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RE Journal Member Spotlight

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Kevin Bouse a full-time landlord/ investor in the Belleville area of Illinois, right outside St. Louis, Missouri. He specializes in multifamily apartment buildings (he has about 420 units) as well as a commercial office park and 160 self-storage units, which are a complement to the apartments. His wife and family are very strong supporters of his dedication to the business, which is their sole income. They have several school-aged children who work in the business during summers and days off during the school year. Kevin is a member of the Metro East Real Estate Investors Association, in St. Louis, Missouri.

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

I attended St. Louis University in St. Louis, Missouri, and got my degree Continued on Page 12

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Effective Political Advocacy

By Jeffery S. Watson

't was mid-afternoon on Oct. 27, 2021, while seated at a table in the Republican ▲ National Club in Washington, D.C., that my good friend and highly respected lobbyist Matt Keelen showed me a confidential memo indicating that the sections in the Build Back Better Bill that were devastating to the self-directed IRA community were being rewritten. I had been in D.C. that day to lobby face-toface with several Democrat members of Congress relative to Sections 138312 and 138314 of that bill, as well as continue advocating for them to co-sponsor H.R. 5013, the Affordable Homeownership Access Act, introduced by Rep. Vicente Gonzalez (D-Texas).

After showing me the memo, Matt asked me a very pointed question. "Jeff, do you have any idea why the Build Back Better Bill doesn't further limit the opportunity to do seller financing?" It was a somewhat rhetorical question. Matt and I had been working along with other individuals such as Eddie Speed, Bob Repass, Charles Tassell of National REIA, Glen Lee of Houston, and other distinguished



individuals to get a bill passed in the last several sessions of Congress to modify Dodd Frank, the SAFE Act and TILA to increase the number of allowed seller-financed transactions from three to 24 in a given 12-month period of time. Fortunately, the Build Back Better Bill was not further tightening that restriction.

My answer to Matt was what he was

looking for. "Because the Seller Finance Coalition has a presence in Washington, D.C., based upon our years of working with you."

Because a number of custodians in the self-directed space have been strong proponents of the Seller Finance Coalition, we were able to leverage SFC resources

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Cognitive Dissonance, Cognitive Bias, and Confirmation Bias



By Jane Garvey

ave you made up your mind? Seriously, is your mind made up? You are probably a bit curious what I am asking about. In reality, it doesn't matter what you have made your mind up about. The result is the same.

Making up our minds about something relieves that uncomfortable feeling of uncertainty. Weighing the alternatives, gathering more data, and comparing choices is hard work. Making up our mind allows us to close the conversation in our minds and allows us to move forward. The unfortunate result is that once the conversation is closed, if we are not open to re-examining our conclusions, we risk Continued on Page 16





You Are Not Alone, You're Part of a Community

By Rebecca McLean, Executive Director, National REIA

T can't think of one real estate investor that has not at some point felt alone. I don't mean lonely, although that can certainly happen as well, I mean really alone.

Loneliness is an emotional state – the absence of deep relationships, a lack of social engagement, a sense of separation from life or the lives of others. Many have felt loneliness during the isolation of the COVID-19 era. Yet alone is something altogether different.

Alone means the feelings of resignation that no one can fully appreciate the fact that we ourselves, as entrepreneurs, shoulder the weight of our business. We are ultimately responsible for our own success or failure and have anxieties and serious considerations for every decision and action. We have no one to blame when things go wrong and often few to share with when we experience a big win. Even if we felt comfortable expressing our feelings about our business to others, most would just simply not understand.

It comes with the territory of entrepreneurship. The nature of our businesses is that being your own boss often means being alone. But all the freedom of being on your own can come at a cost. The cost can be especially high if working for yourself bleeds into a reticence to reach out, to engage with others, to simply build a sense of community, so we don't feel so, well ... alone. Of all the factors that influence the success of a private business – strategy, leadership, market presence, financing, etc. – what needs to be at the top of the list is a focused and determined commitment to develop community.

Community - that social framework where we have

people we can meet with, talk with, share lives with, feel we belong to – is essential not only to combat isolation but to keep us open to other ideas, changes in the business environment, and exchange resources, contacts, and solutions.

At National REIA, we get a number of calls from members who are struggling with some issue and seeking expert advice and support – and we have great resources via our local REIAs to provide assistance to them. However, what often stands out is how many of these calls reflect a foundation of "aloneness" – that the issue went on a bit too long, or they had tried some things themselves to no avail, or they simply did not know where to turn. While it is always a good practice to get professional help of the right kind at the right time, we wonder how many of these situations would have felt less isolating if the real estate investor had been surrounded by a caring and trusted community, as they would find at their local REIA.

There is such a temptation to imagine that a problem is unique to you or your specific business or that no one can understand your business as well as you, or what worked for someone else couldn't possibly work for your particular situation. Being in a community – having regular interaction with others who have a common business interest – who knows that little of that is true. We support and improve each other by sharing our stories, experiences, and solutions. The give-and-take of community is just that – a chance to contribute and gain from others. That is the beauty of a local REIA community. We are there to share the "yay for me" moments, the "holy cow, that went wrong" moments, and the "wow, that wasn't what I expected" moments. We

learn from each other, and those lessons can be the most valuable lessons of all.

At National REIA and our local groups, we have long recognized the importance of community. While we work hard to deliver content, programs, and resources, we know and celebrate the fact that the real value and energy in our groups happens in small groups, at a table, at the back of the room, before and after the "official" meeting. We see the laughter, the nods of agreement, the caring, notes being scribbled or added to phones, the reassuring hands on shoulders, and the warm handshakes that are all evidence that connection and community are being built. We know that is the true value of what we offer that no online community, no digital course, or podcast could ever offer.

Our members feel like family. We invite you to join our family for the holidays and beyond. Let National REIA and our local groups assist you and provide a strong community to combat that "aloneness" that comes with being a real estate investor. Let us provide the resources and support that can be so lacking to entrepreneurs.

It's our mission to be here for you, from the beginners who have just started on their path to success to those mature investors who are nearing the home stretch. We are there for you no matter where you are on your journey.

We hope you have a happy and blessed holiday season! We are thankful to have you as a member of our community and welcome the opportunity to continue to serve you in 2022!

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



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Learn more at www.NationalREIA.org



Legislative Log Jams

As the New Year settles in, if history provides a lesson, Congress will slowly stagnate into a complete morass of a legislative log jam. While Democrats are waging an internecine conflict over their future, Republicans are preparing for a sizable win in the House, looking to pick up dozens of seats and the Majority. The Senate, as is noted almost hourly in the news cycles, is deadlocked, and the GOP is looking for wins for a majority there as well in the 2022 mid-terms.

Thus, neither side will want to move forward on legislation that could be perceived as giving the other side a win – or from the moderate Democrat perspective, opening up potential attacks. Hence, it is unlikely that much will be accomplished in the run-up to the '22 midterm elections. With presidential approval ratings falling, the polarization has been exacerbated and may lead to an increased rate of polarization and stagnation.

In the meantime, there will be no end of handwringing over the concerns of inflation, new viral waves, logistical problems, and international challenges like China, Russia, and Iran with their various militant and cyberwarfare efforts. Fear will be a top selling point in '22.

On a more pragmatic note, Investors will be dealing with fresh and eager regulators at CFPB, HUD, OSHA, the IRS and the National Labor Relations Board. While several are partnering together on cross-departmental projects, one that could have a direct effect on renovators and property owners alike would be the climate change efforts being considered by HUD with support from the Department of Energy. Benchmarking of utilities has long been a goal, both for existing properties so that renters would know the "full price" of renting, and for renovators so that new standards could be put in place.

The complications of the wide variety of building types, various upgrades over the years and the spectrum of weather impact across the country have typically complicated this process into becoming a non-starter. However, there has been a real push for the most basic level of benchmarking to increase the data "for

research purposes" and to provide clarity to renters and homebuyers alike.

The reality is that research will be used to generate regulations and eventually legislation mandating lower carbon footprints and higher-efficiency products.

While those are not necessarily a problem, the cost in return on investment (ROI) has typically driven change. The conflict comes in when there is a separation between the ROI and the payor. For example: a housing provider installs an 80% gas furnace because it costs substantially less than a 95% unit, but the renter must pay the higher gas bill. There have been grants in place for several years now seeking to help cover the capital cost differential but the programs, like most government programs, are slow, awkward, and tend to levels of bureaucratic red-tape that are anathema to most entrepreneurs.

National REIA will be providing feedback on the programs and guidance on how to improve new programs, i.e., simple but effective tax incentives rather than bogged-down grant applications. More to come on this ... and we will need your experience on various solutions! Please keep an eye out for request for information.

Speaking of information ... we have a survey on the pandemic effects on the industry and your feedback is critical. Please check out the survey located at NationalREIA.org under the Advocacy tab. Survey information is anonymous but critical in providing feedback to local, state, and federal officials. This survey is focused on providing updates on the rental assistance funds and their effectiveness or lack thereof.

Seller Finance Update:

After a long discussion about how very little will be accomplished in the next year, one bright spot is the bipartisan – yes, that still happens – Affordable Homeownership Access Act (H.R. 5013). In an effort to provide housing options that were limited by unintended consequences from the Dodd-Frank bill, H.R. 5013 increases the number of single-family homes an individual may seller finance in a 12-month period. The buyer must still qualify under CFPB rules, but

the housing provider would not be nearly as limited in their number of sales. This is especially helpful for investors who have built a portfolio over the years and are looking to divest by giving their residents a chance to become homeowners. Presently residents — especially the unbanked and those living in housing costing less than \$70-\$100K — have extreme difficulty in obtaining mortgages even with extensive exemplary rental histories. A special thanks goes out Texas Rep. Vincente Gonzalez (D-15) for his insights and leadership on this issue. Please take a moment to encourage your Congressional represenative to become a co-sponsor of H.R. 5013. Please visit National REIA.org and click on "Advocacy."

Background Checks:

There has been an ongoing legislative and regulatory battle over the amount of information — or if a background should even be considered — for applicants of rental housing. To those who understand risk management, background checks are essential. However, there are those who are advocating for the removal of background checks, be it criminal or credit, and are taking step-by-step measures to limit their usage.

Please be on the alert — as a housing provider it is essential for your business, your neighbors, and your community that robust background check information is preserved and made accessible for commercial usage. Additionally, if you are not utilizing a commercial provider and pulling information ad hoc, there is significant risk of Fair Housing violations. With increased scrutiny on this facet of the business, please make sure that your business is up-to-date on all local, state, and federal laws and regulations. One of the best ways to do this is to hire out this service! The cost otherwise could be devastating, financially, and potentially, criminally.

State Legislatures:

As the new year begins, state legislatures will again take up bills that can impact property owners of all stripes. At the top of the priority list are the double dangers of rent control and eviction moratoriums. The never-ending threat of the "we-

know-better-than-you" crowd as well as a growing class of entitlement activists is threatening the very existence of rental property to the eventual detriment of the people supposedly benefitting from the legislation. Experienced housing providers will need to participate with local REIAs and their state coalitions to succeed in these efforts. Each member matters ... each voice is needed. Please participate now!

2021 Recap:

National REIA tracks bills across the country as well as working on bills in the halls of Congress. There are seven primary categories of types of bills as well as various rent-strike and anti-eviction and anti-background-check efforts. Here is a summary of the various categories:

Abandoned Property:

Not nearly the hot-button issue it has been in the past, this category is truly a reflection of the macro-economy. With very few homes sitting unused or vacant due to high demand, less than 30 bills were even drafted on this issue for '21, and none has passed as of yet.

Property Maintenance Code:

An issue that dominates at the local level, only 17 bills were even filed in 2021. Of those, most were focused on updates for the International Building Code – standard state updates for consistent compliance. Ironically, most states tweak their version, undercutting the "international" aspect.

Landlord Issues / Property Management:

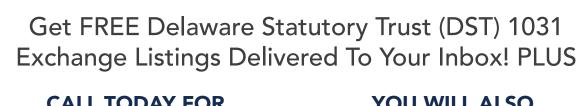
With COVID-19 related bans on evictions dominating the headlines, it is no surprise that the nation's 7,383 state legislators filed almost 5,000 bills relating to rent! Northeast "blue states" like New York and New Jersey had 575 and 474 bills, respectively. While Minnesotans filed over 250 bills, many states averaged 50-100 bills. Passage, on the other hand, was relatively low – as these bills were more about public relations statements than actual policy.

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By Gita Faust

he term "cash flow" is thrown around rather generously in the real estate industry, but it usually comes with no definition or explanation. Everybody just expects you to know what it means. While you are undoubtedly smart enough to use context clues to figure out some semblance of meaning, it is better to learn the specifics of what cash flow is, how to calculate it, what impacts it, and why it matters for your business.

I figured I would make it easy for NREIA members to learn by creating a guide to understanding real estate cash flow for beginners. By the time you finish reading this article, you no longer need to nod along and pretend you know what somebody means when they say "cash flow"— now you can nod along because you do know what they mean.

What is Cash Flow?

In simple terms, your cash flow is the money that you bring in after collecting all your income, paying all your expenses, and subtracting any other payments, savings, or deductions — so basically the amount of money you have left over after paying everything you owe.

Because these concepts are more easily understood when they are illustrated, picture this scenario with easy numbers:

- You purchase a multi-family property with five units
- property with five units.The rent you charge each unit is
- \$1,200 a month.

 The mortgage costs you \$1,500 a month
- Maintenance and repairs for the year average \$150 a month.
- Miscellaneous operating costs such as advertising, insurance, and taxes — run you about \$50 a month.
- Finally, you decide to put \$300 a month into an emergency reserve for the property.

Where does that leave you? Let's break it down.

- Your annual income from each unit is \$1200 a month times 12 months, so \$14,400 from each unit.
- You have five units, so that is 5 times \$14,400. Your total annual income from the property is \$72,000.
- The annual mortgage is \$1,500 a month times 12 months = \$18,000.
- Maintenance averages at \$150 a month, which is \$1,800 a year.
- Miscellaneous costs total \$600 for the year (\$50 times 12 months).

- Each year you put about \$3,600 into your contingency fund.
- So, what is your annual cash flow? Well, if you calculated \$48,000, that is correct! You get that number by subtracting all the expenses from your income:

CASH FLOW: \$72,000 - 18,000 - 1,800 - 600 - 3,600 = \$48,000

Once you write it out and see it in action, it becomes very easy to calculate cash flow for your own properties. However, keep in mind that cash flow is fluid, and these inputs can change at any given time. You may need to increase or decrease rent, or perhaps maintenance costs more this year, or maybe miscellaneous costs skyrocket due to a sudden increase in taxes. Having a contingency fund for circumstances like these is extremely important, hence why I added it to the scenario above.

What Can Harm Your Cash Flow?

There are a number of factors that can impact your cash flow. Some things, like increasing rent, long-term tenants, or preventative maintenance, can give you a little boost. However, I want to focus on the things that would do the opposite so you can remain aware and avoid these issues to keep your cash flowing.

Repairs and maintenance. While you should be calculating this into your original project cash flow, sometimes you discover extreme or unexpected repairs for which you do not have the budget. To avoid situations like these, have the property thoroughly inspected when you purchase it and keep up with preventative maintenance to avoid any repair build-up.

Tenant turnover or vacancy. When tenants move out, you have a vacant property. What that means is you have a property with no cash flowing in, but the cash is still flowing out. On top of that, you might have to expend some resources for cleaning or maintenance between tenants. Try to ensure your tenants stay for as long as possible by doing what you can to keep them happy; respond to requests in a timely manner, don't substantially increase rents after their lease expires, etc.

Missed rent. This is an obvious cash-flow killer. If a tenant fails to pay rent for a month, that is a chunk of your income missing. While you might be able to take a delay or two, if tenants are consistently missing rent or paying extremely late, it can create trouble on the back end. Stipulate a late-rent policy in your lease and encourage your tenants to pay on time.

Unexpected expense increases. Nobody likes paying more money, so it always comes as an unwelcome surprise when property taxes or insurance prices increase. While there is unfortunately no avoiding these increases, you can analyze the previous changes in rates and factor that into your rental costs and the rest of your budget. You can make tracking and analyzing your expenses easy, though, when you use a program like HammerZen, an app that automatically uploads your purchases into QuickBooks.

Why Does Cash Flow Matter?

To sum it up nicely, cash flow is important because it helps you understand which properties to purchase and which properties to avoid. While you may not be able to get the exact numbers when estimating cash flow, you usually have access to all the necessary information to get a pretty good idea — and by doing that, you can easily project which properties are going to be money-makers versus moneytakers. Of course, you want properties that produce a positive cash flow, but in some circumstances, you can buy a property that cash-flows negatively if you have enough reserves to run at a deficit and if you think the payoff will be worth it in the end. Essentially, cash flow in real estate is a tool you can use to judge the viability of a property.

Ask yourself: Should I invest for equity or cash flow?

Ask yourself: Do I want money right now, when I retire, or acquire properties to build wealth?

The above example is a simple cash flow, but there are other ways to calculate your return on investment (ROI) and cash flow of your business.

If you have any questions about cash flow or real estate accounting in general, do not hesitate to reach out to our team at HammerZen!

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

Three Common Mistakes Real Estate IRA Investors Make (and How to Avoid Them)

By John Bowens

Investing in real estate in a self-directed IRA is a different process than if you were investing outside of an IRA. Some investors, not realizing the differences until it's too late, have made mistakes that have caused them to lose the taxadvantaged status of the account, miss out on potentially lucrative investments, or other avoidable consequences.

It doesn't have to be that way; you have the benefit of learning from these past mistakes to successfully complete your investment the first time. Here's what you need to know.

3 Common Self-Directed IRA Mistakes and How to Avoid Them

1. Not having the right documents/ titling for a self-directed retirement plan

The first mistake we often see is clients not having the right documents in order, or not having those documents titled in the name of the Equity Trust self-directed retirement plan.

For example, when you enter into a purchase contract to buy a property with your IRA, it's important that the purchase contract lists the buyer as your IRA – not you personally or your LLC.

We've seen clients in the past try to put a property under contract personally and then assign the contract to their IRA; that can be considered a prohibited transaction. Your IRA would essentially be distributed January 1 in the year in which that transaction occurred.

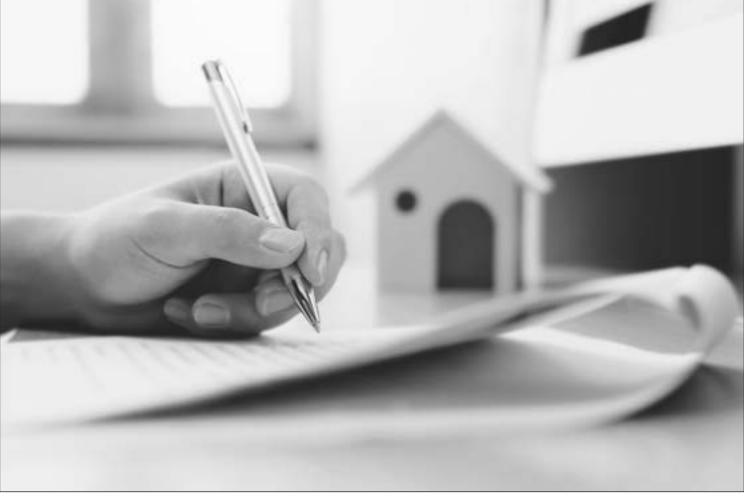
Make sure that from the very beginning, the contract is titled properly. Even if you could amend the contract, or draft a new contract, that amounts to extra work, time, energy, effort, and, of course, money to prepare the documentation. So make sure you get this right from the very beginning.

What does this look like? When you title a property contract or any other investment documentation for your self-directed IRA, it would include your IRA custodian. For example:

Equity Trust Company Custodian, FBO (for benefit of) [your name] IRA

If you're using a Roth IRA, you would swap "Roth IRA" for "IRA." If it's a health savings account or Coverdell Education Savings Account, you would plug and play the applicable account. If you're using a Solo 401(k), there's a little bit different naming convention; your IRA custodian can walk you through the specific titling.

Another example: If you're buying notes, originating loans, or being a private



or hard money lender using a self-directed IRA, the lender on the promissory note and mortgage must be in the name of the IRA

Sometimes, at the 11th hour, investors need to fund their transaction and they send their documentation to the custodian without proper titling. That's not acceptable and can put you at an extraordinary amount of financial risk of not being able to process a transaction, as well as the risks associated with the tax efficiency of the IRA.

Also, if you're investing in a private entity like an LLC or corporation that's privately held, usually you need to fill out what's called a "subscription agreement." Under that subscription agreement, the subscriber is your IRA. You would use that same titling. There again, all too often we see investors make the mistake of not properly titling that investment documentation.

2. Trying to obtain standard bank financing for a real estate property purchase in an IRA

Some self-directed investors who want to buy a property think, "I'll just go down to my local bank, and my banker or mortgage broker whom I typically work with will give me a loan to buy this

property with my IRA."

Other investors may think: "Well, I'm just going to use my IRA as a down payment and then get a bank loan." You may be able to do that. But you have to borrow the money on what's called a non-recourse basis.

Your IRA cannot take on conventional financing because your bank or mortgage broker is going to require what's called a personal guarantee that you personally sign. Under the provisions of Internal Revenue Code 4975, you personally cannot guarantee that debt. So you have to make sure that if you're going to borrow money to buy real estate, you obtain a non-recourse loan.

3. Waiting too long to fund your self-directed IRA or 401(k)

All too often, investors fail to establish and fund their account well in advance of making an investment. They call us two to four days before they need to close on a deal to open and fund their self-directed IRA with an existing retirement account.

Why is this a problem? First, if they are in a stock market position – that could be individual stocks, ETFs, or mutual funds – it's going to take one to three days to settle those assets and liquidate those positions in order to transfer the funds over to your self-directed IRA.

Additionally, it is not an overnight process to move your funds from one financial institution to another. You are at the mercy of that other financial institution.

And all too often, folks wait until the 11th hour. This leaves them to worry about not meeting their closing deadlines, having to negotiate with the seller to extend the closing date, or – even worse – missing out on the opportunity altogether. We see this happen time and time again.

It's not always easy to hear that mistakes can be made, but it's important to learn so they're not repeated.

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John Bowens is National Education Specialist at Equity Trust Company.

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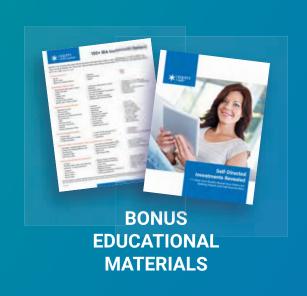




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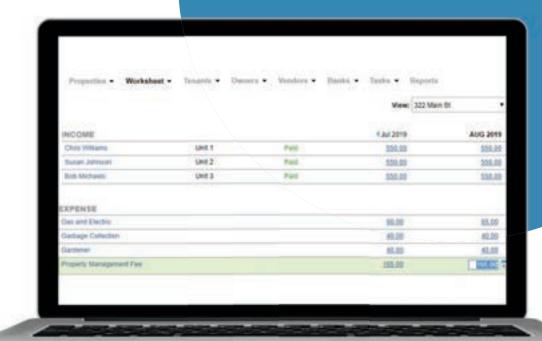
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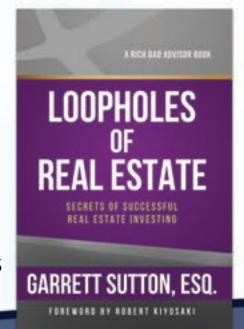
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Five Common Exclusions Found in Most Landlord Investor Policies

By Mark Gannaway, CPCU

opefully you have had the opportunity to hear an Arcana employee speak at one of the National Real Estate Investors Association conferences or at your local REIA meeting. Most of our discussion is focused on what the Landlord Investor insurance policy typically provides coverage for, but also on what the insurance policy DOES NOT cover.

Another resource is the RE Journal (which you're reading now). Arcana employees have been contributing educational articles for the past three years on how to mitigate property and liability losses through insurance on single-family investment properties. We started off 2021 with an article featuring the "Exclusions" of most insurance policies that you may purchase as a real estate investor and

believe bringing it to your attention once again demonstrates to you the importance of knowing what coverages you do and do not have. Having no insurance or improper coverage could make investing into these assets a nightmare or a potential financial disaster.

In the world we live in today, many insureds believe everything is covered or should be covered no matter the situation. If that were the case, insurance companies would quickly go out of business.

Here are five common exclusions found in most Landlord Investor policies and many standard property insurance policies including your own Homeowner's coverage.

We have extracted the exact wording from a typical property insurance policy for you to review and understand. Notice below how many of the insurance companies cap or use bold type to immediately get your attention when it comes to "PERILS EXCLUDED or OTHER EXCLUSIONS." Again, these are common general exclusions; you need to read your own insurance policy to see exactly what is covered and not covered.

<u>First, Surface water entering the basement through cracks in the walls or up through drains.</u>

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

(i) Water: Loss or Damage caused by, resulting from, contributed to or aggravated by any of the following: b. Water below the surface of the ground including that which exerts pressure on or flows, seeps or leaks through sidewalks, driveways, foundations, walls, basement or other floors, or through doors, windows, or any other opening in such sidewalks, driveways, foundations, wall or floors.

Second, is Freezing of pipes in vacant properties where the heat was not maintained, and the pipes and plumbing systems were not drained or winterized.

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

(i) Water: The Underwriters shall not be liable for Loss or Damage caused by, resulting from, contributed to or aggravated by any of the following:

d. Loss or damage, including subterranean, water damage, resulting from freeze of plumbing or heating or fire protection systems in buildings that have been vacant beyond a period of thirty (30) consecutive days immediately preceding the loss as hereby excluded unless the insured has used reasonable care to maintain heat in the property or unless the insured has shut off the water supply to the property and has drained all pipes, plumbing, sprinkler systems, hot water heaters, radiators, including all appliances, heating and cooling systems of water.

Mold in the structure. The policy does not cover the cost of mold remediation.

THE PERILS EXCLUDED

Notwithstanding anything to the contrary contained herein, this policy does not cover loss resulting in damage to or destruction of the insured property directly or indirectly caused by or resulting from:

(a) wear and tear, marring, scratching, deterioration, rust or corrosion, fungus, decay, mold, wet or dry rot; inherent vice, hidden or latent defect, obsolescence, neglect, animals, birds, rodents, vermin, termites or other insects; smog, rust or corrosion; smoke, vapor or gas from agricultural or industrial operations; consequential loss; discharge, dispersal, seepage, migration, release or escape of pollutants; settling, shrinkage, cracking, shifting, bulging or expansion including resultant cracking of pavement, foundation, patios, walls, floors, roofs or ceiling: unless such cracking, shrinking, bulging or expansion is directly caused by fire, lighting, smoke, windstorm, hurricane, hail, explosion, aircraft, vehicles, vandalism, malicious mischief, riot, civil commotion or falling objects.

<u>Damage resulting from improper</u> <u>repairs or lack of maintenance.</u>

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Notwithstanding anything to the *Continued on Page 18*



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Member Spotlight - Kevin Bouse

... continued from Page 1

as an occupational therapist. I started working at Saint Elizabeth Hospital in Belleville, Illinois. This is where I met my wife, who was a physical therapist at the same hospital. Of course, initially, we were both full-time, but as we bought more and more properties, we were able to go down to four days a week and then down to two days a week and eventually quit that field over 13 years ago.

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

We seem to specialize in B Class properties. We especially do well if we buy in a transitional area that has suffered due topoor management, deferred maintenance, and/or increased crime. We aggressively go in and establish relationships with the renters who want to see things get better. We also establish relationships with local law-enforcement, surrounding landlords and other homeowners and businesses. We normally have to do a massive upgrade for both the inside and outside of each building and unit. We will establish neighborhood watch meetings and work to improve the quality of life for the renters in each community where we own units. In one neighborhood in particular, it took over 20 years, but we were able to buy out the landlords as they retired or decided it was time to sell, and this allowed us to start adding amenities such as a gym and a community room and an outdoor patio, playground and a dog park.

How did you get started?

As a kid I did not like playing sports. I figured if I was going to get dirty I might as well get paid for it. My parents had me put an ad in the local newspaper in 1985 when I was in fifth grade to cut lawns for \$10. Some landlords answered my ads, and I began cutting several lawns a week. I continued to dump money into a joint savings account I had with my parents. Months before my 16th birthday, I was considering spending my \$8,000 in savings on a new car. But then I thought if my parents would use that as a down payment on a \$40,000 duplex for me, I could buy my mom's used car and make her monthly payments with the rent money. Two years later as a freshman in college I bought my second duplex. Shortly after graduating college I did my first bond for deed and bought an 8-family apartment building where was I cutting grass. I continued to work until 4 o'clock every day as a therapist and then worked until 9 or 10



Kevin Bouse, his wife Ginny, son Kaden (far right) and daughters Elizabeth (holding the award) and Caroline. In 2021 they received the Business Excellence Award from the Belleville Chamber of Commerce.

in the evening doing maintenance at the apartments. I would, of course, also work on Saturdays.

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

I try to be at the office before 8 and try to leave by 5 o'clock. I do have to take calls in the evenings and on weekends. Thankfully, we have an excellent maintenance team and office staff. I handle all complaints and conduct issues that are not related to maintenance. I am the one who reaches out to all renters who are a month behind to discuss their options. In addition, I typically line up new renters for any upcoming availability. I also have meetings throughout the week regarding fundraisers, Chamber of Commerce programs, the high school CEO program and my church organizations. I try every week to meet with someone new or someone whom I have not seen in a while regarding real estate.

How long have you been investing in real estate?

I started when I was 16 years old, and that was 31 years ago.



The Bouse multi-unit office park



A row of multifamily apartment homes from the Bouse portfolio

Tell us about your first deal:

The first deal was a traditional 20% down on a duplex. It was part of an estate sale and it was very dated. The upstairs attic rooms had never been utilized, and we were able to convert those into bedrooms. We did all the work ourselves because we could not afford to hire anyone else to do anything. It's funny, when I look back, about how we would paint everything that we could and now we are able to just tear out and replace things such as kitchen cabinets and doors.

How do you fund your investments?

In the beginning I would have to do around 20% down. However, we have done lots of creative financing in which I would borrow the down payment from the seller and get a loan for the other 80% of the purchase price. We have done bond for deeds, but we structure them to where the interest counts toward the purchase price. However, usually we use our line of credit and then we can cash-purchase apartments up to \$1 million at a time. I then do the remodeling and get the rents up. Then, at least six months later I will

refinance out what I have in the property. This is my favorite way of doing it because the line of credit gets paid back, I have a property that is in excellent condition and with excellent renters that is cash-flowing well.

Do you have a real estate license?

I had one for a couple years about 15 years ago. I really thought that I would be saving a lot of much commission money but failed to realize the amount of time it was taking away from growing my business. I tore up the license and I was able to grow at a much faster rate with the help of an aggressive real estate agent.

What projects are you currently working on?

During COVID-19, we bought an entire apartment community of 109 units overlooking the country club in our town. We were able to remodel the 22 empty units within six months and now we are working on a waiting list of people wanting to live there. We are

Continued on Page 13

Member Spotlight - Kevin Bouse

... continued from Page 12

establishing amenities such as internet and cable included with each lease along with a gym membership, and we are doing massive improvements to the parking lots, landscaping and outdoor decks.

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

Since I manage my own properties, I do not carry a management license. However, I do read about two hours a week and I have been able to seek a few mentors who are seasoned real estate investors. I attend as many of our REIA meetings as possible and attend workshops when they are offered in the St. Louis area.

Has coaching or mentoring played a part in your success?

In my first 15 years as an investor, the Metro East Real Estate Investors Association was tremendous establishing my knowledge about how to run a real estate business. However, it seems that over the past 15 years I have been doing more of the coaching and/or mentoring. We have a local CEO program with three high schools where I am able to mentor students who have an interest in real estate. Anyone who is involved with me in a real estate transaction knows that I will help them succeed when they purchase a building from us. In addition, I meet regularly with new investors and take several calls and text messages throughout the week regarding questions they may have.

What are your current and future goals?

I really love what I do so, I am not looking to retire early or even slow down. Time will tell if my children will get involved in the business. I want to make sure that anything I own is in good condition and that the renters can reach me if there is a concern and that they feel safe and very happy as a resident. I would like to revitalize other apartment buildings and communities in the Belleville area. I am hoping to be able to donate more of my time and money and experience to the different organizations that we have here in Belleville. There are a lot of committees I would like to serve on that will increase the economic development and safety of our community.

What has been your top struggle in this business?



This was a prank played with the maintenance crew on April Fools' Day about water coming out from under a kitchen sink.

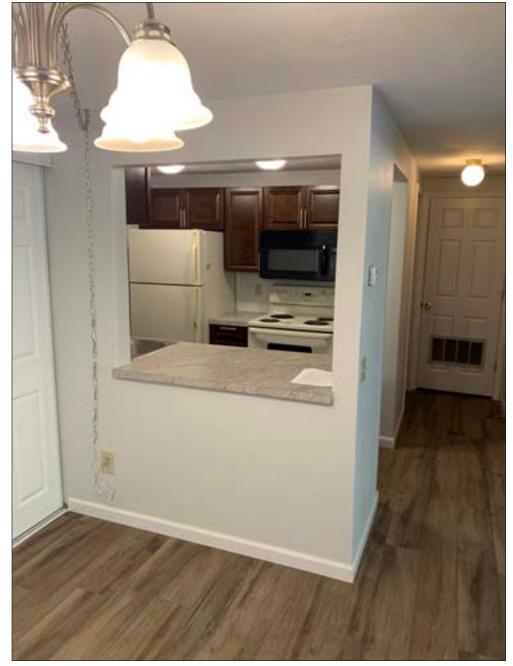
My biggest struggle is that I have not done this before. There are times when I have gotten myself overextended and times that I have purchased properties that were not a good fit for me. Starting out from scratch as well as trial and error led to many struggles over the years. However, all of them have been invaluable learning experiences that I can share with others getting into the business.

What do you like most about what you do?

The best thing is when you take an apartment building in which people have safety and maintenance concerns and you transform it into a safe and well-maintained environment for them to live and flourish. I love developing relationships with my tenants and seeing them take ownership and pride where they live.

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

Success in real estate is a road to longterm wealth. Sometimes it reminds me of adult daycare when you have to deal with the problems of several families living under the same roof. Always remember to keep an open mind and listen but be very



A recent kitchen remodel

consistent and transparent with how you handle issues. Take time to get to know the condition of your properties and the quality of your tenants. You should always be proud of what you own. Remember that there are people with skills better than yours in all areas of property management and maintenance. Please allow others to help you and hold them to high standards.

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

In addition to attending monthly meetings at Metro East REIA, I was able to be part of their Professional Housing Provider (PHP) program. This is a solid commitment in learning all aspects of property management from National REIA. I highly recommend earning the certification.

What is your favorite self-

help or business book?

I do love *Rich Dad Poor Dad*, by Robert Kiyosaki. Everyone has a choice as to which path you would like to take.

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

For me the old saying rings true that if you like what you do, it doesn't feel like you're working. With that being said, we go on several vacations throughout the year. My favorite is going to the beach with my family and spending hours building large sand castles.

Does your business have a website?

www.bouserentals.com



Bouse's self-storage facility



Outdoor common space for residents, which includes a playground and "bark park" in the rear

Legislative Update ... continued from Page 3

Rent control and rent control pre-emptions have been introduced in many states depending on the liberal/conservative bent of the state.

The issue of rent control — evidentially proven to be bad for low-income renters, property owners, and housing costs — has not stopped the housing-as-a-right crowd from demanding rent strikes and free rent, without reprisals during the COVID-19 pandemic, no matter how long it runs.

For example, New Jersey has banned evictions for non-payment due to COVID-19 until two months after the pandemic emergency is lifted! What politician is going to announce the end of the pandemic with a neverending string of new variants on the horizon and an everincreasing unpaid rent tab for at-risk renters? The impact on housing providers has yet to be determined.

Short-term rentals have been percolating in many states with local communities passing laws that are less than welcoming. More states are entering the fray, in part to set consistent rules, but also as the big boys in the market, the hotel industry, has been taking it on the chin, exacerbated by COVID-19, and post-COVID-19 concerns.

Source of Income (SOI) is an issue that is not well understood. The definition is misleading in that if a resident actually had income, they would likely qualify.

Most property owners have a standard formula of 2.5-4X income to qualify a resident. SOI legislation scraps that formula and requires housing providers to accept a different type of payment with a whole series of rules, regulations, timing delays, and inspections different from the local and state standards.

Simply put, SOI is not about income, it's about federalizing housing.

Real Estate Inspections:

Over 100 bills have been introduced so far dealing with the issues such as expansion of inspection items, individuals and businesses to be included, the actual process, discrimination and, of course, licensing for all.

Contact: Michael Littlejohn

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House Rehabbing & Housing Preservation:

These two categories are typically driven by increasing housing costs or a scam that catalyzes new legislation to fix a problem that may or may not be covered by other laws. In areas like California, where the cost of housing is driving new ideas like secondary residential structures, rehabbing and preservation are going hand-in-hand for now. These will likely diverge again as gentrification issues re-emerge over the next couple of years. Presently, the capital influx into underperforming markets has municipalities excited about growth, but as there are fewer homes for low-income residents to rent, the preservation activists will increase their volume and new bills will be forthcoming.

Business Licensing:

Governmental licensing is based on two key concerns. The first is often expressed by those presently in the business to be licensed, and that is their concern for "quality" — which is another way of saying "the consumer isn't smart enough to pay my rates for the service I'm providing, therefore we need to put some roadblocks in the way of others coming into this market; furthermore, the government-created lack of supply will increase the price and prop up my business." Second, the government in all its wisdom — elected, bureaucratic or both — knows more about your business than you do and therefore you need to come to them for instruction, guidance, and regulation.

With over 3,889 bills filed on business licensing, and very, very few to eliminate the licensing or reduce requirements, it speaks volumes about the willingness of the country's small business willing to utilize the power of government to restrict access to their chosen business, or the depth and breadth of self-proclaimed expertise and wisdom residing in the halls of government. #HangOnToYourWallet

An additional area of concern involves Assistance / Companion Animals. Many states are actually pushing



back against the overly broad definitions provided by HUD that have now spanned three administrations. The clarifications during the last administration were an unmitigated failure and have accelerated the growth of "novelty" and outright dishonest websites providing identification and paperwork justifying why Fido, Smokey, or any number of other animals are legitimate. Beyond the companion-animal website scams, there are also websites that will provide a variety of other novelty items a resident might need, such as paystubs and proof of employment. Would you like to have documentation showing your graduation from the college of your choice, months of great paystubs? And the ADA/HUD latitude required to keep your pets as therapy, companion, or assistance animals? They can be yours for a low, low introductory cost. One caution, if you search these sights: They will inundate you with advertisements, and they are not necessarily professional in their handling of your personal information. After all, they are helping you run a scam, and ...there is no honor among thieves in this situation.



Outsmarting Jack Frost

Are Your Rental Properties Ready for Winter?

By Christian Bryant

Property and preparing for winter. If they take the proper steps before winter comes, many landlords will avoid damage, unnecessary after-hours repair expenses, and lawsuits.

These expenses can soar up into the tens of thousands of dollars. Next to improvements that will increase rent, and properly managing your tenant, investing in repair and maintenance avoidance will have the largest impact to your long-term bottom line. If you manage your own properties, you really can't afford to skip these steps. And if you have a professional manager, you need to verify that their weatherization policies and procedures mimic these guidelines.

To be as prepared as possible, there are three areas to focus on: the property, the tenants, and your business procedures.

When it comes to preparing your rental property, there are the obvious things like having the gutters cleared, roofs cleaned, and providing vent and hose bib insulation covers. If you really want to invest in damage prevention due to winter weather, there are many precautions you can take:

- If you live in an area that has prolonged periods of freezing temperatures or your water pipes are exposed to the elements, you may consider having electric warmers installed on your water lines. Standard systems are controlled by a switch, but I recommend upgrading to a temperature activated automatic switch.
- After the first heavy rain, you can have the attic inspected for possible roof leaks that were created during the summer months. A quick roof patch before drywall is damaged or mold has a chance to grow is much more affordable.
- Have all your trees inspected and pruned as necessary. Any trees or limbs at risk of coming down should be dealt with before the ground loosens due to rain, and the winter winds start.
- Make sure that the earth outside your crawl space vents is below the bottom of the vent and the grade slopes away from the structure. A simple build-up of debris and dirt outside a vent can lead to the flooding of your crawlspace, along with expensive mold problems.
- For a higher tech preventative measure, you can install moisture meters under your sinks, by the water heater, behind the fridge, under the dishwasher, and behind the clothes washer. The low-cost versions will set off an alarm that someone must be home to hear. This also relies on your tenants knowing how to turn the water off to the line that is leaking. The higher cost option is connected to a water line shut-off valve so that if the meter detects excess moisture from a leak, it will automatically stop the flow of water to that line.
- Verify that all smoke detectors are in good working order. Christmas trees, decorations, and lights all increase the risk of fires in the home.

This brings us to your tenants. Are you expecting enough from your tenants when it comes to protecting your rental in winter? Ideally, you will have your tenant's weatherization responsibilities spelled out in the lease, or a weatherization addendum. It would also be a good idea to send out a weatherization reminder a few weeks before you anticipate freezing weather.

At IRC Real Estate & Property Management, we use this opportunity to send our tenants a winter newsletter. We include all their weatherization responsibilities, in addition to some holiday tips, recipes, local holiday events, etc. This has the added benefit of improving the tenants' relationship with us. There are several things you can require of your tenants during the winter months. Obviously, not all of these responsibilities would be expected of tenants in multi-unit properties, but they are what we expect of our tenants in most of our 1-4-unit rentals.

Tenants should:



- Cover all foundation vents. Given that they are inexpensive, I would recommend buying and delivering these to your tenants. Every winter you should verify that the tenant has enough covers. Maybe even give them 1-2 extras, just in case.
- Disconnect all outside hoses, hose splitters, and water features. Then, of course, make sure tenants have enough hose bib insulators to cover all outside faucets.
- Disconnect washing machine hoses and place them in the drain line so that both faucets can be left on at a slow trickle.
- Keep all water inside the unit running at a slow trickle.
- Keep temperature above 62 degrees at all times, even when away from home.
- Familiarize themselves with water shut-off valves.
- Notify you if they will be gone in the winter for more than a couple days. If needed, get their permission or serve a notice of entry to inspect the unit during their absence.
- Lastly, make sure your tenants know who to call in the event of winter damage.

The last area you should focus on is making sure that YOU are prepared to handle any problems that can arise with rental properties in the winter. No matter how much you prepare your property and tenants, there is always a chance you will have an emergency to handle. If you haven't planned ahead, then best-case scenario is that you spend a few hundred unnecessary dollars on emergency repair labor in the middle of the night. Worst-case scenario is that you can't fulfill your responsibilities as a landlord and expose yourself to a lawsuit by the tenants. If you complete these tasks before winter hits, you should be prepared to handle any emergency repair that comes your way quickly, at the lowest possible cost:

- Find two general contractors you trust and that have 24-hour emergency repair services available.
 You will want someone that can patch roofs and is an all-around "jack of all trades."
- Find two licensed plumbers you trust and that have 24-hour emergency repair services available.
- Find two drain clearing companies you trust and that have 24-hour emergency repair services available.
- If you don't invest in space heaters, find two HVAC contractors you trust and that have 24-hour emergency repair services available.
- Instruct all your emergency repair contractors to limit their after-hours labor to protecting the property from additional damage and making the unit safe for your tenant. Then have them complete the full repair during regular business hours. If your property is protected and your tenant is taken care of, then there is no reason to waste any more

- money on inflated after-hours labor rates.
- To avoid expensive after-hours HVAC labor rates, we purchased some large electric space heaters for residential use. If heat goes out in the winter, then you are required to have it repaired or provide another heat source ASAP. The cost of you or a handyman delivering some space heaters in the middle of the night is much less than paying a HVAC contractors' after-hours labor rates. This will make the tenants feel taken care of since you provided heat quickly, and you'll get to save money by having the HVAC repairs completed during normal business hours. If your rental unit has a wood fireplace or stove, you can also maintain a stockpile of wood to deliver instead of space heaters.
- Lastly, make sure your tenants know how to get a hold of someone to report an emergency repair outside of your normal business hours. Within our company we contract with a call center company that has our after-hours contractors contact information. You could also incentivize one of your contractors to be available 24-hours and coordinate emergency repairs. Or you can simply give your tenants your cell phone number to call and be sure to have the volume turned up too high before you go to sleep.

Winter can be a very scary time of year for a landlord, especially landlords with low-profit margins. If you are willing to put in some work and maybe even a little financial investment, you can avoid most winter emergencies. For those inevitable emergencies, you will be prepared to handle anything that is thrown at you with confidence. Don't wait until 2:00 a.m. on Christmas morning when a tenant wakes you up with an emergency to find an after-hours contractor. If you get this done before winter and have your 24-hour repair phone numbers easily accessible, you will be back to sleeping soundly after making one phone call. No stress or worrying, just sweet, relaxing dreams, because you can rest assured that your tenants are being taken care of and your rental property is being protected.

Good luck this winter, but don't wait any longer to get prepared!

Christian Bryant is President of IRC Enterprises (specializing in Property Management, Evictions, & Residential/Commercial Sales for Investors) and is President of Northwest REIA in Portland, Oregon. For more information visit www.IRCEnterprises.com.

Cognitive Dissonance, Cognitive Bias, and Confirmation Bias ... continued from Page 1

missing opportunity, and we risk confidently heading down the wrong path.

Once you have made up your mind, you start seeing things that further justify your decision. "Confirmation bias" is a term that explains this. You will look at things that happen and focus on how they confirm that you made the right choice. We have a natural tendency to do this, and it is enhanced by machine-learning programs that feed us information based on what we have looked at and what we have chosen.

Cognitive bias is a phenomenon where the lens of our life experience clouds our decision-making. We use life experience to forego research that might show us different alternatives that are better. It can often lead to poor choices when we have preconceived notions about deals, or people who share some characteristics with our prior experiences.

The point of all this heady description is to make you think about reopening the decision-making process in the face of new information. The scientific method would suggest that we should make a hypothesis, gather data — if the data supports the hypothesis, great, if not we refine our hypothesis — and repeat the process. As new data becomes available, we need to reopen the decision-making process so that we can utilize the new information.

Let's look at some examples.

I went to a car dealership many years ago to get my car repaired. It was becoming clear that I really needed a new car, and it really wasn't a surprise. I went into the showroom to look at what they had available. A salesman came over to me and asked if he could help. I told him that I wanted to buy a car. He said, "Okay," and walked away. A few minutes later I noticed that he was in another part of the showroom talking to other salesmen. No one ever came over to speak to me again, and I gave up after about 10 minutes, finished getting my car fixed, and later bought a car elsewhere.

In this example, let's ignore the fact that I was way underprepared for the car-buying experience and approached it in a way that set me up to be taken. The salesman lost a sale. I have no idea why he walked away after I said I wanted to buy a car. Maybe he didn't hear me. Maybe he expected me to say that I was just looking and replaced my actual words with those in his mind. Maybe he couldn't imagine that I could afford a car and so didn't



want to waste his time. Whatever it was that made him walk away without exploring the possibilities made him lose a sale. He either had a cognitive bias, or he was hard of hearing.

In real estate, I see people who are one-trick ponies. They try to fit every potential deal into their model. About six years ago, I was exploring some deals to use as examples for a class. I found one that looked like a perfect example for an owner-financed deal. I went through the whole example and strategy with the class, and then offered it to one of the students who lived near the property (no finder's fee — just here you go). I offered to help him, if needed.

He instead asked his coach who was a "fix-and-flip all-cash guy" to help him. They went that route, since that was the lens that his coach viewed every deal through (his cognitive bias). The net result, they got a worse deal (not even looking at the fact that the coach took half of it), the seller got a worse deal, and they ended up with a short-term deal with marginal profit rather than a long-term hold with ongoing cash flow and a much better upside, not to mention having to come up with enough cash to buy a house, when none was needed.

Like it or not, the rental property business is also a very common place for cognitive bias. We react to things based on things that have happened in the past, even when we only have one or two experiences to form our bias. This is a normal behavior — the human version of machine learning, but it can be dangerous when you

choose residents based on things that are protected under Fair Housing laws.

For instance, you don't want animals in your property. You have had a few bad experiences, so it is easier to just reject people with animals. It may be a bad decision if people with animals stay longer, so you have less turnover.

You may need to rethink the bias and find out what brought it on. Are you painting all dog owners with the same broad brush, when there are, believe it or not, some responsible owners. What can you do to mitigate the risk? Can you screen the pet by meeting it first? Can you get references from current and former owners? Can you get a vet reference? Can you legally charge an extra deposit? If that animal is a not a pet — but is a service animal or emotional support animal — you need to know the laws surrounding these animals. Your bias can get you in big trouble.

One other place that we see cognitive bias is with pricing of property. When a seller is asked what they think the property is worth, it sets a process in motion that may make negotiations more difficult. Asking them to come up with a value may result in the person picking a number, based on inadequate, or inaccurate information. They may look at an online estimate — which may be comparing it with other properties in pristine condition, or in better locations. They may have a relative who lives in another high-priced area, making comparisons that are irrelevant. Once that number is established, it sets expectations which may be unachievable. Everything will be viewed in comparison to that number, whether that number is insanely high, or way too low. This is an example where confirmation bias can lead to all sorts of ways to justify the price, even if it is poorly chosen in the

As real estate investors, there are many examples where cognitive bias can serve us badly. I suggest you look at your decisions and see if you are being well served by your process.

Jane Garvey is President of the Chicago Creative Investors Association

Effective Political Advocacy

to impact key members of Congress to remove from the current version of the Build Back Better Bill (Nov. 3, 2021) those two terrible provisions that would have destroyed self-directed IRAs. Keep in mind that while I am writing this article, that bill is still in the process of being negotiated and has not yet been put to a full vote in the House or Senate, so things could change.

One of the most powerful tools used in this fight was the website created by my good friend John Hyre, HandsOffMyIRA.com. This website contained all the necessary information needed to understand the issue, and it gave a step-by-step process for how to take action. For quite some time, the website included a direct link to National REIA's Voter Voice system. Voter Voice is another powerful tool that was used to specifically target each individual user's member of Congress via email.

In addition to many people contacting the various members of Congress by email using those tools, several of us reached out to our contacts with information focusing on certain key members of Congress that we identified as the "Important 8." At the time of this writing, the Democrat majority in the House of Representatives is only three, which means it must be nearly unanimous among the Democratic Party to pass this agenda item. By peeling off three or four votes from those Important 8, we could stop those two destructive provisions.

Through social media, emails and word of mouth, actionable information was spreading throughout the investor community as to what was going on, including reaching big investor funds that would be severely affected if there was a limit placed on how accredited investors could use their IRA money. This growing awareness resulted in a large number of people directly contacting not just their members of Congress, but the Important 8 members as well.

A few hours after that lunch meeting with Matt Keelen, he and I had a meeting with Congressman Vicente Gonzalez relative to both his sponsorship of H.R. 5013

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and the threat posed by the Build Back Better Bill to self-directed IRAs and seller financing. I explained how those sections in the bill that threatened IRAs would also detrimentally impact the change we are trying to make with H.R. 5013.

At the end of our meeting with Congressman Gonzalez, he said he was going to speak with his friend Congressman Josh Gottheimer of New Jersey. I watched him leave our meeting and walk over to the National Democratic Club. The next day, it was official. Those terrible provisions had been removed from the Build Back Better Bill! As of the November 3rd version, some things had been added back in, but the two provisions that the IRA community was aggressively fighting are still out.

On Friday, Nov. 5, 2021, Congressman Gonzalez was a guest speaker at NoteExpo in Grapevine, Texas. He reiterated all of the above and then elaborated with this key point. He indicated that in his office, as in many of his colleagues' offices, when they receive five or more clear communications about a particular issue or problem, they pay attention. They have systems in place to track incoming emails and phone calls both for and against a particular issue. Then Congressman Gonzalez dropped the bombshell. He explained that one of the most effective forms of advocacy is to schedule a meeting with a member of Congress at their District Office (no need to travel to D.C. like I do) and have two or three people come with you to briefly explain in a 10-minute meeting what your concerns are, leaving behind a one-page summary of the situation.

When it comes to reaching out to your member of Congress regarding asking them to co-sponsor H.R. 5013, Congressman Gonzalez said that if you have done a seller-financed deal and can bring the buyer with you to meet with your member of Congress to explain how that buyer was able to become a homeowner because of seller financing, that would be the most powerful form of communication you could have.

After sharing this happy story about how advocacy works, let me tell you some things that don't work when it comes to advocacy:

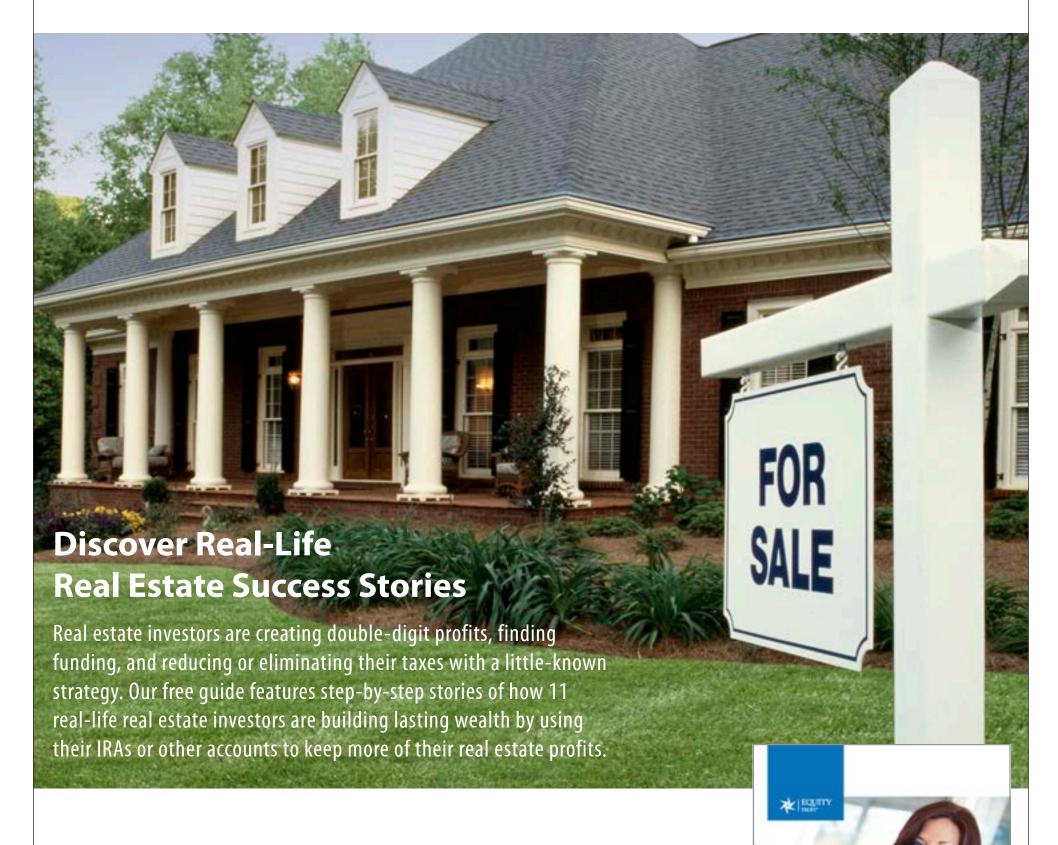
- Being passive and doing nothing.
- Believing that sending just one email, message or letter is enough.
- Thinking that someone else is going to do it for you.
- Believing that all you have to do is complain, and things will get better.

Members of Congress are incredibly busy, and there are many things trying to grab their attention every day. An important concern for every member of Congress is that they have to run for election every two years. This means they are almost perpetually in a fundraising cycle. Grassroots campaign contributions mean a lot to them! Having a face-to-face conversation with a member of Congress at a small, private fundraiser is one of the most powerful forms of political advocacy that can be done. That requires people being willing to make campaign contributions to their members of Congress.

My hope is that this threat against self-directed IRAs has awakened the real estate investing community to the understanding that we can no longer be a sleeping giant. We must remove ourselves from being the carcass on the table that is carved up and take a seat at the table by continuing to be positive, helpful, and active in engaging with our members of Congress.

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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Investments Revealed

I Like to Overpay for Rental Properties. That's Not a Typo; Hear Me Out.

By Daniel Hart

Il too often we fixate on one metric alone: sales price. It's the measurement that we've been conditioned to use as an indicator of our success or failure. We all want a great deal, and for many of us a discounted sales price is our goal, but should it be? Sometimes, yes, but "it depends."

The sales price does not always need to be a concern. At first read this may sound ludicrous. How could the sales price not matter? Well, it might matter to a seller, but it doesn't necessarily need to matter to YOU. So, let's give the seller what they want. In exchange, let's get what WE want.

Here is an example of a real deal (one of many similar deals, not just a one-time lucky deal) that I actually closed on, and still own today:

A seller, Mr. Coleson, called me from my motivated seller direct-mail marketing. He invited me out to look at his property on Big Tree Lane, which was vacant and rent-ready (often rare with motivated sellers). What really surprised me about Big Tree Lane was that it was a five-bedroom house. In a lower-middle income neighborhood this is a rare find, and I knew the rents can be substantial on the higher bedroom count houses, at least \$1,100 a month in this case, so it certainly piqued my interest.

The county tax value was \$101,000, and that is exactly what he wanted. By listening to his needs, it was apparent that this figure was very important to him, and any negotiation was going to need to be structured around this need. There was one big problem, though. At the time (2010), the market value was closer to \$50,000. Yikes! But, maybe that's okay.

One important question I always ask is: "If we can agree on a sales price, would you CONSIDER taking your equity in monthly installments?"

I always insert the word "consider" because motivated sellers want to appear cooperative, and who wouldn't at least "consider" an option? Even if a seller does not want to take their equity in monthly installments, they still usually say that they would at least consider it. If my question was, "Will you take your equity in monthly installments?" then more often that answer is a flat-out NO.

So, as you might have guessed, his answer was "Yes, I would consider that." He was open-minded to terms (aka, seller financing). This opened the door to further discussion about his needs. Some of the information I needed to acquire from him — preferably not suggested by me as a seller prefers that it is their own idea — is a ballpark of an acceptable payment amount, and a down-payment (if even requested). A down-payment (or even monthly payments) are not always necessary! Anything can be negotiated, but I have much more success when monthly payments are discussed. In this deal, the seller did state that he would want to receive at least \$2,000 at closing. The amount was small enough that I didn't feel it was even worth negotiating.

I asked Mr. Coleson what kind of payment would be acceptable to him, and he said, "Can you do \$600 a



month?" I said, "I am sorry but I need to keep it no higher than \$400." He said "Well, could you do \$500 a month?" Once again, I said, "I apologize, but I really need to keep the payment to a maximum of \$400 a month." In truth, I had more flexibility, but in negotiation you should often "ask for more than you expect to receive."

After that he said, "Well, what *ELSE* could you do?" That was an interesting question. He knew there was still some value to be gained from his side of the negotiation. He wanted something, but he was not sure what. What *could* I give him? I already hinted that I would agree to his above-market-value sales price, and at this juncture we both knew the payment would likely stay at a maximum of \$400

I made a suggestion and said, "How about I increase the down payment to \$3,000?" I was certain he would object, but he immediately agreed! I expected that to be a starting point of more negotiation, ultimately ending in a much larger down payment, but for some reason, a \$1,000 increase was enough to meet his needs.

He was previously asking for an extra \$200 a month, and then an extra \$100 a month, which over many years FAR exceeds the extra \$1,000 at closing. I will never understand why he agreed to the extra \$1,000, but I can assure you it was not for lack of intelligence. Many times, a seller will do things that we ourselves would never do, so we cannot let our own expectations influence the negotiation. Therefore, it never hurts to ask for what we may not expect to receive.

Normally, I would not even bring up the topic of an interest rate, unless it is asked by the seller, but he did express the desire for interest, so it needed to be addressed. I asked if we could keep the payments "principal-only" and if he would be willing to accept payments for 10 years. He agreed! It's good that I asked!

That meant we now had a tentative deal for 10 years of 0% financing. Every \$400 payment would directly equate to a \$400 reduction of the principal balance. With

an (estimated) \$1,100 a month in rent, that was some significant cash flow, but what about that over-payment? To pay double the market value must surely still be a mistake! Think again.

After I closed on the deal, and received the deed, I rented the property for \$1,110 a month. When factoring in taxes of \$100 a month, insurance of \$35 a month, a 10% vacancy allowance of \$110 (never forget vacancy!), and a 10% maintenance allowance of \$110, that equated to a monthly net income of \$355, or \$4,260 a year. Not too shabby for \$3,000 out of pocket! In fact, that return on investment equals 142%.

When we look at the numbers, the cash-on-cash return is well over 100%, which is of course easy to measure, but the value of the 0% financing may not be so obvious. At 4% interest (about what a bank might charge), on a \$98,000 balance, that is almost \$4,000 a year saved, but let's get back to that sales price. That is, after all, what you came here to read about.

I paid double the market value of the property, but only on PAPER. I bought the deal for the TERMS. With the full balance due in 10 years (\$50,000), I can likely extend the terms with the owner, refinance with a private lender, or even a bank (yuck!). However, should a situation occur in which I am unable to fulfill those terms (which is not a situation I take lightly) I would have still earned approximately \$51,120 over those 10 years.

Should all forms of extension or refinance fall through, the seller could take the property back, and I would not be liable for the remaining balance owed, since it was not actual money lent. At that 10-year mark I did pay the balance in full, and today the house is rented at \$1,225 a month (slightly under market, as that prevents vacancy, but is a topic for another day), and is worth about \$250,000. Now, I didn't count on any appreciation, but it certainly is icing on the cake.

It is worth noting that some of the conversation with Mr. Coleson was with more technical vocabulary, only because he was an existing landlord with investment experience, but I always try to avoid technical vocabulary and keep the conversation as basic as possible. When most sellers hear complicated financial vocabulary, they begin to feel overwhelmed. Keep it simple, e.g., "I will buy your property for \$100,000, pay you \$2,000 at closing; and then \$400 a month until paid." That simple agreement is a 0% interest deal! Big words do not impress sellers, they only serve to confuse and intimidate them while feeding our own ego.

So, is overpayment a viable strategy? In my opinion, the answer is a resounding YES!

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, N.C.

Five Common Exclusions in Most Landlord Investor Policies ... continued from Page 10

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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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