REMOTE CONTROL RETIREMENT RICHES

AUGUST/SEPTEMBER 2020

DEMAND BOOSTS HOME BUILDERS CONFIDENCE

POST COVID-19 ECONOMIC RECOVERY

PREPARING UNDER SHIFTING SANDS

SEPTEMBER ONLINE EXPO RECAP

ONLINE EXPO RECAP

SEPTEMBER 12TH

Our 1-Day Expo took place on Saturday September 12th. It was 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 from 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 I 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.

Weiming Peng talked about 1031 tax-deferred exchanges. Many of you are using it these days, as homes in some of the market we used to buy in, have developed high equity. Many of you are now selling in places like Phoenix, Vegas, Dallas, Austin, and Houston (yes, these are NOT good places to be a buyer these days, but they are good to be a SELLER), and doing a 1031 into several brand new homes in the markets that work, circa 2020. Parlaying one small mortgage at a high rate into several brand new mortgages on brand-new houses, at today's ultra-low rates, makes for a logical exchange. It was great to learn about the process from Weiming.

Joyce Feldman talked about insurance (which good attorneys say is the first, and most important line of defense). She talked about liability insurance and umbrella insurance, topics we should all be familiar with. Joyce experienced some bandwidth issues during her Zoom, but she graciously shared her PowerPoint with me, and I have been sending it out to whoever requested it.

Joshua Cooper covered changes in the tax code. Needless to say, it is always very important to be aware of those. Joshua found time to present to us a few days before a major tax deadline (9.15), and for that I am especially grateful.

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

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, December 5th, 2020.

COOLING MARKETS, HEATING-UP MARKETS, AND HOME SHORTAGES

The current low mortgage interest rates have created a tidal wave of refinances. It also has created a sizeable wave of people clamoring to buy a home.

Since more businesses now allow workers to work from home, single family homes in the suburbs have become even more popular than usual. People seek a house with a yard, which may be easier to work out of than a condo or an apartment, and is safe social-distancing-wise.

Expensive cities have been seeing a weakening in prices, as people flee the actual city and head for the suburbs. San Francisco, New York City and Boston lead the way in "For Sale" activity, as people seek to sell in these expensive locales, and parlay the proceeds into homes in the suburbs, with likely a hefty amount left for other needs. Quite a few aim to move to other states, where the cost of living is far more affordable.

Suburbs have been hot, even the suburbs of the expensive cities. However, suburbs of affordable cities have become even more in-demand.

There is a possibility that the trend of working from home will get more entrenched as a result of the pandemic

As a result, many suburbs all over the U.S. are experiencing shortages in single family homes. Builders are scrambling to meet demand, and in some cases refuse to even work with investors altogether, laboring under the "mistaken" notion that homeowners keep their homes better maintained than investors, which means the builder's subdivision will look nice in the future, which may give the builder more business (or at least that's the general thinking). Fortunately, the broker teams in the market we are active in, have shown builders that they can get solid buyers from ICG, and thus we generally don't have this problem.

Sometimes homes may not be available right away, but so far inventory delays seem to only take a few weeks. That is a negligible length of time considering we are investing for the long haul.

There is a possibility that the trend of working from home will get more entrenched as a result of the pandemic, and will continue to be more of a norm for more companies even after the pandemic is "over". That will likely mean that suburbs in affordable metropolitan areas in affordable states, will continue to be in high demand. States like New York and California are likely to experience out-migration, which mean in-migration to other states, usually the more affordable ones with a good base of industry and economy.

FEDERAL RESERVE: RATES TO STAY NEAR ZERO FOR 3 YEARS

The Federal Reserve expects to keep its benchmark interest rate pegged near zero at least through 2023. The drivers for this is the aim to spur economic growth and drive unemployment rate down.

This affects borrowing costs for home buyers, credit card users, and businesses. For us, as investors, this creates a longer window than we had expected to buy investment homes at the lowest rates ever seen.

I have recently heard from homeowners getting 30-year fixed rate loans at 2.70% and even a bit below. We are also starting to see investors break the 3.50% barrier (usually with one "point" being charged, but as rates inch downwards, perhaps we can hope that it will be at that level with no points in the near future).

Notably, the Fed has said that they will not strive to keep inflation down, not exceeding the usual benchmark of 2%, and indicated it may let inflation get higher than that. The Fed said they are seeking to be flexible on inflation goals, and not seek a static limit. The Fed said it would prioritize lowering unemployment over reining-in inflation. That leaves it with flexibility to keep interest rates very low.

Fed officials have acknowledged that economic models predicting higher inflation when unemployment is very low, have been wrong, especially since the recession which began in 2008.

The Fed also indicated that it will continue purchasing approximately $120 billion in Treasuries and mortgage-backed securities per month (!), in an attempt to keep long-term interest rates low.

For us as investors, this may be a double benefit: both ultra-low borrowing rates, and the possibility of higher inflation (especially with the multi-trillion stimuli that the government has applied). We always highlight the benefit inflation has on a person who has a 30-year fixed-rate loan, as it erodes the real value of both the monthly payment and the remaining loan balance.

PREPARING UNDER *Shifting Sands*

The world is changing before our eyes and the US economic system along with it. Going back to the Dot Com bubble of the early 2000's and now the COVID-19 pandemic creating economic chaos for the middle class and the poor, the economics of the world are shifting.

Whether you know it or not, every dollar that's in your bank account is a unit of debt not printed any longer but created and issued by the Federal Reserve digitally. This currency/dollar creation by the FED affects your financial life in a multitude of ways. The FED impacts interest rates, the stock market, gold and silver, real estate and many other assets. Most importantly it affects your life and preparing for a changing economic future is of utmost importance.

The COVID pandemic has exposed many weaknesses in our financial system. The majority of companies could not survive for more than 3 months without a government bailout. Think about that, if you lost your job and could only survive 3 months before going broke, how healthy is that financial situation?

The new emergency stimulus bill, the FED, gave Wall St. 4 trillion dollars. That's more money in one month that all the debt accumulated by the United States from 1776 to 2000. The stock market desires more money and the FED has basically promised low interest rates and quantitative easing(digital money printing) moving forward. This makes the 2008 financial crisis seem like a bump in the road as compared to what's happening today.

We are 27 trillion in debt and the next stimulus package on the horizon will bring the debt close to 30 trillion. We are running perpetual deficits of trillions of dollars as far as the eye can see.

What does that mean for the us, the people? More taxation! In fact, in Cali-

fornia, they are discussing a retroactive millionaire state income tax going back to January 1st of 2020 and adding another 3% in taxes with more to come. With government deficits as far as the eye can see, more currency printing and more taxation on the way, what do we do? What types of assets should we own and how should we structure our investments?

Yield on bonds are at extreme lows, cash earns no interest and this looks to be so for the foreseeable future. With all the currency printing, inflation at some point will rear its ugly head and if taxes rise, a double whammy will decimate our incomes and cash reserves. Safe havens to store our wealth to protect them from taxes and inflation are of extreme importance.

The majority of companies could not survive for more than 3 months without a government bailout.

Most financial advisors focus solely on stocks and bonds which can work but mostly under good economic conditions. We construct portfolios, design strategies and acquire assets that work under both good and bad economic conditions. These assets are, in no particular order, Life Insurance(tax free if structured properly), stocks, physical gold and silver, gold/silver ETFs, real estate, crypto currencies(Bitcoin) and others. These turbulent economic conditions call for portfolio structures to withstand economic storms; high inflation, higher taxation, market fluctuations, low interest rates, etc… which are headed our way.

We are living in unprecedented times and we must think and prepare differently than ever before.

LUCIAN IOJA

Founder, ORIS Wealth Designs LLC

Lucian@oriswealth.com

POST COVID-19 ECONOMIC RECOVERY

In a article in the Wall Street Journal by Mark Skousen, we learn that the Bureau of Economic Analysis (BEA), released the Gross Output (GO), at the same time as the GDP info. The relationship between these two looks encouraging for the pace of recovery. I am copying the entire short article for you right here:

"Wednesday was a big day for anyone with an eye on the economy. For the first time, the Bureau of Economic Analysis (BEA) released the "top line" gross output, or GO, at the same time as it published the "bottom line" gross domestic product. And the GO data brought a welcome surprise: It shows the economy is much more resilient than it looked.

Analyzing GO and GDP simultaneously is an essential way to know what is really going in the economy. The key is that GDP accounts for final output only: the finished goods and services bought by consumers, business and government. In contrast, GO measures total spending at all stages of the supply chain.

Steve Forbes offers a useful metaphor: "GDP is like an X-ray of the economy; GO is like a CAT-scan." GO reveals a deeper level of economic activity and is therefore helpful in predicting the direction of growth, not only its current state.

GO is especially significant during downturns. In past recessions, GO declined much faster than GDP and gave an earlier view of the depth of the recession. During the financial crisis in the fourth quarter of 2008, GO fell 6.6%, compared with a 2% drop in GDP—more than three times as fast. The GO decline showed that even while consumer sales held up, businesses were slowing investment in future production.

In 2020, that trend is clearly reversed. In both the first and second quarters, GO fell slightly less than GDP. In the second quarter, real GO declined by 8.4% while real GDP decreased by 9% (in quarterly, nonannualized terms). GO didn't collapse by multiples of GDP as it has in past recessions. The decline was close to 1-to-1, rather than 3-to-1.

What does this tell us? It's clear that consumer spending dropped sharply in 2020 as a result of the lockdown, but businesses looked toward the long term, expected a recovery, and adjusted accordingly.

Jerry Bowyer, CEO of Bowyer Research, described the trend to me: "The lockdown was focused on sectors which were skewed towards final stage consumption, such as retail, entertainment and travel. Seeing that the shutdown was disproportionately skewed towards GDP world as opposed to the phases before that phase (GO), showed how the economy would be able to be more resilient in bouncing back than many anticipated."

That's good news, suggesting the recovery from this recession will be faster than most analysts thought. The sooner states open up their economies, the faster we will see a return to a dynamic American economy.

I do have one suggestion for the BEA: They need to report GO even more quickly each quarter. Have it come out the day the first estimate of GDP is released, not the third. Information is power.

Mr. Skousen is a presidential fellow at Chapman University, editor of Forecasts & Strategies, and author of "The Structure of Production.""

Retirement Riches Testimonials

"I bought a home with you in Phoenix. Now worth over $300K, the loan balance is just a small fraction of the home value by now, despite the loan having about 15 years more to go. I am now selling this phoenix home, which has a lot of equity, and doing a 1031 tax-deferred exchange into 4 brand new homes in another market. I a thrilled, but of course, I should have bought more." **— David F.**

"Adiel, I heard you speaking at The Learning Annex in 2002-2003. I Bought 3 homes in Florida. They have done very well for me. Now I buying another house. Planning to buy more." **— Neil W.**

"Thanks for all the support. I trust you so much. You made such a difference in my life, building wealth for me, and generational wealth for my kids after I pass." **— Steve B**

DEMAND BOOSTS HOME BUILDERS CONFIDENCE

In a Wall Street Journal Article on September 2nd by Nicole Friedman, she reports: "A surge in home-buying demand and limited inventory for existing homes is spurring construction to help fill the gap.

Home builders attribute their robust sales to low interest rates, a shortage of existing homes for sale and consumer willingness to move farther from city centers in exchange for more space.

New single-family-home sales rose 13.9% in July from June to a seasonally adjusted annual rate of 901,000, the highest level since December 2006, according to the Commerce Department. Single-family housing starts, a measure of U.S. home building, rose 8.2% in July from June to the highest seasonally adjusted annual rate since February."

We have been experiencing this increased confidence in all our markets. Builders face strong demand, and become more reluctant to work with investors, preferring home owners to buy their homes. Luckily some of our teams have talked builders into recognizing te steady nature of the investor buyer's market, and they are selling to us.

Ms. Friedman goes on to say "The strength in the home-building sector underscores the uneven nature of the economic recession, which has hit low-

wage workers especially hard. While millions of workers have lost their jobs in recent months, those who are still employed have saved more money due to the pandemic and can take advantage of record-low mortgage interest rates.

Home builders also are benefiting from demographic changes, as younger millennials are entering their early 30s and accounting for a growing portion of home sales. Booming demand also has pushed sales of previously owned homes to multiyear highs"

The strong demand is leading to price increases. The median home price is 7.2% higher than the previous year, across the US. Fortunately, some of our markets still are very affordable, and have retained a good ratio between prices and rents.

Ms. Friedman continues: " Home builders are limited in how quickly they can grow due to shortages of skilled labor, delays in obtaining some appliances and rising land costs, said Ali Wolf, chief economist at Meyers Research.

Lumber futures also have climbed to a record high, pushing the cost of building a single-family home up by more than $16,000 since mid-April, according to the NAHB.

Eighty percent of builders in August said challenges on the supply side are going to affect their sales plan this year, up from 30% in June, according to a Meyers Research survey."

Housing economists say high unemployment could also limit home sales in the coming months, especially if job losses spread to affect more high-paid workers." At this time, there is strong demand creating price increases and shortages. However, if indeed high unemployment limits home sales in the near future, the builders will seek investors such as ourselves as a steady source of buyers, and we may have easier access to well-priced homes with less shortages.

LOAN FORBEARANCE PROGRAMS OUTCOMES:

How They May Show In 2021

Banks have begun to allow borrowers to get forbearances on their loans, with no penalties (including to their credit scores), for up to a year, starting in March 2020. These were available to borrowers who have federally guaranteed mortgages, which include what we refer to as "FNMA Loans", which most of our investors obtain. Some banks have offered some form of forbearance on non-federally guaranteed loans as well.

After the forbearance period, borrowers are expected to pay the additional debt , which has accumulated while not making their payments during the forbearance period.

It is not yet clear how this additional debt will be paid. Some banks have said they would like it in a lump sum, some may take it in payments over time. I heard that it may be possible that some banks will not take it now at all, but rather add it to the loan balance to be paid at the end of the loan (which of course, is an incredible gift, since the amount will be vastly reduced by inflation so far into the future).

Nevertheless, some vulture investors are standing by to see if some of the repayment options will create more foreclosures, and are ready to pounce. They also think that just the forbearance end in and of itself may increase the number of foreclosures, which is certainly a possibility, if some of the borrowers are still unemployed. This will also depend on which, if any, stimulus package the government will have available at that time. I hope the government is sensitive to the end of the forbearance period and crafts a stimulus program to mitigate potential negative outcomes.

ICG REAL ESTATE 1-DAY LIVE ONLINE EXPO

Saturday, December 5, 2020
10 AM to 2 PM

EXPERT GUEST SPEAKERS

ADIEL GOREL
CEO OF ICG

GARY SIPOS
FOUNDER OF COLLEGE CLASS SOLUTIONS

TOM WECLEW
OWNER OF THE REALTY MEDICS

LUCIAN IOJA
PARTNER AT FOUNTAINHEAD ADVISORS

FOR MORE INFORMATION OR TO REGISTER, GO TO WWW.ICGRE.COM/EVENTS

ADIEL'S *corner*

Q: There is a shortage of homes in the market I want to buy in. What should I do?

A: There are shortages of inventory in some markets at the moment, due to very high demand, as written upon in the newsletter. I hear from the field that the shortages are likely to be short-lived and within a few weeks there will likely be more houses available to buy. Personally, I wouldn't mind waiting a few weeks. These are long-term, multi-year investments. A few weeks shouldn't make any difference. If you feel like you need to buy right now since the interest rates are low and may go higher, please refer to the article in this newsletter, in which we report that the Fed says rates will remain extremely low until 2023.

Q: I would like to buy a multi-unit that has 5 units and higher. Should I?

A: I would vote against it. The main driver for the performance of Single Family Homes over the long-term is the astounding 30-year FIXED rate loan. We talk about it all the time. The 30-year fixed rate loan is only given to "1 to 4 residential units". That means, single family homes, duplexes, triplexes and fourplexes. The minute you buy "5 and over", you will get commercial loans, which may carry pre-payment penalties in the form of defeasance or yield-maintenance, are likely not to be fixed for 30 years, and may require on-going information on the property performance by the lender. That is a whole other ball game. I would stick to Single Family homes (or duplexes in GOOD areas).

Q: Now that I bought a home in one of the market, I must buy my next homes in another market, right?

A: Let's suppose that you bough a $200,000 home in a given market. That, in absolute terms (and likely relative to the area you actually live in), is not very much real estate. For people living in the San Francisco Bay Area, for example, SIX such homes will be a total of $1.2M worth of real estate , equivalent to a modest home in many parts of the Bay Area. I think that buying a few such homes in that same market, still would not amount to too much real estate. The word "HOME" can be misleading, as people in San Francisco (for example) , automatically think "A HOME is over a million dollars". In this example, a home is a mere $200K. In fact, we invest in these markets partly due to the affordable prices.

It's fine to buy one or more homes in the same market. It is also fine to buy in other markets as well. This point is quite secondary. The main point is: buying good new homes and getting a 30-year fixed rate loans to finance them, which will likely change your future dramatically.