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RE Journal

Member Spotlight



Terron and Kevin Perk

Terron and Kevin Perk are a husband and wife team who invest mostly in small multifamily and single-family rentals in Midtown Memphis, Tennessee. Terron manages the rentals with KevronProperties.com and is the primary Broker with Perk Realty. Kevin occasionally flips houses with their company Parkway Home Design. Kevin produces a blog, hosts a podcast, and has written hundreds of real estate investing articles for various outlets. They are active members of the Memphis Investors Group where Kevin is a current board member and past-president.

Please tell us a little about who you are and what you did before getting into real estate investing:
Terron: I attended Rhodes College
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Times – They Are a-Changing

By Chris Kuehl, Ph.D.

It has been made pretty clear that much of what we thought we knew about the pandemic earlier in the year we didn't really know. The hopes for that May rebound were shattered and recovery proved elusive through the entire summer. Now we are closing in on the start of 2021 and we are still talking about lockdowns and outbreaks and rising numbers of fatalities. What we do know is that the business world and the economy has been changed by all this. The questions now are how much has changed and whether these changes will be permanent. It is doubtful there ever

was an "old normal" but all eyes are on what the "new normal" might look like.

We know from our experience with past recessions there will eventually be a recovery. People will get their jobs back or will get new ones. Business will make profits again and will expand again. There will be revenue for the governments at all levels again. But we also know that not everyone will be employed and that many businesses will have lost money and failed. We know that government budgets will have been strained and we know that many people will have suffered from the recession. This time we also know that many people will have been sickened

and some will have perished from the virus.

We are clearly not at a real turning point yet. The spread of COVID 19 has not ceased and the full adoption of the vaccine remains months away. Despite the uncertainties we have no choice but to adapt and determine a course of future action. What about this year will influence 2021 and the years after? Four trends stand out at this point. The first is the changes in the supply chain. The second is a change in the way that consumers interact with the business community. The third is a change in how we work and where we work and

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How 2020 Can Positively Affect Your Assets in 2021

By David Pickron

As an early adopter of new technology, I was so excited when MapQuest became mainstream in the early 2000s. After having worked as a process server for about 10 years at the time, I knew my way around my home city of Phoenix fairly well. But with this new technology I felt that I could work faster and smarter than anyone else out there. I began relying on the directions provided by this service, setting aside my hard-earned knowledge of a growing metropolis. Like anyone who has relied wholly on a mapping software, I soon found myself

becoming an expert "U-turner," as I was often off-course.

Off-course may be the perfect term to sum up 2020. But like any challenging circumstance, it does give us the time to pause and reflect on what we learned and how that will serve as a guide moving forward. As a serious investor, I spend a good part of my end-of-year review with my wife (who runs our investments) analyzing our current situation and then creating a plan for the next year. Below are two of the key areas that I analyze annually and recommend focusing on as you look to a new year and new opportunities.

Acquire, Sell or Hold Steady

If there were ever a year where we may have felt like throwing our hands in the air and selling everything, 2020 fits the bill: COVID-19, the loss of income and resulting inability for some of our renters to pay, and eventually an eviction moratorium mandate from the federal government. Hard times call for hard decisions. Your analysis in this area must involve thoroughly reviewing each of your properties and devising a game plan specific to each one. As an example, after one of our review and planning sessions five years ago,

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Staying Connected, Informed and Strengthened by Each Other

By Rebecca McLean, Executive Director, National REIA

Hello fourth quarter! It is budget season, and as we wind down this roller coaster year, many are questioning the traditional building blocks of our annual planning cycles: a shifting economy, ever-changing vendor relationships, competitive disruption and buyers/renters/customers/clients whose needs are continuously evolving. So much change! And at an exponentially increasing pace. Will we hit this year's goals? The pressure is on! Anxiety! Stress! And if we do happen to eke it out, what will happen next year? COVID-19 concerns? Election consequences? And so much more...

Stop. Just breathe. Count to 20.

National REIA and your local association are here. The support you need is here. People who care are here. Everything you need to cope, and learn, and grow, and shift your point of view to one of balance, and hope, optimism, and strength, is here.

Our programs and education have an in-it-together perspective that is keeping you informed and aware of potential opportunities and risks. We provide networking and access to others in the same boat as you. We are all pulling together to learn how to pull through this with success and the ability to capitalize on all the new opportunities that will be available.

Our goal is to deliver the latest and most sound information and data about the real estate market for investors.

Along with our local associations, we share tips on how you, as an investor, can effectively navigate this strange market. To help with that we are delighted to present another edition of the *Real Estate Journal*.

Here you'll find lots of great content and relevant, timely information for real estate investors and even more on our website. The best information of all is available through our local groups, both in the meetings that are still able to move forward in person, and those that are happening virtually.

If you've not yet checked us out, it's time to get in on the dynamic things going on at National REIA and our local associations. Amazing creations are being developed by REIAs around the country by passionate REIA leaders and like-minded real estate business owners, respected trusted advisors, an army of tested and wise volunteers, not to mention dedicated leaders



& staff that make up the REIAs around the U.S. They are developing resources, education, and more to support our industry during these uncertain times and beyond.

Can you sense my passion in this article? I hope so. It's real. It's because I know that what we offer is what so many people in our real estate investing community need.

Stay connected to your local REIA and National REIA as we provide tangible help, a bit of positivity and some light at the end of the tunnel. We are here to support you and to provide some stability.

The most important thing you can do as an investor right now is to stay informed and centered. Emotions are running high in every industry – and that's dangerous. Emotion should NEVER be a driver in a real estate transaction – whether fear or exuberance. Perform your due diligence, stay close to the experts, run your deal by other savvy investors and professionals, then take their advice. Look at the numbers, learn from the experts, and take action! There are still deals to be done and money to be made.

Let your connection to your local REIA help you capitalize on current opportunities and stay on track.

As we head into the holiday season, I want to express my gratitude for you, for our amazing REIA leaders and volunteers and for the real estate industry that has been so good to us all and to you our members and supporters that have helped keep our investing community strong. Stay safe, express your own thankfulness and send some virtual hugs to those that are most important to you during this season of faith and gratitude.

Let's all stay connected, informed and strengthened by each other.

Rebecca McLean is the Executive Director of National Real Estate Investors Association



National REIA members can save 15-25% off of your annual office supply purchases at Office Depot/Office Max with 15-55% off pricing on over 1500 items most commonly purchased by businesses in all categories.

Learn more at www.NationalREIA.org



NREIA Legislative Update

While the future of politics and the economy is always one that causes dread among those who try speculate on outcomes, it is at times like these that a statement from Yoda comes to mind, “Difficult to see. Always in motion is the future.” So, for now, we shall focus on current situations, as best they reveal themselves.

The first and foremost, even more so than the state of politics or the economy is the overriding factor of the pandemic. COVID-19 and the rollout of the vaccine will have a greater impact than the other two combined, as it will shape both of these. Additionally, the hiccups in the rollout and whether or not all six (6!) strains are affected equally will also impact the country.

Health Departments have noted that there are two strains presently in the country and that while antibodies may last 4-6 months for those have had COVID-19, there may *or may not* be any overlap in antibody effectiveness against the other strains. This could have an even greater impact on international trade and travel, that has yet to be determined.

All that to say, as we have been encouraging among property owners and redevelopers, be careful from a business perspective. Don’t stretch too thin. This could be the equivalent of 2007 presently ... about to be 2008 all over again.

As the lame ducks across the country and in Washington, D.C., seek to leave their final impact on their state or country, it will likely be muted as preparations, especially in D.C., are focused on late January and February. And much of the impact will come down to a runoff election in Georgia on January 5th – which by the time you read this may have been decided.

Paycheck Protection Program

A key item to watch that will likely return in several waves will be the Paycheck Protection Program or PPP. This has been considered a successful program by the federal government, and once the banks and credit unions figured it out (and how financially lucrative it was for them) the checks were flying. The IRS is making noise about thresholds of auditing, simplifying the waiver process for those under the \$200K range. As of this writing it has not been finalized – but keep an eye out for those updates through either the IRS or the Small Business Administration.

Eviction Moratoria and Emergency Rental Assistance

There are two key issues that National REIA has

been focused on and that members across the country have weighed in on with their legislators: Eviction Moratoria and Emergency Rental Assistance.

Some states, like Illinois, have taken more drastic measures greater than that of the CDC Regulatory Edict from September 4th. While that may end on December 31st, 2020, it will likely be extended by regulation after January’s inauguration or by legislation in the next congressional bill. Additionally, some municipalities have further restricted evictions with some courts refusing to even open or hear the cases.

Lawsuits are numerous but have greatly varied in effectiveness, with no silver bullet solution to date. (Word to the Wise: Property owners impacted by an Eviction Moratorium need to communicate with their finance entity regularly and document all communications thoroughly – financier and resident - as it may become evidence in future lawsuits.)

Emergency Rental Assistance, especially as funded through the CARES Act, has been very helpful for numerous residents and the property managers receiving the payments. The various Eviction Diversion Programs and Eviction Reduction Programs are helping to address rent arrearage for those who can show evidence of the COVID-19 shutdown’s impact. While they are not quick, most property owners are willing to work through the program’s procedures, except where the local government asks for too much.

For example, some programs have asked for leases to be permanently modified, e.g. Kentucky, or the program will ask the property owner to waive all fines and fees AND reduce the cost of the rent by 20% or more, e.g. Dade County, FL, among others. While the programs have more funds than they can typically address, and follow the procedures required by the federal government, the greater concern is the deadlines for when the money needs to be expended. The current deadline is December 31st for CARES funds. Christmas extensions may or may not be forthcoming as of this writing.

With increasing numbers being reported and vaccines unlikely to be broadly available until the middle of 2021, it is likely additional legislation and funding will be forthcoming, but at what cost? To renters who are behind on average \$5k and the property owner unable to evict and unlikely to ever see those lost funds...Please be on the lookout for National REIA Grassroots efforts to advocate for member interests!

Additionally, with the threat of catching COVID-19 a very real liability issue for businesses, action from the

federal government is potentially coming, but states have started to address the issue from a negligence perspective. It is essential that all business owners understand the definitional differences, as they are substantial: think of the difference between how COVID-19 is handled in South Dakota vs. California. Remember, not knowing the law is never an excuse.

And finally, some Good News:

The Treasury Department and IRS on November 9th announced that forthcoming regulations will clarify that state and local taxes (SALT) imposed on and paid at the entity level by partnerships and S corporations will be fully deductible. While the Tax Cuts and Jobs Act limits state and local deductions to \$10,000 for individual taxpayers who itemize, this limitation will not apply to state and local taxes paid by partnerships and S corporations at the entity level. Such entities will retain full deductibility of state and local taxes and can continue to pass-through income to partners and owners. The rules will be effective for partnership and S corporation taxable years ending after December 31, 2017!

As a counterpoint to the federal focus of most of these items, please remember that Tip O’Neal’s axiom that “all politics is local” is still accurate. Your personal involvement in local politics can help limit bad or misleading narratives that lead to some of the strange ballot initiatives – like what we saw pass in this last election. Whether it is the argument that municipalities should pay for legal representation for residents facing eviction because 98% of the property owners are represented ... ignores the fact that the court requires the partnership/LLC/Corp to hire representation. It is only by engaging with elected officials and yes, the media, will the truth come to light.

Calm, steady voices are needed even more during a crisis.



Weather the Season

Four Ways to Leave Winter Remodeling Challenges Out in the Cold

By Sulema Vela, Southern Division
Pro Director, The Home Depot

Winter weather often exposes vulnerabilities that potentially can require extensive and expensive home maintenance. Unfortunately, most owners only realize that their houses are not ready for the season when snow is falling or a high utility bill arrives.

As the fall season concludes, now is the perfect time to help your customers refine their homes for the approaching weather shift.

Whether you are in the middle of a remodel or selling the value of proactive maintenance, there are plenty of opportunities for improvements that can deliver the comforts of a warm, fully-functional home at a manageable cost.

The following four strategies are essentials for any successful winter weatherization checklist.

Reinforce the Attic

Many homes – especially older models – lack the proper amount of attic insulation to successfully retain heat. Fortunately, the attic also is among the easiest areas of the home to refine for the winter.

Different regions of the country have different recommended R-values, which define how well a building resists heat.

Use The Home Depot’s attic insulation calculator to determine your area’s recommended R-value and estimate how much insulation will be required for a particular attic. If applied properly, insulation can reduce overall energy costs by up to 20 percent.

Modern insulation also can deliver benefits beyond temperature control. Merchants from The Home Depot worked with Owens Corning to develop Pure Safety High Performance Insulation, which helps maintain healthy air quality. Available only at The Home Depot, this insulation is asthma and allergy certified by the Asthma and Allergy Foundation of America.

For added benefit, the Owens Corning offering also is fire resistant and deters noise, helping your customers sleep better knowing their family will be safe and healthy.



Mind the Gaps

To combat chills, many home owners simply opt to crank the heat, which works in the short-term but proves costly by season’s end. Quick fixes, such as sealing gaps and cracks, prove much more cost efficient. The average home has enough air leakage to fill a two-foot square hole – per Department of Energy estimates, this is the equivalent of leaving a window open all day.

Recommend a thorough property walk through to determine the areas of the home that are most susceptible to drafts. Keep an eye out for holes, cracks and other gaps that can invite cold air, particularly near doors, windows, vents and pipes. If these areas need repair, foam sealants, weather strips and caulk offer low-hassle, low-cost fixes.

Pipe maintenance also becomes more critical as the threat of a freeze rises. As you complete your walk through, be sure to evaluate internal and external pipes for cracks or insulation inconsistencies that could cause damage or disrupt water service. A burst pipe costs an average of \$5,000 to repair, according to the Insurance Institute for Business & Home Safety. On the other hand, pipe insulation costs less than a dollar per foot, and a smarter recommendation.

Heat Smarter

Why should your customers pay extra to heat unoccupied rooms? Recommend an upgrade to a modern, smart thermostat that reduces the toll on HVAC systems while also adding a contemporary feel to the home. These thermostats sense movement and room occupancy, and automatically activate and shut off heat to match. Chances are your customers have heard of smart thermostats, but have hesitated to upgrade in fear of installation challenges – this is a perfect opportunity for you and your team to take the lead.

For added convenience, recommend a new option like the ecobee4 with specialized technology that makes the thermostat more accurate and

convenient. This model allows you to connect up to 32 room sensors to ensure even temperature across the home, and also features Amazon Alexa Voice service for simplified control.

A Bright – and Efficient – Idea

Shorter days and longer nights mean more electricity usage. Recommending a change to energy efficient light bulbs is a simple and often overlooked way for customers to keep costs down.

LED bulbs use 85 percent less energy than regular incandescent bulbs, which can lead to significant savings. However, many customers have been reluctant to switch due to perceived weaker light quality when compared to incandescent alternatives. Fortunately, modern LED bulbs can provide rich, natural lighting.

The Cree 75-Watt replacement LED R20, for example, is one of the brightest R20 LED bulbs available. Exclusive to The Home Depot, this bulb is a great option for areas of the home where customers want the most light, such as rooms with high ceilings. It also lasts more than 20 years, so customers won’t have to worry about climbing a ladder any time soon.

Successful weatherization often is the result of thorough consultation, and the ability for you and your customers to detect and address potential hazards before they become large-scale problems. Take precautions to ensure your remodel work can withstand the rigors of the season, and spare your customers from the chills, frustrations and expenses that far too often define winter.

Sulema Vela is responsible for the Pro business in The Home Depot’s Southern Division, leading a team of more than 80 Pro Account Representatives in an area that encompasses 700 stores across 13 states. She has more than 18 years of experience at The Home Depot, starting in 1999 as a part-time cashier while she earned her Bachelor’s degree in business administration. During her time at The Home Depot, Sulema has served in a variety of roles and capacities – including department supervisor, assistant store manager, store manager and district manager.



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Kentucky Investor Answers Housing Need in the Community ... and His Retirement Income is Boosted in the Process

By Kent Kinzer

David, an active real estate investor from Kentucky, helped a family in need of housing and earned a 12-plus percent return for his retirement account in the process. An Equity Trust Company account holder, David used his self-directed IRA to purchase an investment property. This transaction earned him the title of Equity Trust's Self-Directed Investor of the Year.

John Bowens, Equity Trust's National Education Specialist, recently interviewed David for a Q&A about the details of this deal.

John: Congratulations, David. You've been investing in real estate for a while, but can you explain how you got into self-directed real estate investing?

David: It was just an option that came available by rolling over my 401(k). I was able to make quite a bit more money on the on the rental properties as opposed to the stock market, plus I was able to get involved in people's lives to mentor them and bring a light into their world.

John: When you rolled over your account to a self-directed traditional IRA, were there any type of tax consequences or penalties?

David: No.

John: Tell us about your first deal in your self-directed IRA. How did you get money from the account? How did you work with Equity Trust and facilitate the closing?

David: All I had to do was have my attorney put Equity Trust with my name and IRA on the title during the closing.

I told my contractors, "I cannot pay you out of my own pocket. I will submit your bill and then (Equity Trust) will send you a check." Everybody seemed to be fine with that. It worked very nicely and the checks went out very quickly.

John: So it wasn't in David's LLC, personal property trust, or land trust; it was in his Equity Trust IRA. From there, as David described, all repairs were paid for from the IRA. And of course, all rental income goes directly back into the IRA.

The rental homes that you own outside of your IRA, obviously those are taxable income-based assets. But the properties in the IRA are tax-exempt.

At Equity Trust, we always encourage folks to work with their CPA, accountant, or other financial professional. We're a custodian that provides education and custody services, but not tax, legal, or financial advice.

David, let's jump into the transaction you submitted to become the Self-Directed Investor of the Year.

David: I got a call from a young lady. She told me her house had burned to the ground and she and her four children were living in a hotel, and she was unable to find a four-bedroom home. I told her we didn't have any four-bedrooms, we only had three-bedrooms.

And then her situation was put out on Facebook and seen by a friend of our son in Chicago. He called us to see if we could do something about it. I asked the Lord, "Father is there something about this that you're wanting me to be involved in?" And it seemed like it was.

I had my Equity Trust account set up. I called our Realtor, we went and looked at a home and liked it. I called the young lady at the hotel and she came down with a couple of her kids and looked through it. She was delighted.

The next day we placed an offer on it through my Equity Trust IRA and purchased it.

To make it suitable for her, we did a little bit of remodeling. It was a bit dysfunctional because to get



The kitchen of David's investment property before (left) and after renovation.

from the living room to the kitchen, you had to cross a bedroom diagonally from one corner to the next. We took that bedroom out and made a hallway, a straight hallway into the kitchen, and then used the rest of that bedroom to add a second, first-floor, full bathroom.

The stairs were dysfunctional and unsafe. We tore those out and made them safe again with the proper headroom. We put in a separate HVAC system upstairs and made two nice bedrooms up there.

John: You converted what was a three-bedroom into a four-bedroom house, added two bathrooms and then obviously the HVAC system upstairs. It was \$96,000 purchase, and your IRA covered \$47,000 in rehab.

And how much in gross rent is coming in monthly?

David: \$1,500.

John: Your approximate cash on cash return on investment is 12.5 percent.

When we're talking about the cash on cash return on investment, David bought this property free and clear in cash with his IRA funds. And he paid for all the repairs in cash from the IRA.

It's important to understand that when your IRA buys a property, your IRA must finance 100 percent of the repair costs. Taxes, insurance, utilities, all rehab, all these expenses were paid for from David's IRA.

Why did you do the deal 100-percent outright in cash with the IRA funds rather than turning to a bank, private lender, or hard money lender?

David: Because this deal will make more income for my retirement than what I would get through the stock market. Plus, the value of the house is now greater than it was and continues to appreciate.

John: As you pay expenses, how do you access cash from the Equity Trust IRA to facilitate the expense payments? How do you get money back into the IRA?

David: When the contractor submitted a bill, I entered that amount into the website for my Equity Trust account. And then Equity Trust would send a check directly to him within three or four days. And I have the tenant's rent going directly from the Kentucky Housing Corporation to Equity Trust. That's done the first day of every month automatically.

John: What David's describing there is using the online portal myEQUITY. This is a technology system that enables David to simply log in and request where the funds need to be sent.

In this case, David is sending a check, and that's getting mailed out. But we also have the functionality to send funds out via ACH direct deposit or wire

transfer.

Great opportunity. It's making a significant return on investment: 12-percent, cash-on-cash. But I want to emphasize that this transaction didn't start with "I found a good deal...I want to execute on doing it to grow my IRA." It started with a need of a local community member.

David: That's correct. This young girl needed a place to live. And we were able to purchase this home for her to rent.

Read about more of David's rehabs at www.trustetc.com/blog.

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Kent Kinzer is Senior Marketing Manager, New Business Development at Equity Trust Company.

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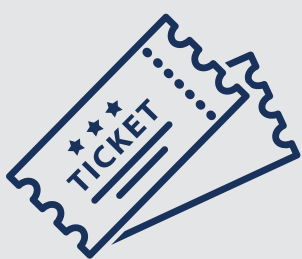


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Don't Let the Bedbugs Bite You or Your Wallet

By Bradley S. Dornish, Esq.

I remember the good night saying “Good night, sleep tight, don’t let the bedbugs bite” from my childhood. But for many years, I didn’t think bedbugs were real, and for many more, thought they were extinct. Recently, however, they have come back, and are the scourge of hotel and multi-unit apartment building owners in many cities and towns. In New York City, there were over 11,000 bedbug complaints last year, and data suggests that over 400,000 New Yorkers were battling the pests.

Over one Summer alone, I dealt with half a dozen bedbug issues in Pittsburgh and Western PA, concentrated in the college areas. All of this means it is time for another primer on these little blood sucking bugs.

First, you need a few facts about the insects themselves. Bedbugs are straw colored to reddish brown; the more blood they hold, the redder they appear. As adults, they are between a quarter of an inch and three quarters of an inch long, and oval, with side to side bands across their exoskeletons or shells. Before feeding on blood, they are flat. After feeding, they look like plump, red drops of blood.

A bedbug can survive for over a year, its entire life span, without food or water, in a temperature range from below freezing to 120 degrees Fahrenheit. All in all, these are pretty tough pests. To make matters worse, each female lays up to 400 eggs per year, the eggs hatch in about ten days, and the young mature in five to eight weeks. They are not quite as efficient in reproduction as roaches, but with those numbers, they can spread pretty rapidly.

The good news is they don’t fly or have spider webs, so they have to crawl from place to place, or hide in cardboard, moving pads, fabric or crevices in wooden furniture. And



although bedbugs suck blood, there is no evidence that they spread aids or any type of disease from person to person. They just come out mostly at night, bite their hosts and can leave itchy red welts, or even rashes in allergic individuals.

There is a bedbug sniffing dog in Pittsburgh (really), and similar dogs are available in most larger cities. They cost around \$300 per unit, or over \$1,000 per day to sniff out problem units. The dogs are worth it in larger buildings, because they tell you where you need to treat. You can kill the adults by cooking a room to 130 degrees for over three hours, and come back a week later to spray the eggs with pesticide. These combined treatments typically cost \$800 to \$2,000 per unit.

Now that the cost has your attention, the next question is who is responsible

to pay for the treatment, the landlord or the tenant? The answer really depends on your lease. In my lease, there is a time frame separation between landlords’ and tenants’ respective responsibility for pests. Any pest problem reported within fifteen days of move in is presumed to be landlord’s issue. Any later complaint makes the cost of treatment the tenant’s responsibility. The PAR form lease has boxes which can be checked making the cost of pest treatment the tenant’s or the landlord’s responsibility. Make sure you know what your lease says about pests before you get your first bedbug call.

What if you read your present lease, and don’t like what it says about your responsibility for pests? You can change the language for new tenants and in renewal leases for existing tenants, as long as the changes in language still comply with the Plain Language Consumer Contract Act (in PA). The consideration for the change is the offering of possession, or the offering of a renewal lease term. But that doesn’t work for existing tenants in the middle of a current lease. You can’t just give them a changed lease form to sign for the rest of the existing lease term and meet the consideration requirement of the law. You have to give them some cash, a rent credit, or offer something else of value in exchange for their signatures on a new lease adding more responsibilities for them.

What about your own home? To start with, be careful when you travel. Bedbugs are a growing problem for hotels in many urban areas of the United States and foreign countries all over the world. Inspect hotel sheets and mattresses for signs of bedbugs. Their droppings look like ground pepper in crevices and along seams of mattresses. The translucent amber exoskeletons are shed in the same places, and in headboards and any small hole, crack or crevice nearby. The eggs are oblong, about the size of a pinhead, have what looks like a lid at one end, and are

usually clustered in groups of ten to fifty.

Bedbugs can travel in suitcases, shipping crates or cardboard boxes, or on clothing, and pass easily through airport security. So, when you travel, keep your suitcases on the folding suitcase trays hotels provide, and don’t put your suitcase or your clothing on beds, carpets or fabric covered furniture. When you arrive home, unpack away from your bedroom, wash the clothing in hot water and dry in a hot dryer if possible, store your suitcases in a very hot or very cold attic if you can.

Next, remember that the cardboard boxes in which goods are shipped all over the world also make a good home for bedbugs and other pests. Don’t bring cardboard boxes into your home if you can remove items outside and get rid of the cardboard. If you buy used furniture or textiles, inspect them thoroughly before bringing them into your home. If you have furniture, mattresses or appliances delivered, ask about bedbug prevention steps taken by the delivery crews, and particularly how they sanitize their moving pads. If they remove old mattresses when they bring new ones, ask how they separate them on the truck, and make sure your new mattress comes out of the truck in sealed plastic wrapping.


After all of this, know that if any of your tenants get bedbugs, it doesn’t mean they are dirty or unfit. It just means they haven’t known about some of the risks, and were unlucky.

Bradley S. Dornish is a licensed attorney, title insurance agent and real estate instructor in Pennsylvania. He can be reached at bdornish@dornish.net.

**** Editor’s note: National REIA recommends the use of ClearVue Bed Bug traps in the war against bed bugs. Visit www.bedbugtraps.com for more information. ****

DID YOU KNOW?

Whether or not vacation season drives bed bug activity is yet to proven, but that’s no reason to risk bringing back unintended baggage.

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American Dream Turned American Nightmare?

By M. Jane Garvey

Our Founding Fathers introduced the revolutionary idea that each person's desire to pursue their idea of happiness was not self-indulgence, but a necessary driver of a prosperous society. They created a government to defend that right for everyone. The American Dream will continue to evolve in anticipation of and in response to our world. The right to pursue happiness and the right to disagree about what "happiness" means makes the American Dream powerful. This drives the economic engine leading to a thriving U.S. free market.”¹

The pursuit of the “American Dream” is one of the many reasons people choose real estate investing. It is perceived to be a way of using one’s skills and resources to build an income stream over time and increased prosperity allowing them to not only survive, but to thrive and have something of value to pass on to their family. Unlike investing in stocks or bonds, they can invest their skills and labor to make their assets grow.

Over the last 40 years I have met many people from all backgrounds who have chosen real estate investing as one of the vehicles used in pursuit of their dreams. Each looked at its

many facets and decided what fit them. Their interests, talents, resources and connections all had an impact on their choice to pursue their dreams through real estate. Their experiences along the way molded their journey and results. Those journeys and results vary more than I could have ever imagined.

As a result of the diversity of choices, we all experience different challenges along the way. Those that invested in areas with wild-fires, floods, hurricanes, earthquakes and other natural disasters have had things to deal with that only affected them. Government induced problems have affected different sectors of real estate from time to time. Tax law changes, landlord tenant laws, zoning laws, and many other “tweaks” result in the destruction of some peoples’ investments and opportunities for others. The choice to join in as the market takes off has resulted in many disastrous investments for individuals that weren’t able to tell the difference between an opportunity and a disaster waiting to happen.

The disparate impact of forces affecting real estate values and the individual’s ability to navigate the ever-changing reality shows up in very different results for different people. As one investor was losing

property in foreclosure during the last recession, another was buying that same property at a bargain price. It is difficult to get the industry as a whole to respond to problems in one sector, as others are waiting to take advantage of the opportunities coming after the disaster. It is up to us as individuals to pay attention to what is happening and adjust. All of that said, it is still imperative that all of us defend the right to individually own property that was granted to us in the constitution. Our rights are currently under assault by various levels of government. We need to come together to defend those rights, or our American Dream, achieved through real estate, will become our American Nightmare.

You still have the right to pursue your dreams in America. As of today, real estate remains a viable means to do that. However, caution and due diligence are of utmost importance. Opportunities are being touted by many in markets where government regulations have made it impossible to achieve your income goals through hard work. Do your homework to find out why a bargain is a bargain, and make sure that the problem is something you can fix. Challenge yourself to find sectors and investing techniques that are less

impacted by regulatory confiscation. To move forward we need to remember to find a need and fill it. We are seeing massive changes in where people want to live, how they shop, where they vacation, and where they work. All of these things impact the viability of various real estate sectors. Are these changes temporary? Are there opportunities that you can find brought about by these changes? How can you hedge your bets? Deal hunting season is upon us, but it is up to us to make sure that we are hunting the right deals.

¹*The Balance, updated October 20, 2020, What Is the American Dream? The History That Made It Possible by Kimberly Amadeo.*

Jane Garvey is President of the Chicago Creative Investors Association.



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Take the Taxing Out of Tax Time

By Gita Faust

As a real estate investor, a great majority of the work you do is going to be out in the field—meeting with buyers and sellers, scoping potential properties, overseeing any renovations—so you hardly have time to sit at your desk, take a deep breath, and open up the books. Unfortunately, there seems to be just as much to do behind the scenes as there is on the main stage, but your focus understandably remains on the big picture... until tax time rolls around.

Somehow it always seems to surprise all of us - "It's that time of year already?!"—even though it happens at the same time every single year. The stress and panic ensue until your office is turned upside down, and the one thing that prevails is all the things you need to send over to your tax preparer. I am going to let you in on a little secret: all this stress, and panic, and chaos as you cram to get the back-office bookkeeping done... it will likely cause inaccuracies in your numbers.

Before you dive into a bout of more stress, more panic, and more chaos, I am going to let you in on another secret: it does not have to be like this.

How to Prepare for Tax Season

Believe it or not, tax season does not have to be the most stressful time of year for you. I know it is easier said than done, but you have to start preparing for it at the beginning of the year by tracking all your income, expenses, and everything in between. To make life a little easier, here is a list of all the things you should be tracking consistently throughout the year:

- HOME OFFICE.** When you work in a home office, you need to keep track of all the expenses associated with it. Depending on your situation, whether the expenses are solely for the office or for the whole home, so track and send all details to your tax preparer: the total amount, the square footage of your office, and the square footage of your entire home.
- VEHICLE.** The vehicle you use for your business might be in your name or in your business name. If it is in your name, you should be meticulously tracking mileage and for what it is used (and, lucky for you, there are apps for that!). If it is in your business name, then you just need to track the actual expenses incurred as long as it is only used for business.
- ESCROWS.** Make sure you are accounting for the real estate taxes and insurance paid by your mortgage lender—a.k.a. your escrows. You need to keep track of this balance so it will reflect accurately in your books down the line.
- CLOSING.** If you purchased any properties throughout the year, you will need to provide closing documents (HUD) and refi documents to your accountant or tax preparer.
- LOANS.** If you have any loans, you need to obtain documentation of the loan balance at the end of the year. On the same statement, you might find the escrows balance and the construction loan balance (if you have one, of course). Make sure you keep track of the agreement and contract from any private loans—these agreements should always be in writing.
- PARTNER/SHAREHOLDERS** Partnering to close deals reduces stress and accelerates growing your wealth. In the process partners and shareholders may loan money to/from the business. When you do so have a blanket agreement stating the terms of loans.
- BANK.** The bank and reconciliation statements should be one of the last things you collect since



you will need to provide year-end statements.

- CREDIT CARD.** Make sure that you keep track of credit card statements throughout the year so you can send them to your tax preparer. Many banking institutions keep these statements in their online portals, so you might be able to download it from there.
- PAYROLL.** You will also need to submit a year-to-date (YTD) payroll report, so ensure that it is ready to go when you have to send over everything else. I recommend segmenting the gross payroll and employer taxes in your books to get a clearer picture of what your actual expenses are.
- CAPITAL IMPROVEMENTS.** Capital improvements increase the value of a property; prepare a list of these purchases with the dollar amount, to whom it was paid, and when it was paid. It helps to itemize capital expenses so your accountant can determine whether or not they qualify for bonus depreciation.
- FINANCIAL STATEMENTS.** Of course, you will need to provide the standard financial statements—Profit & Loss and Balance Sheet—but make sure that you provide them for both your business as a whole and each property, whether you flip or rent or do this or that.
- ESTIMATED TAXES.** Send your accountant an estimate of how much you paid to the IRS in federal, state, and local taxes throughout the year for the tax year.

Hopefully, this list can get you on the right track for the upcoming tax time and every tax season after that. Your tax preparer may need something that is not listed here, so be sure to clarify with them what documents they will need so you can stay on your A-game.

How to Keep Track

As a company that handles cleanup, catch-up, and bookkeeping, we have had a lot of experience with clients panicking pre- and post-tax season. However, many of the clients we have use accounting software like QuickBooks Online and Desktop to keep their books organized and centralized. When you compare these clients to the ones who use manual methods, you can see the difference in stress levels when tax season nears.

Generally, we see the most success when investors

keep their books on an accrual basis in accounting software (This is not to say that you can't track on a cash basis, but it becomes convoluted and complicated when loans come into play); that way, they can check their cash flow, analyze ROI for each property, and see how their business is really doing.

Before you start to sweat, it is never too late to start organizing your financials. As a partner of National REIA, we want to help you get on track and stay on track. That is why we exclusively offer NREIA members discounted QuickBooks software as well as three free months of HammerZen—so reap the benefits of your membership and have confidence in your books.

The Bottom Line

What it all boils down to is being prepared. All the information we provided above is intended to be a guide that helps set you in the right direction when you are reconciling your books—but you have to be proactive on your own, too. Do your research, find an experienced tax preparer, and stay ahead of the curve so that when tax season arrives, you already have everything wrapped up nicely and neatly.

Gita Faust is the founder & CEO of HammerZen, which helps businesses save time & money by keeping track of The Home Depot purchases and efficiently importing receipts and statements into QuickBooks. National REIA members receive discounts on QuickBooks services and software. Learn more by visiting www.hammerzen.com/nreia.

How to Start 2021 Off on the Right Insurance Foot

By Mark Gannaway, CPCU

For most of us, Winter is a great time to snuggle up to a warm fire, have your most-favorite refreshment close at hand, and get out all your insurance policies and understand what you actually purchased to protect you and your investments.

Of course, we always highly recommend reading from the first to the last page and getting with your insurance professional to discuss any questions you may have.

To help you get your 2021 started off on the “right insurance foot,” we thought it might be practical to give you the following snap-shot, and it is only a snap shot, of the exclusions we have in our own insurance programs as well as most of our competitors in the investor market space. Again, these are just some of the coverages we exclude and may or may not apply depending on the individual claim.

Landlord Investor Property Exclusions

- Foundations, retaining walls, docks, swimming pools
- Water leaking in through the basement walls causing water damage
- Damage caused by animals
- Damage resulting from lack of maintenance, wear and tear, contractor workmanship or liability causing damage to the property
- Freezing Pipes or Fire Protection Systems unless reasonable care
- Mold
- Slow Water leaks
- Wear and Tear
- Neglect of the Property by the Insured
- Asbestos – Excluded or Very Limited
- Nuclear or radioactive contamination
- Utility Failure or Power Interruption
- Mechanical Breakdowns – Limited or Excluded
- Intentional Acts by the Insured or their employees
- War and Civil War – never thought I would have to list that one but with this country being such a mess right now, who knows.
- No Flood Coverage
- No Earthquake Coverage
- Builder’s Risk – Limited or Excluded
- Contractor’s Equipment
- Cost to Evict Tenants or Squatters
- Homeowner Coverages – an example for that would be contents, boat or automobile coverages

Renter’s or Tenant Insurance (HO-4) Exclusions

- Tenant’s Medical Bills
- Tenant Automobiles are not

covered for physical damage. Examples not covered: The garage door caused damage to the tenant’s automobile and they filed a claim for the damaged automobile. A tenant damages the house they were moving into with a U-Haul, not covered.

- Flood Coverage
- Earthquake Coverage
- Cost to Evict Tenants or Squatters
- Tenant Coverage if participating in Athletics and an injury occurs
- Dangerous Dogs

Business Owners Policy Exclusions

- Injuries that occur on properties that the Insured owns, but does not conduct business at, ie single

family homes that are purchased and then sold or held for rental income and future sale. These single-family homes must have a Landlord Investor policy with Liability Coverage.

- Doesn’t cover Worker’s Compensation if a contractor or sub-contractor is injured while working at an owned property.
- Motorized Vehicles
- Products Liability or Completed Operations
- Flood Coverage
- Business Income
- Cost to Evict Tenants or Squatters
- Automobile Coverage
- Contractors you hire
- Professional Errors and Omissions Coverage

Investor Landlord Liability Coverage Exclusions

- Doesn’t cover Worker’s Compensation if a contractor or sub-contractor is injured while working at an owned property.
- Products Liability or Completed Operations
- Cost to Evict Tenants or Squatters
- Tenant Coverage if participating in Athletics and an injury occurs
- Dangerous Dog List – Limited or Excluded

Special Deductibles

- Wind / Hail Deductibles
- Vacant Property
- Vandalism and Malicious Mischief

Continued on Page 12

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Know Your Value During Times of Crisis: Be a Problem-Solver

By Whitney Nicely

It is not news to anyone that we are living through unprecedented times. The world has gone crazy during 2020 and no one really knows how long this will all last. But, there is one thing that has become very apparent to me over the last few months and it is a super power that all true investors have: we are problem solvers. So, from one problem-solver to another this time of crisis presents an amazing opportunity for you to get up, get out there, and help.

I did not always really understand how valuable this problem-solving capability is to people. In my family, it was kind of second nature to troubleshoot and find a solution for problems that came up. Turns out, though, that not everyone works that way. Times of crisis tend to also bring out mental blocks for a lot of people. Lots and lots of people get stuck in a rut when things go crazy and they just cannot think clearly enough to find a path through. They need help navigating the problem and finding a solution. This is where real estate investors can provide such a great resource for the community.

I don't know if you realize it or not, but people need what you have to offer! Your skills and talents in seeing a problem and working a solution is SO beneficial for a lot of people. Especially when we are talking about property struggles and real estate issues, we all know how much frustration can come up. Crap happens. I have personally dealt with everything from having a septic system back up into the bathroom in a triplex to figuring out what to do when an appraiser was super late in an early Monday morning meeting. It is life and things get messy, but our job is to figure out the next step through the mess to help us keep moving forward in our goals. This problem-solving skill is



so important for both our business and the well-being of those we help.

But, here's the thing: in order for this great gift to actually be helpful, we need to have big hearts to help. Because as things are crazy in our lives with jobs, marriages, and all of the other things going on in our lives, we do not have tomorrow promised. Especially during times like this, we barely even know day-to-day what is going to happen. What I do know is that you need to help people, whether it is sellers who just can't stand one more issue happening or whether you are helping a seller who has a sick parent or kid and just needs an out! As real estate investors, it is our job to help people solve their problems!

Right now, it is hardly about the money and the millions of lives changed through real estate investing. It is all about you helping sellers right now. And just as people are unsure about what is happening in the world on a day-to-day basis, there are so many people who do not know what they are going to do if a tenant moves out, or, if

the septic backs up and they need to pay out of pocket to fix it up. If you want to be a real estate investor, this is your chance to step up and help. People need you and what you have to offer, now more than ever.

In a good economy, you can find sellers who need help, but in a bad economy that number just multiplies. You really do not have to look very far to find people who need to dump a property because life happened. There are a million different situations that might have happened that have brought them to the place where they need the solution you bring to the table. YOU can help. You have the tools and answers to help free them from the problem in their life and, bonus, you can get a blessing back, too. Real estate investors are problem-solvers and this time of crisis has brought plenty of problems that need to be worked out.

If you start telling people the pieces of the problem that you can help with, you will be amazed to see how many sellers start popping up into your life.

But, you have to have the heart to help and actually be willing to share that strength of your problem-solving skill. You need to realize what you have to offer to the world right now. Opportunity is everywhere around you. It is time for you to step up. Don't just be an investor in statements only. Get out there and share what you can do to help solve the problems that exist and be ready for the blessings that will surely follow.

Whitney Nicely rejected the southern girl path of working at her family's trucking business and embraced the life of an investor. Her first nine months made her over \$140k, and set her on the path to empowering other women to break into the real estate "good 'ole boys club" and break down barriers while making some serious cash. She is the President of Knox REIA and was featured in the RE Journal's "Member Spotlight" in Spring, 2016. Learn more by visiting SheBuysIt.com.

How to Start 2021 Off on the Right Insurance Foot ... continued from Page 11

- Liability

I think two of the most important things to remember when it comes to insurance is, number 1, the wording; "This policy covers against all risks of loss arising out of direct physical loss or damage to property or to interest hereunder, except as herein amended, excluded, or endorsement." In other words, damage that has occurred over a long period of time is usually excluded. Water damage and mold immediately come to mind. The second most important thing is what are your duties if a loss has occurred. Here is what our insurance policies say:

NOTICE OF LOSS, DUTIES AND RESPONSIBILITIES

- The Insured shall immediately report in writing, to the Underwriters, a description of every claimed loss or damage which occurs and may become a claim under this insurance immediately after it becomes

known to the Insured.

- Notify the police in case of loss by theft or vandalism,
- Protect the property from further damage or loss,
- Make reasonable and necessary repairs to protect the property from further damage or loss,
- Keep an accurate record of repair expenses necessary to protect the property from further damage or loss
- Make a list of all damaged or destroyed property showing in detail cost quantities, costs, actual cash value, amount of loss claimed, and any other information Underwriters may require,
- Attach all bills, receipts, and related documents that substantiate the figures in the list, Underwriters will not reimburse for the costs of repairs unless records and receipts are provided.

- Exhibit the damaged property as often as the Underwriters may require, submit to an examination under oath, and
- Do everything possible to preserve any rights to recover loss from others. If the Insured should do anything to impair the rights of recovery by Underwriters, the loss will not be covered.

If you have been to one of our webinars, speaking engagements or read any of our previous articles, then you know we "preach" reading each section carefully, especially the Exclusion Sections listed. We also strongly suggest, any questions you may have about your insurance policy should be sent in writing to your insurance provider and have them respond in like manner.

And now to make my General Counsel happy, remember this is only a small example of what may or may not be covered in your insurance program. Each claim that you submit to your insurance provider is independently

presented, reviewed by a professional claims adjuster and stands on its own merit.

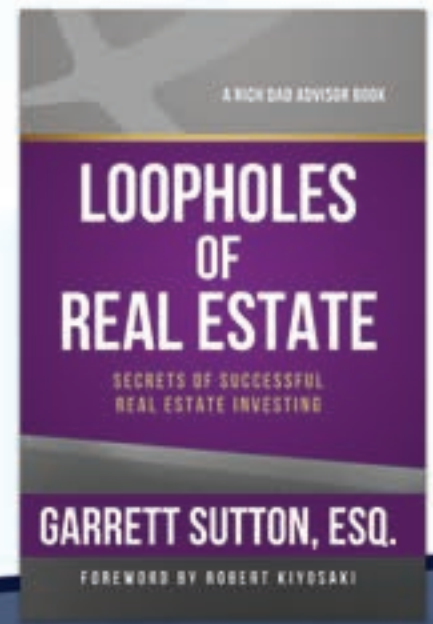
Take care, enjoy reading your insurance policies, and let's hope 2021 is a year we can get back to living a "normal" life again.

Arcana offers members of National REIA multiple insurance products specifically designed for Investors and their tenants. Features include no underwriting or inspections, 24/7 desktop & smartphone certificate delivery system, outstanding claims management service, and a very knowledgeable & courteous staff to handle your insurance needs. Learn more by visiting www.nreia.arcanainsurancehub.com.

Mark A. Gannaway, CPCU, is the Chief Executive Officer and Founding Partner of Arcana Insurance Services, an all-lines property and casualty managing agency that's been working with real estate investors since it began in 2005.

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Member Spotlight - Terron and Kevin Perk ... continued from Page 1

in Memphis. During my 20's I worked in the music industry at various recording studios in Memphis. Kevin and I moved to Ft. Lauderdale in 1999 so we could live near the beach. I ran the Adopt-A-Street litter collection program and managed 4,000 volunteers. So now, managing a few renters seems kind of easy. Then, after four years we decided South Florida wasn't for us and our money would go further back in Memphis. We began RE investing from our living room while Kevin worked full time.

Kevin: I'm originally from the Washington, D.C. area and moved to Memphis for a Master's degree in City and Regional Planning at the University of Memphis. I worked for various private and public planning agencies before working my way up to Planning Director of Fayette County, TN. In 2006, I got to "retire" from government work and joined Terron as a full-time real estate investor.

Where is your current market and what is your focus or area of expertise?

Our rentals are mostly 1-8 units in Midtown Memphis where we also live. It's a cool neighborhood with lots of restaurants, music venues, live theater, colleges and most importantly a high rental demand. Our property management company only handles the units we own, because we just couldn't figure out how to make money in property management without working a lot more. We have a solid base of tenants and have not had too many issues due to COVID-19. We had a few small discounts on rent in April/May, but no evictions. We did have a few tenants move due to job loss, but we able to fill the vacancies quickly.

Almost all of our rentals were distressed when we bought them. In our early years we did a lot of the rehab ourselves, but then, later, we were able to hire it out. Most of our rentals were built in the 1920s, which makes repairs a lot of fun. With prices having gone up so much we haven't bought anything lately.

How did you get started?

We were living in Florida and were quickly growing tired of the rat race and our government jobs. It was hard not to notice the real estate boom in Ft. Lauderdale in 1999. We watched Robert Kiyosaki on PBS and bought his book, Rich Dad, Poor Dad. We then read lots of books on investing (no YouTube back then) and attended a few REIA's in South Florida. We decided to move back to Memphis to invest where our money would go further and joined our local REIA, the Memphis Investors Group (MIG). Joining MIG was one of the best choices we made. For our first purchase, we followed Kiyosaki's advice and bought a duplex where we lived in one side and rented the other half (aka house-hacking).



Kevin speaking at the Memphis MIG meeting.



Kevin's book signing at a MIG meeting.

Describe a typical work week for you as a real estate investor:

Well, we try to work as little as possible which was always the passive income goal. During our first 5 years we worked ALL THE TIME. Days - doing deals. Nights and weekends - painting and swinging hammers.



Terron speaking at the Memphis MIG meeting.

But now after 17 years, we only have to spend a few hours a week managing our staff and contractors, usually by phone. We go to our properties occasionally to inspect renovations and repairs. We do some networking with other MIG members. We are always looking for new investments and analyzing deals - it's like a sickness for investors.

How long have you been investing in real estate?

We started in 2003.

Tell us about your first deal:

We bought a duplex in a great neighborhood and probably paid full price. But the rental income from the other side paid our PITI (principal, interest, taxes and insurance) so we could live in our side for free while we learned how to invest. Then we moved into a SFH (single-family home) we bought off the HUD list. We outbid a local Realtor/Investor who actually knocked on our door to make sure we were living there as an owner/occupant because it was such a deal. Then, we later turned it into a rental after we moved into our current house.

How do you fund your investments?

Any which way we can. We have used Fannie Mae loans, commercial loans, private lenders, and funds from our Self-Directed Roth IRA. Kevin's writing attracted private lenders who liked what we do and



Kevin & Terron visiting the palace of Versailles in France - dreaming about flipping it!

Continued on Page 15

Member Spotlight - Terron and Kevin Perk ... continued from Page 14

have lent us hundreds of thousands of dollars over the years.

Do you have a real estate license?
Terron has a broker’s license and owns Perk Realty which mainly buys and sells apartments for them and the occasional flip.

What projects are you currently working on?
Toward the end of 2019 we decided to simplify our lives and sell some apartments and our office. With interest rates for buyers so low and prices rising in our area, it just seemed like a good time for profit taking. We have sold about a third of our units. Currently we are working on streamlining our business and working even less...Love that passive income!

How much time do you put into your real estate education?
In the beginning it was like going back to graduate school. We studied a lot! We took a lot of more experienced investors out for lunch. We always attended our local REIA meetings and seminars. We have spent a lot of money on several courses and a few boot camps. There is a lot to learn and you need to figure out what RE strategy fits your personality and your goals. Now we try to give back and help new investors.

Has coaching or mentoring played a part in your success?
We never paid for direct coaching. Joining our local REIA and having access to local experience was invaluable. Each meeting we learned that one detail that we could apply to our business and make or save more money.

What are your current and future goals?
Streamlining and diversifying our real estate investments. We are thinking about getting into private money lending or joining a syndication.

What has been your top struggle in this business?
The daily grind of maintenance on 100-year-old properties. Also maintaining a business day to day is a lot harder than the gurus let on.

What do you like most about what you do?
Time. We have very flexible schedules. We also get to improve our neighborhood by rehabbing historic homes and apartments. We really just like architecture and restoring buildings.



One of their Midtown apartment buildings.

Do you have a tip or advice that you would pass along to other investors?
You will make more money if you hire people faster to replace yourself in your business. Be the investor, not the lawn guy or the cleaner. Your end goal should be simply finding deals, making decisions and cashing checks.

How important is joining a local REIA to a new investor?
Critical. The local advice and networking you get for very, very little money and time is amazing. We have bought apartments at meetings and found most of our contractors, accountants, and attorneys through our local REIA. Every meeting teaches us one more tip that either saves or makes us money.

What is your favorite self-help or business book?
The first RE course we purchased was Lou Brown’s The Whole Enchilada. It was the first seminar Terron attended and paid \$2k for the course. Kevin was upset at this large expense early in our career. But, we listened to all 20+ tapes (yes, cassette tapes) and learned a mountain of information on being a landlord, making deals, and renovating.

The E-Myth Revisited by Michael Gerber is fantastic for stopping the “busy work” of your business. The 4-Hour Work Week by Tim Ferriss is basically how we

try to structure our business and time.
And of course, Kevin’s great book, *Advice From Experience to New Real Estate Investors*.

Do you have any interesting hobbies or something unique that you like to do?
We both like to travel and only have five US states left that we haven’t visited. We really like to explore National Parks. We read a lot, hang out with friends, and have a spoiled cat.
Interestingly, Terron sings alto with the Memphis Symphony Chorus and has been on the same pub quiz team for 20+ years. Kevin loves to plays racquetball and men’s indoor soccer.

Does your business have a website?
KevronProperties.com
SmarterLandlording.com



Before (left) and after (right) photos of the central property.

Times –They are a-Changing ... continued from Page 1

the fourth is the way we prepare for the next global scourge. All of these changes have implications for the real estate market – some more direct than others. Through the course of the year there has been one sector that has managed to prosper and that sector has been housing. It has been spurred by everything from record low mortgage rates to millennial interest in single family housing and the desire to leave densely populated urban environments for the suburbs and exurbs.

It is a little hard to remember but this crisis started for the US as a supply chain issue. That was back in the day when the virus had not affected the US all that much but was sweeping through Asia. Suddenly the whole premise of the Just-In-Time system was challenged as global cargo slowed to a crawl. The supply chain was no longer reliable and business was forced to rethink everything. This challenge to the old patterns had started prior to the pandemic but this crisis accelerated the pace of change. It has been determined that over 70% of companies doing business overseas have placed supply chain diversification at the top of their list. This has meant moving production out of China to some degree. The nations that have benefited from this shift have included Vietnam (65% more business with the US than in 2019), Mexico, India, Sri Lanka and many others. There have been some businesses that have engaged in reshoring to the U.S. but only if they have been able to substitute technology and robotics for human labor. China is certainly not losing all of the clout it has as a global supplier and never will but its dominance has been challenged to a significant degree and supply chain diversification is here to stay.

Demand for Warehousing

In addition to that diversity strategy there has been a return to warehousing and inventory management as the reliability of that old supply chain is in question. The JIT system was predicated on the efficiency of that global supply chain. With the collapse of that efficiency there has been a radical slowdown in ocean cargo activity. The explosion in demand for warehousing is unlikely to fade anytime soon and business will now have to learn to cope with the financial implications of holding much more inventory and for longer periods of time. The construction sector has seen a dramatic increase in demand for these facilities. In addition to the surge in warehouse construction there has been a corresponding surge in development of distribution centers as the consumer has shifted dramatically to the online option.

The shift in consumer patterns had begun before the pandemic of course. Online sales have been pushing the brick and mortar store into the background for quite a while but the restrictions that have been placed on retail have accelerated that process. The assessment thus far is that lockdowns have boosted the share of sales from just over 11.0% to over 16% in just three months. This is the highest level that online has achieved thus far and it is expected to keep growing now that millions of people have become more



familiar with the process. This has been bad for the traditional store but has been a boon for the online purveyor and especially for the parcel delivery operations that have exploded in order to keep pace with demand. The growth of warehousing has been connected to online expansion as well as there has been a growing need for distribution centers. One of the significant challenges to come will revolve around taxation as local communities are watching their tax base erode as local stores are replaced by delivery of an online sale.

Another major adjustment that has been required of all of us relates to how we work and where. There had been talk of working remotely for many years and in fact many people have been in that world for a long time as they traveled a great deal and learned to operate from hotel rooms and airports and temporary facilities. The requirement to work remotely has been a dominant feature of the lockdown and appears to have become a long-term strategy. There have been both advantages and disadvantages to the remote set up and it will take a while to fully explore what works and what doesn't. It is assumed that at some point the pandemic threat will have eased enough that people can safely return to the office but the question will be whether they will want to and whether their companies want them to.

There are many jobs that lend themselves to remote work. These are the tasks that have always been done individually anyway. The challenge is to accommodate the jobs that are supposed to be collaborative. The supervisor now has to adopt the "management by objective" strategy thoroughly and that is not proving to be easy. Assignments have to be spelled out in excruciating detail as there is little opportunity to check progress without a flurry of e-mails and virtual meetings. Supervisory roles will have to be reduced at some point. There are already challenges in terms of adding new employees as they don't know any of the people they work with and have no opportunity to get to know them. There are already complaints of isolation and concerns that people will have little opportunity to impress employers and co-workers. The patterns of discrimination that still exist are likely to worsen as people have fewer opportunities to meet and know those they work with.

This is likely to be the sector that will have to change most as the pandemic threat ebbs. The push now is towards some kind of hybrid system that allows time in the office as well as at home. The advantages of remote work include reduced expenses for the company and for the workers as they have reduced commutes. In many cases there has been an increase in productivity but studies are showing that this is taking place among the higher paid employees and senior level managers. The lower level workers and those with limited skills are not improving and their productivity is falling.

A Need to Plan Ahead

Finally, there is the need to plan for the next such threat as it is obvious there will be more to deal with in the years to come. In just the last several years there have been threats such as SARS, MERS, Zika, Avian Flu, Marburg, Ebola, and a wide variety of seasonal flu outbreaks that regularly kill thousands of people. COVID 19 will not go away either and will become a seasonal challenge as well. The failure to monitor this outbreak and the lack of testing procedures left the world with only draconian responses such as the economic lockdown. That will be insufficient if the world desires to avoid a repeat of 2020 every year.

That will mean a focus on global public health and monitoring and that will not be simple or cheap. Finding that budget will be extremely difficult given the financial situation most nations find themselves in but failure to do so will guarantee a series of economic and health disasters that will cost far more.

Taking all of this into consideration what are the realistic expectations as far as economic recovery in 2021? The majority of the analysis calls for some pretty rapid growth in Q1 and Q2 (as well as in Q4 of 2020) but enthusiasm will be tempered by the fact there was a decline of over 34% in Q2 of 2020 and subsequent numbers are coming on top of that major decline. There have been assertions that growth will be in the double digits for the early part of the year and then settle down towards historical levels by the end of the year (somewhere between 2.5% and 3.5%). There are no signs of an inflation spike despite the influx of cash from the government. Wages are being kept low by high levels of unemployment and commodity costs have been kept under control by limited demand. The Federal

Reserve has all but declared that it will ignore inflation for an extended period of time – even if it exceeds 2.0% or even 3.0%.

The unemployment picture will be mixed next year as it has been this year. On the one hand the rate of unemployment reached as high as 20% in May of this year and has only slowly retreated. At this writing, the U-3 rate was at 7.9% (down from the previous month's reading of 8.4%) while the U-6 rate was still in double digits at 12.9%. The jobless crisis has been highly targeted in this recession with the vast majority of lost jobs in the low wage service sector. Most other sectors of the economy have not felt much impact from unemployment but that could start to change if there is a discernible decline in consumer spending and enthusiasm. If that demand ebbs the manufacturers and others will feel the pinch. Despite the fact there are some 40 to 50 million people out of work and looking there continue to be major labor shortages in manufacturing, transportation, construction, high tech, medical and any other sector that requires specialized education and training. Those that lost their jobs are generally low skilled and lack education and their options are limited.

One of the big mysteries surrounds commodity pricing. Where will oil prices be next year and what can be expected as far as metals and agriculture? All of these have been in flux this year and for much the same reason. Producers expected a year similar to 2019 at the start of the year but that expectation was soon dashed. There had been some accumulation of supply to meet expected demand and when that demand evaporated the producers scaled operations back. The price of oil fell to the 20s and 30s and didn't get back to the 40s until mid-summer. This is where the per barrel prices have remained as there has yet to be a recovery in demand. This has been the same pattern for the industrial metals and other commodity categories. The crisis has also affected agricultural as demand evaporated as restaurants were shut down for weeks and weeks. The rest of the world was also over producing and that caused a price decline. The expectation for 2021 is that demand will rebound enough to allow producers to reduce some of their inventory overhang and even to resume production. Prices will likely rise a bit as demand returns but the pace of that demand recovery will be crucial. If there is a sharp rebound the demand will exceed supply quickly and producers will not be able to keep up at first. It could take months before some kind of equilibrium gets established.

The best that can be said at this point is that 2021 will be marginally better than 2020. How much better will depend on factors such as the speed of vaccine distribution and the speed of the lockdown's end. Most importantly the progress will depend on the consumer and their willingness and ability to resume old patterns.

Chris Kuehl, PhD., is an economist and Managing Director of Armada Corporate Intelligence. Visit www.armada-intel.com for more information.

If I Have to Listen to One More Real Estate Speaker's Sales Pitch. . .

By Lou Gimbutis

Coordinating the speaking schedule for the REIA can be a tough business. In each chair within a crowded meeting room sits an individual with a very different background, skill-set, knowledge base, and set of experiences from the person sitting next to him.

In one chair sits Nancy Newbie, who's never done a deal but finds real estate investing fascinating, and is looking for the knowledge, techniques, and, most importantly; the confidence to inspire her to do her first deal.

Next to Nancy sits Bobby Beginner. Bobby has done a few deals, screwed them up to some extent, and is looking to learn to refine his techniques, increase his knowledge, and move forward at a faster pace.

Not far from Bobby, in the front row, sits Harry Homebuyer. Harry is a full-time investor, and makes his living completely from real estate investing. Harry is here because he knows that one single technique, learned and properly applied, could be the difference between him getting or losing a deal in the next year. One bit of information, put into effect in the right way and at the right time, could cause him to structure his next transaction to build in an additional \$5000 in profit for the exact same amount of work, all other things being equal. One small tidbit could allow Harry to change his marketing and increase response rate by 25%, thereby either increasing his income by 25% or cutting his marketing budget by the same amount.

I've been a member of my local REIA since I first strapped on my seatbelt and boarded this incredible vehicle called Quick-Turn Real Estate in 2004. Since then, I've filled the shoes of Nancy Newbie, Bobby Beginner, and now Harry Homebuyer. In all three situations, I've gotten something of value from every single speaker that I've ever listened to, from local to national speakers.

Putting Things in Perspective

Local speakers give us a perspective on what's going on in our own backyard, as well as the confidence to know that the methods and techniques we're studying do indeed work where we live. Local speakers are also better able to present information in a straightforward, nonbiased way, as they have no motive of self interest in delivering information (no course to sell you).

National speakers are a very important component of any REIA's lineup. A large portion of the proceeds from their sales of materials and seminars goes directly back into the REIA, to cover hard costs and to provide funds to allow for strong member benefits. They tend to be better, more polished speakers, and better able to move us emotionally and motivate us to action. They expose us to new ideas, fresh concepts, and a different way of doing things. That some portion of their presentation



contains a pitch to sell their products is a necessary evil at worst and a strong benefit at best. These fine individuals are unlikely to travel the country at their own expense and use their valuable time to speak to organizations of strangers without some motive of self-interest. The benefit is that many of our members want, need, and are very willing to pay for this information, the quality and nature of which would be unknown to them without the ability to hear the speaker's detailed presentation.

What We Need is Balance

I think a REIA without either of the two on their schedule would be a sad animal indeed, and more unbalanced than a 3-legged camel. There are only so many local speakers with valuable knowledge and a willingness to share their knowledge in front of a room full of people. Not only would we grow tired of seeing the same people speak month after month, but we would eventually begin to suffer from what marketing genius Dan Kennedy calls "Intellectual Incest." When we are not exposed to fresh and new concepts from different areas around the country, our intellectual growth is naturally "stunted."

On the other hand, a REIA with only national speakers giving presentations would be equally lacking, and would begin to give the unsuspecting investor the sinking feeling that while these concepts may look great on a PowerPoint, they probably don't work here in the local area.

I remember driving from western Michigan to Chicago to attend a three-day "sell-a-thon." You know the kind, where 30 speakers each get an hour or two to speak, thereby forcing the inevitable sales pitch to take up a large percentage of their available time. The "pitch" takes about 20-30 minutes, whether the speaker has all day on a Saturday, or 60 minutes total. One of

the speakers was Mike Butler, covering the topic of landlording. Mike didn't get much time to speak, but one thing that he said will always stay with me, and has shaped and molded a large part of my property management philosophy.

To paraphrase Mike (it's been three years, I sure can't quote him), he said that 99% of all the emotional knots that uneducated landlords tie themselves in, almost all of the stress and anguish that landlords put themselves through, is self-inflicted and very easy to cure.

When you're flying by the seat of your pants with no firm set of policies, and a tenant calls and says the rent will be late because (terrorists broke into my house and seized my refrigerator, I lost my car, works been slow . . .), you have a decision to make. The thought process behind that decision is the root of almost all the stress most landlords face. When you have a firm set of policies that you never deviate from (rent is due on the 1st, late on the 2nd, eviction notice goes in the mail on the 2nd), you free up a huge amount of focus and emotional energy, and also "train" your tenants to pay on time.

Folks, my very first tenant kicked my butt emotionally. The rent was never there on the 1st, there was always some stupid excuse, and I'd always have to make multiple trips to the house to pick it up myself. Time after time I put this lady in the passenger seat of my car and drove her to the liquor store. Just to get a money order so she could pay me in funds that could be documented. That was before I listened to Mike Butler's "pitch." Since then, I've probably had around 20 different tenants or tenant/buyers. The other 20 combined have caused me less stress than the first one, because I followed Mike Butler's advice to the letter.

The Value of the 'Pitch'

I didn't buy Mike Butler's course. I didn't pay a nickel to see him speak. But

how much was it worth to me in terms of peace of mind, restful nights, smooth property management, and literally thousands of dollars in enforced late fees collected over the last 3 years, to see his "pitch?" This is but one of many, many examples.

So, in closing, if I have to listen to one more real estate speaker's sales pitch. . . I will almost certainly get one or more solid ideas that I can use to propel my business forward. We tend to find what we search for, and if you're searching for value, you can't possibly find more of it than you will with your local REIA's speaker lineup.

Lou Gimbutis, owner of Property Solutions, has been buying and selling houses full-time since 2004, first in Michigan, then in 2007 after moving to NC in 2007. He is a member of the Metrolina Real Estate Investor's Association.



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The Pros and Cons of Out-of-State Investing

By Alex Capozzolo

In the age of technology, investing in real estate from a distance has become easier than ever before. Fortunately, most Americans also have access to smartphones and wifi, which enables them to do business on the go and from afar. Although there are new technology-based tools to make out-of-state real estate investing easier, it does come with pros and cons.

Today, we dive into the benefits of out-of-state investing, along with the disadvantages that investors need to work through. Currently, I live in Santa Cruz, CA and invest 3,000 miles away in Philadelphia, PA.

Outsourcing Property Management

Whether you invest 3,000 miles away, or even 300 miles away, distance forces you to outsource property management. It is a blessing and a curse.

For the properties that are easier to take care of, property-managing yourself seems like the right move. It is a way to save money each month versus paying a property management company. Typically, in Philadelphia, we pay 10% of the monthly rent as a property management fee to have the property properly managed.

Overall, I consider this a pro. For the properties that we recently renovated, the management is usually low stress because not many things break or need to be repaired since everything is new. In this case, it can sometimes still be a good idea to property manage yourself if you can. However, if you are investing from a distance, that may not be an option.

For properties that are a headache, outsourcing this role is extremely relieving. If the property has not been renovated recently, minor repairs can keep your phone ringing consistently. At times like that, many investors wished they hired a property management company. Additionally, if the unit has a unique layout and suffers from vacancies frequently, it is also nice

to hire that part out.

Overall, property management is not an easy part of the process, but if you are investing from miles away, there are some major benefits to outsourcing this role and duty.

Can't Attend Networking Events or Meetups

Networking is a huge part of real estate! All of us that have been around for a while know that. Although I can attend networking events out here in California (at my local REIA meeting) and still gain value from them, it is not the same as being able to meet local Philly investors face to face and shake their hands.

There are, however, many online platforms that allow investors from all over the world to connect, which is helpful. Unfortunately, not all investors use this method, so there are networking opportunities that are being missed out on from not being present in the market that you invest in.

I've created Meetup Groups before that were fully virtual for Philadelphia investors. We gained some traction, but I learned that it is difficult to inspire people to get on the computer each week for a meeting.

Overall, there are business opportunities missed from not being able to attend in-person networking events when you invest in real estate from a distance.

Can't Meet With Sellers In-Person

I would consider this both a pro and a con. My skills of talking over the phone to property owners have increased dramatically since I sometimes have to buy their property over the phone.

Before actually settling, I will of course send someone out to the property to confirm the condition. However, with FaceTime capabilities and photo sharing, I can sometimes skip that step and buy it sight-unseen.

If a property is receiving tons of offers, it is helpful that I can buy over the

phone because it speeds up the process and makes my offer more convenient for the seller. That is a huge benefit.

There is also a disadvantage to not being able to meet sellers in person. Certain people just don't like talking over the phone. It is as simple as that! They appreciate meeting someone face to face, sitting down with them, and getting to know them that way.

Also, there are times when homeowners are not very tech savvy, so they are not likely to take photos of the property for you or FaceTime with you if you need to see the condition of

the property. For cases like this, I work with other partners to attend a seller meeting and work the deal from there.

Alex Capozzolo is the owner of Brotherly Love Real Estate (www.brotherlylove-properties.com), a member of San Diego Creative Investors Association and a content writer for the real estate industry. Alex's focus is on helping people through one of the most important investment decisions of their lifetime by seamlessly providing fast, honest, and professional real estate services.

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REOs, Short Sales & Foreclosures: Which Property Type Best Aligns with My Strategy?

By Than Merrill

Real estate investors are constantly looking for new ways to find great deals. Whether it be an original marketing strategy, a trending lead generation tool, or a negotiation technique to help you move forward, the most successful investors are consistently up to date on the industry’s current workings.

The best deals come from motivated sellers who are willing to sell properties below market value. As it turns out, there are several options for investors looking to get ahead of the competition, including short sales, foreclosures, and REO properties. While these properties can offer some of the same attractive benefits, there are a few differences to keep in mind as you search for deals. Keep reading to compare short sale vs foreclosure vs REO properties and decide which exit strategy is right for you.

What Is A Short Sale?

The term “short sale” is a colloquialism that is frequently used to describe the process of selling a home for less than is owed on its outstanding mortgage. Short sales are common amongst distressed homeowners who exhibit a propensity not to pay their mortgage obligations. The clearer it becomes that a homeowner won’t pay their mortgage, the more likely a lender is to allow the owner to conduct a short sale. In allowing the short sale, the lender is granted the opportunity

to recoup any of the potential losses they would suffer in the event of delinquency. The homeowner, on the other hand, avoids foreclosure and any resulting blemishes on their credit report. Neither homeowners nor banks look forward to short sales, but the fact remains: at some point, they are the best option for both parties.

What Is A Foreclosure?

A foreclosure is the direct result of a homeowner’s inability to keep up with their mortgage obligations. In its simplest form, however, a foreclosure is a severe “penalty” levied on delinquent homeowners who do not abide by the contract they originally signed. Once a borrower breaks a contract, the lender has the right to foreclose on the property, seize the asset, and evict the homeowner. Not unlike short sales, foreclosures are not optimal for either party involved. Homeowners who experience a foreclosure will suffer severe financial ramifications. On the other hand, lenders will miss out on the money they were promised in the original mortgage underwriting. However, to avoid further losses, the lender will attempt to sell the home at auction once it has been repossessed.

Investing in Short Sale vs. Foreclosure Properties: Pros & Cons

Both short sale and foreclosure properties result from homeowners who either fail to repay their mortgage or may not be able to in the future,

creating a scenario in which the sellers are motivated to sell quickly. There are a few differences to keep in mind, however. Foreclosures occur when the bank takes over the property and often happens after homeowners have abandoned the home. On the other hand, short sales are sold by the property owner—though they are often sold for less than the outstanding mortgage balance.

Due to the differences, there are unique advantages and disadvantages to each property type. Here are some of the pros of foreclosure properties:

- They are often sold below market value, meaning investors can often secure better deals when compared to properties listed on the MLS.
- After taking control of the property, banks often want to liquidate the asset as quickly as possible.
- Cash buyers can increase their likelihood of walking away with a deal, as most foreclosure properties are sold at auction.

While the benefits of foreclosure properties are impressive, there are a few cons:

- Many foreclosures are sold at a real estate auction, which can be intimidating to some investors. Brush up on our guide to real estate auctions to ensure you are prepared.
- Foreclosures are often sold “as is,” meaning they can be distressed or

require immediate maintenance. However, foreclosures are often sold at a lower price, so the profit margins may still be large.

While foreclosures can present a unique opportunity for real estate investors, the benefits of short sale properties are not to be ignored. Here are just some of the pros of finding short sale properties:

- The biggest advantage of a short sale property is its price; they are sold for much lower than the house’s market value, allowing investors to secure potentially large profit margins.
- The selling process will play out similarly to a traditional sale. While there are negotiations and meetings, investors will often find the short sale process to be straightforward.
- Short sales can also have some benefits for the homeowner. By going through a short sale rather than a foreclosure, the homeowner can save money in legal fees and prevent extensive credit damage.

There are also a few cons to keep in mind when looking for short sale properties:

- Short sales are only profitable for patient investors: getting an offer approved from the lender that is selling the property can take up to a few months.
- The extended time frame of the

Continued on Page 22

How 2020 Can Positively Affect Your Assets in 2021 ... continued from Page 1

we made the decision to acquire some short-term rentals. Being in Phoenix, we focused on winter visitors looking to escape the cold for three months. We mapped out how and where we wanted to buy, considered if any of our current properties could work in this model, determined the platform we would use to advertise, and evaluated the ROI for this model versus traditional renting. We executed our plan and eventually bought six homes and condos that worked well for winter visitors, but also have been filled year-round with other short-term renters. They have been great investments so far, generating four times more income than a traditional rental. But the big question is, will they be the same in 2021?

Pivot Usage Type

Continuing our story, due to COVID-19 our winter visitors are not booking like they have in the past. This has led us to a healthy discussion on how we can pivot the primary usage of our properties to ensure they are still income generators. That discussion created a lot of questions:

- Is it time to convert these short-term rentals into more of a traditional model?
- What would we do with 6 washers and dryers, 18 beds, 8

couches, dining room tables and more?

- What happens next year if the rentals come back?
- Will that require \$30,000 for furnishing those units again?
- Where is the market today in regard to new homes in a hot market like ours?

Answering those questions led us to decide to keep these properties as furnished short-term rentals, but to switch our focus to people who are between selling their existing home and buying a new one.

This decision then generated a whole slew of new questions, such as how would we find renters, what would we charge for rent, and how are these renters different from winter visitors? All valid questions that we are figuring out. My next step is to visit the realtors in the new home communities to let them know what I have available. Although this is a new strategy that pivots from where we were previously, I am confident it will work based on our analysis.

These are just two of the many topics we review in-depth each year. Every rental is unique and poses different challenges and opportunities.

In addition to the two key areas

we discussed, we also consider the following:

- Location: Is it time to sell or acquire based on what is happening in a certain market?
- Tenants: Are we happy with our current tenants or should we be looking for someone new?
- Government regulations: Are there changes that help or hurt our investments?
- Improvements: What does each property need to ensure it is desirable?
- Taxes: How do changes in state, county and city taxes affect our bottom line?
- Vacancy: What vacancy rate do we aim for to ensure short- and long-term profitability?
- Policies: Do we add, alter, or eliminate current policies to entice renters to stay or rent?

Performing this type of analysis will easily help you identify whether you are currently in the best position with your properties or if you need to change a few things. These property-specific questions are great, but you also need to consider how you manage your property. Is it time to hire a property-management company, or can you continue doing it yourself? Are there

available technology platforms that help you onboard tenants, manage, and collect rent?

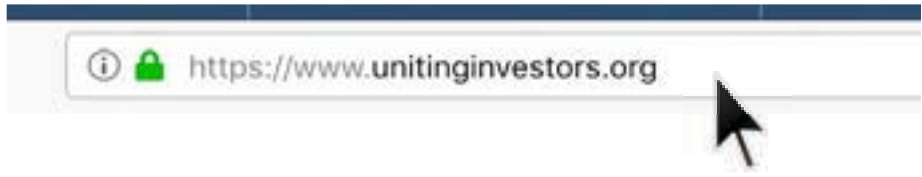
No doubt there is room for adjustment or improvement in how we manage our properties. Although 2020 has taken most of us into uncharted territory, investing the time to map out your 2021 goals will make you a better investor and manager. After all, U-turns or adjustments are okay as long as they help us successfully reach our destination.

David Pickron is a Landlord and Owner of Rent Perfect. His company provides a free online platform for managing rentals starting with online rental applications, background checks, online lease signings, move-in inspections, renters insurance, and online rent pay all from your phone or desktop.

Rent Perfect is a preferred vendor of National Real Estate Investment Association. They offer the most accurate & thorough credit & background screening available. Members of NREIA receive a discounted set up fee. Learn more at www.rentperfect.com.



UNITING INVESTORS



What is Uniting Investors?

Uniting Investors is an online community brought together by the alliance of The National Real Estate Investors Association, American Rental Property Owners and Landlords Association, the Real Estate Investors Funding Association, and the National Note Buyers Association. Together, these associations have chosen to create an environment where their members can both connect with one another, as well as learn from those with more experience. Visit www.UnitingInvestors.org to sign up today.

Benefits of Joining Uniting Investors?




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REOs, Short Sales & Foreclosures ... continued from Page 20

short sale approval process can also be intimidating because investors are not guaranteed to be approved by the lender. It is important to avoid missing out on other investment opportunities while waiting for a short sale.

Is Short Sale Better Than Foreclosure for Homeowners?

When purchasing a home, no one imagines that they will fall behind on their mortgage payments and one day lose the property. That’s why, at least when it comes to choosing between foreclosure vs. short sale for homeowners, the best option is the one that minimizes the negative impact: short sales. A short sale enables homeowners to sell the property to pay back the bank for the missed payments. This also allows them to be in charge of the selling process, and prevents banks from repossessing the property, benefiting both parties.

Foreclosures can also result in lengthy legal proceedings for both the bank and homeowner, costing thousands of dollars over time. There are a few types of short sales, depending on your mortgage, that can provide homeowners with more control over the selling process. As a whole, short sales offer homeowners the chance to avoid the severe effects on their savings and credit that can happen due to a foreclosure.

Tips for Buying Short Sale Properties

Short sale homes can represent an attractive opportunity for investors if they know what they’re doing. Follow these tips for buying short sale properties:

- **Work With The Right Team:** Find an experienced real estate agent in your area who can help you identify short sales in the area. It is also beneficial to find a title officer who can search for all the liens attached to a potential property.
- **Do Your Research:** Check the home’s market value, so you don’t make an offer that is significantly less than market value. Short sales can represent a good deal; however, owners may still reject offers that are dramatically lower than the value.
- **Be Patient:** Lender approvals can take anywhere from a few weeks to a few months when it comes to short sales. Investors should be prepared for a longer time frame when compared to a typical real estate transaction.
- **Secure Your Finances:** Make sure you go in having already secured financing to ensure your offer is accepted. Investors who are pre-approved for a mortgage and/or have a large down payment are more likely to be approved than those who do not.

If you are interested in finding these types of deals in your market, be sure to read our five-step guide to finding short sale properties.

Tips For Buying Foreclosure Properties

The foreclosure process can have a

lot of moving parts, which is why it’s important for real estate investors to familiarize themselves with the process beforehand. Read these tips on buying foreclosure properties:

- **Estimate Renovation Costs:** When buying a foreclosure, it is crucial to estimate how much the potential renovation costs will be and what price the finished property will likely sell for. Read our guide to learn how to estimate the after rehab value and determine the profitability of the deal.
- **Be Ready for Competition:** Foreclosed properties are public record, making them easy to find. However, this can also mean more competition from other real estate investors.
- **Go Online to Find Properties:** There are a few websites that list foreclosure properties, including RealtyTrac.com and Zillow. Investors can also check county records online, but doing so can take longer than searching more specialized websites.
- **Find the Right Financing:** Look into the different types of funding available for foreclosures. Investors may find success with commercial loans, FHA loans and more.

Read our guide to finding foreclosure properties to help identify these deals in your area.

Investing In REO Vs Foreclosure Properties

A real estate owned property (REO) refers to a property that has been foreclosed on and taken back by the mortgage lender. There are a few similarities in foreclosure vs. REO property, though REOs can only occur due to a foreclosure.

There are several pros and cons to buying a foreclosure property, and REOs are no exception. Some of the advantages of buying REOs are even quite similar to those of foreclosures. The biggest perk being that REOs are sold below market value, allowing investors to secure good deals. One difference is that REOs are thought of as a great opportunity for beginner real estate investors, while foreclosures can be intimidating to those who don’t know what to expect. The reason REOs are thought of as easy to break into because the purchase process is as straightforward as possible. Lenders are often searching for a quick sale, and the property will be unoccupied and free of any liens.

There are also a few cons to working with REOs that investors should be prepared for. Just like with foreclosure properties, REOs will be sold “as is,” meaning investors should be prepared to negotiate during the sale process to ensure they receive good purchase terms. REOs are also challenging for some because lenders require their own time table for the sale. This usually translates to a fast sale and closing process, which may be challenging to investors who are not prepared to move quickly. Overall, there are numerous pros and cons that can influence an investor’s decision between a short sale

vs. REO, or even a foreclosure vs. REO.

Tips for Buying REO Properties

The following tips can help anyone interested in buying REO properties:

- **Learn to Negotiate:** Negotiations will be a key part of securing a deal when buying REO properties. Investors should brush up on their negotiating skills before approaching a bank about an REO property.
- **Write an Offer Letter:** When submitting an offer on an REO property, be clear that you are willing to accept the property “as is,” but do not forget to include an escape clause. This will protect you in the event the property has extensive damage.
- **Hire Experts:** You will benefit from working with the right team when buying an REO property. Consider working with a real estate attorney, contractor, and a real estate agent—all of whom can help make sure you land a good deal.
- **Learn the Property Value:** REOs are always going to be priced attractively, but that does not always guarantee a good deal. While you may not inspect the property before submitting an offer, do as much research as you can to ensure it is not overpriced.

Short Sale Vs Foreclosure Vs REO: How Should An Investor Choose?

While REOs, short sales, and foreclosures have many similarities, they also have inherent differences. Whether you invest in wholesale properties, rehab properties, or rental properties, understanding the differences between distressed property types will surely give you an edge. Use our triple Venn diagram (which can be found on www.fortunebuilders.com) to discover how these three property types are related, and use our tips to find the strategy that will suit you best.

Summary

A real estate investor’s ability to find and secure deals will determine their success within the industry. That’s why it is crucial to familiarize yourself with a wide variety of properties on the market. When it comes to short sale vs. foreclosure vs. REOs, there are several differences to consider, but the fact of the matter remains. These properties can offer attractive profit margins. Investors willing to learn the ins-and-outs of each property type may find themselves in the midst of more lucrative opportunities.

Than Merrill is Founder and CEO of FortuneBuilders, Inc. He has bought and sold hundreds of properties nationwide during his investing career and founded FortuneBuilders with the simple idea of sharing his knowledge and passion for real estate with aspiring investors. As a graduate of Yale University and a former NFL player, Than attributes his success in sports, business and investing to coaching, education and systems. Learn more at www.fortunebuilders.com.



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