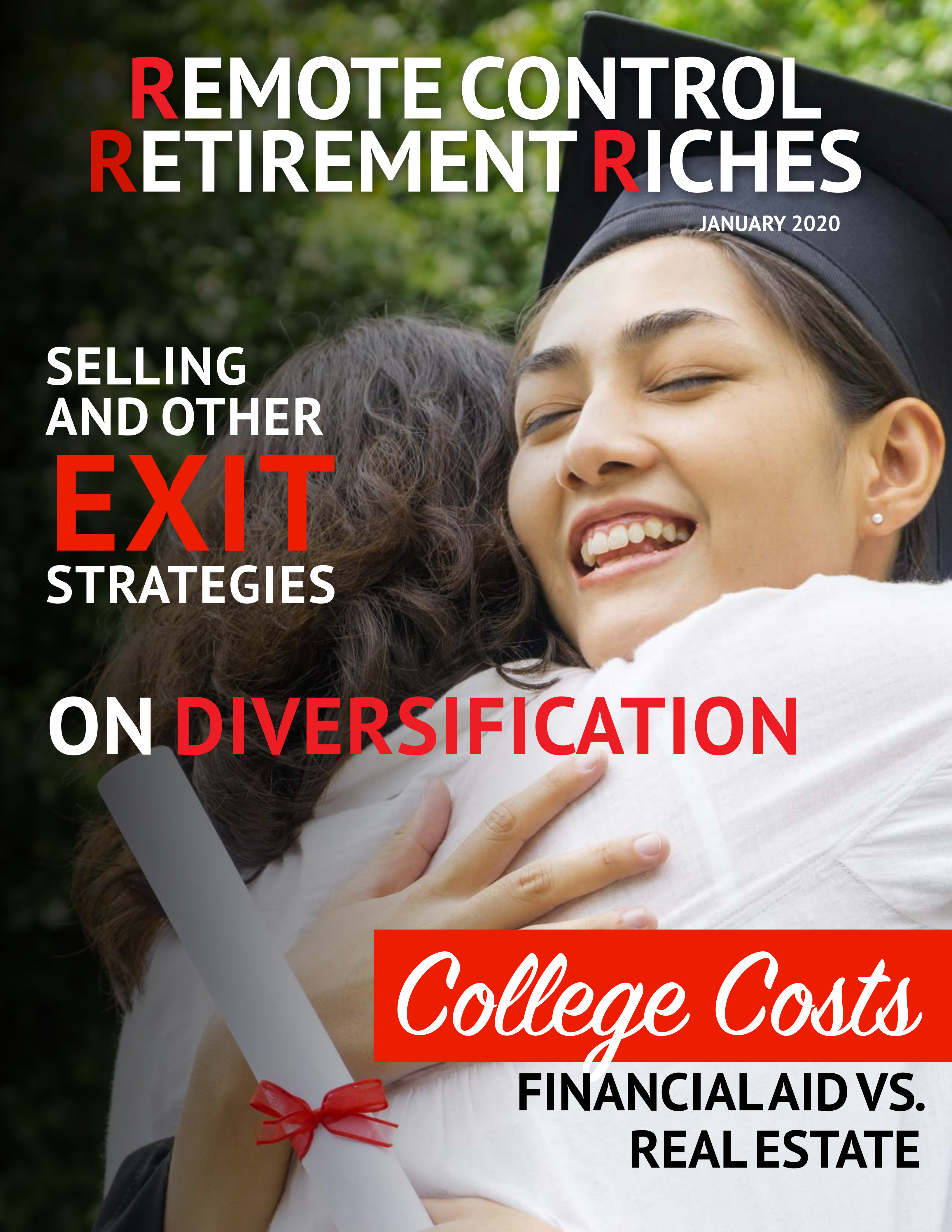
REMOTE CONTROL RETIREMENT RICHES

JANUARY 2020



SELLING AND OTHER EXIT STRATEGIES

ON DIVERSIFICATION

College Costs

FINANCIAL AID VS. REAL ESTATE

December 7 Expo Recap

EXPO RECAP

Our most recent ICG 1-Day Expo took place on Saturday, December 7th, 2019.

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

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 lower, 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.

Many of the attendees have registered to our next 1-Day Expo, on Saturday, March 7th, 2020. I will host the most relevant markets, three new expert speakers, and of course lots of updates and Q&As. The expert speakers will be CPA Joshua Cooper, to talk about tax strategies for the new year, with tips. Gary Sipos will teach us how to get financial aid for our children for college despite having thought we are not eligible, and specifically as owners of rental properties. Joyce Feldman will teach us about insurance, liability insurance, and umbrella insurance.

To register for our next 1-Day Expo, please go to our website www.icgre.com and click on the Events tab. We look forward to seeing you there.

Selling AND OTHER EXIT STRATEGIES

I frequently get questions about when the right time to sell our rental homes is. I also get investors telling me they plan to "hold the homes for X years and then sell".

The core reason for our investing methodology has to do with being able to get the 30-year fixed-rate loan. This is the loan where neither the monthly payment, nor the loan balance ever keep up with the cost of living. Everything else in the U.S. economy keeps up with the cost of living, except our fixed-rate loan.

Of course, we invest wisely – we buy brand new homes in good areas in large metropolitan areas in the Sunbelt States. This maximizes the effects of demographic growth, is likely to create further growth for our future, enhances the quality of the tenants, and makes repairs scarce for quite a few years.

The 30-year loan makes inflation our ally. As time goes by, the real value of our debt balance, and our monthly payment, get eroded by inflation. At the same time, the rent we get from our tenant keeps up with inflation. The rent pays the mortgage payment, and as the years go by, increasingly gives off an ever-increasing net cash flow.

Clearly time is our friend here. The more time passes, the more our loan has been eroded by inflation. It is not uncommon to see, after 14 years or so, that the loan balance is only a relatively small fraction of the value of the home (which itself increases with inflation, on average).

When we consider an exit strategy, these factors should be on our mind.

I usually don't like to sell a rental home unless it has a lot of equity. What does that mean? An example would be a home that is worth $280,000, with a loan balance of $70,000. Here, there is ample equity to be used after sales expenses. These numbers are merely an illustration, but the idea is that the loan becomes a pretty small fraction of the home value (in this case 25%).

Selling when there is good equity should also be questioned. That usually happens after 12, 14, perhaps 16 years. At that point the monthly principal payment of the loan is "hitting their stride" and becoming bigger faster, along the amortization curve. Thus, holding the home for more time will not only let inflation erode the real value of the debt further, but will slice off the loan balance with ever-growing monthly principal payments.

Of course, selling the home can open the possibility of a 1031 exchange, in which several brand-new homes can be obtained, tax-deferred, to replace the home that sold. Here, we get several bigger new 30-year fixed rate loans "going to work" for you, and brand new homes which again defer maintenance many years into the future. For people seeking further growth for the future, that is not a bad move.

If cash is needed, for personal needs such as paying for a kid's college, or other reasons, selling may be warranted, and if no 1031 exchange is employed, there will be taxes to pay (currently at a lower tax rate than regular income tax).

Of course, if selling the rental home, it is always better, if possible, to sell during a "Sellers' Market", when prices are high, buyers are abundant in the market, and multiple offers are common, sometimes over the listing price. If cash is needed during a period which is not a "Sellers' Market", then there is no choice. However, if there is a choice, it is best to sell during a strong sellers' market.

One perfectly legitimate "exit strategy" is to never sell. If you never sell, the loan will be completely paid off at some point (some people choose to pay off the remainder of the loan in a lump sum once it becomes just a small fraction of the home value. I personally am content to just let inflation continue to erode it. However, if someone is retiring, having a free and clear home can be a very useful building block in providing retirement income).

If you never sell, the home will revert to your heirs upon your passing on a "Step-Up" basis. In other words, your heirs' basis in the inherited property is not what you had initially paid for the home. It's "stepped up" to the home's value as of your date of death, and this can make a big and very beneficial difference in the tax liability of your heirs.

This is one of the reasons it makes sense for older people to start investing in such rental homes. Some people would say "I am 67, isn't that too old?". Then they realize that the rental home will give them growth throughout their 70's, 80's and beyond, AND it will transfer to their heirs with the stepped-up basis. Thus, the house is not only likely to change their financial future, but to do that for their heirs as well, with a very significant tax gift.

I would be very happy to discuss your specific situation with you. Having seen thousands of cases, I believe I can shed some light as to the best strategy for you.

I will discuss this, among other topics, at our 1-Day Expo on Saturday, March 7th, 2020

College Costs

FINANCIAL AID VS. REAL ESTATE

The cost for your child to attend the best colleges in America today exceeds $270,000 over four years (over $400,000 after tax). This huge cost must be paid over 4-8 years, and what you spend on college is money you won't have for retirement. As college approaches, pressure and uncertainty begin to mount, and parents start looking for direction and answers and a solution – regardless of their income level, assets or advisors.

Determining your best strategy to pay for college requires expertise in college admissions, financial aid, tax strategies, financial planning and investment management. Knowing how to bring expertise together in all of these areas and arrive at your best strategy is very complex and requires a rare skill set.

For example, will owning real estate eliminate your possibility of receiving financial aid? Many families assume that if they own rental real estate that they will not qualify for scholarships nor grants. But you may still qualify if you set your assets to fit well within the financial aid formulas.

One case study – Rental Real Estate

For a college that only uses that FAFSA (Free Application for Financial Student Aid) for calculating your EFC (Expected Family Contribution) for college, let's assume a family has a rental property (or multiple rental properties) and their rental has $1,000,000 in equity. The FAFSA form will ask what is the value of your rental(s) and what is your total mortgage obligation. In this rental home asset example, your equity would most probably disqualify you from getting any financial aid at any school. You are now paying the full cost of college.

Determining your best strategy to pay for college requires expertise in college admissions, financial aid, tax strategies, financial planning and investment management.

If your rental property is listed on your Schedule E, your real estate should be reported as an investment asset and will count against you in the financial aid formulas.

But there is a way to shelter your rental real estate equity to fit the FAFSA financial aid formulas that may qualify you for scholarships and grants.

For the FAFSA, there is a business exclusion where we transform your rental into a business. A few things need to occur:

1) You cannot commingle your personal funds with the real estate asset funds, so you need to create a separate business bank account

2) The deed or title to your rental real estate needs to be held by a business that has a separate tax return, e.g. a dual member LLC

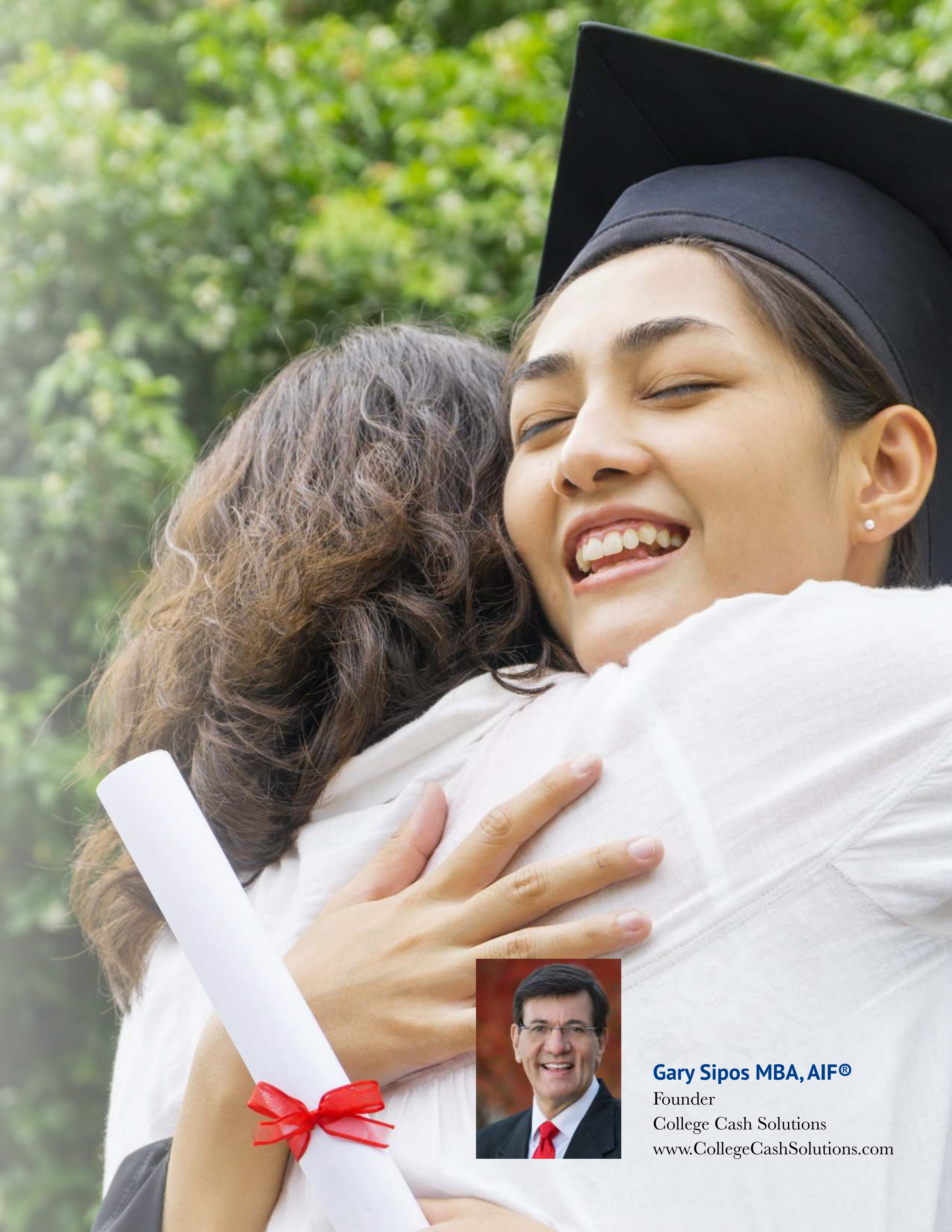
3) You need an employer identification number for your real estate business

4) The real estate cannot be used as a personal asset, e.g. a vacation home

5) The business owner must provide significant services that are primarily for your tenant's convenience, such as regular cleaning, changing linen, grass cutting, etc.

6) Each real estate case is unique, so you must engage with an experienced advisor who specializes in College Cost Reduction to see if your strategy does or does not fit this exemption case

In summary, there are ways to significantly reduce or completely eliminate the impact of rental real estate equity within the financial aid formulas. If you are able to exempt your real estate assets, then depending upon other facts and circumstances you may receive scholarships and grants.



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why it's time to buy BATON ROUGE

by Michelle Ruston

When you are at the center of one of the world's great petrochemical centers, there are always going to be benefits like high-paying jobs in technical fields and the many economic spinoffs of those jobs. This is growth along all sectors.

All that said, there's a lot that's promising about being in Louisiana's capital region in the next two years.

The crystal ball used by economist Loren Scott and his colleagues projections for 2020-2021, unveiled at a Baton Rouge Business Report event, are for significant growth tied to the industrial construction sector.

As key economic drivers, names like Methanex, Shell, Shintech and ExxonMobil are contributors to the robust increase in jobs. Scott's team projects the region will add 5,700 jobs in 2020 and 6,000 jobs in 2021, a 1.4 percent growth in each year in just the industrial construction sector.

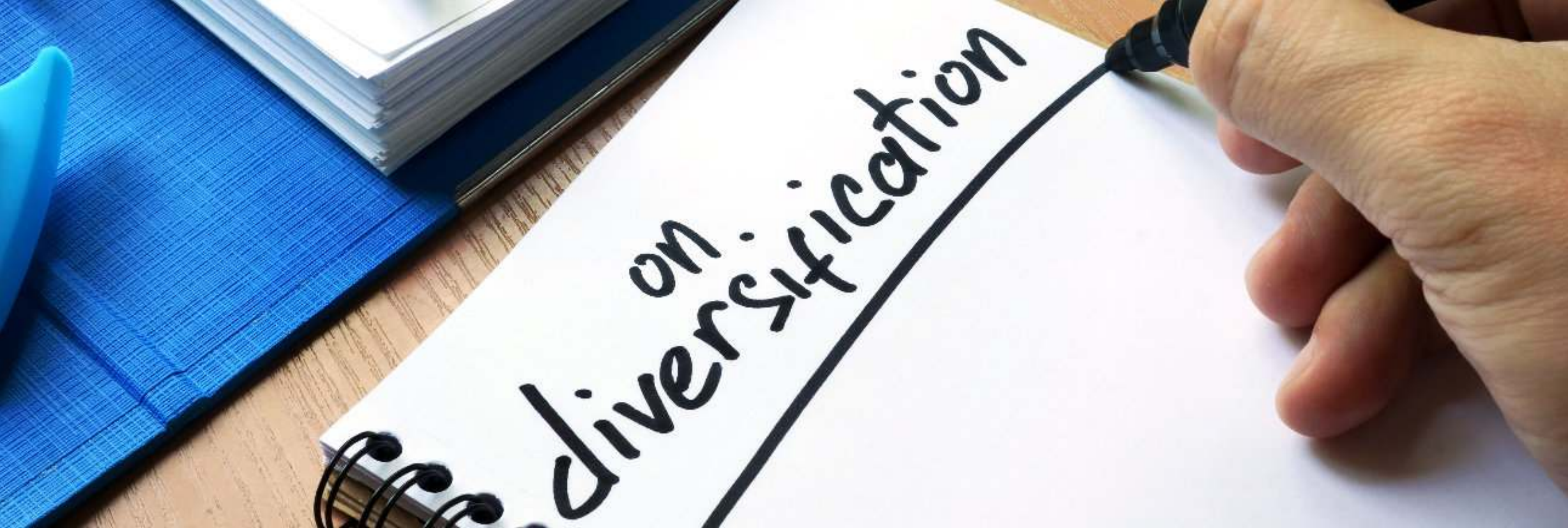
The Baton Rouge area is punching above its weight in job growth, about a fourth of all new jobs projected in Louisiana.

"Never has this (metro area) experienced an industrial expansion like the one presently underway," Scott said in the report.

Since 2012, petrochemical companies have announced $16.8 billion of industrial expansion projects, but $11.5 billion of those projects are either under construction or have been completed.

"The real driver for Baton Rouge's much improved growth rate is the resumption of activity in the industrial construction sector," Scott said.

Major refining and petrochemical manufacturing facilities in both Baton Rouge and the Lake Charles area along the Calcasieu River are trending in the climbing upward direction, growing because of low natural gas prices.



I recently talked to an investor who has bought one home in Oklahoma City, one home in Baton Rouge, and one home in Central Florida. The investor is planning to buy ten homes, but felt compelled to buy their next home in another state, in the name of diversification.

So strongly does the investor feel about diversification, that he intends to buy each of the ten home in a different state. As of January 2020, buying rental homes only makes sense in a handful of states. That means that investor will buy several homes in states where the numbers work poorly.

Of course, there is a notion here that needs to be clarified. That investor is a resident of a large city in California. In his mind, a "house" is a "million-dollar house". Thus, the notion of "I bought a house in that market. I should now diversify into another market" is almost a knee-jerk reaction predicated upon the subconscious idea that "a house" must be worth a million dollars.

In reality, of course, two of the houses he bought were well under $200K, and the third house was a bit over $200K. That is not a lot of real estate. To match the "million dollar" value, he would have had to buy five or six houses in each of these markets.

While there is no harm in spreading out your rental properties, it is OK as long as you buy in markets where the numbers work. If that urge to diversify pushes you to areas and cities where the numbers will not work as well, you will be hurting yourself in the name of diversification.

We had an investor go through a large and complex 1031 exchange last year. He sold a large commercial property in California, and exchanged it for about sixty houses. In his case, he was planning on buying twenty homes in each of three markets. That is diversification which makes sense. Diversifying after one or two under-$200K homes, may not yet be merited.

I myself bought, for me personally, an exact, round number of 100 homes in the Phoenix metropolitan area over about fifteen years. In 2020, the Phoenix area makes no sense to us as buyers. Since 2012 prices have rocketed over 150%, while rents went up only 20% or so. This created a situation where the Phoenix metro area simply does not work. Cash flows would be bad for the purchaser, and we are not buying there. It's not a bad area for SELLERS. Indeed, many of our investors are selling in Phoenix and 1031 exchanging that sale into several new homes in the markets that DO work.

Overall, the issue of diversification is a relatively minor one. As long as the notion of diversification doesn't drive you to buy in inappropriate markets.

I will be discussing this issue, and many others, at our 1-Day Expo on Saturday, March 7th, 2020.

Retirement Riches Testimonials

"You have guided me and my wife into our first investment. Now that I am out of the military, we are delighted that you are guiding us again, as well as some of our friends, into building a stronger financial future." **– Brigadier General Joseph A.**

" I wanted to tell you that an article I read about you7 and your investment methodology in 1998, has changed the entire course of my financial life. You inspired me and I went further than I had imagined" **– Ricky L**

"Just finished reading your book. I can't wait to begin my investment route. I will attend your next Expo and am excited to get on the toad with your help" **– Zach W.**

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ADIEL'S corner

Q: How involved should I be in choosing items for my new rental home?

A: I recommend not to be involved in the selection of items for your new home. That includes colors, finishes, and pretty much everything else. I have a chapter about it in my book. Let the local broker and property manage4r choose everything. They know the color schemes that work well in their city for a rental home. They know the packages that work best. I have seen people use their own tastes, from other parts of the country and the world, to create a new home that does not work well as a rental in that specific market. Leave it to the pros. I know it's tempting since it's going to be your house. However, you will likely not live in the house. Your tenants will. Locally.

Q: What Actions do I have to take to Find and Connect with the Property Manager?

A: There is nothing you need to do. The local broker will automatically connect you to the management firm we use in that market. They will contact you, most likely a few weeks before the closing, and send you their management agreement to sig. Please read, sign and return, so that they have the power to represent you in rental matters in that marketplace. You may have met the manager during your initial visit to the market, at our ICG 1-Day Expo, or if you called them to ask any questions you might have had. Still, the managers should contact you and send you their management agreement some time before the closing.