REMOTE CONTROL RETIREMENT RICHES

DECEMBER 2019

YEAR END TAX STRATEGIES

SENIOR HOUSING NOW FACES BUDDING GLUT

LOW RATES, FIRST BUYERS BOOST BUILDERS

December 7 Event Recap
EXPO RECAP

Our most recent ICG 1-Day Expo took place on Saturday, December 7th. It was a well-attended event.

The attendees comprised various levels of experience. There were people in the room who already own multiple rental homes, as well as many beginners.

We also had guests who had received tickets to the Expo because they had selected the Remote Control Retirement Master Package by Adiel Gorel as their gift when donating to KQED.

I fielded many questions throughout the day, including a concentrated session at the end of the day, when I was wrapping it up. The Q&A is a great opportunity to touch upon many subjects, and is an effective source of learning for investors.

Our main market teams were present, as well as some of the property managers. Scott Webster from All Western Mortgage described regular FNMA 30-year fixed loans (some at 4.5% or even better, which, for investors, is a very low rate). Scott also described loans available to people who can't get the FNMA loans, by virtue of owning more than the FNMA limit. He also outlined loans available to foreign investors. The loan terms seem to keep improving, and were better than what Scott had presented at our May event.

Many new investors joined our QUICK LIST, to whom we send property sheets when we get them from the various markets, as well as event invitations and updates.

People also joined the new Membership area on our website. The Membership area is constantly populated with podcasts, FAQ's (Frequently Asked Questions), and other useful information. There are also webinars on specific subjects, as well as special one-on-one "Connect For Success" meetings with me. For more details, please email us at info@icgre.com. You can also see information on our website www.icgre.com/MEMBERS.

The attendees enjoyed our guest expert speakers: Attorney Brett Lytle, 1031 Exchange Expert Weiming Peng, and financial planner Lucian Ioja. Brett Lytle, Esq. went through the pros and cons of creating protective entities vs. getting liability insurance. Weiming Peng explained 1031 tax-deferred exchanges, as well as reverse exchanges. Lucian Ioja widened the scope of sound financial planning and how real estate can integrate within a portfolio.

SENIOR HOUSING NOW FACES BUDDING GLUT

There is article in the Wall Street Journal from November 12, 2019, by Peter Grant by the title above.

In the article we learn that the Aging-in-place technology trend poses a challenge to builders of living facilities for the elderly.

Some excerpts from the article: "The rise of technologies that help the elderly stay in their homes threatens to upend one of commercial real estate's biggest bets: Aging baby boomers will leave their residences in droves for senior housing."

Developers and senior-housing companies have spent billions of dollars over the past five years to build facilities that provide housing, food, medical care and assistance for the elderly.

While these properties have been filling up with people born during the Depression or World War II era, real-estate investors are eagerly eyeing the massive baby-boomer generation: 72 million people born between 1946 and 1964, or about one in five Americans. Their needs would require hundreds of thousands of new units, if previous demand patterns persist.

But this wager on elderly care is falling short of expectations, and there are concerns that it could become one of the biggest real-estate miscalculations in recent memory, some analysts suggest.

New products and services include sensors that respond to a range of medical conditions, facial recognition for identifying visitors and houses with malleable fixtures that can be adjusted as residents age.

Driving these efforts is the belief that seniors would prefer to remain at home near their families and friends than live among others their own age or older. "People don't want to go to a place where there's only a bunch of other old people," said James Crispin, head of health and wellness at design firm Gensler"

Further excerpts:

"Moreover, the average age that people enter senior housing has been rising, partly because of improving health. It is about 84 to 85 years today, compared with 82 one

Senior housing isn't about to go away. It remains a compelling option for people with medical problems, loneliness and the need for assistance in eating, shopping and other daily activities.

But the new aging-in-place movement could undercut demand further. If seniors are able to stay at home later in life, "that could drain away the younger new customers for senior living," said Dominic Endicott, co-founder of 4Gen Ventures. "Then your base population is older and you're even less attractive to younger seniors."

While it is clear that technology will make aging in place more prevalent, there is still room for senior housing for some. However, as a future trend to bet on, senior housing should be approached with caution.

As always, investing in new single family homes in good areas and renting them to families, while financing them with a fixed-rate loan (which never keeps up with the cost of living), remains the safest, easiest, and most powerful future-changer for the individual investor.

We will further discuss this at our March 7th 2020 event.

Year End TAX STRATEGIES

As we approach the last few days of 2019, a common question is what can be done before the end of the year that would help reduce taxes. One of the biggest strategies is to consider if your 2019 tax world will have more or less income than 2020. If both the current and future years will be about the same, then there are not huge tax strategies on the table. However, if you have higher income in 2019, then the strategy of "accelerating expenses" that would normally fall in January or February, or if you are planning on making large purchases such as equipment, it may be advantageous to purchase those before year end. On that same note is the concept of "income deferral" in which you delay income receipt until after 12/31/2019, which in turn reduces your taxable income. The opposite is true if you are expecting higher income in 2020. In that case, you would want to delay expenses so they land in 2020 and you would want to accelerate income so you can report more in 2019. This strategy increases your income and therefore your taxes for 2019, but for this strategy the goal is to pay more in 2019 and reduce the 2020 tax burden. Although, reducing the 2019 taxes is the ultimate goal, taking a moment and considering your 2020 tax world can often provide greater tax savings overall.

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One credit that changes on January 1, 2020 is the Solar Panel installation credit. You get a 30% of the cost as a

By Joshua Cooper

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tax credit in 2019 and that drops to 26% in 2020. It's too late to fully implement a new solar panel installation before the end of the year, however, many companies are offering rebates if you are in contract before the end of the year, which really makes it seem like you are getting the full credit even though you will be claiming the credit in 2020. For example: 26% tax credit + rebate = 30% tax credit. So it may be worth looking into if you are on the fence so you can get the extra rebate. Many people have asked if you pay for the entire solar panel installation in 2019 can you still get the full 30% tax credit. Unfortunately, to qualify for the tax credit, the installation must be complete and the system has to be operational, and it usually takes a month or two for them to complete the project. The credit is calculated on the total price you pay for the solar panels, including installation fees. You can also add in the cost of roof repairs into the calculation, although most solar panel companies will not do the actual roof repair work.

Another item to make sure you are on top of is Required Minimum Distributions (aka RMD) related to IRA's and 401(k)'s. If you are of the age of 70.5 years, you are required to take a portion of your retirement account out each year. The penalties are big for not complying, so you certainly want to make sure you do it. Also, you would assume that the company that holds your retirement account would alert to this requirement, yet they are not required to and they often can miss it, especially if they assign someone new to your accounts, etc. Also, if you inherit an IRA, you may also be required to keep up the RMD that was already in effect. In any of these cases, the RMD must happen before 12/31/2019.

why it's time to buy TULSA

By Dave Momper

Once the Oil Capital of the World Tulsa was built by the oil and gas industry. Exploration and research, refineries, pipelines, storage facilities, oil rigs, and related manufacturing helps drive Tulsa's thriving economy.

This metropolitan area of one million, located in the northeast corner of the state, straddles the South, Southwest and Midwest regions of the country. Known as the birthplace of the Mother Road, Route 66, Tulsa's central location in the U.S. has made it a hub for transportation, shipping, call centers, aerospace manufacturing, and wind turbine manufacturing. Tulsan's are known for their friendliness and hospitality. Tulsa was #1 in the nation in 2019 for income growth and has low unemployment. With a low cost of living, the cheapest gas prices, and some of the nation's most affordable housing, Tulsa is an investment hot spot!

More than 25% of Tulsans are under 20 and the metro area has a high number of millennials. With a 40% rental rate Tulsa is a top market for apartments and single family rentals. Tulsa is a music city with popular venues such as the famous Cain's Ballroom home of the Texas Playboys and Leon Russell. The Bank of Oklahoma arena is ranked in the top ten in U.S. ticket sales and is #1 in country music ticket sales. Tulsa is home to the Woody Guthrie Museum and houses the Bob Dylan music archives. Because of its rich oil wealth history, Tulsa is known for the arts, boasting some of the finest art deco architecture, world class art galleries, a world class ballet, and numerous art festivals.

Tulsa is home to American Airline's maintenance base, one of the largest in the world, oil companies, Macy's distribution center, Whirlpool manufacturing plant, Google, Amazon, BMX World HQ, Spirit AeroSystems, the Port of Catoosa, and the new world renowned Gathering Place, a 100 acre $465 million dollar park along the Arkansas River. Gathering Place was named the Best New attraction in America by USA Today.

Tulsa, Oklahoma…a great place to invest!

Retirement Riches Testimonials

I attended ICG 1-Day Expo on Saturday, 12/7/19. The event is fantastic. I learned so much and was able to gather information about pertinent markets through the market teams who were there.

– Yong

I attended Adiel seminar this past Saturday in SF for the first time and really enjoyed it. Great info and speakers. I took home great information and am particularly interested in a specific market.

– Wendy

We are veteran clients that bought properties in Arizona through Adiel's ICG in 2000. We. We are interested in buying another property in one of your other markets. Please sign us up for your Quick List. We have been very happy with the properties we bought in AZ.

– Ellen and Kevin

ADIEL'S *corner*

Q: I read that Phoenix was the hottest real estate market in 2019. Should we invest in Phoenix now?

A: Phoenix has been our biggest market over the years. Our investors, combined, have bought about 3,000 homes in Phoenix over 20 years. However, Phoenix has appreciated enormously from its low point (post-recession) in 2012. Phoenix continued appreciating in 2019, which is why it was dubbed the hottest market. Prices have far out-paced rents while this price appreciation has been taking place. As a result, Phoenix is a market that does not make sense for us, as investors of single-family homes, to buy properties in order to rent and hold them. The prices are too high relative to the rents and the cash flow would be quite poor. In fact, Phoenix is a good market to SELL at this time. A lot of our investors are selling in Phoenix, and using the proceeds via a 1031 tax-deferred exchange, to buy several brand-new homes in one of the cities where the number DO work in 2019 (and likely 2020). The same rationale holds for Las Vegas (dubbed the hottest market in 2018). Other fast-appreciating markets are also in the same position, such as Dallas, Austin, Houston, San Antonio, and Nashville, to give some examples.

If you live in an expensive market (like the San Francisco Bay Area, Los Angeles, New York, and others), the prices in Phoenix (or Austin) may seem "low" to you. They are low relative to the expensive home prices in your area. Do not let this confuse you. A $280,000 home renting for $1,600 per month is too expensive to be a good investment. In Texas also watch out for the high property taxes and insurance rates, which could render homes that sell for $280,000 and rent for $2,000 a month inhospitable, as the high property taxes decimate any decent cash flow.

One more thing to watch out for: I get solicitations from some of these markets claiming "great appreciation" for the future. That is not useful. Just because their market has appreciated in the past few years, does not mean it will also appreciate in the future. The San Francisco Bay Area has appreciated strongly over several years, yet in 2019 parts of the area have gone down in value. That is a trap I have seen throughout my career – rushing to buy in a place where prices have gone high. It's the equivalent of the stock investing concept of "buying high", rather than "buying low".

Q: What do you think the real estate market will do in 2020?

A: The very question has a built-in false notion. It assumes there is a single "real estate market" in the US. In fact, there are hundreds of real estate markets, and they don't all move in unison. There are overarching factors that affect all markets (such as interest rates). However, many local factors affect local real estate markets' behavior. In the previous question I cited "hot" markets which would not be appropriate to buy in, but would be appropriate to sell. I mentioned a market that has been going up and now has areas which have gone down in the past year.

Given that interest rates are very low, I would hazard a guess that throughout 2020 they are likely to remain low. Especially with it being an election year. The low interest rates encourage buying and bodes well for prices. We have an article in this newsletter about builders, in many markets, shifting their focus to the "starter homes" segment of brand-new homes. This is beneficial for us as both supply and demand seem to be increasing for the exact type of homes we like to buy and hold: brand new homes in good areas that are not too expensive.

In the markets we currently focus on: Oklahoma City, Tulsa, Baton Rouge, Central Florida, parts of Atlanta, and Raleigh, prices are likely to continue on a path of steady growth in 2020. None of these markets signals an impending "boom, and my guess would be that prices will not go down, as all these markets are affordable.

The markets that are too high for rental investment, will likely remain too high throughout 2020. These are the markets I addressed in the previous questions.

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LOW RATES, FIRST BUYERS BOOST BUILDERS

In an article in the Wall Street Journal dated December 26th, 2019, by Will Parker, we learn that the low interest rates are boosting builder's demand for homes.

However, per the article, builders have found that if they lower the home prices, and aim for younger buyers, it creates a surge in demand.

Thus, many builders now aim to build nice new homes in lower price brackets.

The combination of low rates and lower prices is creating a boom in demand.

Builders' challenge is to get workers. They compete with the likes of FedEx and Amazon for the same pool of unskilled workers. Labor shortages and regulatory challenges are an issue that gets exacerbated with increased demand. Material and lumber costs have also fluctuated, partly because of tariffs.

Overall, the starter home sector is thriving these days. Many builders are building more "on spec", meaning they build homes that will be finished before they have a designated buyer. This is to satisfy many buyers who look for new homes that can close quickly.

What does this mean to us as investors? We are looking for large metro areas in the Sun Belt States where the prices are affordable and rents are solid. Most of the homes we invest in could be classified as starter homes.

This bodes well for the homes we have already bought. However, it also expands the buying possibilities. The increase in spec homes enables investors in need of a 1031 exchange to buy homes that are ready or almost ready to close.

In the markets we looking at, despite the demand, there is no boom-like effects of scarcity. Thus, at least for the time being, we can enjoy very low interest rates, good supply, and more selection.

We will discuss this more in our March 7th, 2020 Expo.