, the affordability of monthly payments may be even higher, at least before taking into account the down payment required upfront.

The conclusion is that, despite the noticeable escalation of real estate prices and the drought in home inventory that Realtors report everywhere, there seem to be no signs of a real estate bubble. With homes affordable and scarce, it would appear that prices may have considerably more upside before they can be considered expensive, other things (mortgage rates, household income) being roughly equal. The backlog in housing starts could take years to resolve, especially if construction activity slows down in response to higher costs for building materials earlier this year.

One caveat is that this analysis applies to the vast middle of American consumers, but the top and bottom tiers require different considerations."

The markets in which our ICG investors buy in, fall squarely in the category of "the vast middle", so the above information is relevant to us as investors. We do not invest on high end markets, nor in the bottom tier.

## Many Housing Markets Show Signs of Cooling.
# WILL IT INCREASE SCARCE INVENTORY?

Lumber prices had gone up to an astounding peak of $1,670 per thousand board feet on May 7th, 2021. Since then, lumber prices had a series of price losses and in mid-July it is under $540 per thousand board feet. Lumber futures as of July 30 were hovering around $603 per thousand board feet - 64% lower than the record high of $1,711 achieved in May. A year ago, the commodity was trading at roughly $448 per thousand board feet.

There is a possibility that lumber prices will increase by the end of 2021 due to some of the new infrastructure spending, increased home renovation and increased housing starts. Nevertheless, they are unlikely to reach the recent peak.

Sellers are starting to put more houses on the market, as some buyers have decided to wait this period out. There is a Redfin report from July 9, 2021 by Tim Ellis and Taylor Marr from which I quote here:

"Sellers are coming back to the housing market. The number of homes newly listed for sale surpassed 2019 levels for the first time since the start of the year during the four weeks ending July 4. Despite a long-awaited increase in the supply of homes for sale, home-buying demand continued to slip, leaving the market feeling a few degrees cooler.

Pending sales posted their smallest year-over-year increase in almost a year and fell twice as fast month over month as they did during this same time in 2009. The Redfin Homebuyer Demand Index—a measure of requests for home tours and other services from Redfin agents—also fell 1.2% week-over-week, and there was a similar decline in mortgage purchase applications."

We are seeing, even in the past week since the Redfin report, more sellers realizing that they better come back into the market, lest they lose out if prices weaken. Buyers, simultaneously, have shown more signs of being resigned to "waiting out" this cycle, and many decided to rent for another year before revisiting the idea of looking to buy a home.

Coupled with lumber price coming down to earth, decreased buyers' frenzied demand, and more homes for sale, we should be seeing more inventory available in the coming weeks and months.

Here is some information from an article in Yahoo Finance on 7/31/2021 by Georgina Tzanetos. A few quotes follow: "Sales of newly built homes in June fell 6.6% below the revised May rate. This represents a fall to an annualized rate of 676,000 below May's rate of 724,000 and a whopping 19.4% below the June 2020 estimate of 839,000 according to the U.S. Census Bureau. The median home price for a new home rose around 6% compared with the previous month's gains as high as 15-20%. This decline could mean that the inflated home prices seen throughout the year are finally correcting." And "The USCB also adds that the inventory of new homes for sale increased from a 5.5-month supply in May to a 6.3-month supply in June."

It seems that we should see more inventory , especially in the types of market we like to invest in, which are inherently affordable relative to more expensive markets on the coasts.

We will discuss this issue much more during our September event. By then, of course, we will also have seen more events unfolding.

# *Retirement Riches Testimonials*

**" I bought several investment homes with your help. Did well. Recently sold one at a great profit. Doing a 1031 exchange with the proceeds to expand my portfolio ."** —Gordon C.

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**" I retired, thanks to you. I currently own 11 homes in 4 cities I bought with your help. Few of them are free and clear. I'm buying two more to further strengthen my future."** —David B.

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**" I'm relatively new and bought one home last year. Very happy with it and eager to continue. Waiting for supply to meet demand."** —Gal R.

***Q: Should I look at another market if the market I'm interested in doesn't have any inventory?***

**A:** At this time, most likely the situation is similar in most relevant markets (there are not many these days). The likelihood is that you will be put on a waiting list regardless of which market you go to . There are cases where cash purchases may be more available, and I am seeing a builder now proposing to use the buyer's funds instead of a construction loan (in escrow and under safe conditions, but still unconventional). These are all signs of the time. I believe it makes little difference which market you invest in (as long as it's a market that fulfills the basic criteria of: Sun Belt, Large metro area, decent ratio between price and rent, and new homes), and the real important point is getting the 30-year fixed-rate loans at today's historically low rates, heading into inflation (please see the next question and its answer).

***Q: Is the market too expensive for me to buy these days?***

**A:** Some investors are wondering if, given the recent price increases in most markets, they should wait on the sidelines to buy at a future date. The hope is that prices may correct down and they might be able to get better deals.

It is not a foregone conclusion that prices will go down in some of the markets we are looking at. Even with some price increases, prices in markets like Oklahoma City, Tulsa, and some areas north and east of Orlando, are still quite affordable. In addition, rents have also gone up, so the ratio between rent and prices is still quite beneficial for the investor, especially at today's interest rates.

Which brings me to perhaps the most important point about whether to buy now or wait for later.

While we don't know the future, we know a few things:

Interest rates are essentially the lowest they have ever been. Rates fluctuate a bit up and down but, overall, they have never been lower.

In addition, we have seen inflation rear its ugly head in the last couple of months, and the government's plans to print several more trillions in new money, are a sign that inflation may well be higher into the coming year, having already started.

Usually when inflation gets going, at some point interest rates start rising. Over the past 38 years, I have seen interest rates of 14%, 12%, 10%, as well as many years with 7.5% and 8%. We have gotten used to extremely low rates (currently under 3% for homeowners and in the mid 3's for investors).

As you know, I always extoll the virtue of the 30-year fixed-rate loan. Remarkably, the monthly PI payments never change with inflation, as well as the loan balance (which goes down with principal payments but never keeps up with inflation).

When you get a 30-year fixed-rate loan, inflation becomes your "best friend", in the sense that it keeps eroding the real value of your debt. The higher the inflation, the more your debt gets eroded in real value. This is always true. It was true even when mortgage rates were 10% and inflation was under 3%. These days, interest rates for a 30-year fixed-rate loan are in the 3% and up range, while inflation might go higher than it has been in the past 20 or so years (we just had two months of over-5% CPI increases).

Getting the 30-year fixed-rate loan at some of the lowest rates in history, heading into a stronger inflation, is, from this view-point, and "investor's dream"–the loan balance and payment will be eroded faster than in previous years, making your equity grow faster and setting you up for a stronger financial future on an accelerated timeline.

This point is so important and so central to single-family rental home investments that it is actually the dominant point.

We have a certain window in time while rates are so low. I would say that utilizing this window to acquire single-family rentals, putting a down payment (I usually recommend no more than 20% down if possible), and financing the rest with the 30-year fixed-rate loan, is likely to be a fruitful addition to your future financial strength (and with these low rates, and if inflation is indeed higher, the "future" will be closer than in usual times).

Thus I believe I would not wait to buy, and utilize this window of time to the maximum I could.

We will be discussing this in detail at our next 1-Day event on Saturday the 11th of September, 2021.

***Q: What about the upcoming inflation?***

**A:** Yes, most economists agree that we are already seeing higher inflation, and with the government's plans to print trillions of new dollars, inflation is likely to stay higher for the next few years at least (of course we never know the future, but it seems quite likely at this point). As I discuss in the previous answers, inflation being higher is a great positive for us when we have 30-year fixed-rate loans. The higher the inflation, the faster it erodes and minimizes the real value of our monthly PI payment, as well as our loan balance. Getting the 30-year fixed-rate loans at today's incredibly low rates only makes the results faster and sweeter. I discuss this point in the other answers as well.

Inflation is usually looked upon as a negative economic influence, and it almost always is. However, when you have fixed-rate debt, it becomes your ally.