REAL ESTATE JOURNAL SPRING 2022



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RE Journal Member Spotlight



ualter Amarelo is originally from Fall River, Mass., and currently lives in Tampa, Florida. He is the author of the bestselling books, "Broke To A Quarter-Million" and "Real Estate Alchemist -GET THE DEAL." He is also the host of the Alchemist Nation Podcast where he interviews some of the country's top multifamily investors. As a multifamily investor himself, he has built a \$10 million portfolio and is now working on an \$4 million redevelopment project in Fall River, Mass. Gaulter is a member of the Boston REIA.

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

Before getting into real estate, I worked for a series of Fortune 500 companies in the finance and administration departments as an Continued on Page 12

Trigger Words Every Landlord **Should Listen For** By David Pickron

rou can hardly turn on a TV or read a newsfeed where you don't encounter the term "trigger words." While there are some universally accepted trigger words, like racial or ethnic slurs, most people or groups have their own

unique lexicon of words that send them immediately into orbit. Our industry is no different and over the years the way we identify the players in our game have even fallen victim. In many circles, "landlords" are now more generically referred to as "housing providers," while tenants are now more often called "residents."

As a landlord (I can call myself that because I am one) for over 20 years, I have encountered thousands of applicants who are looking to rent my property. In looking at them as a potential "business partner," I engage several of my senses to get a read on what kind of potential partner they might be. More important than anything, I listen closely to the questions they ask as we tour the property. The following is a list of the top trigger words or phrases that every landlord, old and new, should listen intently for to ensure they are getting the



best possible read on a person for their 1. "Are you going to perform a property and partnership.

Disclaimer: Being presented these questions doesn't always mean the applicant is a definite no-go, but it should put you on notice. Always make decisions off your detailed criteria.

background check on me?"

Has an innocent person with nothing to hide ever asked this question? The likely answer is no. Why would they? If I have no

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The Good, Bad and Ugly of **Higher Interest Rates**



By Chris Kuehl, Ph.D.

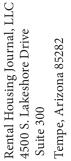
here is an old Scottish proverb that holds that it is "an ill wind that blows nobody good." It seems that with most things there will be winners and losers and that is certainly the case with interest rates.

In the last several months the most pressing economic issue has been inflation. The real rate is now above 7.0% and the core rate stands at 5.5%. The hike in the inflation rate for energy has been staggering at 29.3%. The preferred rate from the perspective of the Federal Reserve is around 3.5% for real inflation and 2.0% for the core. The difference

between the two is that core doesn't take into consideration the prices in energy and food as these are highly volatile categories and that complicates year over year or month over month comparisons.

When rates reach this point the Fed is expected to take action to bring them down and the major tool at their disposal is the Fed Funds Rate. The statements from the Fed thus far indicate a commitment to hiking rates three times this year, likely by a quarter point each time and starting in March. If the stated goals remain intact the interest rates will be at .75% by year's end as compared to the current rate

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Interaction Helps Make the 'Elixir of Success'

By Rebecca McLean Executive Director, National REIA

If you're in the market to learn, what's best: content or community?

How do we choose to expose ourselves to new ideas and approaches? How do we value our investment in those areas in terms of lasting change and growth?

The choices are not the same — and yet are complementary.

For most of us, we see content as meetings we join, books we read, conferences or seminars we attend, classes we take, podcasts we listen to — things or places where information is dispensed in a programmed, orderly fashion.

Content can feel efficient. We can choose when to read it, we can go right after what is of interest, and we can often integrate it into our normal rhythms of the business.

Here at National REIA and in our local REIAs, we put a lot of effort and intellectual capital into our multi-day programs, conferences, expos, etc. That is also true for our single-day programs, Saturday sessions, our luncheons, breakfasts and workshops. We give great thought to who we bring as presenters to our monthly meetings so we can support our members and bring them the timely information they need to be successful.

We compress a great deal of information into our programs so they are focused and, well, efficient — a "good use of time." But the content in and of itself is not the magic of our events. It's the interaction that occurs there that takes information and turns it into the elixir of success, not just information but often builds the confidence to take action – which is the only real way to be successful.

Community, broadly defined, means being in a relationship with other people where our exposure to ideas and perspectives comes through conversations, shared stories and experiences. Our advice or counsel is derived from people who we



have come to know and trust – experts and our peers in the industry.

Community — such as being part of a REIA meeting — can feel inefficient. It's time out of the office, away from the daily demands. We can even find ourselves using the term "being away from work."

Interestingly, though, we hear often and passionately so from REIA members who say if they take one thing away – one thing – from their meetings, it's worth their time. Arguably it could be seen as a pretty inefficient use of time in terms of being away from being "at work" and yet a great use of time. Valuable. I believe there are several reasons for that view, some obvious, some less so. As Michael Gerber outlined so well in his book *The E-Myth*, as an owner/entrepreneur your job isn't to work IN your business but ON your

business. Taking time for REIA meetings and taking advantage of all that the REIA community offers is working ON your business.

It's not just the content, it's the story that comes with it. Sharing stories, particularly in the confidential setting of a REIA meeting or subgroup meeting, brings an important dimension to knowledge. It feels more like wisdom. And the awareness of how the knowledge was gained by others gives it credibility — it is already road-tested. The REIA meetings also offer a chance to engage about new ideas, report back on results, and serve as a point of accountability on actions members say they want to take in their business or in their life. Valuable.

The subtler value, though, is simply getting away, creating some space to think

and listen differently about the business and your leadership of it. It is a mistake to think that time away from the office is "not working." Part of working, part of leading, is the self-care, the discipline, to stand back from the buzz of the work and hear something different. Join us at the next local REIA meeting to experience the value of learning and connecting in a REIA community.

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



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By Charles Tassell

The first scheduled interest hike is in March, with the Federal Reserve forecasting at least two more during the year. This first one is expected to be .5%, but there are no guarantees. Nor are markets sure what to expect from future raises, or if there may be even more. To further complicate the issue is Russia's invasion of Ukraine. The impact on commodities, especially wheat, oil and natural gas when the logistical backlogs were starting to slow, could be dramatic. As of this writing, it is still unknown.

What is known is that COVID and COVID-fatigue are creating a spring of growth for 2022. That is if one can find employees! The Great Resignation, in part due to Boomers aging out and in part due to those who have determined there is something better for them - especially those seeking remote and hybrid options, is still in full swing. However, what is entirely missing and may yet change the calculus are the myriad of service workers who have given up on work/employment and shifted to gig-employment as needed, and if needed. Their expectations have been lowered to such a degree that a small but regular government check seems better than the drudgery of dealing with the public in their former service roles. This missing group and its possible return may be the difference between chasing inflationary pressuring wage hikes and a stable but increasing GDP benefitting all.

In the summer of 2020 I was in a meeting with council members, mayors and city managers who were discussing the various COVID era grants and how the funds should be spent, when the discussion turned to documenting those expenditures. The real concern wasn't even the documentation but if the categorization was incorrect, would the municipality, and therefore the taxpayers be on the hook for the expenditure, with a mandatory repayment. Or in true IRS fashion: interest, fines, and interest on the fines! While the feds and many governors were calling for the funds to

be spent, many local level elected officials were rightly concerned. Business owners should be concerned as well, not only for the potential liability of the municipality where they pay taxes, but also because the Small Business Administration is seriously focusing on PPP and EIDL grant/loans. Auditors are sharpening their pencils as careers will be made auditing the expenditures. PLEASE make sure your documentation is correct. IF you have concerns, call them before they call you. Like a police officer, if they have to chase you down, well...you are going to pay!

Legislative Log Jam

With the mid-year election cycle coming this November there will be an increasingly disparate and shrill call that things are either doing much better or far worse than reality, depending on whose interests are of concern. Word of advice: seek balance and truth early and often, as they will be harder to find as the year progresses. Then breathe deep before making decisions...International conflicts will further complicate the decision process.

Be sure to check out the Advocacy tab on NationalREIA.org website. Here, as part of our bill tracking, you find a listing of bills introduced and ongoing across the country. With over 5K rental property related bills alone, your state is probably considering doing something (detrimental) to your business! For example, there are:

- 32 bills on abandoned housing
- 219 bills on house rehabbing
- 66 bills on housing preservation
- 13 bills on property maintenance
- 3,632 bills on business licensing
- 124 bills on real estate inspections
 5,431 bills on landlord issues /
- property management

 A word to the wise: Speaking of

A word to the wise: Speaking of International conflicts...

The ramifications of those conflicts could show up at a computer near you. Every computer-protection firm and

various branches of the government are warning businesses to back-up and lock down their computers. Consider the time lost to rebuilding a hacked and locked file system vs a 100 Terabyte(!) back-up hard drive. And if you are not sure how to do it, hire a teenager for \$100 and watch the magic! (When they ask if you want regular back-ups with alternating overwrites, say "yes.")

For perspective, there are several websites that show the active level of hacking threats, botnet threats and other more nuanced efforts, such as: https://securitycenter.sonicwall.com/m/page/worldwide-attacks. However, in cyber protection efforts, it is important to understand that with all the hacks and leaks out there, inevitably accounts and pcs will get hacked. How prepared you are for them, how quickly you respond and are able to bounce back may well speak to the viability of your business and your sanity!

HUD Update:

HUD's Moving to Work program expands as it marks 25 years in existence. 29 Housing authorities have been added to the program, with little said about past success, in part because of the lack thereof...

HUD-FHA in an effort to help singlefamily owner occupants, has extended the purchase time for single-family homes that have been "taken back" (nice phrase for foreclosed: yes, they still do that!) by one of the quasi-governmental mortgage housing funders and insurers. The extension will expand from 15 to 30 days as of March 1st. The unintended consequence being that every municipality and next-door neighbor who has been hoping to get these vacant and often damaged homes back on the market will now wait an additional two weeks for an investor to buy the property, fix it up and place it back on the market. This is another example of the government fixing a problem that was not broken.

In the general marketplace singlefamily homes can be sold with multiple offers before even hitting the market! Yet, somehow these often highly problematic homes need an additional two weeks sitting on the market because America's 1.5+ million real estate brokers somehow cannot find them in the first two weeks! The reality is that these properties often need substantial repairs and /or updates beyond the loans offered by the GSEs, not to mention a level of sophistication to get work done properly, that the general public would rather avoid. However, after an investor re-capitalizes the property and makes it habitable again, they do sell - and everyone benefits. The extension is an example of feel-good policy with poor results.

HUD has significantly increased funding for testers and fair housing violations - please make sure you and your business are up to date on ALL fair housing requirements. This is especially true for reasonable accommodation requests. The housing industry is quite familiar with the highly abused issue of companion animals (not pets!) and a mistake or misstep can cost thousands of dollars. It's a new year with a federal administration that is still settling in, so please take an updated fair housing class! Besides, with local, state and various federal programs having potential jurisdiction, not to mention all the bad advice and misinformation on the internet, a professional in the housing industry really does need to stay up to date on these issues. Many cases I am familiar with result in misunderstandings of rights on both sides that should have been resolved early on, but personalities and stubbornness resulted in litigation rather solution-seeking. Please don't let a lack of knowledge cost your company or your reputation.

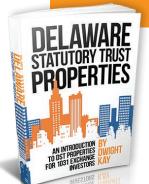
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Too Sensitive

By Jane Garvey

Then I was growing up, the phrase "sticks and stones may break my bones, but words will never hurt me" was used regularly. I was told I was too sensitive. I suspect this really meant that I took offense too easily.

The offense hit close to home when coming from my siblings. We were all very close in age, and living in a rural community, we were each other's primary playmates. We were all masters of sarcasm and delighted in seizing every opportunity to practice. When I was offended, there was no sympathy from parents or other siblings. No one was going to come to my defense.

This background is important to let you know the perspective from which I view society today.

As time has passed, I have seen that:

Words can hurt

Words can heal

Words can make enemies

Words can start wars

As a young adult, I offended someone deeply with a simple inquisitive question, a conversation starter. I was teaching at a university at the time, as was my husband. My brother flew to Wisconsin from Seattle with his fiancée to let us meet her. He hadn't told us anything about her. While sitting around the table after dinner on the first night, I asked where she had gone to college.

To me, this was a perfectly normal conversation-starter. My entire family valued education and had gone to gone to prestigious universities on scholarship, hard work, and loans. Three of the four of us had advanced degrees. My parents had gone to college at a time when few people did that. Everyone I worked with had advanced degrees.

When I asked where she had gone to college, my soon-to-be sister-in-law got up from the table in a rage and demanded that my brother change their reservations - they would be leaving in the morning, less than 24 hours after they arrived. I had no idea why.

After going to calm her down, and changing their reservations at great expense, my brother came to explain. His fiancée grew up in Vietnam and had not gone to college. She had only gone to one year of high school. She had dropped out when she got pregnant. My question had hurt her feelings.

Eventually, my brother got through her rage to get her to understand that no offense was intended. I apologized profusely. He changed the reservations back and they stayed for a week during which I carefully measured every word, assuming nothing.

Fortunately, words hurt but words also healed. They have now been married 35 years. There have been other times where I have stepped into the cultural gulch, but it has been easily forgiven. The reverse is true as well.

The Canadian truckers' protest provides another sad example. Prime Minister Justin Trudeau "hurled insults" at the truckers. The press printed words that painted a picture of the protestors that did not match reality. The words of the PM together with the words of the press separated people into "camps." The protestors remained peaceful, as if they knew the phrase "sticks and stones may break my bones, but words will never hurt me." They asked to be heard, but the PM did not want to listen. So, the PM escalated the incident by declaring war on the protestors. He brought in the modernday version of sticks and stones to hurt them. Fortunately, the truckers remained peaceful and dispersed. They will need to find other ways to accomplish their goals.

Rather than assuming malicious intent and immediately escalating to war, we really need to look at what is being said. In the case of the truckers, intent to overthrow the government was assumed. More than likely this intent was extrapolated from a few words taken out of context. It was used by the PM to escalate what should have been a conversation into an incident that physically and financially hurt many people and will stain Canadian history forever.

In the United States, we face an everexpanding divide on all sorts of issues. The divisions are invading our communities, our personal relationships, and our families. Conversations are shut down at a time when they need to be encouraged. We need to remember: we love and care about each other. We need to understand each other, and that happens with conversation.

In professional circles, words are being put under the microscope for how they offend people. Simple questions, conversation-starters, and even compliments are demonized as being insensitive and offensive, because someone, somewhere, under the right circumstances would take offense.

The Consumer Financial Protection Bureau is teaching a class internally on which words, phrases, questions, and actions should be viewed as racial or gender micro-aggressions. These are viewed as subtle ways of communicating negative, hostile, or derogatory messages, whether intentional, or unintentional. Asking a person where they are from, complimenting someone on how articulate they are, suggesting that everyone can succeed in this society are all viewed as racial micro-aggressions. Asking someone if they have been working out and telling them they look good is a sex-based microaggression, as is a male interrupting a female colleague at a meeting.

We have reached a level beyond absurd. We need to stop taking offense at things when there is no intent to offend. When there is an intent to offend, we need to consider the source and the impact. Usually, ignoring it is the appropriate action.

Occasionally, I find that I should let someone, who has no intent to offend, know that they should alter their behavior or language. In my view, this is only appropriate if it is not a one-time thing or is painting me in an unfair light in front

The media and government are examining the micro-aggressions in our language while hurling major insults at each other and everyone they can get a reaction out of. We need to recognize that words can hurt others feelings, and those hurt feelings can lead to the sticks and stones that can break our bones.

As housing providers, we need to pay close attention. The words we use in screening potential residents can result in discrimination lawsuits. A few years ago, we needed to ask everyone the same questions and treat them the same. Today, are asked to look at the circumstances behind their criminal background, not just reject it without examination. Even if you have done nothing wrong, the sticks and stones of prosecution can come against you if someone is offended.

Tread lightly, my friends.

Jane Garvey is President of the Chicago Creative Investors Association.



Trend in Small-**Balance IRA Real Estate Investing:** Master Lease Agreements

By John Bowens

any real estate investors know they can use their retirement accounts - known as selfdirected accounts – to invest in real estate. But some wonder what to do if they don't have enough in their accounts to purchase a property. There's a strategy growing in popularity that can help even small-dollar IRA investors profit from real estate.

Master leasing consists of renting a property from a landlord who no longer wants to deal with the tenants, management, and tasks that go along with managing rental properties. Many times, they prefer just to collect a monthly check for the rental income and have someone else handle the day-to-day activities. A landlord will enter into a master lease agreement with an investor, who then subleases that property to a tenant.

The concept of master leasing has been around for many years, but you'll learn from this example how an Equity Trust IRA investor has created one of the first blueprints for master leasing with a self-directed retirement plan. Although this property is in Ohio, this strategy is working across the country.

Keep in mind: with an IRA, particularly a Roth IRA, which this investor is utilizing, you can create tax-free profits. As long as you follow all the rules, when you withdraw the money from the Roth IRA, it's tax-free.

Master lease agreement in a Roth IRA: An example

A client used her Roth IRA to enter into a master lease agreement with an exhausted landlord who no longer wanted to deal with midnight telephone calls, vacancies, leases, background checks, and everything else that goes into managing a rental property. But this individual does not want to sell the property – at least, not just yet.

The property has an appraised value of \$125,000 to \$130,000. Even if the landlord wanted to sell, the IRA investor didn't have the capital to buy the property and manage it as a rental. But as you'll see, her small balance was enough for a master lease agreement.

Through a master lease agreement, the investor negotiated with the landlord to rent this property for \$1,000 a month with a \$1,000 security deposit - all paid for out of her Roth IRA.

Under the master lease agreement, the investor agreed

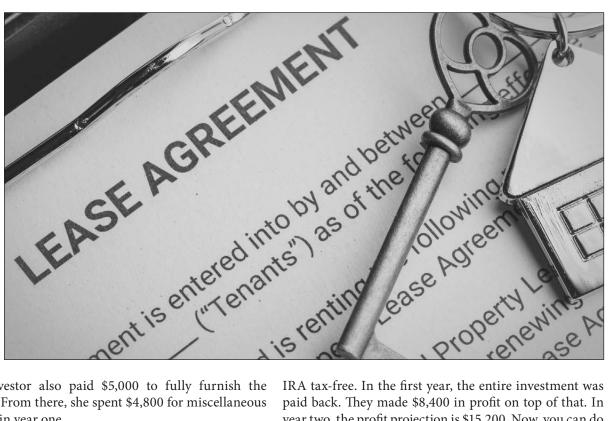
- Pay for all the furnishings to furnish the house
- Pay for any expense under \$100
- Take all phone calls from the tenant
- Oversee the property

The landlord is going to operate as usual, minus the headaches and phone calls.

Instead of a piece of property, the asset owned by the investor's self-directed Roth IRA is a master lease agreement. The master lease agreement reads: "Equity Trust Company custodian FBO (for the benefit of) [client's name or account number] IRA." Both the IRA account holder and the landlord sign the agreement.

Expenses and tax-free profits for the investor

The investor pays a \$1,000 security deposit from her Roth IRA made payable to the landlord, plus \$1,000 a month in rent. The landlord will receive the same rental income that they were getting before this master lease arrangement: \$12,000 a year. That brings the IRA investment total to \$13,000.



The investor also paid \$5,000 to fully furnish the property. From there, she spent \$4,800 for miscellaneous expenses in year one.

Remember: under the master lease agreement, the IRA holder is responsible for any expense under \$100; for expenses over \$100, she'll contact the landlord and come to an agreement or work with contractors to resolve any

YEAR ONE PROFIT

Investment \$22,800 \$31,200 Gross rent Tax-free profit \$8,400

When an IRA owns an asset (in this case, the lease agreement), the IRA has to pay for any repairs. The IRA account holder making the investment can't personally pay for those expenses – they are paid from the IRA.

The investor pays the landlord the \$1,000 in rent, and then she rents it for \$2,600-2,800, netting \$1,600-1,800 per month. She's renting the property for a minimum of 30 days, and tenants generally stay for three to six months. She is able to attract back-to-back tenants.

You might wonder, "who's going to rent a property for three to six months?" With today's housing market, people are having trouble finding housing when they move from out of state. They're looking for short-term housing for a minimum of one month, sometimes upward of a year.

Tenants usually want a fully furnished house. Some renters took a short-term job position in a particular market, so they're not planning on staying there forever and don't want to move all their belongings. They want a fully furnished unit that they can just move in, bring some of their stuff, and then leave when they want to leave. And they're taking good care of the property.

The landlord is happy because they're getting their monthly check. They're oftentimes aging or exhausted landlords. And as the investor with the IRA, I'm happy because I'm able to provide a great service to the property

I'm also providing a great service to the tenant because it's a fully furnished unit. The landlord's happy because I've improved the value of the property and I'm taking really good care of the property.

In this example, the investment is in a Roth IRA, so the profit is tax-free. In year one, the client in this example made a gross rent of \$31,200.

YEAR ONE TOTAL EXPENSES

\$1,000 Security deposit Rent: \$1,000 per month \$12,000 Furniture \$5,000 **Expenses** \$4,800 **TOTAL** \$22,800

Future potential of this master lease agreement

Keep in mind, year one is a bit more capital-intensive because of the furnishings that cost \$5,000. If we look at year two financials, they returned \$15,200 into the Roth

IRA tax-free. In the first year, the entire investment was paid back. They made \$8,400 in profit on top of that. In year two, the profit projection is \$15,200. Now, you can do the math for years three, four, etc.

Again, the IRA just takes control of the real estate – it doesn't own the property. What if they bought a second, third or fourth investment? Now, they have multiple assets generating multiple streams of tax-free profits. This is how investors start growing a smaller IRA in a meaningful way.

Last but not least, the master lease agreement includes a right of first refusal, which gives the investor the ability to buy that property at a future date. Some folks, instead of negotiating on a master lease agreement, might use a lease option or some other creative financing strategy that they work out with the landlord.

It's important that you speak to your real estate attorney so they can properly draft the master lease agreement or whatever other types of agreements or contracts you

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John Bowens is National Educator and Manager, Retail Sales at Equity Trust Company. Visit www.TrustETC.com for more information.

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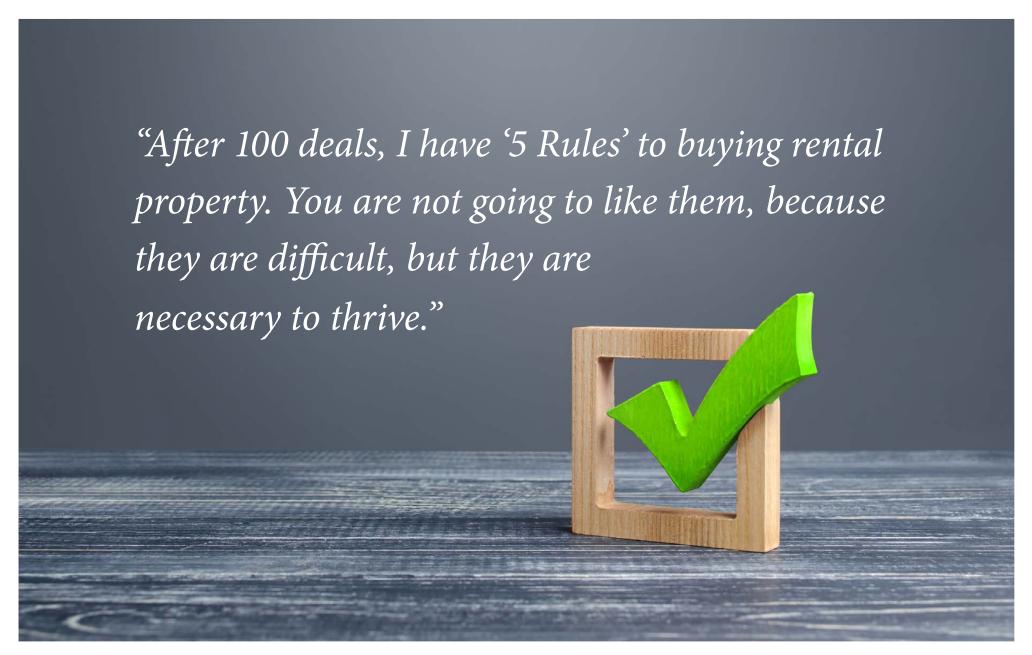






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5 Rules for Success in Buying Rental Property

By Daniel Hart

hese 5 rules have kept me in business for almost 20 years. They are not theory, and are actual formulas that I really use, can be used by anyone, and should be used by everyone on all rental property deals. They have helped me guide countless investors to building highly successful portfolios.

At first glance, they may seem impossible to meet, but keep in mind that professional investors are marketing for motivated sellers and CREATING deals, not simply finding them. So, before you say that you can't "find" these kinds of deals, keep an open mind, because all of these rules CAN be met, IF you commit to motivated seller marketing, building rapport by listening to a seller's needs, and using what they've told you to negotiate a solution for them that is also profitable for you. It's as simple as that. That's how it works, and that's how my peers and I do our deals.

The 2% rule

The 2% rule ensures that your rental property produces adequate cash flow to pay all of your expenses with enough income left over. It does not take financing into consideration, but it can and should be used for evaluation whether or not you are using financing.

The 2% rule is a target percentage for your market rent divided by your total acquisition cost of a property. If you reach that target percentage you will typically receive adequate income after paying all expenses associated with a property.

If you only reach a 1% threshold you will often not produce income, even if it appears you are in the beginning. Maintenance and vacancy are real expenses that must be accounted for when evaluating a prospective purchase. Most people fail to calculate for them, and think they are making money, but are actually in the red over the long haul.

Many of the best deals are going to need private or hard money financing, and you will typically need a 2% deal in order to safely accommodate that financing until you pay it off or refinance.

The 1/2 rent rule

The 1/2 rent rule exists to protect you from overleveraging (over-financing) your property. Do not allow your PITI payment (principal, interest, taxes, and insurance) to exceed half of the market rent. Your new property may meet the 2% rule with a strong rental income, but if you have over-leveraged it, you may not be leaving a safe margin for error.

This rule is only for use on deals with financing, and it can be applied to creative owner financing deals, but in some creative financing transactions it can be overlooked.

The \$200 rule

The \$200 rule came into existence because during many rental property analyses I noticed that it was possible to meet both the 2% rule and the 1/2 rent rule, but still have a mediocre deal. The \$200 rule ensures that you only purchase properties for which you can justify your time.

Do not purchase a property that will net less than \$200 a month after all expenses, including maintenance and vacancy estimates. If I purchase some of the cheapest property available it may meet both rules, but it also may net so little income that it is simply not worth the time and headache to own.

The \$200 rule applies whether or not you use financing, and it can be applied to creative owner financing, but in some creative transactions it can be overlooked due to other benefits that outweigh cash flow.

The 15% rule

The 15% rule is one that represents your annual return after all expenses, without taking financing into consideration, but it can and should be used for evaluation whether or not you are using financing. It does not apply to creative owner financing transactions.

The 15% rule is used in the same manner as a CAP rate (capitalization rate) calculation, which is a measure of the ROI (return on investment). It is typically applied to commercial properties, but can still be useful with individual residential properties.

It is calculated by dividing the NOI (net operating income) by the purchase or sales price. The NOI is your total net income expressed annually, but it does not take financing into considering, so the cap rate calculation evaluates a return on investment based on the property merits alone.

The 25% return rule

This rule ensures that your initial investment will be returned to you in a reasonable period of time. While cap rate measurements and my 15% rule do not apply to properties with financing, it is still important to look at

your real-world cash-on-cash return when you do use financing.

As I mentioned earlier, if I am financing nearly 100% of my purchase with a private lender, or with owner financing, my cash-on-cash return will be close to infinite and is an irrelevant measurement. As my cash out of pocket increases, it becomes increasingly more important to look closely at the cash-on-cash return to see how long it will take to recoup the initial out-of-pocket investment.

If I have a creative financing deal that requires a \$5,000 or \$10,000 down payment, I will certainly calculate my annual net income, after all expenses, to determine my cash-on-cash return. If I am using a bank loan, with a 20% or 25% down payment, I will definitely be looking at my cash-on-cash return. The larger the amount out of pocket, the more concerned I am with my true return on investment.

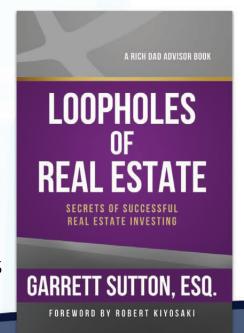
Conclusion

I know, you're still thinking that you can't "find these deals," but remember, you have to create them. It's what I do, and it's what my friends and peers do, so I know it's possible, and I know it can be done over and over. The sooner you believe that it can be done, the sooner you'll start creating those deals. Our biggest roadblock is ourselves and belief in what we are capable of. Overcome this, and anything is possible.

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.

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Co-Insurance Penalty: What It Is and How to Avoid It

By Susan Gropp

In the past 18 months, the most frequently asked question to our underwriting and account executive teams is, "What is the replacement cost value of a home we are purchasing in Mayberry, USA?" A question that has nothing to do with re-sale or market value and everything to do with the Co-Insurance Penalty Clause found in the majority of the property insurance forms that cover these investment opportunities.

So, what is a Co-Insurance Penalty? A Co-Insurance Penalty is a penalty assessed by a carrier for under-insuring the replacement cost of a property. Most policies require that a property be insured for at least 80% of the replacement cost of the damaged item. In determining the amount of insurance required to equal EIGHTY PERCENT (80%) of the full replacement cost of the property at each location insured, do not include the

COINSURANCE CALCULATION EXAMPLE

INSURED PROPERTY INFORMATION

Replacement Cost Value (RCV): \$500,000

Coinsurance (Amount of Insurance) Required: 80% (of RCV)

Deductible: \$1,000

Amount of Loss: \$50,000

INADEQUATE LIMITS OF COVERAGE

Amount of Insurance Carried - "Did" \$350,000

Amount of Insurance Required (RCV x Coinsurance) - "Should"

• (\$500,000 x 80%) \$400,000

Coinsurance Penalty Calculation Factors

1. Did / Should (\$350,000 / \$400,000) 0.875

2. Loss Amount\$50,000

3. Deductible \$1,000

Coinsurance Penalty Calculation: (1. x 2.) – 3. (0.875 x \$50,000) - \$1,000 Amount of Payment (From Coinsurance Penalty Calculation Above): \$42,750

Amount of Coinsurance Penalty (ignoring deductible): \$6,250

Loss Amount – Payment Amount (before deductible): \$50,000 - \$6,250 = \$43,750

value of land or excavations, foundations, supports, underground pipes, flue, drains, and wiring which are below the surface of the ground.

The penalty assessed will vary from carrier to carrier. One carrier may simply pay the claim at actual cash value instead of replacement cost. Other carriers may

have a formula which will dictate what is paid out depending on the how underinsured the property is and the amount of damage the property sustained. An example of a formulated calculation is shown in the box above.

The carrier may also elect to pay the greater of the actual cash value of the damages or the proportion of the settlement as computed above.

Co-insurance is checked for on each claim. The adjuster will run a report to determine the replacement cost of the damaged property less the items which the policy dictates be deleted from the valuation. This report is then checked against the total insured value of the property to be sure that the report valuation is within 80% of the total insured value of the property.

While carriers may assess co-insurance penalties in different ways, as you can see, a co-insurance penalty can be quite financially devasting. It can inhibit you from rebuilding the property to the state it was in previously without a significant amount of additional funds from the insured. Don't be caught off-guard by a co-insurance penalty. Make sure your properties are insured up to 80% of their replacement cost.

And how do you that with materials and labor cost skyrocketing in many areas of the country? We strongly suggest you ask a trusted General Contractor in the area of where you are purchasing homes to give you his latest estimate. We also suggest you regularly check in with them and document those estimates in your insurance or loan file in case you need that information when speaking with a claim adjustor at a later date.

For more information, please visit www. nreia.arcanainsurancehub.com. And, as always, we hope this information was beneficial to you. However, please review your current policies with your insurance agent to get their professional advice on this important clause and any other terms or wording you are not familiar with.

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Susan Gropp is a partner with Arcana Insurance Services and is responsible for the underwriting and claims divisions.



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Real Estate Journal - Spring 2022

Member Spotlight - Gualter Amarelo

... continued from Page 1

analyst. Some of the companies I've worked for include Computer Associates, Johnson & Johnson and Coca-Cola.

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

My current market includes the "gateway cities" that surround the greater Boston area. These include Fall River/New Bedford, Worcester, and Springfield, Mass. I primarily focus on small multifamily portfolios ranging from 3-24 units.

How did you get started?

My first real estate deal was a single-family house-hack in 2008. When we sold that house in 2012, we rolled the profits into a triplex and duplex in Fall River, Mass.

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

For the most part my typical week involves running the podcast, being a guest on other podcasts, and responding to questions from real estate investors who are looking to scale up. My real estate activities for the most part are managed by my business partner who lives back in Massachusetts. He and I jump on a weekly call to discuss potential deals, refinances and the overall operations of the portfolio. I like to read a book each week and, the last time I checked, I was somewhere north of 350 books.

How long have you been investing in real estate?

I started investing in real estate back in 2008, which



"I am on a mission to build 100 millionaires who are inspired to build 100 millionaires." — Gaulter Amarelo

puts me at 14 years. Wow, I remember a time when I had no experience and was dreaming of the day when I could say I had been doing it for a few years. Where does the time go?

Tell us about your first deal:

My first deal was a single-family home I purchased in

Taunton, Mass., with my girlfriend at the time. I spent every day working on that house after work. We purchased it for \$170,000 and after 4 years of trying to out-renovate the market crash we sold it in 2012 for \$205,000.

How do you fund your investments?

Over the years we have done every form of creative financing you can image. These include seller financing, raising private capital, hard money, commercial loans, asset-based lending and partnerships – which are more common for us now. We have also taken over mortgages and in the beginning leveraged FHA loans.

Do you have a real estate license?

Yes, I am licensed in the state of Massachusetts and still receive referrals for connecting real estate investors with real estate agents I've worked with.

What projects are you currently working on?

We currently own 50 rental units in Fall River, Mass., and recently locked down a 60,000-square-foot mill building in the city that we will be redeveloping into a micro-commercial building with the potential for adding residential units down the road. This project should appraise for around \$8 million when it is completed.

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

On a weekly basis, I still dedicate 5-10 hours to selfimprovement and real estate education, although I Continued on Page 13



100 Millionaires Summit 2021, Orlando, FL



On stage with Steve Kut, a multimillionaire



Gualter Amarelo signing his book, Get the Deal.

Member Spotlight - Gualter Amarelo

have found that more recently my focus has been on business development and communication as these skills become more important as our company grows.

Has coaching or mentoring played a part in your success?

Yes. I have spent over \$130,000 on coaches, courses, mentors, live events and masterminds. I will continue to make these investments as I can directly relate my success to the knowledge, network and accountability I have gained from them.

What are your current and future goals?

My current goal is to build 100 Millionaires who are inspired to build 100 Millionaires themselves. It's my way of paying it forward, and I believe real estate is the best way to reach this goal. My future goal is to build high-rise sustainable housing using 3-D printing technology. I am closely following the progress in this technology and am putting my company into a position to be a player in the arena.

What has been your top struggle in this business?

I think my biggest struggle has always been my mindset and aiming at goals that were too small. If I had gotten myself around more positive influences early on with people who were doing bigger deals, I would likely be a billionaire today.

What do you like most about what you do?

Real estate is a very rewarding career. I love that my tenants have clean, safe houses and a property manager they can rely on to make sure the buildings are in good shape. One of the benefits that has come from being in this business is sharing my knowledge and experiences with other aspiring investors and has become the most rewarding part of the business.

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

I have interviewed over 130 real estate millionaires over the last few years. If I



could give a piece of advice from what I have learned from them it is this: "Decide what you want to accomplish for yourself and then find a mentor who has already done it. Follow what they suggest and stick to your goal until successful."

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

There are only three things needed to be successful in real estate. Those are the right Knowledge, Network & Accountability. You can find all three at your local REIA and I strongly urge new and even experienced investors to become active members in their local REIA. All it takes is one right

connection, idea or strategy to become a millionaire.

What is your favorite self-help or business book?

If there is one book that I have read more than any other it is "The Science of Getting Rich" by Wallace D. Wattles. This book is a part of my weekly routine and I have listened to it on Audible every Sunday morning for years.

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

I have found blogging and posting about real estate on social media to be a fun hobby for me. I know most people don't think of these things as fun, but I enjoy seeing what other people think about the information I share and being able to create valuable and informative posts that get people thinking.

Does your business have a website?

Yes, you can go to Gualter Amarelo.com to learn more about my books, podcast, blog and some of the projects I am working on.

Social media accounts?

- Facebook: gualter.amarelo
- Instagram: gualteramarelo
- YouTube: Gualter Amarelo Real Estate Mentor
- LinkedIn: gualteramareloTikTok: @gualteramareloTwitter: @ gualteramarelo

... continued from Page 12

Past Real Estate Deals



10 units purchased for \$365k, gross rents \$8,500



Gualter's first flip purchased in 2008. Sold for a \$34k profit



24 condos purchased for \$840k off-market. Worth \$2.5MM at closing! Current value is \$3.5MM. Gross rents \$22k per month!



Duplex purchased for \$109k in 2013. Sold for \$220k in 2018.



Gualter's first rental property! 3-family purchased for \$155k in 2012. Sold for \$260k in 2015, due to a divorce.

Trigger Words Every Landlord Should Listen For ... continued from Page 1

criminal background history, then I have nothing to fear; run all the background checks you want. As an applicant, if I have something in my past that I am trying to keep from you as my potential landlord, I'd rather know up front, so I don't waste time or money on trying to qualify for your property. If this question ever comes up, now is the perfect time to introduce your rental criteria. Let the applicant know that you have a standard criteria and that these rules are applied evenly and fairly to all applicants. It's easier to let the criteria work for you in showing exactly where the standard is for qualifying for your property. Make sure the criteria are clear in defining exactly what you are looking for when it comes to disqualifying criminal history. And if you don't have a criteria, consult with your attorney or local experts to ensure what you are doing in regard to background checks is legal. We have a great detailed sample criteria we would love to send to you. Just email info@rentperfect.com.

2. "Do you require a deposit up front?"

I can't tell you how many times I've heard this question, or one similar to it. I've been asked to spread out their deposit over a few months or even the entire term of the lease. Whatever form it comes in, it puts me on alert. Why? Because it usually indicates that money is tight and that I may not be a priority when finances are stretched thin. When a medical bill or car repair charge hits a tenant hard, you may be the last person to get paid, if you get paid at all. Now is the time when you really have to stick to your guns and require that deposit as it may be the only protection you have moving forward.

3. "Can I move in immediately?"

I've shown properties where the individuals have arrived at the showing with the moving van packed and ready to unload. This concerns me as I have to ask them why they are needing to move so quickly. Did they just get evicted? Did they leave their last residence in the middle of the night to avoid being seen by their landlord?

Contact: Michael Littlejohn

(855) 337-6811 EXT. 12716

michael.littlejohn@officedepot.com

Phone:

Email:

Granted, there are times when an applicant just suffered a devastating loss by flood or fire and needs immediate housing. Asking follow-up questions on why they need to move so quickly will help you analyze the situation and make the best decision for you and your property.

4. "How many people can stay here?"

While it might seem harmless, this question could lead to more people living in your property than it can accommodate. When an applicant sees your listing as a three-bedroom, two-bath, it's pretty safe to expect it can accommodate up to six people. Establishing the maximum occupancy in an applicant's mind lets them know what you expect and consider as "too many" people in the home. This question is often accompanied by "how long can someone stay and still be considered a guest?" Both of these together or individually are cause for you to ask a lot of follow-up questions to determine exactly how your property will be used. Again, a clear criteria can protect you in this area.

5. "How many pets can I have in the property?"

Pets are just part of the business and having a firm policy regarding number or type is a great way of protecting your investment. While you don't want a zoo moving in, having a no pet or one-pet policy is pretty standard. Make sure to require an additional deposit (see point #2) and collect all of it before move-in. It's beneficial to define what is considered a pet and to clearly communicate what animals are and are not allowed in or on the property. I've seen tenants who tried raising chickens in the backyard use the excuse that, a) they aren't pets and b) they never go inside the residence. Along with violating our lease, they also violated the CCRs of the Home Owners Association and made me subject to a pretty hefty fine with the city. Clarity, especially when it comes to pets, will save you a lot of headaches.

6. "My current landlord is a jerk."

This trigger lets me know that I just might be the next "jerk." Most landlords I meet just want to maintain their property value and make money and keeping tenants happy is an integral part of that game. No one wants to throw out a good, paying tenant who is taking care of the property. Ask your applicant why they feel that way. Often, I hear the current landlord will not return their calls. I see a frustrated landlord when this action starts and, in my mind, it always takes two to tango.

There are countless other things to listen for as you meet with a rental applicant; you likely have stories to tell that top my experiences. Listen intently, ask as many follow-up questions as you need, and communicate your criteria and policies clearly. After all, when you are getting ready to turn your keys over to a sizable asset, knowing who you are renting to is critical to your success in this business.

David Pickron is President of Rent Perfect, a private investigator, and fellow landlord who manages several short- and long-term rentals. Subscribe to his 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.

Members of National REIA can take advantage of special pricing from RentPerfect; the solution for rental property owners and managers for screening & managing tenants. Learn more by visiting www. rentperfect.com or calling 1-877-922-2547.



Words Matter

By Charles Tassell

efinitions matter even more. Many students, especially in their high school years, trying to diversify and improve their language, reach for the tried-and-true thesaurus. Somewhere in that learning process, synonym and connotation are more thoroughly learned, possibly even a vocabulary expanded. Additionally, between a government class and some sort of business class, most people begin to understand that there's a difference between an economic system and a political system. For example, the United States has a political system best defined as a democratic republic with a capitalist economic system. What is interesting, is how the definition of other various systems such as fascism and socialism have begun to morph.

Whenever someone starts to change the definitions of words, people need to be on guard. Recently the word fascist has been used broadly to categorize any action by a specific political party. The labeling has typically come from the other political party.

Interestingly, within the Democratic Party today, there are now two wings claiming to be either the Social Democrats or Progressive Democrats. Additionally, a newer Working People's Democratic wing has also been announced. While the definitions seem to be rather dynamic as yet, one key distinction has been a definitive decrease in the separation between political and economic systems overall. Because of this erosion of separation, the political system can co-opt the economic system. One of the most explicit examples, beyond the proposed tax and subsidy systems which are heavily convoluted, is the shift to stakeholder capitalism instead of shareholder capitalism. This change was evident in the GM restructure in 2009.

For GM, facing bankruptcy, the forced agreement to include stakeholders on

its board, and provide them with stock ownership - with NO capital being placed at risk – set the stage for a new standard of care in "capitalism." The standard of care shifted from taking care of shareholder those who according to capitalism have put their funds at risk in order to receive a return on investment — to a much broader concern for the employees, neighbors, and community. While public relations departments have typically addressed those concerns, especially for larger companies, the calculus was internal not forced by the stakeholders themselves. Nor were the stakeholders given a vote(s) on how corporate policies should be implemented or budgets expended.

Corporations must, small businesses have known for years, invest in public relations and re-invest in their communities. However, when the community, or a part of the community self-certifying itself as authoritative, is allowed to set the standards for the corporation there is a problem. It is one thing for a business to change its own policies to move from shareholder to stakeholder, but when the government begins regulating that company's ability to even regulate its own policies and forcing stakeholder standards there will be a consequence.

In GM's case, things have gone pretty well. That does not mean it will do so in every case. For example, San Francisco has determined that owners of rental buildings with five units or more will be required to meet with residents, personally, at least four times a year, preferably once a month. During these meetings, residents can make any request of ownership that they like, from legitimately raising concerns about problems with the property, to asking for any new amenity. If the residents are not satisfied, whatever "satisfied" actually means, the residents can vote to complain to the city, and the city will determine how much their rent should be lowered. If you



need to read that again, I'll wait...

The rest of America is still digesting that considerable conflict of interest, by which I mean the fact that if residents claim not to be satisfied, they can have their rent lowered(!) while at the same time asking for every amenity under the sun to give justification to their dissatisfaction. Never has such a conflict of interest been institutionalized, especially to this degree.

Now, no one disputes that the rent is high in San Francisco. It is typically rated as one of the most expensive rental and housing markets in the country. But does this solve the problem? Does it even start to address the problem? No. In fact, the National Apartment Association has highlighted the correlation between the regulatory costs and delays of building housing, to the exorbitant cost of rent and the limited housing options. That direct causal relationship has been completely ignored. Instead of increasing the supply of housing and thereby allowing the first rule economics 101 — supply and demand — to begin to affect the cost of housing, San Francisco has moved fully into forcing stakeholder capitalism. The true irony is that forced stakeholder capitalism actually is the definition of another socioeconomic form: corporate fascism.

In corporate fascism, the government actually instructs businesses on what to produce and how to produce it. Profitability and return on investment are not necessarily considerations. Capital in any form is considered to be a community asset, a property of the state if you will. Its expenditure presently is being determined with a metric known as ESG, which

stands for Environmental, Social and Governance. Whether it is supporters like World Economic Forum, or international investors and participants like BlackRock, Inc. the ESG metrics are meant to set a universal standard of corporate care and operation. As not every capitalist will want to participate, there is an additional facet: reduction of entities.

ESG usage is growing, especially in the banking world, with the result that capital, i.e. loans, will be based more and more on an ESG score, thereby limiting the growth and expansion of non-approved capitalist entities. The resulting reduction of capital to non-approved business entities will substantially disadvantage low-scoring ESG companies.

While such esoteric issues may seem relevant for corporate boards and think tanks, this most recent version, as presented in San Francisco, and likely being shared with numerous similarly aligned municipalities, will bring the challenge of maintaining a capitalist form of an economic system to various regions of the country.

In discussions with National REIA's economists, we have speculated, discussed and are heavily weighing the likelihood of regions of the country taking on an East/West German contrast as capital flees Stakeholder borders in search of a return on investment. So, if ROI means something to you, be very careful where you invest.

Charles Tassell is the Chief Operating Officer of National REIA.

The Good, Bad and Ugly of Higher Interest Rates ... continued from Page 1

between 0.0% and .25%. If the Fed decides on half-point hikes the rates might be at 1.5%. These will still be very low as compared to past years, but these rock-bottom rates have been in place since the recession of 2008 and many have become accustomed to them at this low level.

The argument for higher rates generally centers on inflation control. The logic is that inflation is fueled to a degree by too much money in the economy overheating the system. The money supply issue was a bigger factor last year when the United States was sitting on almost \$3 trillion in excess savings due to the stimulus spend. There are other reasons to want interest rates higher and this point has been made by the "hawks" at the Fed.

The first is that low rates punish traditional savers. There is no interest made available to people who want to put money in a savings account or want to buy a certificate of deposit or any other instrument based on interest rates. A second concern is that very cheap money has encouraged investors to borrow huge sums which they put in the stock market. They assume they will get a nice return and that will allow them to pay that loan back. The worry is that these borrowers (and their banks) will be exposed when there is a correction in the market. Higher rates will benefit the traditional saver and it reduces some of that risky investor behavior.

There is generally a negative attitude toward higher rates and an assumption that hiking them will be bad for business. There is a silver lining, however. When rates are as low as they have been for the past decade the banks have very little margin to work with and become very cautious regarding loans. The interest rate hike will allow banks to do deals they might not otherwise consider. The bottom line is that hiking rates a little makes sense in the current inflationary environment and the hikes may also

provide stability in the market as well as opportunity for business and consumers in search of bank financing.

The real estate market watches the interest rate conversation very closely and for the most obvious of reasons. For the last several years there have been contradictory trends in real estate – commercial or residential. On the one hand the mortgage rates have been extraordinarily low and that has been the same situation when it comes to commercial property (although there has been considerably more variation depending on the project). At the same time there have been much higher prices. The fact is that many buyers (residential and commercial) pay more attention to the monthly payments than to the size of the loan and as long as the rates stayed low, they were able to justify and handle the higher prices.

Now that situation seems slated to alter as mortgage rates rise at the same time that prices continue to increase. The complicating factor as far as commercial development is concerned is there are significant differences between sectors. At the moment there is intense interest in anything related to warehousing and logistics but relatively little interest in developing office space. Retail has also suffered as has lodging and entertainment. As usual the location of a project matters with some states recovering old patterns faster than others. As interest rates rise some of these projects will yield inadequate returns but by the same token the higher rates make banks slightly less risk averse.

Over the last several weeks there has been more and more speculation regarding the potential for a housing bubble burst. This discussion intensifies as mortgage rates climb as there is an assumption that demand will suddenly dry up and those homes that have been selling at record high prices will lose the market demand that has driven these prices so high. It is certainly possible that some markets will experience that bubble burst as they have been red hot for years but three things have to happen for these bursts to become a nationwide issue.

The first is that demand really has to erode and quickly. The motivation for the demand that has allowed prices to spike is not entirely down to low mortgage rates and low interest rates in general. There are other factors that have not altered much. There are still many millennial buyers coming into the market and still many people looking for homes away from congestion. Remote work allows people to live where they want to as opposed to where they have to. Most cities in the United States are still seeing housing shortages.

A second criteria is an interest rate hike sufficient to trigger a retreat from buying. The Fed's proposed rate hike policy only pushes the rate to between .75% and 1.5% and that remains at a very low point. It will price some first-time buyers out but most of the market will not react.

The third criteria is a belief that home prices are truly excessive and buyers will never be able to recoup their investment. In some markets that may already be true but it remains a seller's market and that trend continues unless there is an unexpected tightening of credit or a dramatic rise in unemployment. The rate of joblessness is expected to be at record lows in 2022 – around 3.5%. That means that people have the income to buy a house – even an overpriced one.

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

REAL ESTATE JOURNAL - SPRING 2022



5 Bookkeeping Mistakes You Might Be Making

By Gita Faust

eal estate professionals usually turn into jacks of all trades; after all, when you decide to run your own business, you usually don't hire other people for all the other jobs right off the bat. Of course, you want to work in real estate, so you probably want to focus on the frontlines: negotiating deals, fixing up properties, meeting with potential clients, and so on. However, that does not mean you can forget about the back end—more specifically, you cannot forego bookkeeping in any company (If you do, you'll be in hot water with the IRS, and nobody wants that!).

Bookkeeping is a big deal. If you never took a business class in school, you might not have the slightest idea of how to manage your accounting; they don't really teach you that in high school, unfortunately, and if you did go to college, you probably didn't take accounting if you were an English or bio major! Still, there are no excuses; the bookkeeping needs to be done.

The scariest part of it all is there is plenty of room for error when it comes to keeping your books organized, especially if you choose to handle the bookkeeping yourself. While it might not be your top priority, you still need to pay it plenty of attention, and here are the top five mistakes you should watch out for:

1. Records

Improper record-keeping is probably the most common mistake made by real estate professionals. You probably know how to keep proper records and file things

accordingly (and if you don't, you might want to hire someone to help you!). The issue with managing the bookkeeping files is that you likely just do not have enough time to carefully organize everything the way you should.

Failing to organize your records can have greater consequences than taking a bit longer to find something. You may not be able to find that something at all! If the IRS comes in for an audit, a messy back office just spells out disaster. Your records should be accurate, organized, and easy to navigate so you are always prepared for any surprises.

2. Classification

business, chances are you have multiple properties and entities. Along with that you might have multiple bank accounts and credit cards. You might have loans to acquire the properties or construction loans to develop the property. You have to make a note of the property name on each transaction and classify it accordingly.

Depending on what you do either rent or flip you would require different tax structures, so it is important that you create a game plan and classify them in your books. If you fail to do so, you might end up underpaying or overpaying on taxes, both of which are pretty terrible for your business.

3. Accounts

One of the worst accounting offenses you can commit is mingling your expenses in one bank account, yet so many real estate professionals make this mistake. Trust me, paying for both your personal

and business expenses from one account might seem like it makes life easier, but when tax time rolls around and you have no idea which expense is for what, you are going to wish you had segregated your accounts.

Take my word for it and open two separate accounts—one for personal expenses and one for business expenses. It will make managing the books much easier, and tax time will be a breeze for you, your accountant, and anyone else who has to take a peek at your records.

4. Categorization

You should always, always, always review and categorize your expenses. If When you're running a real estate you do not get a grip on how to do this properly, you will likely end up lumping things together that don't belong together.

> Why is this important? Well, categorizing your expenses matters for two primary reasons: first, you paint a better picture of your business. You can identify where you are spending too much, not spending enough, and spending just the right amount. Secondly, you can get tax deductions on certain expenses. Yearly deductions add up fast, so it would be extremely beneficial to your business if categorized all of your expenses properly.

5. No Backup Plan

Imagine you don't make any of these other mistakes. Your bookkeeping records are spotless. You feel like you could go head-to-head with an IRS audit and come out the victor. All of a sudden, though, something happens. You spill coffee all over your computer. Your building floods. Your system glitches. Something happens, all of your data disappears, and... you have no backup.

Doesn't that sound crazy?! Why wouldn't you have a backup of your accounting file? Well, more real estate pros than you think have had to learn the importance of a backup the hard way. Do yourself a favor and save your file to multiple locations so you never lose your data.

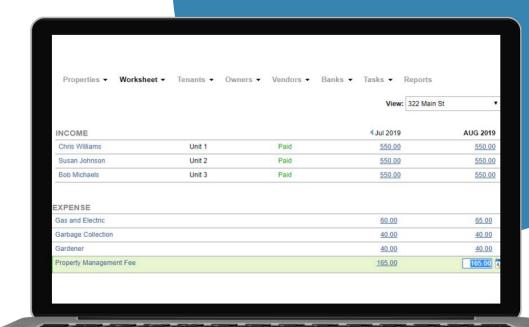
These mistakes might seem easy to avoid, but in all the chaos of running a business, it is easy to let one or two of them slip through the gates. That is why you should pay special attention to these areas of real estate accounting—and if you can't, you might want to consider outsourcing your bookkeeping to somebody who is educated, qualified, and has the knowledge of accounting and the real estate industry.

If you have questions about real estate bookkeeping and accounting, reach out to us and learn how to get more time to increase your wealth.

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



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Timeless Financial Principles

By Jeffery S. Watson

s we begin 2022, many of us have been focusing our thoughts on the reality of higher inflation than what we've seen in the last 40 years. Prices of real estate, gas, stocks, groceries, and other basic necessities went up significantly in 2021, which has led to different thinking about flat currency, correct investing strategies, and opportunities that could be on the horizon.

There are economic principles set forth in one of my favorite books in Scripture that still apply today. Here are some that I'm reviewing as I make decisions for my investing going forward.

When I read Proverbs 13:11, which says, "Wealth gained hastily will dwindle, but whoever gathers little by little [by labor] will increase it," I think of phrases like "one-hit wonder," "easy come, easy go," and "the fleeting, fickle finger of fame." I'm reminded that people who appear to have wealth as a result of their status or position are often so quick to lose it. I further notice that only families who make the effort to teach the importance of good business principles and sound work ethic are able to avoid the "shirtsleeves to shirtsleeves in three generations."

It's not easy to accumulate wealth in this current environment, but it can be done. What's even more challenging, however, is keeping it and then transferring it for a couple generations. That is why I like to study those families which have managed to move wealth and increase it from generation to generation. I've discovered



that the second half of Proverbs 13:11 is a significant factor, "...whoever gathers little by little ['by labor', KJV] will increase it." You have to continually work at it.

Even while living in the Garden of Eden, Adam had to work. He was a gardener. Once I realized that it was God's design that people worked, even if they lived in paradise, it gave me better perspective on Proverbs 13:11.

It's not about working so hard and investing in such a way that you no longer have to work, but rather modeling your life so that while what you do may be seen as work by some, it is pleasure and fun for you. That's the kind of wealth that can stay with you from generation to generation.

One of the things I tell investors to ask someone before they go into business with them in an investment relationship is "tell me about your back end," specifically, your back office. I ask that because Proverbs 10:4 says, "A slack hand causes poverty, but the hand of the diligent makes rich."

I have discovered that the entrepreneur who is good at creating business relationships, finding opportunities, and making things happen is usually not blessed with the skill set of organizing, managing and tracking the details that are obviously necessary for a business to be successful and thrive. Most businesses that fail do so because of bad financial management, particularly in the areas of debt, taxes or payroll.

The individual who is not diligent and is slack (sloppy) regarding the necessary financial details of a transaction is usually headed toward a rude awakening and a bad outcome. If you are one of those people with many irons in the fire, and you are trying to make your business grow and thrive, it's crucial that you have a member of your team who is diligent in tracking all the necessary numbers and correctly handling all things related to taxes, payroll and financial accounting.

The last principle I'll share has to do with a frequently debated topic in many forums. Is there such a thing as "good debt?" I have seen compelling, intellectual arguments made that certain kinds of debt are good; however, when we look through the lens of Proverbs 22:7 which says, "The rich rules over the poor, and the borrower is the slave of the lender," I have to question if there are different degrees of bad debt. Are some types of debt "less bad" than others?

If you look at culture today, debt is a product that is hyper-aggressively marketed in all forms. This phenomenon has only been seen in the last 50 years. Some will point to the time of Richard Nixon when he signed an executive order removing the last vestiges of the U.S. dollar being pegged to the gold standard. From that point forward, it was indicated that borrowers are winners and savers are losers. That argument may sound appealing, but in reality, lenders have become better winners.

We've probably all seen the bumper sticker that says, "I owe, I owe, it's off to work I go." I don't think any of us have seen a bumper sticker that says, "I own, I own, so I don't need to work."

The two forms of debt I consider to be the worst are credit card debt and debt on cars or other household items used for ordinary daily consumption. In the past, I've used credit cards to buy houses. While that may make great reading in certain publications, no one is writing about the months thereafter when you are looking at that alarmingly high, double-digit interest rate, where the minimum payment barely affects the balance.

The type of debt I think is the "least bad" is a private lender relationship at a conservative LTV, such as 50-60%, secured by real estate of such a quality that the buyer and lender would consider occupying the same as their primary residence.

If the last two years haven't taught us about the unpredictability in life, real estate and the economy and how vulnerable borrowers can be due to unanticipated economic changes, I'm not sure then what can open our eyes to the potential vulnerability of any borrower, even those in situations where the debt is as "least bad" as possible.

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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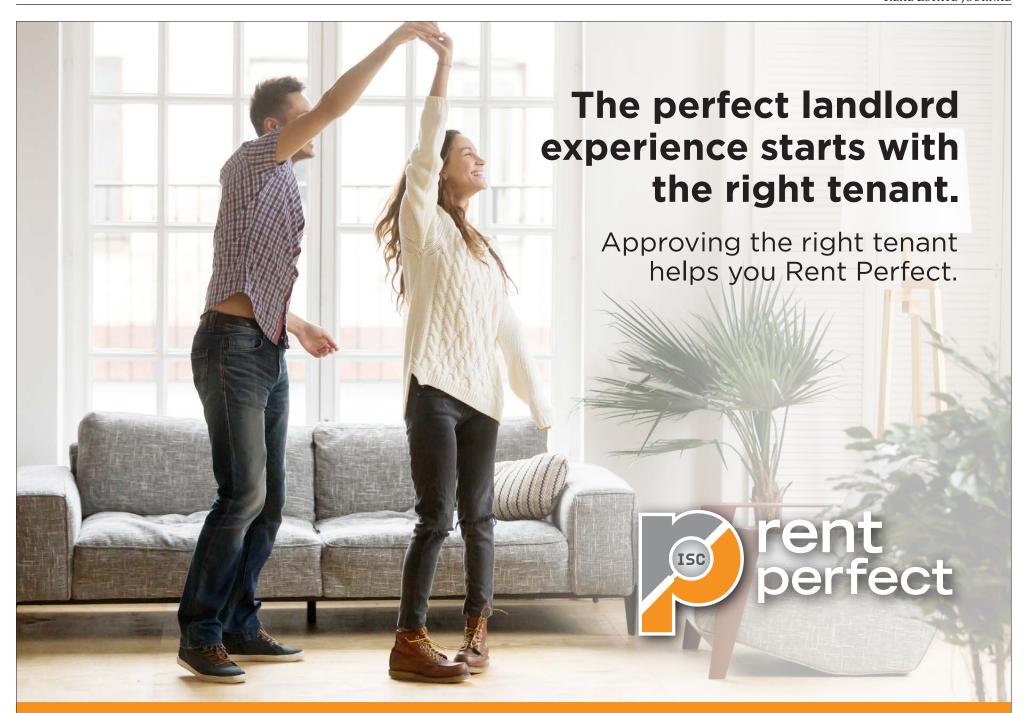
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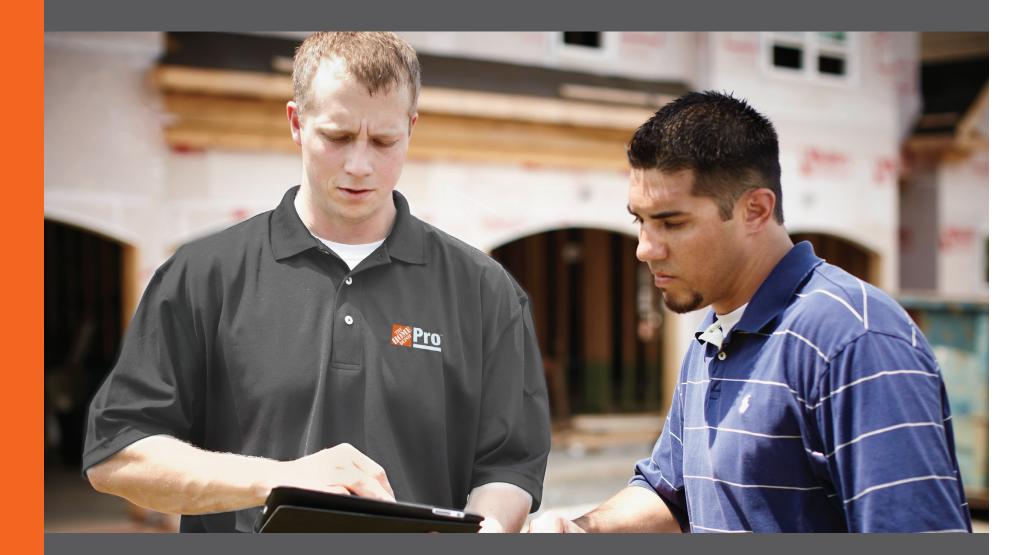
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