# REMOTE CONTROL RETIREMENT RICHES

OCTOBER 2018

## OKC
### IT'S TIME TO BUY

## 1031
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WITH WEIMING PENG

## ADIEL'S CORNER
*Are interest rates too high to get loans?*

*by Adiel Gorel*


# EXPO RECAP

On Saturday, September 8, 2018, we had our Quarterly ICG 1-Day Expo. It was spectacular!

I had the pleasure of kicking off the expo, with a keynote speech, where I welcomed the hundreds of attendees to San Francisco. The attendees were a mix of brand new investors, people who have recently discovered my new Public Television show, investors with some experience, and veteran investors. We also had market teams from the relevant U.S. metro areas. The teams included property managers, main brokers and some home builders.

This expo had some wonderful experts speakers. First, a CPA talk about the new tax law and how taxes are optimized for rental home investors.

Next, we had an expert to discuss getting grants for college for our kids or grandkids, even if we had believed that we earn too much. Finally, we heard from an expert on the new structure of reverse mortgages, which has become highly regulated and different, to understand if it can be useful to us at a later stage.

Another feature of this event was having lenders specializing in both the conventional 30-year fixed-rate loans, for investors in all 50 states, and lenders who can approve loans to people who are over the regular stand loans limit and assist foreign investors.

Throughout the day attendees visited the market team in a beautiful space where they could ask questions about potential properties or other offerings.

One of the things that I really enjoy is being able to speak to everyone during the breaks and lunch. Plus, at this expo, I was able to have a couple tutorials and an extensive Q & A session at the end of the day. The diverse mix of attendees made it a great source of learning for everyone.

Now, it's time for me to start preparing for the next expo December 1st! Learn more and register at www.icgre.com/events/.

# LOANS AVAILABLE TO SINGLE-FAMILY HOME INVESTORS

Remember that the loan rates for INVESTORS are higher (always have been) than those for a HOMEOWNER. Currently, loan rates for homeowners are about 4.6-4.7%. For some investors the rates are roughly 5.4-5.5% (these rates were quoted with a 25% down payment. Without a 20% down payments rates will be slightly higher). When I talk about INVESTORS, I am talking about several types of buyers:

- American residents with good credit who have less than 10 conventional conforming loans. (These borrowers get the loan rates mentioned above.)
- American residents who have more than 10 (for married couples it could sometimes be 20, if both spouses can qualify separately) loans already. These type of investors can still get 30-year fixed-rate loans, however, their interest rate can be about 6.7-6.8% or higher.
- Foreign investors need a down payment of at least 30% (in many cases 35% or 40%) and can get loans, including a 30-year fixed rate loan, but at an interest rate of 6.75% with 2 point's, based on one lending source.

There are other loans available to investors with over 10 properties. These loans have different amortization schedules and terms. Please contact me and I will put your in touch with the relevant lenders.

*Featured Article*

# 1031 EXCHANGE STRATEGIES FOR THE LONG TERM

## by Weiming Peng

*Weiming Peng is a 1031 Tax Deferred Exchange Specialist*

Section 1031 of the Internal Revenue Code is one of the most powerful wealth building tools available to investors. Section 1031 allows investors to defer payment of capital gains taxes on the sale/exchange of an investment property.

The deferral of taxes means more purchasing power for the investor and the ability to quickly build a better and larger investment portfolio.

### Building a Tax Snowball

Long-term planning is crucial for investors planning a 1031 Exchange. Although taxes can be deferred in an exchange they will not be forgotten. The gain deferred in a properly structured 1031 Exchange will reduce the tax basis in the property acquired in the exchange.

For example, an investor with a $500K gain on the sale of a property can defer taxes by exchanging into a property with a net purchase price of $750K.

Generally, a property's tax basis is the property's net purchase price. However, when exchanging, the gain will offset the basis, so in our example, the new basis is $250K. A sale of the new property above $250K will result in a taxable event

If the investor has done several exchanges over the course of many years, they may face a large (and unexpected) tax liability when they ultimately stop exchanging and "cash out". Therefore, it is of utmost importance that investors know how the tax laws work and plan appropriately.

Strategies for Avoiding Taxes over the Long Term Proper planning can help minimize and potentially eliminate most taxes owed.

Investors can utilize two strategies to reduce their tax liability:

Convert To Primary Residence (Section 121 Strategy) - A 1031 Exchange investment property can be converted into a primary residence and upon disposition be eligible for the homeowners exemption. This strategy can eliminate taxes on up to $500K of gain for married couples, or $250k for singles. Converting an investment property into a primary residence can be tricky, so please consult with a tax advisor.

Although not a substitute for proper tax planning with an advisor, here are some helpful tips to consider.

1. Rental Income - Before being converted into a primary residence, the investment property should have reported rental income for at least 12 months so that the validity of the original 1031 Exchange is not challenged by the IRS. 12 months of rental activities should be considered a minimum, the more time held as a rental, the better.

2. Use and Ownership - Once converted into a primary residence the owner is not eligible for the homeowner's exemption until the property has been used by the owner as a primary residence for at least two out of the past five years.

Death (Estate Planning Strategy) - Upon death, owners of real property will pass the property on to heirs at a stepped-up tax basis. With a new stepped-up basis, the capital gain earned during the decedent's life is eliminated entirely. For estate planning purposes, many real estate investors choose to incorporate a "defer, defer, die" strategy. Instead of cashing out and paying taxes, investors can 1031 exchange into easy to manage properties that produce stable cash flow. The property is held until the investor dies, leaving the asset to their heirs at a stepped up basis and eliminating the entire capital gains tax liability.

> *It is of utmost importance that investors know how the tax laws work and plan appropriately.*

# *why it's time to buy* OKLAHOMA CITY

Within the Master Package, you can find my booklet titled, "Where to Invest". Here is where I discussed buying good rental homes in large metro areas in the Sunbelt States where the "numbers work" (i.e. the rent is high relative to the home values). In October 2018, many of the classic, excellent large metro areas in the Sunbelt States, have numbers that do NOT work! Prices are too high (relative to rents) in metro areas like Phoenix, Vegas, Dallas, Austin, Atlanta, Charlotte, Nashville, and many others.

A few markets stand out as good places to buy single-family rental homes as of October 2018. In this issue, we will focus on Oklahoma City (OKC).

Metro Oklahoma City is currently at 1.373 Million. In 2017 the population grew at 7.6%. The Census Bureau predicts it will exceed 1.5 million by 2020.

WalletHub.com named Oklahoma City as the best startup city in the U.S. The city saw an 8.5% job growth is 2017 with unemployment at 3.5%. Boeing, a large employer in the area, has hired over 3000 employees in 2018. Additionally, Amazon is building a one million square foot facility and plans to employ up to 5,000 people.

Statistics also show that Oklahoma City has a high residential affordability index, ranking it the 20th most Affordable City in the U.S This makes it tied with Memphis but, Memphis population growth was only .01% in 2017.

Turning to cost of living, OKC is 8% below the national average. It ranks No. 1 in the U.S. for metros over 1 million for renters living in single-family homes, at 48%.

One of the "secret tips" I tell buyers is that Oklahoma City has large oil and gas reserves called SCOOP and STACK (acronyms). These big reserves could potentially push the local economy to greater heights in the future.

My company and I have purchased several hundred homes in Oklahoma City since 2004 and our vacancy rate has been about 3%. The home prices are starting to show stronger upward movement, so it's likely the next year will still be an excellent time to pick up good values.

## FOCUS ON ECONOMICS
## *Market Cycles and Appreciation*

I hear from many investors that we are now at a "peak". The other comment I hear frequently is "…THE real estate market is very high." My immediate question is "WHICH market is at a peak?" Do you mean Kansas City? San Francisco? There are hundreds of markets in the U.S. and they don't all behave similarly, nor did they behave similarly during the boom of 2004-2006 or the bust of 2008-2012.

In October 2018, there are indeed many markets that are at a high price point

*Continued…Back Cover*

| City | Median Home Value at Bottom (2012 or 2013) | Median Home Value in 2018 | % Increase |
|---|---|---|---|
| Phoenix | $102,000.00 | $192,000.00 | 88.2% |
| Las Vegas | $115,000.00 | $259,000.00 | 125.2% |
| Dallas | $98,500.00 | $192,000.00 | 95% |
| Austin | $205,000.00 | $349,000.00 | 70.2% |
| Miami | $149,000.00 | $331,000.00 | 122.1% |
| Oklahoma City | $95,200.00 | $126,000.00 | 32.4% |
| Baton Rouge | $138,000.00 | $164,000.00 | 18.8% |

# *Retirement Riches Testimonials*

## Hagit

"A friend recommended that I use ICG services. My life was changed because I took action. I did what other people are just talking about. We've learned that Adiel is someone we can rely on. We bought homes with the knowledge that he is behind us. We always have him to consult with and know we're working with realtors and property management companies with solid reputations."

"I feel more secure now about my net worth and financial future! These days, part of the rental income goes toward additional investments and some of the income we use for traveling. Investing in single family homes has upgraded our standard of living now and for the future." – *Hagit, ICG investor for five years with five rental properties in two states*

## Jack

"This real estate portfolio is my major source of income now. I wouldn't have this lifestyle and income if I hadn't done this investing. I'd probably still be working at age 79. I had a full-time job when I started buying rental homes. Even though I had that excellent job and a great salary, when I compare what I was able to save in my company retirement plan versus the wealth I've amassed by investing in single family homes, the latter is five to ten times what I'm getting from that retirement account." — *Jack, ICG investor since the 1990s (who began investing in the 1980s in his early forties); today he owns several units in the Bay Area and over a dozen rental homes in the greater Phoenix area*

## Eddie

"Adiel gave me a very good toolkit to use over the last 17 years. He gave me the confidence, experience and mentoring I needed to become an investor in single family homes. He gave me the whole package – everything I needed – agents, CPAs, all support needed to buy these homes. We knew those ecosystem professionals would not disappoint Adiel or anyone in the ICG infrastructure. Truly, whenever we've needed something, like a consultation to prevent unnecessary mistakes, Adiel was there. He's been a very thorough, reliable guy who has delivered results." — *Eddie, an ICG investor for the past 17 years. Owns a portfolio of homes in several U.S. markets.*

***Focus on Economics…Continued***

(relative to their price point a few years back). We can also look at markets that might have gone up some, but still have a way to go. THESE are the markets we want to buy in.

I will use a few cities as examples. We will look at their values in 2018 versus the bottom they experienced in 2012 or 2013. I used Zillow for the data. (Zillow is not necessarily very accurate, but to measure the DIFFERENCE it does just fine.)

As you can see in the chart, Oklahoma City and Baton Rouge have NOT reached their high price appreciation yet. Oklahoma City has started to gear up for a higher price appreciation and with the oil and gas reserves found there, may even enter a future boom.

Looking at Miami, by contrast, it is as expensive as is Las Vegas. Phoenix actually went up a lot more than Zillow shows in the segment of houses relevant to the type of nice new homes we invest in.

## ADIEL'S corner

A question I get a lot these days is: “Now that interest rates are so high, are they too high to get loans?” I have to chuckle when I hear this. Even though interest rates went up by about 0.8% in the past year, current rates are still, historically, extremely low.

Veteran investors remember rates of 14%, 12%, 11%. They remember the happy day when rates became “Single Digit” and everyone rejoiced and refinanced to the low rate of 9.95%.

Over the past few decades, 7.5% has been considered to be an excellent and coveted interest rate.

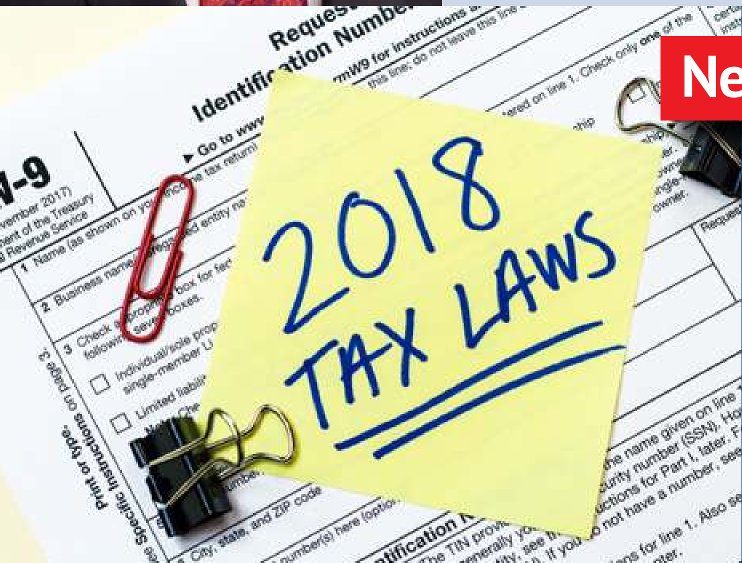
It is true that during the past 10-15 years, there were periods with low-interest rates. People who look at the “entire universe” as the past few years, may think that the mortgage interest rates in 2018 are high. They ARE higher than in 2017. However, even at today’s rates, a homeowner can get a rate of 4.6 or 4.7% on a conforming loan. Investor rates are higher -probably about 5.5 or 5.6%, as of now. These rates are excellent! In historical perspective, these are some of the lowest rates in the past 60 years. Yes, they are not at the very bottom point, but they are close!

The Fed just raised interest rates again. Most people predict rates rising further into the future.

Getting a 30-year FIXED rate loan today, using a 20% down payment, for example, will fix this 5.5% rate forever! No matter how much rates may rise to in the future, yours will remain at 5.5%.

As we discussed, the loan payments and principal balance never keep up with the cost of living, so the ACTUAL real-buying-power value of your fixed payment and loan balance keep going down. All this while your tenant pays the mortgage down.

The mortgage rates as of October 2018 (mid five percentile for 30-year fixed investor loans), are great rates and one would be wise to lock them forever when buying a brand new single-family rental home in a good area.




## Next Issue

# Are you ready?

**Expert Guest Article:
The 2018 Tax Law and what to do before the end of the year**