REAL ESTATE JOURNAL SUMMER 2021



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Benkelman, Neb., and currently lives in Council Bluffs, Iowa, with her husband, Mike, and their three children. She has a communication studies degree from the University of Nebraska at Lincoln and owns three businesses. Mike Schlickbernd grew up with a commercial general contractor for a dad in West Point, Neb. He received a degree in business management from Wayne State College and started Schlick Construction in 2004. He and Jeri run their businesses side-by-side. They are members of Nebraska's Omaha REIA.

Please tell us a little about who you are and what you did before getting into real estate investing.

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Be Careful What You Wish For!

By Chris Kuehl, Ph.D.

s the adage states – you just might get it. That is especially appropriate when we examine the course of the 2021 economic rebound.

Not to dwell on the past or to expose the errors made a year ago but the last year has been one of near constant miscalculation. In the beginning it seemed there was near-universal opinion that the pandemic would be short-lived – a few months before the warmer weather and adherence to some protocols would allow a resumption of normal activity. That certainly didn't happen and the ordeal dragged on for close to 14 months.

More miscalculations took place at the start of this year as assessments regarding the recovery were modest. Most assumed that things would be trending positive by the end of the year. Instead, the consumer jammed the accelerator to the floor and the recovery was nearly complete by April. Obviously not all sectors enjoyed the surge and many remain in dire straits today but the growth thus far has been as dramatic as the collapse was last year.

With this rapid rebound come new



problems or at least problems that have not been seen in some time. These are not all the issues that have developed of late but they rank among the more complex and vexing as the current trends can alter quickly – or not. It depends largely on the behavior of the engine for all this activity – consumer demand.

The expectation is for a wider trade

deficit. The record deficit level was set in March and the April numbers are not expected to be quite as wide as it was in March but will still be significant and for the most apparent of reasons.

The U.S. consumer is back in gear and spending aggressively – that much has been obvious since the pandemic protocols

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Using a Key Word Helps You Get the Right Tenant

By Scot Aubrey

forward to slipping on my waders, stepping into a river, and casting my fly rod in search of that trophy fish. But before I do, I always go through a list of things to prepare me for success. I check the local regulations and consult the local guides and experts to see where the fish are and what they are biting. Armed with this knowledge, it is left up to me to identify the specific fish (usually German brown or rainbow trout) I want to cast to and catch.

Landlords across the country are going to be facing a similar situation this summer as the eviction moratorium looks to be ending soon. You will be casting into an ever-expanding pool of potential

tenants and, as a landlord, you want a tenant that wants YOUR house, not just any house. A tenant who just wants any house, in a year when the lease is up, will be ready for any another house. A tenant who wants YOUR house will become a valuable business partner and stay there for years

One of the best methods for helping you find the perfect tenant for your property sounds mysterious but is quite simple and straight-forward; a key word, which might be a specific word or phrase you place in your listings that you request they use when they respond to your listing. With the increased number of online rental platforms available to you, using a key word in your listings will help you in the following ways:

"Please acknowledge in your showing request that you understand this property does not allow pets" is a perfect example of a key word.

What is a 'Key Word'?

Your key word should be something that you use to emphasize specific features or requirements of your property. They may include things like the property characteristics, availability date, smoking policy, length of lease, or anything else *Continued on Page 12*





Connection Lies at the Heart of the REIA Experience

By Rebecca McLean, Executive Director, National REIA

fter a year that forced many of us to disconnect physically from people and processes we likely took for granted, it might seem odd that I want to celebrate connection.

But connection lies at the heart of the REIA experience. There are, of course, the familial and familiar ties that real estate investors have to each other. And then there are the intimate and consequential ties that these investors and their businesses form with the communities that helped give rise to them.

Over generations of service, investors get to know and understand the communities they serve, growing successful businesses that succeed in no small part because they are connected to the community and answer the community's needs.

But these aren't one-way relationships, as we have often pointed out. You can check out the article in our ROI Magazine entitled "Why Real Estate Investors Are Vital to the Housing Market" and my editorial in the same issue (located on RealEstateInvestingToday.com).

We, as investors, have a tremendous economic impact. I talk about it on our quarterly industry update summaries and our annual Update and Forecast.

We support jobs directly and indirectly, providing employment and wages for many people. We generate taxes for state and local governments leading to community safety and improvements. Housing's combined contribution to GDP generally averages 15-

18%. We are the backbone of America as we provide one of the most basic human needs – shelter; and investors do it effectively, creatively, and in ways that support our communities. Our neighborhoods and cities need us.

While our REIA Members have been negatively affected by the pandemic, they have also displayed ingenuity and resilience and are optimistic for the future of their businesses:

- Nearly half indicated that they have increased their use of online platforms to provide homes to families and individuals – both rentals and rehabs.
- More than half have created new or creative ways to work with their residents or clients.
- More than half believe that general business conditions will be better in six months than they are currently.

The findings are remarkable. And while in many respects it feels like we've lost a sense of connection to each other and our families, clients, and suppliers over the last 12 months, it's clear that our members have figured out how to come together to work successfully. In fact, over 90% of our REIA Members have been back at work through most of the last year, overcoming barriers to stay connected safely to each other as a community, business, and business family.

In 2021, the National REIA has begun the year focused on our new website with an enhanced Resource Center, our online community and the already amazing www. RealEstateInvestingtoday.com website, which helps keep you informed of all the industry news and legislative updates. We will continue to expand our monthly REIA Now Zoom Updates and quarterly Roundtables and benefit updates, which bring peers together to experience business and professional growth and support with each other and in which people come together to help you and your business on your journey through treacherous, challenging and even joyful times. We also have been focusing on our Leadership Forums, which brings together REIA leaders seeking to maximize their leadership effectiveness and to stay updated on the best benefits we can offer to you, our members.

We've made these resources available virtually so our members can continue to share their ideas, challenges, and opportunities openly. We are hopeful that we can begin to have sessions in person in this second or third quarter.

Connection will be vitally important to moving forward. There is so much opportunity in our business environment today and as we come out of this pandemic. It will be fascinating to hear about the people who've figured it out, adjusted, adapted, and come out stronger.

National REIA and your local REIA will be there to share the stories and help you reach out and connect with others who can be of help to you and whom you can help, too. That's the power of connection!

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





"Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning." – Winston Churchill

Eviction Moratorium

Federal lawsuits are progressing through the court system across the country against the Centers for Disease Control's eviction moratorium. While the majority of decisions are favoring property owners, the Federal government has not backed down from vociferously arguing their case. In fact, two additional departments have weighed in to support the CDC edict, which is under the Health and Human Services Department, the CFPB (Consumer Finance Protection Bureau) and the FTC (Federal Trade Commission). Both of the latter organizations have focused on reinforcing the current CDC eviction moratorium. They are also focusing on threatening retribution to multifamily properties that do not fully support the moratorium and provide the declaration to residents who could potentially be evicted for nonpayment of

Even before the initial implementation of the CDC moratorium in September 2020, the Housing Coalition, of which the National Real Estate Investors Association is a member, has been very focused on, and strongly advocating for, rental assistance as the real solution. As the old saying goes, money makes everything better. With over \$46.5 billion approved in two rounds of stimulus for rental assistance the focus has shifted to the implementation of the program at the local and state level. Every jurisdiction with over 200,000 population was able to apply directly for the funding. In some areas this has greatly expedited funding, however, states like Illinois have been exceptionally slow to open the program and have implemented rules that directly conflict with US Treasury guidance and FAQs. There's a significant likelihood of hearing those states start complaining as we get closer to September. The Feds are requiring 65% of the money to be spent, and in the hands of property owners before September 15. Unspent funds are to be returned to the Federal government, and possibly doled out to areas that did spend their funds in a timely fashion.

There are 2 tranches of funds: the first is

the December 2020 for \$25B. The second in March of 2021 for \$21.5B, with the latter funds there are less restrictions. Because of this reduction in regulations for the second tranche, tenants that were disapproved for CARES money or the first tranche many qualify under the second. Please be sure to stay up to date on the latest rules and regulations about your local funding provider through your local Real Estate Investors Association.

Finally, back to the court cases, it is very likely there will be many more headlines as the current cases make their way through however, the administration is signaling that they will continue to strongly advocate for the legal justification of the CDC moratorium, with the White House signaling that the moratorium will likely be extended to the end of September. Even if the Federal moratorium is struck down, there are over 42 states and municipalities that have their own eviction moratoriums. If those areas do not remove them voluntarily, the same legal process may have to take place again and again. Which is a long way of saying, "hold on folks, this isn't over yet."

Family Promise - Pilot Program

Partnering with local nonprofit associations serving to improve the community has long been a tradition of local real estate investors associations. At the national level we've had the pleasure of working with an organization called Family Promise. Several leaders have been invited to meet with them in a unique partnering opportunity. As their focus is to assist families in becoming successful, housing partners are critical to their success. Additionally, every real estate investor knows the risk involved with turning the keys over to the newest resident. Partnering with Family Promise helps to lower that risk and improve the likelihood of success for both the investor and the resident! Please be sure to check out your local Family Promise liaison at www.FamilyPromise.org

Cyber Security

Ransomware is making headlines again. This is a short reminder that if you don't



know who the e-mail is from do not click on a link in the email. If you do know who the email is from, make sure the link is actually taking you to the URL it shows. You can hover your cursor over the link to reveal that. If it is different than the URL spelled out, do not click on that link. Additionally, now would be a good time to doublecheck your backups, backup system, and update your passwords. And while it is often mentally straining and stressful, diligence on setting good passwords, which includes capital letters and symbols and numbers can protect you and your electronic equipment.

One of the low hanging fruits that is often overlooked, are the passwords for cameras. Among the Internet of things (IoT) which comprises a variety of types of electronics many of which are standard household routers, Alexa, Google devices, and Nest equipment, the failure to personalize and update passwords leaves you vulnerable to being hacked. At the very least change the password from the standard password given by the factory. Birth dates and address numbers are also easily hackable. Periodic changes and updates will save you a tremendous amount of stress and keep your privacy, and business protected!

SFH Conversion

With housing affordability and eviction issues looming large on many legislative fronts, it is important to update local legislators, council members and trustees about the impact of economic forces

on the industry. A shrinking pool of lower cost housing combined with the economic incentive of low interest rates, aggravated by ever-increasing regulatory barriers and increasing costs for new housing have all pushed the cost of housing, especially housing for first-time homeowners, higher and higher. At the same time the cost of doing business as a property owner has increased, forcing many owners of single-family rental homes to rethink their portfolio options. A significant portion of owners have been moving towards selling to take advantage of elevated pricing, which only makes sense. However, this has a direct result in limiting the options of affordable housing. If communities desire to support affordable, or more accurately obtainable housing, they will need the expertise and advice of veteran real estate investors but they won't know who you are until you present yourself with solutions. Those solutions can run the gamut ranging from increased renovation focus to affordability programs to reductions in barriers to housing - targeted or general. It is up to local investors to step up and be willing to dig in to help their community - to provide common sense solutions!

As always, be sure to stay up to date by visiting www.RealEstateInvestingToday. com for the latest industry news as well as the latest updates about the CDC's eviction moratorium.

The Tortoise and the Hare in Real Estate Investing

By Bradley S. Dornish, Esq.

In over 25 years of working with real estate investors, and being personally involved in real estate investing for even longer, I have had the opportunity to weigh the advantages and disadvantages of different types of real estate investing. That review has led me to the almost perfect analogy to the old fable of the Tortoise and the Hare.

For those too young to remember the old fables, the hare challenged the tortoise to a race believing it was a sure thing the hare would win. The hare sprinted from the gate at great speed, recognized that he was immediately far ahead of the tortoise, who carried his home on his back as he steadily advanced on the race course. The hare became comfortable with the size of the lead and stopped to pursue other interests. The tortoise remained on track steadily moving towards his objective. In the end, the tortoise crossed the finish line first, much to the surprise of the hare.

I see the almost perfect analogy to real estate investors who focus on flipping or quick turn properties as the hares, and investors who focus on long term holding of rental property as the tortoises. Flipping properties requires a burst of energy and commitment at the beginning and, indeed, for each project thereafter, and returns in a relatively short period of time between the purchase and the sale, a profit, directly measuring the success of the investment.

In contrast, while buying and renovating long-term investment properties requires a similar upfront commitment and energy, the reward for that activity is not quickly realized. The long-term investor does not realize the entire value of the improved real estate by cashing out quickly after the improvements are made. Rather, the investor retains the asset and simply gets a return on the value of that asset, much of which is diverted to paying down the investor's mortgage on the property. The investor's monthly increase in available cash is only a small fraction of the cash realized by the flipping, wholesaling or quick turn real estate investor.

However, the long-term investor realizes a large number of benefits from his or her investment activities over the entire time he or she holds the property. First, there is of course the increase in cash flow from the rent received from the property. Second, there is the increase in net worth which accrues each month in the amount of the principal paid down on the financing of the property. Third, there is any appreciation of the value of the property during the period in which the property is held by the investor. Fourth, there is the availability of depreciation to offset and defer tax liability on other income of the investor. Fifth, there is the increase in cash flow which comes from the increase in the rental value of the property, roughly keeping up with inflation. Of course, once the mortgage is paid off, there is a dramatic increase in cash flow and value which I call the "retirement plan effect" of long-term holdings.

For younger investors, this can be accomplished even with financing extending over twenty years or more. For older investors, a shorter mortgage term is required to reach more quickly the dramatic increase in value and cash flow. Often, current cash flow can be sacrificed



to shorten the mortgage term and increase retirement age cash flow.

Finally, with the mortgage paid off the property is an asset which appreciates roughly to keep pace with inflation and provides a ready source of capital through refinancing or sale to cover more substantial financial needs later in life. Upon the investor's demise, the remaining equity value in his or her properties becomes available to heirs as part of the investor's estate. Substantial assets can obviate the need for life insurance to pay obligations and can provide a supplemental retirement income for a spouse or can be available to cover the cost of long-term health care. Unless our tax structure changes, a long-term capital gain, including the recapture of any depreciation, can be realized on the sale of the investment property, subject to advantageous capital gains tax rates rather than the highest marginal tax rate of the investor. Further, if depreciated property is passed to heirs in the real estate investor's estate plan, the heirs receive a step up in basis to the date-of-death value of the property, and do not pay capital gain tax based upon the depreciated basis held by the deceased. Be sure to always consult your with tax attorney or accountant for the latest in current tax law.

As you can see, none of the myriad of benefits which accrue to the long-term real estate investor are available to the flipping, quick turn or wholesaling real estate investor. Flipping properties is a "sexier" investment with a quicker return, but the value of that investment is simply limited to a one-time return.

As I write this article, I have in mind two ACRE members who have been real estate investors for over twenty-five years. One has remained an active flipping and wholesaling investor, quit his "day job" years ago and has enjoyed a lifestyle which he has been able to achieve from those transactions. His income has ebbed and flowed in direct relation to the ease of credit available to his back end buyers, and over the years he has shifted from doing most of the construction work himself on his flips to hiring others and supervising their work as age has limited his physical stamina.

The other investor used front end flips, lived in properties during renovation to cut costs, and borrowed money from a wide range of sources to begin to grow a long-term portfolio of real estate. That

investor lived a tight financial existence for the early years of his career, but became more and more financially secure and comfortable as time went by. His many rental units paid for themselves, he built his equity, and for years now, he has enjoyed the financial benefits of a longterm investing strategy. He has a large number of possessions including Florida real estate, high end vehicles and jewelry and pays other people well to maintain and manage his various investment properties, while he himself works fewer hours and significantly less physically than the first investor. The second investor's most pressing problems are minimizing his income taxes and maximizing the benefit of his estate plan, while providing for several generations of his family a comfortable living.

The second investor doesn't have to worry about where he will find his next good deal on a flip, or about who will be available to do the renovations or to buy the property when it is fully renovated. He doesn't have to worry about carrying life insurance or long-term care insurance because his assets are more than sufficient to cover those concerns and still provide a comfortable inheritance for his family.

To return to the fable of the Tortoise and the Hare, I believe the second investor, the tortoise, has already won the race. Don't you agree?

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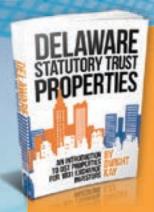
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Georgia Investor Nets 10-Percent Return With Hands-Off Investment Approach

By John Bowens

uy from Georgia was intrigued by the concept of using his Roth IRA to invest in real estate. One aspect had him hesitant to act, though: while it is possible to self-direct your Roth IRA or other account into a variety of assets including real estate, it is important that IRS rules are followed.

For example, you may not perform work on a house you purchase with your self-directed account. In addition, any expenses related to the investment must be paid from the account.

Guy didn't know if he'd be able to spend the time necessary to make sure a self-directed real estate investment was within IRS guidelines.

Plus, when he reached out to others in the industry, such as insurance agents, their unfamiliarity with self-directed investing presented another hurdle he would have to clear.

While looking for a more hands-off approach to self-directed investing, Guy began to research hard money lending online. He uncovered the name of a mortgage broker who seemed to be reputable. He contacted the broker to learn more about note investing.

After a productive conversation and more due diligence, Guy decided self-directed note investing was his path forward. He found a company that could hold alternative assets in retirement accounts – Equity Trust Company – and opened and funded a Roth IRA so he was ready to invest.

Hands-Off Real Estate Note Investing Leads to Steady Profits

Guy decided to work with the broker he spoke to and since then has completed several short-term note investments, each with terms of approximately 12 months. He likes that the broker conducts all the vetting of loan applications, appraisals, and renovation plans, and he weeds out what he considers to be riskier investments.

The broker works with a loan servicing company to handle interface with the borrower and submitting all payments directly to Equity Trust via ACH deposit. Loan servicing costs are covered by the broker out of the 2-percent spread they keep from each loan.

The broker keeps construction reserves in their escrow account. "This allows the broker (and the investor – me) to have a little more oversight on each subsequent draw – he schedules inspections and we both review the report," Guy explains. "The funds aren't released until we're both satisfied."

For a recent investment, Guy purchased a real estate fix-and-flip promissory note with 12 monthly interest-only payments and a balloon payment at the end. Guy directed Equity Trust to send his broker \$109,800 for the purchase of the note.

With Equity Trust's account management system myEQUITY, this step can be completed online. The system walks the investor through the process of initiating the investment, eliminating the confusion that might arise for those unfamiliar with the self-directed investing process.

Guy received monthly interest payments deposited directly into his Equity Trust Roth IRA via ACH. Those deposits, as well as the 10-percent profit, are not taxed.

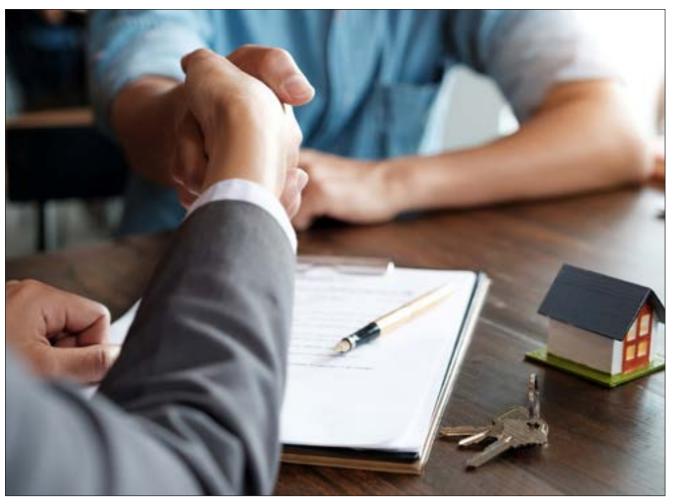
Investing Inside vs. Outside an IRA

Because all income must go back to the IRA, Guy works with Equity Trust to make sure his payments are directed to the proper account. Borrowers can submit their payments online, which are then deposited directly into the appropriate Equity Trust account.

Even though he's working with a broker, Guy carries the ultimate responsibility of vetting out prospective investments. There have been a couple of investments offered to him that he declined after doing his own property and market research.

Guy has found that the notes don't always carry to the full 12-month term. One borrower sold the property early, so the note was paid back to Guy early. In another situation, the repayment period went into the 13th month.

These factors can affect the return on investment (ROI), but in general Guy receives a 10-percent ROI on his notes.



He almost always has at least one active note in his IRA. "I don't know where else I can get 10-percent ROI with

Finding Funding When the IRA Comes Up

the level of risk I'm getting," Guy says.

One of the first times Guy's broker approached him with an attractive investment, Guy didn't have the funding in his Roth IRA for the opportunity. Not wanting to lose the opportunity, he found a solution.

By co-investing his Roth IRA money with money from outside of his retirement account, Guy could put together enough money for the investment. He would invest with the proportions of 28 percent of his IRA money and 72 percent of his personal money.

When co-investing an IRA with another IRA or any other funding source, it's important that all expenses and revenues remain in the same proportions as the initial investment. Thus, any revenue that would come from Guy's note investment would be split, and 28 percent of it goes back into his IRA.

Due to the rules involved with co-investing, Guy's broker resisted proposal at first, fearing the process would become too complicated or an administrative burden.

It was easier than Guy thought to change the broker's mind.

"I mentioned I was using Equity Trust as my IRA custodian, and he said, 'Oh, co-investing is not a problem then. We work with them all the time and we've never had a problem.' It was like night and day when I mentioned Equity Trust," Guy says. "[My broker] has a lot of investors who invest through Equity Trust."

Considering His Family's Future

Guy, who is married with two children, plans to use his self-directed investing to build a legacy. He lives off his pension earned from 24 years serving in the Army. If he does need to draw from his Roth IRA in retirement, withdrawals are tax-free.

Barring any unexpected circumstances, his Roth IRA will be left to future generations, who will be able to take tax-free withdrawals from the account.

Guy plans to continue investing in notes while receiving 10-percent interest as long as he can – he hopes he'll be able to use this strategy until he's 70. He knows the real estate market might not continue to provide these opportunities, so he's researching other hands-off strategies for diversifying his portfolio.

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Visit www.trustetc.com/nationalreia or call 844-732-9404 to learn more.

John Bowens is National Educator and Manager, Retail Sales at Equity Trust Company.

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The Magic of MAO

Calculating How Much to Pay for an Investment **Property**

By M. Jane Garvey

ou hear it as gospel, the Maximum Allowable Offer is 70% of After Repaired Value minus Repair Costs. This simple estimator can probably be credited to Ron LeGrand, and has been promulgated over the last 30+ years by virtually everyone as the way to decide the maximum amount you can pay for a property that you intend to buy, fix, and sell.

Is it magic? Is it accurate? I would like to suggest that it may be both magic and somewhat accurate, but it depends. There are many variables that need to be looked at in figuring out what the expenses are going to be on a rehab. Many of them are estimates which you will need to make. The real numbers will vary by your experience, your speed, the market conditions, the prevailing fees and customs in your market, the accessibility of the property, interest rates, and many other things. The best you are ever going to do is make a good guess, or a crude estimate. With experience you can hone your skills and do a better job of estimating, but it will never be perfect. That is why the MAO formula has stood the test of time as a crude estimate. Unfortunately, with the readily accessible crude estimate, people forget why 70% is the chosen multiplier and change it if they aren't getting offers accepted. This is risky, and uncalled for. In reality, you may be able to do a better job of estimating if you actually put some work into it.

Long before the MAO formula came into common use, I was estimating rehabs and deciding how much to pay. Some of the key elements that you will need to account for vary depending on where the property is. This means that you can run the real numbers and adjust the MAO formula to fit your town, your experience level, the customs and costs in your area.

Estimated Sales Price After Rehab minus Transaction Costs minus Holding Costs minus Desired Profit minus Rehab Costs

= Maximum Amount You Should Pay

Estimated Sales Price (aka After Repaired Value)

This is a good place to begin. Naturally, it is going to be an estimate since it will take you some time to buy, rehab, and resell the property. You can look at what other similar nearby properties have sold for that are in equivalent condition to what you plan to be selling when you are done with the rehab. In a market that is fairly stable, this number will be a good guess. If the market is going up rapidly, you may find that when you reassess the value after you finish the rehab, you can get more for the property. If the market is going down rapidly, you will want to adjust the estimated sales price down by the anticipated drop in value, or more. Clearly, the dropping market is not for the faint of heart, and it will make sense to have other options in mind for when you finish the

Transaction Costs

You need to account for these when buying and when selling. These will vary by the location and local customs.



They also vary depending on whether or not you get financing secured by a mortgage on the property. A local real estate agent or attorney will be able to help you find good estimates for your area.

- **Purchase Closing Costs** A.
- Appraisal a.
- Inspections b.
- Title Insurance (for lender) c.
- Points and Loan Origination Costs
- Recording Fees
- Transfer Taxes
- State i.
- ii. County
- Municipal
- h. Wire Fees
- i.
- j. Buyer's Broker Commission (if not paid by seller)
- k. Other
- Sales Closing Costs
- Survey
- b. Attorney
- Title Search c.
- Title Insurance (for buyer) d.
- **Real Estate Commissions**
- f. Transfer Taxes
- i. State
- ii. County
- iii. Municipal
- Wire Fees g.
- **Escrow Fees**
- i.
- Loan Payoff Fees and Pre-payment penalties
- Home Warranty
- k. Other

Holding Costs

The amount of holding costs you will pay depend on a number of factors. First, and foremost, how long will you hold the property? How big is the rehab job? How fast are your workers? Are the materials available, or will there be delays? Even if you got to work on day 1 and finished the rehab day 2, you still will have holding costs while you find a buyer and get through the closing. Holding costs add nothing to the value, so it is imperative that you minimize them by efficiently completing the rehab and then pricing the property so that it sells quickly. What are typical types of holding costs?

- Utilities A.
- Electric
- b. Gas
- Water Sewer
- Trash

- f. Security
- Other g.
- В. **Property Taxes**
- C. Builder's Risk Insurance
- D. Maintenance
- Lawn care a.
- Snow removal
- c. Pool maintenance
- d. Other
- E. Home Owners Association
- Mortgage interest (or opportunity cost if using your own money)

Desired Profit

If you don't budget for it, you won't get paid. I suspect you went into this to earn a profit that is appropriate for the time spent and the risk you have taken. In the MAO formula, as I recall, this profit was meant to be 10% of after repaired value. Occasionally if you are able to buy the property for less than your maximum allowable offer, and/or sell it for more than the after repaired value (or estimated sales price), you can make more profit.

Rehab Costs

Your rehab cost estimate will vary by the property condition. It is usually made up of two major components - materials and labor. Both of these things vary by time and location, so it is important that you take the time to get bids from contractors until you get comfortable with their pricing. Even then, as we are experiencing right now, materials costs can climb quickly, and labor availability can also be a problem. Sometimes you will not have the opportunity to view the interior of a property, or you won't be able to check to see if the utilities are functioning. If this is the case, you may want to assume that everything needs repair or replacing. I always recommend that you add a sizeable contingency fund, or reserve, for the unanticipated repairs or expenses. Beginning rehabbers may want to make this reserve 50% or more in addition to their rehab budget.

Keep in mind, the maximum allowable offer is a collection of estimates and educated guesses. It is designed to minimize the risk you are taking, but that only happens when you do your best at making those estimates as accurate as possible.

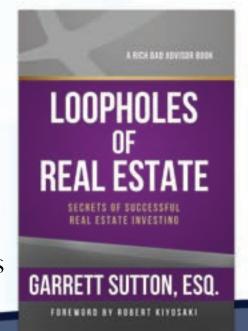
The LeGrand MAO formula is a quick and dirty estimator (neither accurate, nor magic). It is close enough in most markets and allows for a quick calculation. If you need to refine it because you aren't getting any offers accepted, don't just guess - do the math for your area.

Jane Garvey is President of the Chicago Creative Investors Associ-

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Why Learning How to do Your Own Title Searches Pays Off

By Daniel Hart

hen you begin to work with owners directly you can certainly ask them how much is owed on their property, whether it be a mortgage, judgments, tax liens, or perhaps nothing at all. However, it is important to know how to determine this information on your own, because not all property owners are correct, or honest, and because paying a professional to do it each time you have a lead is simply unsustainable. A professional title search costs between \$75 and \$150, and if you process a hundred leads a month you cannot feasibly absorb this cost.

You can check to see if a property has an existing mortgage by searching your County Register of Deeds. When searching a register of deeds database, aside from date ranges, document types, and other criteria to narrow your search, you will always see fields for Grantor and Grantee, and you will need to understand how to use those fields correctly.

When a mortgage (or deed of trust) is created, it is actually given by the property owner, and not the bank. Most people assume it is the other way around because we often talk about "getting a mortgage". In actuality you do not get a mortgage; you give a mortgage. This is important to understand because the giver is also called the Grantor, and the receiver is also called the Grantee. You can remember this by saying: "A granteee.. receeeives." The spelling is wrong, but I am sure you get the point.

So, when you search the owner name in the register of deeds you will be looking for mortgages that they have given to the bank, meaning that you will need to use the property owner name as the Grantor.

Your search results may yield no results, indicating that the owner has not financed their property, or it may show records of mortgages or deeds of trust, which are effectively the same, but differ slightly in technicality and which is used is based on state requirements. You will not need to know the difference until you become your own lender

You can usually view each document shown, and you can then match the legal description shown on the document to the legal description shown in your municipality's GIS (Geographical Information System) or real estate lookup, both of which are online databases of property data that a lot of governments offer for free. The legal description may be summarized into a few brief words, such as the name of the neighborhood subdivision, or the lot and block number from when the neighborhood was created. The latter is most common. It will read like L3, B15, meaning Lot 3 in Block 15 of a particular subdivision.



It is important to check that the legal description matches because it is not uncommon for a property owner to own more than one property, and you do not want to mix them up. Usually the property address is shown on the 2nd or 3rd page of the mortgage or deed of trust, so this will not be an issue, but if for some reason it is not shown you can look for that legal description to be certain. While those records will only show the original date and original loan amount of the mortgage, and not the current balance, you can either guess how far paid down the mortgage may be, or you can use an amortization calculator to get a more accurate estimate by entering the original loan amount, the term, and the interest rate, and counting the number of months that have passed since its inception.

The term of the loan, in years or months, will usually be listed on the mortgage, (if not, assume 30 years, since that is most common) but not the interest rate, as that is found on the promissory note, which is not public record. Fortunately, you can guess the approximate interest rate by the year that the mortgage was originated. Your figures will be close enough to determine if the property is worth pursuing.

If the property owner is behind on payments, in foreclosure, or has done some sort of loan modification, the estimate may be inaccurate. It is not a foolproof way to verify the balance owed. It can provide you with an idea of whether or not you are working with a property where a deal can be created, or if you are dealing with an over-leveraged owner. The over-leveraged owner's only option to sell may be through a "short sale", which is an attempt to convince the bank to accept less than is owed, often leaving the owner with a large tax bill for the forgiven debt.

You will also want to be careful that there are not any active mortgages during the time of previous owners. You may have searched the current owner and found no mortgages, but it is always possible that they received the deed and allowed an old mortgage or lien to remain in place, either voluntarily or unknowingly. This is common in a "subject-to" purchase, which we will discuss shortly, and it is also common when a family member transfers a property to another family member, trust, or entity for family planning.

So, you may want to search the previous owners as well. If you view the historical transfers on your online property records, and you see a quit claim deed, then it

will be extra important to check those past owners as quit claim deeds are quick transfers typically between parties that already know each other. If you see a warranty deed you can probably stop your search as that purchase was likely a more traditional sale where clear title was conveyed.

One downside to the register of deeds systems is that they usually only show mortgages and deeds of trust, and not judgments or other liens. Delinquent property taxes can usually be easily searched in a separate online database, but judgments and liens usually have a database all to themselves, and they are rarely online. Each municipality will differ, but you should attempt to learn how to use each system. This may require asking questions at your government offices, begging professional title searchers for advice, or even offering to pay a title searcher for a few hours of their time. It may take time to learn but it will be worthwhile.

You do not need to conduct a perfect title search, and you may never be able to, as title searchers spend years in school to learn the skill. Before you purchase a property, you will have your closing agent conduct a professional title search to confirm what you believe to be owed. Your goal is simply to identify potential issues early on, and to minimize the amount you spend on title searches when you are viewing leads or negotiating with sellers, because many times you may not actually get to closing.

Most regions of the country have access to paid third-party software that can do a faster look-up of the historical mortgage data for a particular property. I find it worth the money to pay for the subscription to those applications as it saves a tremendous amount of time and effort compared to accessing the information via the register of deeds and searching for matching cancellations for each mortgage or deed of trust. Sometimes those subscriptions can be expensive, but if locating free and clear or high equity properties is important to you, and you value your time, then it is likely money well spent.

Daniel Hart, Owner of Hart Homes and author of The Real Estate Roadmap (available on Amazon) has been investing in New Jersey and North Carolina real estate since 2004, and has purchased over 100 properties, almost all using creative financing strategies to create passive income. He is a former board member of the Metrolina REIA in Charlotte, NC.



It's Time to Review Your Portfolio's Insurance Values

By Mark Gannaway, CPCU

Back in the summer of 2018, I wrote an article for the *RE Journal* saying, "It's no secret, the days of purchasing single family homes for investment purposes has become extremely competitive and challenging for the average buyer. No doubt it's a sellers' market, especially in major metropolitan areas like Atlanta, Charlotte, Chicago, Dallas-Fort Worth, Phoenix, Portland, and Tampa-St. Petersburg with values appreciating in the last 12 months 8% to 25%. Overpaying for a property typically leads to an unsuccessful ending, especially if you're financing the property with a lender."

Little did I know in the middle of 2021 I would still be writing about the same topic but with an added twist, the cost of inflation when it comes to settling an insurance claim. Yes, it's still a seller's market in most places of the country, but when it comes to building materials and labor costs, it's a nationwide problem.

For example, three weeks ago, in Frisco, Texas, admittingly one of the hottest places to live in the USA right now, a single-family resident put their house up for sale due to a job transfer and received 92 offers in 24 hours. They accepted a cash offer of \$60k over their asking price. If that was an investor purchasing the home, two immediate problems come to mind, financing and insuring the investment at the purchase price. I'm sure the appraisal, no matter how generous, would not meet the lender's requirements and secondly, insurance companies may only insure the property for replacement cost, not the sales price. Insurance companies are not obligated to pay over what it would cost to "replace" the damaged property in most cases.

With hot real estate markets, comes media outlooks applauding "seller's" while hardly mentioning the negative impact, especially the increased cost of living and doing business in these communities. As I mentioned earlier, with material goods and demand for labor across this country already in high demand, imagine what it's like in a hot real estate market. Inflation rates in these areas are well above the national average.

Prices for lumber have risen 40% in the last 6 months; concrete is up 200 to 250 percent during the same time frame. And that's if you can find it. Contractors have lost most of their labor force not to contractors who will pay more but to government relief packages that match their working pay if they stay home. All these cost components have a negative impact on the cost per square foot to replace the insured damage.

To receive Replacement Cost insurance coverage, the insured property, in most cases, must have at least 80% of its replacement cost value insured to receive this benefit. A lot of insurance companies, especially homeowner insurance companies require 90%. So, if you have a single-family residence that has a replacement cost value of \$100,000., the insured must purchase an insurance policy for a minimum of 80% or \$80,000. In this example if you insure the property for \$75,000. the insurance loss is paid at Actual Cash Value (replacement cost minus depreciation). That can add up quickly.

If you have not reviewed your insurance values in your current portfolio in the last 6 months, you are probably underinsured and will not meet the 80% requirement to have replacement cost on your properties.

To increase insurance values, you will need to speak with your insurance agent and asked them what the process is to make sure you have the proper insurance values in place. And while you have them on the phone, go ahead and ask them what's the current construction replacement cost on a per square foot basis in the area where you are purchasing homes, not the sales or appraisal price, but the construction replacement cost. If they don't know, ask your contractor.

Purchasing an investment property and not being able to insure it for its full purchase price creates sleepless nights for most investors and insurance agents.

And, as always, the information provided to you above is for informational purposes only. Please read your insurance policy carefully and consult an insurance expert before buying or changing your insurance coverages.

It's also a time when I am reminded

that having a good insurance company insuring my home, automobiles, business, and other investments are very important and that paying less expensive insurance premiums doesn't always equate to saving money.

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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Expense Evaluation: The Path to Greater Profits

How Evaluating Your Expenses Boosts Your Business

By Gita Faust

In the world of business, money is the language. If you cannot understand it... well, you are likely going to have trouble running a real estate business. A major part of accounting and finance lies in your expenses, so if you are never checking up on what is going on behind the scenes, you likely will not be able to paint an accurate picture.

That is why it is essential that you are monitoring and evaluating your company's expenses; even if you are too busy to do so, you should have somebody else do it (perhaps by hiring a fractional CFO or a financial controller) and report back to you.

Take a Look

First things first: you should be tracking your expenses. Whether you keep a copy of every receipt in an overflowing shoebox, input them into a spreadsheet, or upload them automatically into accounting software, you should be doing something to keep track of how much you are spending, where you are spending, and for what you are spending. I personally recommend using accounting software; the benefits and the money saved in the long run far outweigh the cost of the program. You can use software to create a seamless system—HammerZen, for example, automatically uploads purchases into QuickBooks, and QuickBooks is great for analyzing your finances and cash flow.

No matter how you track your expenses, they should be organized somewhere you can easily take a look—when everything is neatly organized, it is much easier to understand the information in front of you.

That, then, begs the question of why it is so important to evaluate your expenses. There are actually quite a few reasons, all of which boil down to the betterment of your business:

• SEE WHERE THE MONEY GOES. The most obvious benefit to evaluating your expenses is seeing exactly where your money goes. Depending on the size of your business, you might not be involved in all the day-to-day operations, so you

- are not always aware of what is being purchased. By analyzing your expenses regularly, you can see where this money is going—and where you can afford to cut costs and save money!
- BOOST YOUR COMPANY PROFITS. This pro is kind of a consequence of the former one, but it is still worth noting on its own. When you are able to cut down on expenses and get rid of the ones that are not necessary, you can boost your company's profits. Depending on how much information you compile, you might even be able to determine which expenses profit the best return!
- ANALYZE YOUR PERFORMANCE. You can use your expenses and spending habits to identify patterns and potentially see which costs are impacting your performance. If you notice something awry in the big picture, break it down; it might be that you are paying too much for an expense that is not benefitting you enough.
- DEVELOP FUTURE PLANS. One of the most critical reasons behind evaluating your expenses is to use all of this information for the future. Each time you check, you should adjust your budget accordingly; if you find that you are paying too much, adjust; if you find that you need to add an expense, adjust. In general, just use your expenses to create a better budget each month!

Need Some Help?

If you are not a seasoned accounting professional, it's difficult to know where to start when it comes to evaluating your expenses. Luckily for you, we did some research (including advice from professionals like yourself!) and put together a couple of tips to help set you on the right track:

your expenses by type, vendor, and so on, that is not what is meant here. When evaluating them, try to divide them into three categories: must have, like to have, and could live without. In most cases, the "could live without" expenses are ones you can easily afford to cut with no real repercussions.

- **IDENTIFY.** When you are scrutinizing your spreadsheets or reports, try looking for any trends or patterns. If there is a vendor who has been taking a chunk out of your profits, you might want to try finding a different vendor that provides a better price!
- QUALITY. The keyword in the last tip is "might"—
 just because a vendor is cheaper does not mean it
 is a better deal. Many times, you pay for the work
 you get, so if you work with a less expensive vendor,
 you may receive lower quality work. Make sure
 that when you analyze your expenses, you evaluate
 whether or not the vendor's work is worth the price.
- BASICS. Nobody expects you to be an accounting guru, but it would really help to know the basics of accounting, finance, and the like. When you look at your expenses, Profit & Loss Statement, Balance Sheet, or other reports, you want to be able to understand what you are reading—so if you are a complete novice, I suggest at least learning the basics!

Evaluating your expenses is critical for the health of your business. After all, you do not want to be hemorrhaging money when it is entirely unnecessary. If you don't do so regularly, I would suggest that you start performing an expense analysis on a regular basis (and you can learn more about what a "regular basis" entails here).

If you have any questions about expenses, evaluations, or real estate accounting in general, you can contact the HammerZen team. We are always more than happy to help out National REIA members!

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 Quick-Books. National REIA members receive discounts on QuickBooks services and software. Learn more by visiting www.hammerzen.com/nreia.

Using a Key Word Helps You Get the Right Tenant

... continued from Page 1

anything else you want to highlight as important to you. A word of caution to avoid any words or phrasing that would indicate discrimination or violation of protected classes. A phrase like "Please acknowledge in your showing request that you understand this property does not allow pets" is a perfect example of a key word.

Where Do I Place a Key Word?

David Pickron, President of Rent Perfect, discussed this at length on a recent podcast (which can be found on RealEstateInvestingToday.com). He advises that landlords place their key word in one of the last two sentences of the listing to find candidates that are responsible enough to read the entire listing, and not just hit "apply" to every possible property that comes across their view. When fishing it is critical to present your fly to the fish you are trying to catch, otherwise you are just fishing water. By having the right fly presented in the right way to attract the attention of the fish, you exponentially increase the odds of attracting the fish you want to catch. The

same reasoning applies as you are trying to identify a responsible, attentive tenant for your property. If you have a potential tenant that reads an entire listing and sees your key word that says, "I will not respond to your request to view the property unless you acknowledge that this property is not available until July 1." When 20 potential tenants request a showing of the property and only two of them respond with the required key word/phrase, I am only going to show the property to those two people. This attention to detail from a tenant signals that they will also read the entire lease and understand the relationship we are creating, which saves me a lot of time in showing the property to the 18 other people who would be happy with any property.

A Key Word Saves You Time!

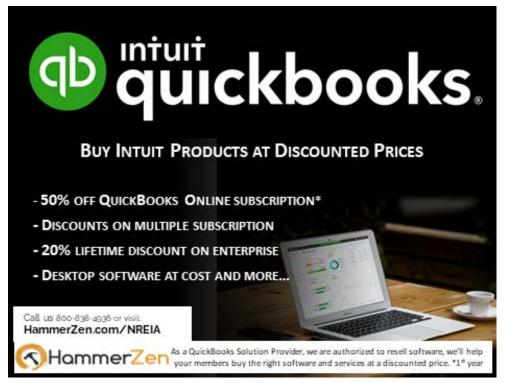
Whether you are a full-time landlord or have a single property, time equals money, and showing the property and reviewing applications can be extremely time-consuming. Using a key word is just one way to prescreen applicants and free your time up for those individuals that are truly interested specifically in your property. With several of the rental property platforms in the market today, an applicant can pay a monthly fee and submit their application as many times as they want to as many properties as they want. If you've ever found yourself responding to an applicant inquiry only to have the applicant, ask, "now which

property is yours," chances are they have applied all over town and will take any property that comes along. This person doesn't want your house, they want a house, and they are not the business partner you are looking to have for the next five years.

Imagine how frustrated you would be if you planned a trip to catch cutthroat trout and showed up only to find that in addition to trout, the game warden had also stocked catfish, carp and bluegill. In the next few months, the places we go to find potential tenants will be flooded with all sorts of applicants, and likely many of them will have been recently evicted. By using a key word, along with the other tools we train on, you can make sure that the tenant you put into your property is the business partner worth \$120,000 that you are fishing for.

Scot Aubrey is Vice-President of Rent Perfect, a private investigator, and fellow landlord who manages short-term rentals. Subscribe to the weekly Rent Perfect Podcast (available on YouTube, Spotify, and Apple Podcasts) to stay up to date on the latest industry news and for expert tips on how to manage your properties.

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Be Careful What You Wish For! ... continued from Page 1

started to ease. The United States produces a great deal of what the consumer buys but not nearly enough to satisfy the levels of demand that have started to reappear, and that means a greater reliance on imported material.

The expectation is that imports will continue to outpace exports at an accelerated rate for the next few months and perhaps for the year if this is the robust holiday spending period that many expect to see. The export levels have not been keeping pace simply because the rest of the world has been recovering at a slower pace than in the United States. There are signs of more rapid rebound in Europe of late, and that should translate into more export demand in the second half of the year.

The key issues are the supply chain and whether the consumer can keep up this pace. There are many reasons that shortages have appeared, but at the top of the list has been the disruption of the supply chain. It is estimated there is still over 40% of global cargo stalled and delayed. This has created a rash of shortages that have been both short- and long-term.

Semiconductor shortages have been in the news for months and will be wreaking havoc on the automotive supply chain until 2022 at the earliest. Every other product needing these chips has been affected as well. Shortages crop up in just about every category – even fireworks will be hard to get this year.

Will the consumer react to these higher prices and shortages with a reduction in spending? Will they barrel on past the added cost because they still have money to spend?

There will be reports on inflation soon, and they are expected to show some continued gains in the pace of higher prices. The real question is not whether there is inflation, as it has become quite clear that there is substantial inflation present in a number of categories.

There are related questions that will be harder to answer.

How much of this inflation is temporary and related to the surge in consumer activity as protocols have been lifted? If it is temporary the Fed will not be tempted to hike rates or take other actions to limit their support of decentralize. the economy.

The second question is whether the higher prices will start to affect consumer enthusiasm. It is apparent that higher prices have already limited sectors of the business community as construction has all but halted in some regions due to the high price of materials. Usually, the higher prices will convince consumers to limit their activity, but the immense amount of money in the system has allowed people to essentially ignore the higher costs and go on spending (even as they grumble about the

One area that has always been sensitive to higher prices is housing, but thus far the usual reactions have not manifested. The price of homes has escalated for over a year and nothing has seemed to discourage the buyer (at least as long as mortgage rates stay down). Now there is more than demand driving these prices up and builders are stalling new projects until the price of that lumber starts to come down. Which will come first: A break in the inflation situation or a refusal on the part of consumers to pay these costs?

Commercial construction has not even started to sort itself out. The office environment has changed but nobody really knows what it is changing into. It is clear that some people have welcomed the opportunity to work at home but many have not been as enthusiastic and there are still millions of jobs that can't be done remotely. The new rule of thumb is 3-2-2, as in three days in the office, two days at the office and then the weekend. The reality is this assumes too much regularity of schedules. The workplace environment is now referred to as "hoteling," as people are to be flexible. This is not as efficient as it sounds, as people now have to lug everything they need with them. Maybe that is why it is being called hoteling - they are dragging suitcases around. It is clear that commercial sectors such as office buildings, retail space and entertainment may be on the decline while anything associated with warehousing and transportation are in growth mode. Medical infrastructure continues to

The job market continues to improve, but there are major adjustments on the way. The crisis at the moment is labor shortage - millions of jobs on offer and too few taking them. There is a major issue of reluctant workers who can make more money from the government than they can make in a job but there are other motivations for staying out of the workforce (education, child rearing etc.). The unemployment rate keeps coming down and is now below what was once considered a normal rate.

There is an endemic issue as far as the workforce is concerned and one very hard to address. The majority of low-paying jobs are truly lousy jobs with little or no opportunity for advancement. These are service sector jobs as opposed to the old pattern of manufacturing jobs. There was an opportunity to build skills and get ahead in the industrial world. Granted, most did not take advantage of this but the potential was there. That is missing for most of the low-paid workforce today and that compromises their willingness to stay in the workforce as it reduces the incentives to remain employed.

In the rest of the world the data shows a little bit of acceleration as far as economic recovery, but these regions are still lagging the United States and that has kept the governments and other institutions active in support. The Fed has been mulling over how long it plans to keep buying bonds as a means to support the economy but no such reduction is under consideration as far as the ECB is concerned as they have reiterated their intent to keep bolstering the recovery in Europe. There is similar movement in Asia as China and Japan are not slowing down with their support either.

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



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Member Spotlight - Mike and Jeri Schlickbernd

... continued from Page 1

Jeri's dad was a commercial general contractor so she grew up knowing about the trade, but she didn't quite know what she wanted to do for her career. After college, she tried a handful of different trades, one of which was a meeting planner for Fortune 500 companies and traveled around the world. She loved that job and loved seeing the world, but she wanted a cat and a plant so she moved to Arizona to put down roots.

In Arizona, Jeri earned her timeshare license and decided that was not the line of work for her. So, she joined ReMax, earned her real estate license in 2000, and started selling homes the following year. She moved back to Nebraska where she was a short-sales expert. Two days after her move back to Nebraska, she met Mike.

The two hit it off and realized that they were doing all of this work for someone else and losing that money. At that point they decided to create their own company and work for themselves.

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

Omaha, Lincoln, Council Bluffs — the metro area.

All things real estate. Improve any piece of land, from communities to neighborhoods to vacant lots. Buy at value and flip; they've flipped over 300 houses. Their rental portfolio has about 130 units including single-family homes, multifamily and townhomes.

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

The real estate team analyzes 30 properties to send properties to Jeri that make sense for the portfolio. She then analyzes them again and sends offers to the owners. If the offer is accepted, then Mike's project managers will look at the house and start on the project design. On average, they buy and sell about 3-5 properties a month.

How long have you been investing in real estate?

Mike bought his first duplex in 2001. Jeri bought her first rental property in 2006. They bought their first flip in 2011.

Tell us about your first deal.

It was a house renovation. One of our construction workers lived in it for a couple of months and when we sold it we made a decent profit off of it. The entire process went smoothly because we had been doing it for other



On vacation in Hawaii. Travel is Mike's and Jeri's favorite pastime!



Jeri and Mike with their children: Maya (7), Ivy (5) and Caleb (1)



Their companies' core values are the acronym INVEST. Jeri says they try to live by these values. They discuss them in each of their team meetings. And they hire and fire based on them.

people and it was much easier to do it for themselves. At that point we learned that we were losing too much money on tile, carpet, handles, and the like so we picked a standard.

How do you fund your investments?

Mike and Jeri put their own money into their properties. After they flip and sell the unit, they then use that profit to fund another project. Other ways of funding include loans, investments from other investors, and shareholders from Dreamvesting Capital Group.

Do you have a real estate license(s)?

Jeri is licensed in Nebraska, Iowa, and Arizona, and has a brokerage license.

Mike has a class A construction license.

What projects are you currently working on?

There are quite a few projects in the works. They are creating a luxury community of townhomes called Ten Square townhomes. There is an apartment complex in Lincoln which was a fraternity house that they are flipping and converting. Additionally, they are converting an eight-plex in Lincoln from a mini TIF program. There are currently five wholesale houses that will be rentals, a flip in Omaha, and construction on land for single-family homes

How much time do you put into your real estate education?

Beyond completing her three weeks for her real estate license, biannually for 21 years Jeri completes 40 hours of renewal classes for each of her three licenses. Mike's license requires six hours every two years.

Has coaching or mentoring played



Fishing on the ponds on their acreage is one of Mike's and Jeri's favorite family activities. It's a great way to unwind at the end of the day!

a part in your success?

Yes. Business coaches and formal coaching have played a big role for them. Mike said that the fastest way to learn something new is to learn it from someone who has done it before. The least successful people think they know everything. You have to keep learning as you stay in your business. The couple has close investors in the area that they turn to for advice when needed. Among these people is Mike's dad.

What are your current and future goals?

Jeri's current goal is to return north of 15% cash-on-cash per year for their investors. She wants to continue to expand her rental portfolio, developments and flips will just be extra. In the near future, she wants to create a KW Elite Midtown office and create a building that can hold all of their businesses under one roof. Mike wants to build more developments. His goal is to bring in \$2 million a year and stay on top of planning projects.

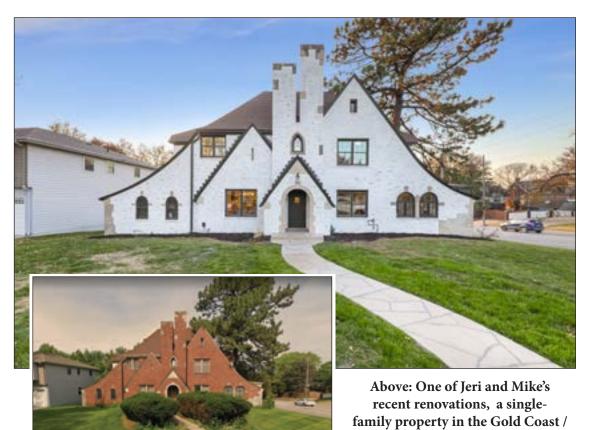
What has been your top struggle in this business?

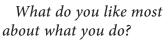
Both Jeri and Mike believe it is their work and family life balance. They love working together and the life they have created, but it can be hard to work with your spouse. Jeri said that it was hard to transition to the role of business owner instead of employee. There was a huge mindset shift and the need to hire great people to keep this business going was always in the back of her mind.

Continued on Page 15

Member Spotlight - Mike and Jeri Schlickbernd

... continued from Page 14





Jeri and Mike love working together and it is their favorite part of their business. Additionally, they love having the freedom to choose their projects and go on vacations when they can. Jeri specifically likes seeing the puzzle of a new find and figuring out how to make the property more marketable. Mike likes seeing the end result of a project and designing the home.

It is a good thing that they're both driven people and choose to stay busy!

Do you have a tip or advice that you would pass along to other investors?

Always just do it. Don't sit around and talk about it forever, just get out there and make a start. There are too many people who get stuck in the analysis of everything, so stop talking and start doing. Figure it out as you go.

How important is joining a local REIA to a new investor?

Really important. You get to learn and connect with investors who are looking to help. There are great deals waiting for you within these organizations.

What is your favorite self-

help or business book?

Mike: Traction, by Gino Wickman

Jeri: *One Minute Millionaire*, by Mark Victor Hansen. This book is constantly on her mind and helps her think outside of the box and take action.

Dundee neighborhood of Omaha, Nebraska. Inset photo shows the home before renovation.

Do you have any interesting hobbies or something unique that you like to do?

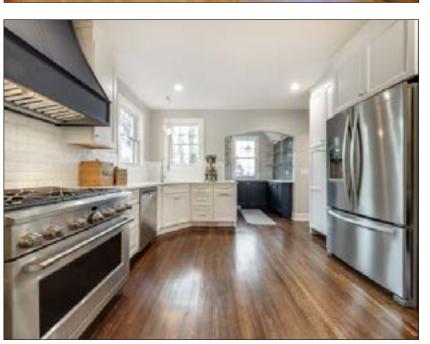
They love to stay active — ride bikes, scuba dive, water and snow ski, wakeboard, etc. They're also very passionate about open adoption. All three of their kids were adopted and they keep in touch with their birth parents.

Does your business have a website? https://dreamvestingcapital.com/ http://dvgrealty.com/ http://schlickconstruction.com/ https://solidroofer.com/ https://orange4rent.com/

Social media accounts?

Instagram: @jerischlickbernd, @DVGrealty Facebook: Jeri Schlickbernd, Mike Schlickbernd, Solid Roofing & Exteriors,k Orange Property Management, Dreamvesting Capital Group, DVG Realty









Above: A property in the South Capital District in Lincoln, Nebraska that Jeri and and Mike are in the process of renovating. The artist's rendering at right shows their vision for the completed eight-plex.





'Financial Independence'

By Jeffery S. Watson

In today's economic climate, achieving financial independence is more important than ever. I want to share seven steps I have identified that are crucial elements to obtaining financial independence.

1. Get Clear – Know Your Numbers.

If you are in business for yourself, you need to be clear on your numbers. What are your real assets, liabilities, and risks? Most of us probably overinflate the value of our assets, and being entrepreneurs or investors who are by nature risk takers, we minimize the true extent of our liabilities. This is why you need to have an accurate balance sheet.

Your balance sheet, however, may not be able to convey your risks. You need to know your non-documented risks, the things that are not promissory notes, personal guarantees, etc. Consider what risks you have in your various business operations so you can systematically and proactively work to mitigate or limit those risks.

2. Get Control – Make Your Money Behave.

The advice I commonly give to a struggling real estate investor when helping them get control of their situation is to identify where their money is going. Look for where you are "bleeding" money. Where is it going that is not its best use or does not give the best return? Do you have unnecessary or frivolous expenses?

Do a thorough cash-flow analysis regarding every rental property you have to determine if that property in and of itself justifies keeping it in your portfolio. Is it possible your numbers combined three or four properties together, and one of those properties is losing money every year, but its losses are masked by the profits coming in from the others?

3. Set Goals.

Setting goals requires more than just

dreaming about them. You must make a plan and put it in writing. Set goals not only on how you are going to spend money, but also as to your desired income.

When it comes to setting expenditure goals, there are four big categories into which all spending falls:

- Giving
- Investing
- Saving
- Lifestyle

I deliberately put lifestyle at the end of the list. Most people put money toward lifestyle first, often leaving little, if anything, to put toward giving, investing, and saving. Don't be normal. Set goals for both your income and expenditures, and then revisit those goals every few months.

4. Dump Debt.

A statement was written thousands of years ago by Solomon, the wisest man who ever lived on this planet. That statement says in part, "...the borrower is servant [or slave] to the lender." A recent survey of over 10,000 millionaires in the United States revealed that the overwhelming majority of those millionaires began to achieve financial independence and grow their net worth when they started getting rid of debt.

There is a powerful statement in the Introduction to The Millionaire Mind by the late Dr. Tom Stanley that should give everyone pause. It was a statement made to an investor by a banker in Oklahoma City, Oklahoma. He said, "We [the lenders] own it all...all of it. The businesses out there?...You [borrowers] just run these businesses for us. You guys run them for us, the financial institutions."

When you dump debt, you reduce your risks, such as for landlords who have tenants who are supposed to make the mortgage payments for you by paying rent, and the tenants stop paying. What do you do then?

Not only does dumping debt reduce your risk, but the less you pay out in monthly payments, the more of your income you get to keep.

5. Learn to Calculate.

I'm not just talking about mastering or having at least some familiarity with the use of a financial calculator, which you should have. I'm also talking about a much more important calculation, one that isn't just mathematical, but is based on wisdom and experience. I'm talking about calculating your risk.

For any investment you make, you need to calculate the cost for both the opportunity and the downside. That cost must include not just the financial aspect, but the mental and emotional costs as well. If an investment activity or business venture is going to keep you awake at night because of how much you have put into it and the degree of leveraged funds involved, it probably isn't a good risk to take.

I often see individuals who are all excited about the tremendous upside potential of a project, rehab or investment, but they scarcely take time to think about what could go wrong and what they will do if that happens. Murphy's Law exists for a reason. What can go wrong often does go wrong, but preparation is one of the best forms of "Murphy repellant". An hour of calculating the risk is worth weeks of trying to fix it.

6. Seek Simplicity.

Develop systems in your business that are repeatable, and then implement those systems consistently. One of the most important needs for real estate investors is to develop simple systems for your property management so you can get consistent results. The better a system is simplified, the easier it is to follow and execute.

Don't overlook fundamental systems, such as setting a budget, reconciling your bank accounts, and making consistent contributions to your investment accounts.

Create your systems in such a way that they can be delegated to someone else by training them to carry out the systems, and then fire yourself from those processes. You remain accountable for overseeing the results and making sure the systems are being followed, but you are not the one implementing those systems and tasks on a regular basis.

In the studies of millionaires mentioned previously, it was found that most of them achieved a comfortable net worth by doing the same, predictable, simple things over and over again. The news media wants us to see the splashy rock star or multimillion-dollar athlete, but it's the person who gets up in the morning, goes to their business, uses systems to handle customer service, and consistently delivers a good product at a fair price who builds wealth and often attains millionaire status.

7. Distribute Your Legacy.

I hope you understand the importance of distributing your legacy. Share your success. Is there someone you are mentoring, not necessarily for profit, but for the purpose of teaching them the principles you've discovered through trial and error and hard work? Are you passing those principles on to others so they don't make the same mistakes? Younger people need to stop and be willing to listen, but there must also be those willing to teach them.

If you have, or are working to achieve, financial independence, be willing to distribute your legacy. Share your success. Give generously to others. Mentor and teach the younger generations. Be a role model both in word and practice. Remember, far more is caught than taught.

Jeffery S. Watson is an attorney who has had an active trial and hearing practice for more than 25 years. As a contingent fee trial lawyer, he has a unique perspective on investing and wealth protection. He has tried over 20 civil jury trials and has handled thousands of contested hearings. Jeff has changed the law in Ohio four times via litigation. Read more of his viewpoints at WatsonInvested. com.



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Property Tax Deduction Strategies: An Investor's Guide

By Than Merrill

ax deductions are among the many perks homeownership has to offer. However, these deductions will not automatically be applied when you file your taxes; you need to know exactly what to claim. If you are a homeowner, real estate investor, or someone even slightly interested in purchasing a property, take time to learn about the tax benefits that could be available to you. Most notably, homeowners should review the property tax deduction. Keep reading to learn more about how this deduction could apply to you and lower your tax bill this year.

What Is A Property Tax Deduction?

The property tax deduction is a portion of the tax code that allows homeowners to deduct state and local property taxes from their federal income tax bill. Starting in 2018, the property tax deduction limit was set at \$10,000 for married couples filing together or \$5,000 for single or married individuals filing separately. The cap on property tax deductions resulted from the Tax Cuts and Jobs Act, which was passed in 2017.

Generally speaking, this deduction can be applied to any state or local property tax that goes towards public welfare. Taxes charged for services, such as repairs to public spaces or trash collection, may not be applicable. Additionally, property tax deductions can only be claimed on your primary residence and do not apply with taxes paid on rental or commercial real estate properties.

How Does A Property Tax Deduction Work?

Property taxes are regulated on a state and local level and are determined based on property value. When you pay your annual property taxes, you can then claim the amount as an itemized deduction on your federal taxes. This is typically done by submitting a Schedule A form when you file your taxes. Consult a tax professional during this process, as they will be able to guide you through the exact protocol.

It is important to note that the Tax Cuts and Jobs Act also changed the limit for standard tax deductions. Essentially, homeowners should look at which deduction could result in more savings before claiming the property tax deduction. Again, the best way to maximize your deductions is to work with a trusted tax professional.

How Much of Your Property Taxes Are Deductible?

There are a few different types of property taxes that are deductible. These include property taxes paid on your primary residence, and in some cases, your vacation home. Taxes paid on land, cars, boats, RVs, and other vehicles may also be eligible. Remember that you can deduct up to \$5,000 if filing individually or \$10,000 if married and filing jointly.

What Property Tax Is Not Deductible?

Property tax deductions cannot be applied to all areas of your tax bill. For example, you cannot claim taxes that are charged by the city for neighborhood improvements, homeowners association assessments, or payments as part of property renovations. It may go without saying, but homeowners cannot deduct unpaid property taxes or taxes on properties they do not yet own.

Pros & Cons of Property Tax Deduction

The main reason homeowners might find the property tax deduction beneficial is the potential savings. After paying property taxes to the state or local government, homeowners can use this deduction to reduce the amount owed on their federal taxes. While homeowners



do need to itemize their deductions to receive the benefit, in some cases, the property tax deduction can result in more savings when compared to the standard deduction. Lawmakers argue this benefit can help encourage homeownership across the country.

The biggest drawback to the property tax deduction is thought to be the new limit set in 2018. Before this, there was no cap on the amount of property taxes that homeowners could deduct. For this reason, the standard deduction is becoming more popular as a way to save when filing (though the standard deduction does not always result in more savings). Further, it can be argued that the property tax deduction encourages individuals to buy property — thus leaving many with more debt than they can handle or ever pay off. There is occasionally talk of removing the property tax deduction altogether.

Real Estate Tax Deductions for Homeowners

Tax deductions are often one of the first things people bring up when debating renting vs. owning a home. While the Tax Cuts and Jobs Act may have capped some of the perks of homeownership, the property tax deduction is only one of several tax benefits available. Homeowners will be happy to know that they may be eligible for several state and local deductions. These can be deducted on sales or income taxes. Homeowners can also take advantage of capital appreciation, as this is not taxed at a federal level.

For example, homeowners can also deduct a portion of mortgage interest. The cap on this deduction is set at \$750,000 and applies to homes purchased after 2017 (the limit is \$1 million for homes purchased before 2017). Homeowners can also claim mortgage credit certificates (MCC) as a percentage of mortgage interest paid. These credits can then be applied to outstanding tax amounts.

Real Estate Investing Tax Deductions

The tax benefits associated with homeownership are not always limited to primary residences. In fact, there are several real estate investment tax benefits available that go beyond the property tax deduction. With the right tax strategy, these can lead to crucial savings for your real estate investing business. One of the most significant tax benefits available to real estate investors is the pass-through deduction. This allows LLC owners to deduct up to 20 percent of their pass-through income and reduce overall income taxes.

Real estate investors can also benefit from rental property depreciation, which can result in even more deductions. Rental property owners can deduct repairs, management expenses, and even appliance depreciation when filing their taxes. A 1031 exchange is another tax benefit available when real estate investors buy a like-kind investment property with the profits made from selling another.

How to Take The Property Tax Deduction

Unfortunately, tax deductions will not magically apply themselves. Homeowners need to know how to include these deductions when filing their annual taxes. Here are a few steps to follow when taking the property tax deduction:

1. Gather Your Paid Tax Records: Make sure you have a copy of your property tax bill for your home. It is also a good idea to get any tax paperwork on high-

- value personal assets, such as cars or boats.
- Remove Extra Expenses: Keep in mind that you can only deduct property taxes that go towards general public welfare. This means you will need to exclude property taxes paid towards services or public improvements.
- 3. Fill Out the Schedule A Form: You typically need to file a Schedule A form to receive the property tax deduction. Use this form to itemize your property taxes, and include it when filing.
- 4. Review Your Paperwork with A Professional: The best way to maximize your tax savings is to review your paperwork with a tax professional. They will be able to review your paperwork before filing and help you identify any more potential savings.

How to Get A Larger Property Tax Deduction

There are a few tips and tricks for maximizing your property tax deductions. Review the following and see what applies to you this year:

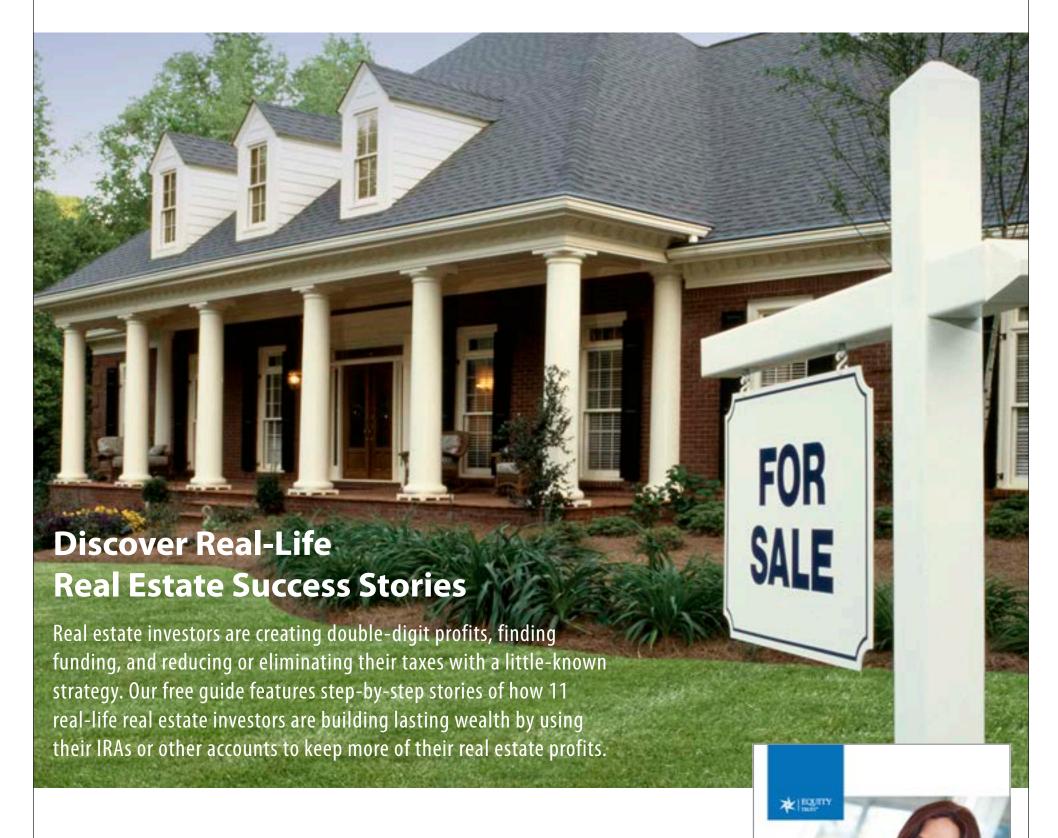
- Keep Your Receipts: Save your car, RV, or boat registration paperwork as you may be able to add these to your itemized deductions.
- Review Closing Paperwork: If you plan on buying or selling a house, always review your closing costs for property taxes. These could be eligible for deductions.
- Prepay Property Taxes: Property taxes are deductible within the year that you pay them. Consider submitting them early if they allow you to maximize your deductions.

Summary

Take time to familiarize yourself with the various tax benefits available to homeowners and real estate investors. By learning about deductions, such as the property tax deduction, you can save yourself money when filing each year. While you will not be able to write off every cost associated with property ownership, there are several areas where you could benefit. Always remember to consult a tax professional about any questions you may have when filing your taxes. If you take time to prepare yourself for this process, you could open up some big savings for yourself or your business.

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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Go the Extra Mile for the Seller

By Tony Youngs

ith all the competition in the real estate market, homeowners and sellers are getting bombarded with people that want to buy their homes. People that are in foreclosure because they are behind on their payments receive approximately 50 to 80 letters from investors asking if they would like to sell. If a homeowner passes away, once the probate process begins it is printed in the legal notices and then the surviving family members get blasted with letters and post cards.

Investors can get pretty creative. Recently, I was talking with the daughter of a deceased man and she said she gets advertisements that look like condolence cards and when she opens one, it turns out that it is just an investor asking if she wants to sell the house. She told me that it makes her upset because she thought they were sympathy cards. Then we have bandit signs, billboards, television, and radio commercials with investors wanting to buy houses.

How can we compete with all of this? Even if you have millions of dollars, that does not necessarily mean that you are going to get the deal. A seller has many people that are willing to buy their home, so they are going to choose someone. The real question is, how do we get them to choose you over someone else.

When I first got started in the real estate business I, like many others, focused on the foreclosure arena. It has and will always be very competitive. A person in foreclosure not only gets hundreds of letters from investors wanting to buy,

but they get bombarded by attorneys telling them to file bankruptcy because it stops the foreclosure. Even though I was a newbie investor, I still got deals. They chose to sell to me. How did it happen?

First of all, while everyone else was sending letters, I was knocking on doors. I would be sitting at the kitchen table talking to them face to face and looking at a stack of unopened mail on the table. I always had a helpful attitude and would let them do the talking and I would listen. If you listen, they will tell you their problems, I would simply make an offer that solved their problems and relieved the stress of the situation. I would offer to help them find a new place to live, catch up on their utilities, and maybe even rent a U-Haul and hire folks to help them move. Those efforts went a long way to helping them feel comfortable working with me. You may ask, why would you do all that? The answer is simple. It is the sellers equity that is paying for it. I just design a plan with their equity that makes their life

I recently found a very run-down house in a nice neighborhood without a for sale sign. A neighbor told me the man recently died and had no will or relatives. I did some research to look for any kind of blood relative. I found his mother's sister two thousand miles away. She said she had not talked to him in 15 years. I asked her if she would be willing to apply to be the personal representative for his estate. She said she was 70 years old and did not want to deal with it because she did not want to fly down and go through his things and liquidate all his belongings.

I told her I would do all those things for her. I even cut the grass each week to keep the code enforcement officials off her back. She was approved and I liquidated and donated all of the furniture and cleaned out the house. The neighbor and I helped sell his vehicles and I offered to buy the house and she accepted. I rehabbed the house from the ground up and made it look beautiful. I was willing to do the work whether she accepted the offer or not. She sent me a nice a letter thanking me for going the extra mile.

In this crazy market today, with all the competition, sellers are still choosing to sell to me. I have many more things that I do for sellers that actually help them. The only difference is that I am not pursuing foreclosures, I am pursuing the "Hidden Market." I still to this day, knock on doors, let the seller do the talking, acknowledge what they are telling me, and then I write up an offer that solves all of their problems. Remember, this is a people business. You reap what you sow, and if you sow good seed, you will reap a harvest.

Tony Youngs has been an investor, trainer and a national speaker for over 32 years. He is the Author of The Hidden Market System and is best known in the industry for his "Hands on In the Field" trainings that take place around the country. Learn more about Tony by visiting www.tonyyoungs.com.

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The 10 Key Skills of Real Estate Investing

By Chad Carson

Believe it or not, I got started in 2011 writing and teaching online because of MY own commitment to real estate investing mastery. I wanted to share what I learned and continue to learn in my ongoing quest to become a better investor.

Here are the skills I consistently teach about AND practice improving for myself:

1. Real Estate Value

The value of real estate exists because of the collective demand for properties by billions of people in the world. They all need a place to live, work, and play.

Real estate markets exist as collections of transactions from buyers, sellers, landlords, and renters of properties. Understanding how these markets work and what motivates people in these transactions can help you become a better investor.

Fortunately, you don't actually need to understand most of the markets in the world. You really just need to understand the smaller sub-market where you choose to invest. That's the topic of my guide to picking the ideal investing market.

2. Financial Analysis

Understanding value is one important piece of the investment puzzle. But you must also understand what it means to have a profitable and safe investment. This skill is called financial analysis or running the numbers.

I have an entire course called Rental Property Analysis which teaches the fundamentals of how to analyze investment properties using my own rental analysis spreadsheet. You can also check out my free article and YouTube video about how to run the numbers using back of the envelope analysis (i.e. without spreadsheets).

3. Real Estate Contracts & Law

Contracts and real estate deeds are underappreciated but brilliant human innovations. These important pieces of paperwork translate promises made between two people (or entities) into legal agreements.

Using a system of laws and legal precedents (i.e. prior course cases), mere paper and ink can become legally binding. The legal weight of these agreements gives a complex market of people who don't even know each other enough confidence (notice that word again?!) to spend their money with one another. And specific to real estate, a system of public recording of documents gives buyers (and their title insurance companies) even more confidence to invest their money.

If you need help in this area, my course Contract-to-Closing is all about the details of the process and paperwork for putting a property under contract, performing due diligence, and actually closing on a purchase.

4. Real Estate Financing

Because of the confidence people have in real estate markets and legal agreements, they're willing to spend a lot of money to buy properties! And these high prices mean that most of us have to find financing from third parties to help come up with enough money.

Real estate financing is a BIG universe. You can start with banks and other traditional lending institutions. This is often where you get the lowest rates and best terms, as long as your credit, income, and other requirements are acceptable.

The other way to finance your properties is a category I call "creative financing." This just means you use strategies or financing sources outside of the traditional financing system. This includes private investors, self-directed retirement accounts, seller financing, lease options, subject-to the mortgage, and more.

5. Marketing & Negotiation

Buying, selling, and leasing real estate don't just happen. In order to make the most of your investment, you need to learn how to market and then negotiate to get the best transactions possible.

While marketing and negotiation skills matter in all parts of real estate, consistently finding good deals to buy is probably the most difficult part of the business. So, getting good at generating leads from potential sellers and then negotiating win-win deals is probably the most valuable skill in the real estate investing business.

6. Construction & Remodeling

Your real estate investment is a physical object that can be broken down into land and construction materials. While you don't need to learn to do the work yourself (I never have!), you do need to understand how construction works, how much it costs, and who to hire to do the work for you.

Watching YouTube and studying free information online is a great way to learn the basics of constructing and remodeling houses. I also recommend The Book on Estimating Rehab Costs and The Book on Flipping Houses by my friend and master investor J Scott. They are the resources I buy for my own students to learn best practices of remodeling as an investor.

7. Rental Property Management

I'm a buy and hold investor. I love the steady monthly income and long-term wealth you can build from rental properties.

In order to get to that goal of income and wealth, however, you have to learn how to serve your tenants and maintain your properties. Of course, you can (and should!) hire people to help you, but you need to understand and create your own systems. In the near future, I'm also going to offer a course called Rental Property Management to

teach all my systems and paperwork in-depth.

8. Business Management

In your real estate investing business, you'll always have a lot of details. If you fail to manage these details well, you could master the other skills in this list and STILL fail (or at a minimum drive yourself crazy)!

Under this umbrella of business management, I put bookkeeping and administrative tasks. Bookkeeping involves paying your bills and tracking and organizing all of your financial transactions. I use the software Quickbooks to help organize our bookkeeping.

Administrative tasks include saving and organizing receipts, contracts, and other paperwork involved in the business. It also includes the sometimes-overwhelming amount of licensing, paperwork, and filings required by the many levels of government.

9. Team Building

Hall of fame basketball coach John Wooden once said "The main ingredient of stardom is your team." Since real estate is a team sport, his advice applies directly to you.

You are the star of the team, but the people around you will determine your success.

10. Self-Mastery

Last but definitely not least – confidence and mastery in real estate investing involves working to master yourself.

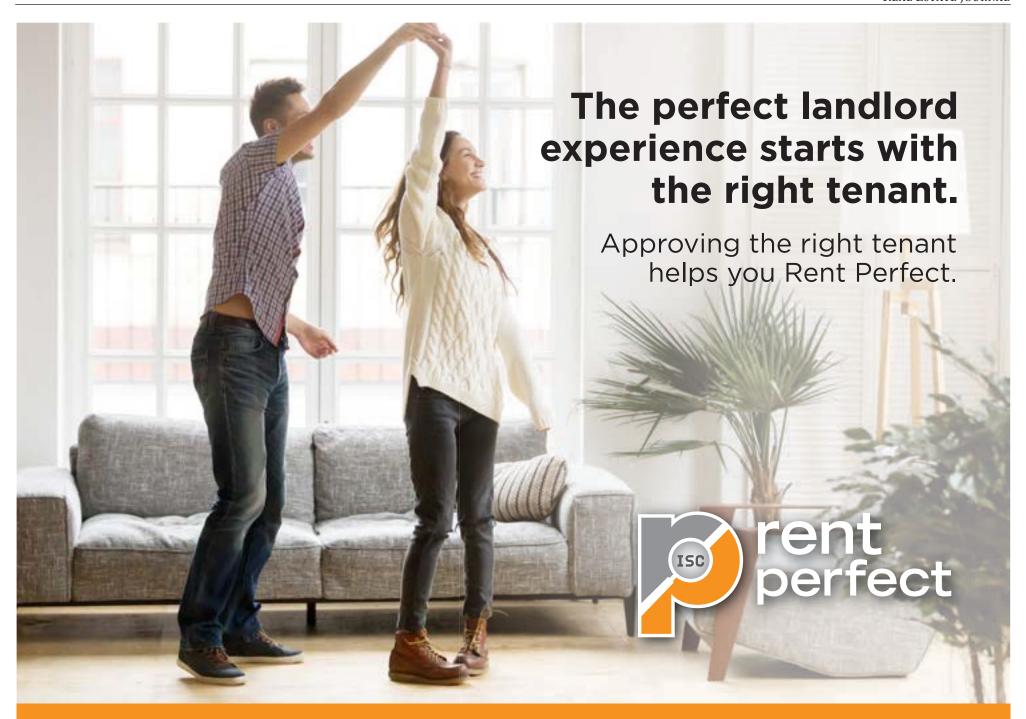
When I graduated from college, I was lucky enough to find the book The 7 Habits of Highly Effective People by Steven Covey on my dad's bookshelf. I loved the book so much that I've reread it many times over the years.

In the book, Covey says that "private victories precede public victories." In other words, if you don't seek to master your own thoughts, habits, and actions you can't expect to master your other external goals in life.

How you approach this arena is very personal to you. Find one of the MANY excellent paths to self-mastery that resonates with you. In my own journey, the philosophy of Stoicism has been extremely helpful. I even wrote an article about how you can apply stoicism to real estate investing.

To your real estate investing success!

Chad Carson is a real estate investor, world traveler, father of two beautiful children, and husband to his wife & adventure partner. Learn more at www.coachcarson.com where he shares what he knows about real estate investing, money, and life.



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through your personal
online portal is just the start.
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process helps solve common
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Learn more at homedepot.com/c/Pro_Xtra.

*Participating members with semiannual net purchases of more than \$5,000 receive a 2% rebate from The Home Depot based on spend on registered forms of payment in Pro Xtra and tied to the NREIA program. Rebate periods are January 1- June 30 and July 1 - December 31. Rebate checks are issued 60 days after the rebate period ends. Restrictions apply. Please call 1-866-333-3551 or homedepot.nationalreia.org for further details. Pro Xtra Paint Rewards is a sub-program of the Pro Xtra Program. Pro Xtra Paint Rewards Qualifying Purchases will be tracked during the Program Period and include select The Home Depot Paint department in-store purchases and online purchases from The Home Depot websites, see https://www.homedepot.com/c/ProXtra_TermsandConditions for details.

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