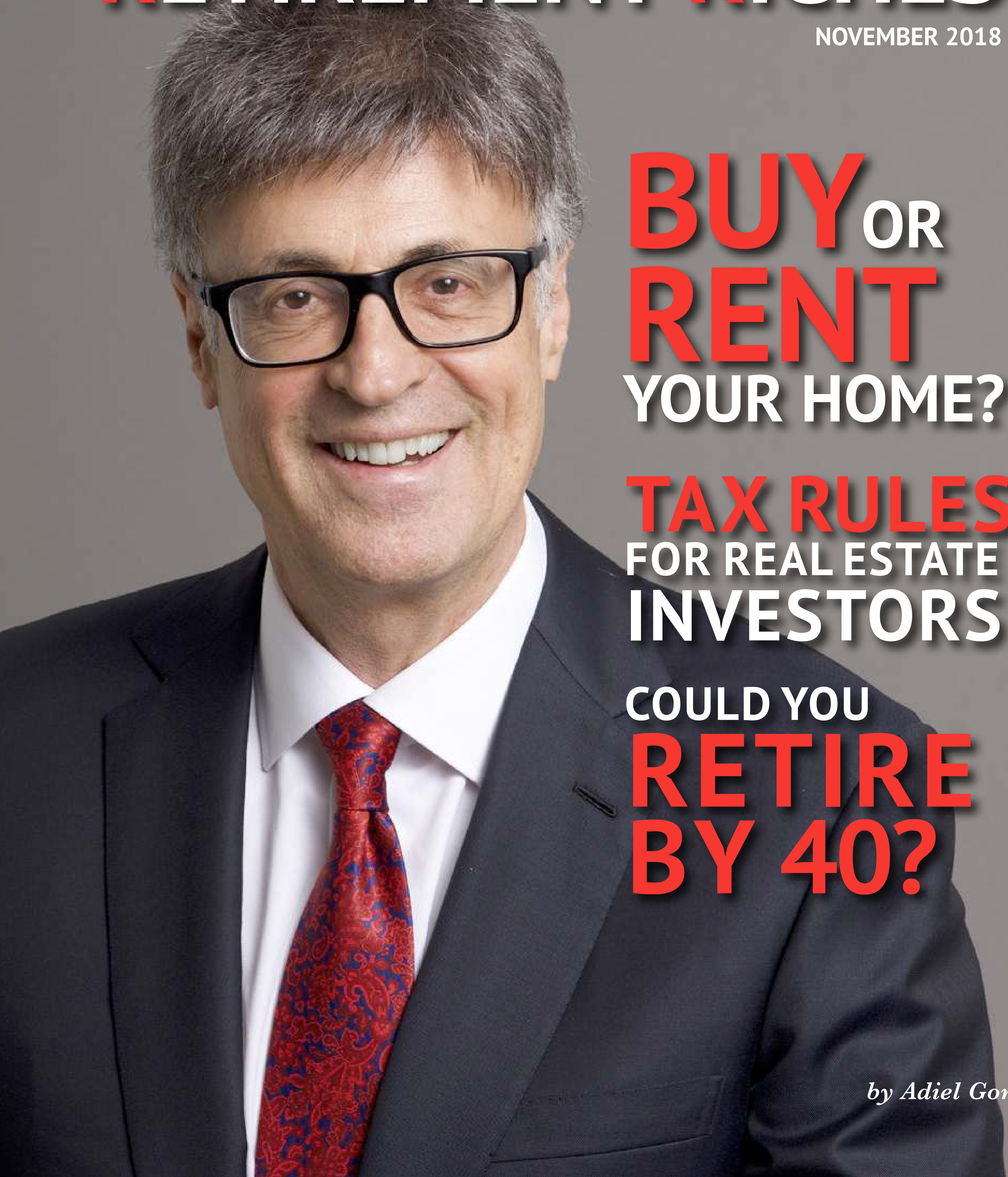
REMOTE CONTROL RETIREMENT RICHES

NOVEMBER 2018



BUY OR RENT YOUR HOME?

TAX RULES FOR REAL ESTATE INVESTORS

COULD YOU RETIRE BY 40?

by Adiel Gorel

EXPO RECAP

In my October newsletter I had a short recap of our September 1, 2018 1-Day Expo. I wrote about how we had hundreds of investors, of all experience levels, in attendance, leading to a lively and informative Q&A session. Our expert speakers were a wealth of knowledge and everyone learned a lot. We had market teams, made up of property managers, main brokers and home builders from the relevant U.S. metro areas. The ability of attendees to interact with the market teams, property managers and builders, is extremely beneficial. Questions and information flow are much more direct and beneficial when the market teams are right in front of you.

I really enjoyed meeting and catching up with everyone during the breaks and lunch. Plus, I had a great time conducting a couple of seminars.

At our next Expo on December 1st, attendees will be able to listen to experts discuss Asset Protection and Preservation, 1031 Exchanges and Reverse Exchanges, and Credit Maximization. We will also bring an integrated lending source to address the needs of most investors, foreign and domestic, under and over the FNMA loan limit, etc.

The December 1st Expo will be at the same venue as the last one, near SFO. Again we begin the day at 10:00AM, to enable attendees from Los Angeles, San Diego, and other cities, to catch a morning flight and still make the event on time.

I'm sure we'll have the same excitement as our last Expo and can't wait to meet you again there. (See the ad in this newsletter for more details.)

SHOULD I BUY MY OWN HOME FIRST, OR RENT AND BUY INVESTMENT HOMES?

A classic question I get when talking to a "would-be real estate investor" is: "Shouldn't we buy a home to live in before buying investment homes?"

The answer, of course, depends on where you live.

When considering owning your own residence, there are various layers of reasoning. Some are logic and numbers-based. Some are emotional, traditional and familial.

Owning your own home can be associated with safety, security, having "arrived," satisfying family members' aspirations, the stability of having a (hopefully) a permanent place to live, and so on.

Of course, everyone has a different set of emotional considerations when it comes to owning a home. These vary from person to person and, needless to say, are hard to quantify.

In this article I will address the logical, numbers-based approach to the question, whether to buy your own home as your first real estate move, or rent and buy investment homes instead.

If you live in a market where property taxes are relatively low (say, between 1 and 1.7 percent of the home price per year), and insurance rates are reasonable, and you are considering buying a home under about $400,000, that should be a "no brainer" as your first step. Between $400,000 and $500,000 would still be a reasonable range to consider buying the home. Once you step up to the $500,000 range and above, the math may well start to turn in favor of renting a home in the area in which you live, and owning rental homes in more optimal places.

Continued...Back Cover

Featured Article

2018 TAX RULES FOR REAL ESTATE INVESTORS

By Joshua Cooper CPA

The new 2018 tax laws have a great deal of changes that real estate investors should be aware of. To begin with, the changes to the ability to deduct property tax and your full mortgage interest, only apply to your primary residences. All rental properties can still deduct 100% of their property tax and mortgage interest paid. One of the biggest items that the new tax laws introduced was the 20% pass-through deduction. This was a by-product of the Corporate tax rate drop and has been interpreted to apply for rental properties as well. Note that under current law, your rental property does not need to be an LLC or Corporation or Partnership to be considered a pass-through entity. Even simple sole proprietorships count, as do rental properties.

There is currently some "negotiation" with the IRS as to how this will actually be applied for rental properties, so we will have to wait and see if any further clarity is introduced before the year end. To strengthen your position to get the 20% pass-through deduction, it is also beneficial to consider yourself a Real Estate Professional. This title is one that you can claim if you spend over 50% of your time working with real estate endeavors and you work over 750 hours in the year towards real estate activities. If you meet those tests, and often taxpayers who own several rental properties do, then you get several perks from the IRS. The first is that you are not limited to claiming any losses as you would otherwise be. For example, if you're not a real estate professional, then any losses in excess of $25k have to be carried forward.

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However, if you are a real estate professional, you can claim all of your losses in full, in the current year.

These losses can help offset other taxable income. Qualifying for the status of Real Estate Professional may also require you to "aggregate/group" all of your real estate activities into one activity, which is done by means of an election on your tax return. This can help you meet the threshold of the real estate professional requirements. Documentation is key, so if you are going for this status, make sure to document your time and hours spent. Obtaining the Real Estate Professional status on the surface is only advantageous if your properties are showing a loss, however, it is also advantageous if your properties are showing a gain as it can exempt your rental property income from the Net Investment Income Tax which can reduce your tax rates by 3.8%.

Other tax saving items are still in affect for 2018, including Like-Kind Exchanges and home office expense deductions.

Also good to know is that the IRS has been auditing rental real estate owners to make sure your mortgage interest paid correlates with the property you are claiming it on. This means that if you refi one of your properties to purchase another property, then not all of your mortgage interest is applied to the original property and needs to be allocated to the new property accordingly.

For any additional questions, please set up a consultation with me at: joshua@taxlovin.com.

why it's time to buy TULSA

Tulsa, Oklahoma is the sister city to Oklahoma City with a metro population at almost 1 million residents. Formerly known as the Oil Capital of the U.S., Tulsa still maintains a strong energy presence with Fortune 500 companies like The Williams Company. It is also home to the main American Airlines maintenance hub, which is now the largest of its kind in the world. Forbes has placed Tulsa in the top 10 affordable U.S. cities to live in.

Tulsa is home to the 33rd largest private company on Fortune's list. Also, Amazon, which is building a 5 million square foot fulfillment and package center in Oklahoma City, is adding one to Tulsa at 2.5 million square feet. Tulsa is also headquarters for the largest state bank chain, Bank of Oklahoma, which also owns the Bank of Tulsa chain.

Current unemployment in Tulsa sits at 3.8%, with a cost of living 7% below the national average, making Tulsa, like Oklahoma City, a great place to buy affordable housing for investment. Also, like Oklahoma City, it has a high percentage of renters living in single-family housing. Finally, the future for Tulsa investment is enhanced by one of the highest percentages of millennial population. More than 25% of all Tulsa residents are below 20 which means the future is bright for the next 10 years or more for investment property.

FOCUS ON ECONOMICS
Natural Disasters and Insurance

I get asked a lot about the potential dangers of hurricanes, tornadoes, etc.

Looking at history, virtually every place in the US is subject to some potential natural disaster risks. Along the coasts there are hurricanes, in the middle of the country there are tornadoes, etc. What we need to focus on is how insurance handles damage from these events.

For example, despite hurricanes being more frequent in recent years, the coverage by insurance is still quite good, so that minimizes risks greatly.

Tornadoes are more narrow in scope and usually don't hit many individual homes in a major metropolitan area. Oklahoma City has historically had tornadoes but, with over 1,200 homes that our investors have bought in the past 15 years, not one has ever been hit! Joe Pryor, our main Oklahoma City broker, has lived there for decades and has yet to see any home hit by a tornado. Even if it were to happen, insurance coverage is very good. The insurance premiums in Oklahoma City are quite low, indicating that the insurance companies themselves must consider the risk to be minimal.

The irony is that most questions about tornadoes and hurricanes come from people who live in the San Francisco or Los Angeles area. Now, these are areas with real risks—earthquakes—which are poorly insured. In fact one would need to be pretty brave to own an expensive home in the San Francisco Bay Area, where earthquakes can cause severe (if infrequent) damage, while earthquake insurance is usually very incomplete, with relatively poor coverage.

Retirement Riches Testimonials

ISAAC

"For many years I was concentrated on how much money I needed to live. I struggled with monthly expenses. Today, I am much more focused on expanding my wealth and growing my portfolio over time. It's really more relaxing to focus on that rather than on monthly expenses. Knowing I can retire with no financial worries makes me appreciate life in a totally different way. I can now also make decisions to seriously pursue passions I otherwise wouldn't dare do, like throwing myself fully into my music."

EDI

"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."

Jon Irene

"Irene and I are happy that we started and are continuing to grow our portfolio. We're very grateful for the experiences and the investment opportunities that have been presented to us so far. We're thankful that we got connected to this group and we will certainly grow with this community. It's a relationship we will continue to foster. I hope Adiel never retires. He's a good guy."

Buy or Rent…Continued

In markets where the property taxes are high (like in Texas and Oregon), and insurance rates are high (Texas again, for example), the "no brainer" number may shrink to $300,000. The range above which you may consider renting your own home, while buying affordable investment homes in other markets, will likely be $400,000 or above. This is because with high expenses for property tax and insurance, (which as a homeowner you would be paying) the overall numbers and logic "turn the corner" faster.

I have written an article for an investment magazine on this topic, which will also appear on my blog. The full article is much bigger than we can fit in this newsletter. If you would like to receive the full article, just email us at info@icgre.com and we'd be happy to send it to you.

ADIEL'S corner

Could You Retire By 40?

An article in the WSJ from November 6, 2018, by Anne Tergesen and Veronia Dagher, called "Could You Retire at 40?" talks about millennials aiming to retire very early (40 years of age appears to be a common target).

As an example, they tell the story of a 38-year-old Seattle lawyer, who lives so frugally, that she buys food on its expiration dates, eats "brown bananas" and overall, seems to sacrifice freshness and health for the goal of creating enough net worth to retire by 40. In this particular instance, her goal is to have a net worth of $2M by 40.

As much as I understand the sentiment to "be free", I believe there are some issues with this way of thinking.

First, the ever-increasing potential life span. A 38-year-old person may live to be quite old by today's standards, leaving many decades to be covered by a mere $2M of net worth. In addition, there is very little flexibility for catastrophic events and emergencies. I would say a person who "retires" at 40, and lives to 100, is not safe if they only have $2M in net worth to carry them for 60 years into an uncertain and likely inflationary future.

This person would be much better served if they continued to work longer, in something they like, and use inflation as their ally by buying single family rental homes in affordable, good area markets, in the Sun Belt States. They can put 20% down payments and finance the 80% balance with the miraculous 30-year fixed rate loan that NEVER changes with inflation.

Now they have appreciating assets, and inflation keeps eroding their DEBT, creating an ever-growing net worth, strength and safety into their future. So much better! And they don't even have to eat nearly expired food and brown bananas.

We will be discussing this and other subjects at our upcoming 1- Day Expo on December 1st.

Next Issue

Are you covered?

Expert Guest Article: Useful steps for Asset Preservation and Protection