JUNE
2021

Peak Possibilities

Your Monthly Guide to Informed Real Estate Decisions

ICOR™
Investment Community of the Rockies
COLORADO'S REAL ESTATE INVESTORS ASSOCIATION

6795 E. Tennessee Avenue
Suite 401
Denver, CO 80224
970-682-4267
icorockies.com

Table of Contents

ICOR Monthly Meetings Return LIVE in June!

452 days in the making, ICOR is ready to return and see you at one of our three meetings across the Front Range! Here are three things you need to know about ICOR's Monthly Meeting in June:

1. Meeting Dates & Locations
2. Agenda
3. Topic/Panels by Location

Meeting Dates & Locations:

Monday, June 7th
Northern Colorado/Fort Collins:
Group Real Estate Classroom
2803 E Harmony Rd, Fort Collins
CO 80528

Tuesday, June 8th
Colorado Springs
Hyatt Place-Garden of the Gods
503 W Garden of the Gods Rd
Colorado Springs, CO 80907

Wednesday, June 9th
Denver
South Metro Denver Realtors Assoc
6436 S Racine Cir
Centennial, CO 80111

Our Monthly Meeting Agenda:

ICOR is tweaking our monthly meeting agenda to include more conversation, insight, and networking! So, take a moment to familiarize yourself to attend and participate where it makes sense for you!

6:00 p – Market News and Update: Your up-to-date analysis on the trends in National, Regional, and Local areas. Come find out where your market is heading - valuable information no real estate investor should do without.

6:30 p – Haves & Wants: Our exciting networking and Haves & Wants session is fast-paced and allows our members to quickly tell each other about who they are, what they have, and want they want.

7:15 p – Main Meeting Presentation: This presentation features a national, local, or panel of experts on general topics such as Fix & Flip, Buying Notes, Private Money Lending, Marketing Strategies, Buying Land or Commercial/Multi-Family property. These are "you can't afford to miss" meetings!

8:45 p – Meeting Adjourn

Join ICOR June 7th - 9th from 6-8:45 pm
"The State of the Real Estate Market": Planning & Development, Economic, Real Estate

This Month's Topic: "The State of the Real Estate Market"

The last time that we were all in person, we were living in a different world. Recently, Chris Kuehl, Economist for the National Real Estate Investors Association, said, "This is now the year of transition but at this point it is not clear what the economy will be transitioning to. There are those that suggest that everything will return to the patterns of the past and those that assert that nothing will ever be the same. The reality lies somewhere in between as it has been obvious that patterns have shifted as people and businesses adjust to the new realities in the world."

In June, ICOR is assembling a panel of real estate & city planning and development experts across the Front Range to discuss specific to your local market. This event will be a brief review of the past year and what you can expect in the next 1 to 3 years to plan, pivot, and calculate your investing trajectory!

Our Panels by Location Include:

Northern Colorado:
Ryan Mounce, City of Fort Collins
Bob Paulsen, City of Loveland
Brandi Broadley, The Group Real Estate

Continued on page 2

It's Time to Divide and Conquer!

Have you noticed the smaller meetings popping up around ICOR? Have you attended one yet? It always surprises me that no matter the size, someone is either helping someone with a problem or creating or doing business with one another! When ICOR started up north in Fort Collins, we used to hold "subgroup" meetings outside of the monthly meeting where you could network with others who were interested in or doing the same thing as you!

In a post-pandemic world, I feel that ICOR's newly created subgroups will be the power of our community! You may have heard me say that ICOR Monthly Meetings are like the base camp of our community, where investors gather to share resources, experiences, and knowledge.

And as you scale the mountain, you want to find others going the same path as you, like our Rental Property Subgroup (held the 3rd Wednesday of the month). Or you want to learn more about tax and entity planning or accounting in our Community Q&A session with Stone CPA (held the 3rd Thursday of the Month). Or when you want to stop and celebrate a successful week or need to look for a contractor to repair a rental, you can join the Friday Morning Real Estate Exchange to get your "haves and wants"met (held each Friday morning). Is this too repetitive?

As we continue ICOR's Subgroups, I highly recommend building them into your schedule scheduling them because their value will only continue to build through your and others' participation! Over the last year, ICOR has added and created so much value that you might be missing, and one event or person could be the solution to your current problem!

In fact, we'd be happy to sit down and go through the benefits of ICOR and how to make them work for you! Please email us anytime at info@icorockies.com! So, get out there and conquer your next deal, and don't forget the resources we've built to help you along the way!

ICOR Monthly Meetings Return LIVE in June!

Continued from page 1

Colorado Springs:
Morgan Hester, Colorado Springs Land Use Review
Steve Posey, Colorado Springs Community Development
Bill McAfee, Empire Title

Denver:
David Gaspers, City & County of Denver Community Planning & Development
Michael Hills, Atlas Real Estate Vice President of Brokerage

Key Areas of Focus:

1. The economy (and real estate sector)
Single-family homes are expected to rise in value, while retail and hospitality will see the largest decline. The long-term outlook in the real estate sector hinges on the country's ability to reign in the fallout from COVID-19.

2. Exodus to the 'burbs
COVID-19 is accelerating suburban growth. With a greater emphasis on health and safety, the need for lower-density environments and more space has only grown. Remote work and higher taxes in large cities due to declining tourism and business tax revenue contribute to shifting away from an urban core.

3. Work from home changes office outlook
94% of real estate professionals agree that companies will allow employees to work remotely at least part of the time in the future. As a result, some businesses will shrink their footprints as a cost-savings measure.

4. Affordable housing remains a major issue.
COVID-19 has only accelerated the housing disparities in the US as many low-income workers experience unemployment and possible eviction. With state and local governments facing large revenue declines, experts agree that the federal government has the wherewithal to provide programs and resources to this problem, including the expansion of the Low-Income Housing Tax Credit and Section 8 vouchers.

5. The great fiscal challenge
Long-term revenue declines will affect all government services but could be particularly impactful on infrastructure investments, a critical need (not just for real estate). An analysis by the National League of Cities predicts that 65% of cities will delay or cancel infrastructure projects due to COVID-19.

We look forward to finally seeing you and the ICOR Community in person! We'll see you at one or all three locations!

June @ ICOR

Monthly Meeting | June 7th, 8th, & 9th 6:00 to 9:00 PM
"The State of the Real Estate Market."
Planning | Development | Economic | Real Estate

"This is now the year of transition, but at this point, it is not clear what the economy will be transitioning to. There are those that suggest that everything will return to the patterns of the past and those that assert that nothing will ever be the same. The reality lies somewhere in between as it has been obvious that patterns have shifted as people and businesses adjust to the new realities in the world."
By Chris Kuehl, Ph.D. - Economist for the
National Real Estate Investors Assoc.

ICOR assembles a panel of real estate & city planning and development experts across the Front Range to discuss specific changes to your local market. This event will be a brief review of the past year and what you can expect in the next 1 to 3 to plan, pivot, and calculate your investing trajectory!

Market Expert Panelists vary by location

Key Areas of Focus:

1. The economy (and real estate sector)
Single-family homes are expected to rise in value, while retail and hospitality will see the largest decline. The long-term outlook in the real estate sector hinges on the country's ability to reign in the fallout from COVID-19.

2. Exodus to the 'burbs
COVID-19 is accelerating suburban growth. With a greater emphasis on health and safety, the need for lower-density environments and more space has only grown. Remote work and higher taxes in large cities due to declining tourism and business tax revenue contribute to shifting away from an urban core.

3. Work from home changes office outlook
94% of real estate professionals agree that companies will allow employees to work remotely at least part of the time in the future. As a result, some businesses will shrink their footprints as a cost-savings measure.

4. Affordable housing remains a major issue.
COVID-19 has only accelerated the housing disparities in the US as many low-income workers experience unemployment and possible eviction. With state and local governments facing large revenue declines, experts agree that the federal government has the wherewithal to provide programs and resources to this problem, including the expansion of the Low-Income Housing Tax Credit and Section 8 vouchers.

5. The great fiscal challenge
Long-term revenue declines will affect all government services but could be particularly impactful on infrastructure investments, a critical need (not just for real estate). An analysis by the National League of Cities predicts that 65% of cities will delay or cancel infrastructure projects due to COVID-19.

For full details or to register visit www.icorockies.com/events

Northern Colorado / Fort Collins
Monday, June 7th
The Group Classroom
2803 E Harmony Rd
Fort Collins, CO 80528

Colorado Springs
Tuesday, June 8th
Hyatt Place Colorado Springs
503 Garden of the Gods Rd West
Colorado Springs, CO 80907

Denver
Wednesday, June 9th
South Metro Denver REALTOR Association
6436 S Racine Cir
Centennial, CO 80111

TAX EXPERT
LARRY STONE / LARRY@COLORADOTAXCOACH.COM / COLORADOTAXCOACH.COM

Interesting Time to Be In Real Estate

As the world leaves the 2020 Covid 19 crisis behind, we still live-in interesting times. Just a short but not conclusive list of things you cannot control in real estate.

- Price increases for materials
- Supply chain issues
- Skilled labor shortages
- Long term rental license and inspections
- Eviction laws and new proposals
- Increasing the capital gains tax to 43.4% on higher income households
- Abolishing the 1031 like-kind exchange transactions on real estate sales greater than $500K
- Not allowing the step-up basis on assets by the beneficiary on inherited assets
- Increasing federal, state, and local regulation

Changes are coming to the real estate investor fast. It is hard to keep up. Troy Miller, ICOR and our friends at the National Real Estate Investors Association (NREIA) are working diligently to keep you informed and fight for you about all the changes going on at the federal, state, and local levels. You should give them all the support you can muster. What can you control? You can maximize your legal tax deduction and save as much as cash as allowed by using a detailed strategic tax plan. It allows you to accomplish your personal objectives with pre-tax dollars. Any time you can pay for something in pre-tax dollars, you automatically win.

We all have personal objectives such as funding children's education (home schooling, private tuition, or college), paying medical expenses, retiring the mortgage on your personal residence, or building your retirement nest egg. We all would like to improve our cash flows. What else could you do with the money, if you are not writing that check to the IRS?

Another advantage of the detailed tax plan is that it guarantees savings. You have identified the changes which you are going to implement. The plan allows to calculate the potential cash savings you are targeting. When you complete your tax return, you can measure the dollars you saved.

This tax plan should be in writing. Verbal advice is worth the paper it is printed on. It should tell you what to do, when to do it, how to do it and why to do it. The why is the most important. It describes where in the tax code, revenue procedures, and tax court cases it states that you can do it. This is the keystone to preparing a tax return where you can defend the information you report to the IRS. It is always good to be ready to explain why your deductions qualify under the tax law.

Although the risk of audit is historically low, the IRS is increasing its budget for performing audits by 40% this year. In addition, the President has proposed $80 Billion to enhance the IRS abilities to perform audits. You should be ready for the increased scrutiny.

At Stone CPA and Advisors, we offer a Discovery Session to identify mistakes and missed opportunities in your tax situation which if present could make a significant difference in your cash savings. I recommend that you give us a call at 970-668-0772 or email info@coloradotaxcoach.com to request a Discovery Session. Do not wait till it is too late to change your results for 2021.

EVE HOELZEL / EVE.DSTANSFIELD@FARMERSAGENCY.COM / EVEINSURANCECOLORADO.COM

Why is My Investment Property Building Limit Increasing?

One of the most important things to know when you own a home or an Investment Property is to make sure you have enough coverage on your building in the event of a total loss. Your Agent or Insurance carrier should perform an annual replacement/reconstruction cost analysis to confirm you have enough coverage to rebuild your structure/building in the event of a catastrophic event, like a fire that results in a total loss. Reconstruction cost value is the cost to replace or rebuild a home to original or like standards at current material and labor costs. Over the last few years, we have experienced large increases in labor and material costs as well as a shortage of skilled artisan contractors, this all creates a large increase in building coverage replacement cost analysis. Verisk Analytics, a data and risk assessment, recently reported that the total reconstruction cost increased again from January 2020-2021 by 9.1%. Most of the increase comes from increasingly high lumber prices showing a growth of 84%! This is the result of a high demand market with an increase in building activity and supply shortages due to the pandemic in the earlier 2020.

Furthermore, contractors are incurring higher costs not calculated before the Pandemic such as delayed material deliveries, higher expenses for personal protective equipment and sanitation measurements, and shortages of employees due to covid exposure.

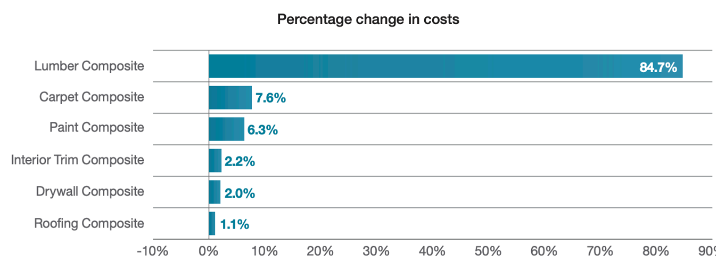
Reconstruction cost is also affected by each city's new requirements and expenses associated with updating the dwellings to meet current building ordinances. For example, in many counties in Colorado new roofing codes will require a class 4 asphalt shingle roof to protect the home against large hailstorms.

Climate change has also affected the property insurance market and the reconstruction cost with the several wildfires in the west that have burned millions of acres as well as tornados and hailstorms in other parts of the country. The high demand to rebuild will be reflected on the cost of labor and materials nationwide.

Insurance companies have to adjust to the new reconstruction rates year after year to calculate their premium and forecast their future claim volume. If you would like to have a complete reconstruction cost analysis, contact your agent to make sure you are appropriately covered. I can also work with you on your reconstruction costs for your investment properties and buildings.

Highlights:

- The home replacement cost is the amount it would take to rebuild your home with similar materials if damaged or destroyed.
- Insurance companies will use interior features, external features, types of flooring, roofing material, personal belongings, code changes as parameters to calculate home replacement cost.
- Replacement cost or reconstruction cost are based on the current cost of labor and materials & supply demand.
- As a result of Covid-19 reconstruction, costs have been affected due to the higher demand and shortage of material and labor.



**360Value Quarterly Cost Update Q2 2021 https://www.verisk.com/siteassets/media/underwriting-v/resources/360value-quarterly/360value-q2-2021-usa-report.pdf*

Sure, you have a roof over your head, but do your investments have the right coverage?

How can I help? Let's set up a time to review your policies!
Your Investment Insurance Specialist,
Eve Hoelzel, Licensed Agent Producer

970.217.8019
eve.dstansfield@farmersagency.com
www.eveinsurancecolorado.com

RENTAL PROPERTY EXPERT
CORY RASMUSSEN / CORY@REALATLAS.COM / REALATLAS.COM

What Landlords Need to Know About Changes to Colorado's Rent-Related Assistance Programs

Over recent months, there have been changes to the State of Colorado's rent-related assistance programs, affecting both landlords and tenants. In 2020, owners were able to utilize the Property Owner Preservation (POP) fund to provide tenants with help securing the rent they owed. The program allowed users to register their tenants for assistance—requiring very little information from the tenant—thereby enabling a relatively smooth path to enrollment. It required nominal documentation regarding direct effects from COVID-19, hence landlords were able to secure nearly $750,000 in funding.

Unfortunately, the POP program ran out of money in early 2021 and has transitioned to the Emergency Rental Assistance Program (ERAP), which has created more barriers to tenants receiving assistance. Enrollment requirements vary across counties and all require additional work by the tenant. Some require six pages of tenant information plus landlord contributions, while others require that tenants complete the entire process themselves. In all cases, tenants must show evidence that they were directly affected by COVID-19.

What This Means for Landlords

With new requirements in place, some tenants are no longer eligible. Further, landlords are encountering difficulty getting some tenants to complete required portions of their applications and receiving confirmation once they have. On a positive note, the state hired a third-party vendor to assist with processing, which has improved application turnaround after they've been submitted, enabling landlords to make educated decisions faster.

Every landlord hopes for tenants who work with them to get assistance, however for tenants who don't communicate or don't qualify, landlords are allowed to serve them Notices to Pay or Quit. All counties now require 30-day Notices to be served. For tenants who do complete assistance paperwork, the Notice will prioritize their application for review. For those who don't, landlords may file in court if the tenant does not turn in a CDC Declaration.

Starting in May, you are again required to share information regarding the CDC Declaration when serving notices for monetary reasons. The Declaration allows tenants to avoid eviction and can stop the process up until the eviction itself. If tenants submit one, landlords are not allowed to charge them for legal fees. Submitting a Declaration does not completely eliminate the possibility of eviction. The order requires that tenants seek government assistance to try to keep up on rent. If tenants don't work with landlords to complete the ERAP application, there is a legal argument to challenge their Declaration.

This also creates a conversation around letting leases expire. The CDC order and Declaration's center on monetary evictions, not lease expirations. Leases that have expired leave open the option to post Notice to Quit as an alternative to moving out a tenant. So, in some cases, an argument can be made to let a lease expire.

While the program will continue to help many, realistically speaking, landlords can expect to see an uptick in evictions. Since each situation is unique, it behooves landlords to discuss their particular circumstances with knowledgeable industry associates.

To get advice or talk through your current situation email Cory Rasmussen at Cory@realatlas.com.

JASON K. POWERS / JPOWERS@UNBRIDLEDWEALTH.COM / UNBRIDLEDWEALTH.COM

Private Family Banking Systems

What would change in your real estate investing business if you didn't have to pay the 7-12% interest and points to a lender?

What would change in your financial life, if you never had to borrow from a bank again, but could borrow from yourself, and pay yourself back, with interest, and do it over and over and over again?

What would change in your personal life, if you were able to be your own bank throughout life, and finance your own cars, vacations, child's college & even retirement?

What would change in your family's life, if you were able to do everything we've talked about while you're still alive and then leave a substantial financial legacy that could literally last for generations?

Most of us are on board with these ideas. What if there is one vehicle that can help you accomplish all of these things... at the same time?

Now what I am not talking about is a replacement strategy against your real estate investing ones. What I am talking about is how setting up what we call 'private family banking systems' can turbo-charge your current strategies.

Utilizing these strategies allows a person to build cash value in a vehicle where it can grow uninterrupted, while at the same time being used for other things.

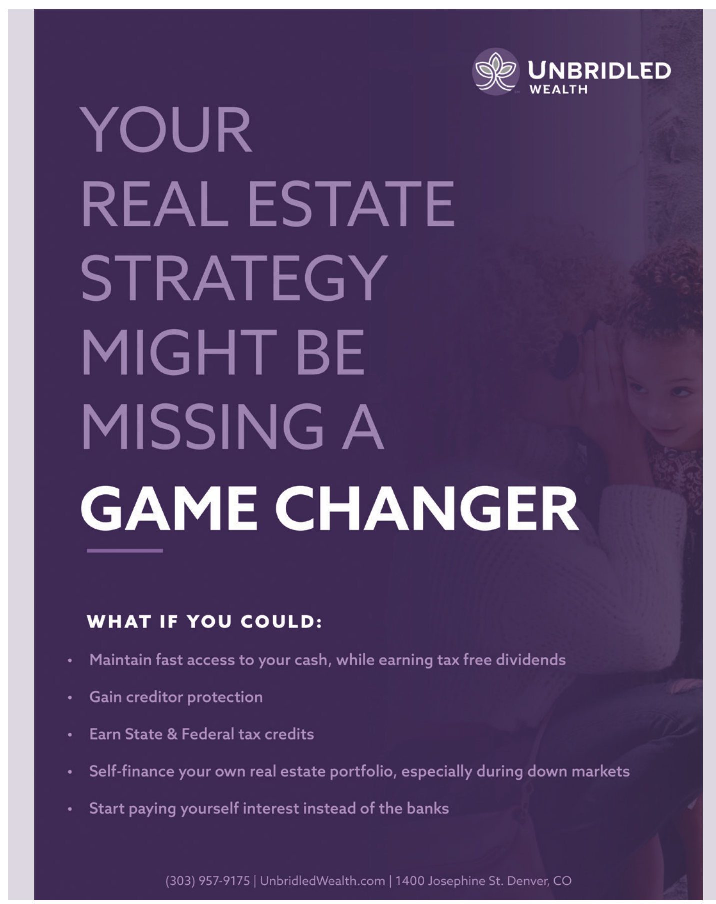
For example: While you're using that cash value throughout your life for real estate investing purposes, that same cash value is growing as if you never touched it. While is it doing this, you are at the same time building up the ability to supplement (or even fully fund!) retirement and even leave a legacy that could literally last for generations. In the end, your real estate investment strategies creates passive income for retirement, all the while your private family bank also supports you through retirement.

As I talk with more and more clients, I would have to say that the main thing I teach is about the flow of money. Most people have money flowing away from them. My job is to work with you based your goals and objectives, based on your current situation, taking a wholistic approach to changing the constant outflow of your money, to help you turn in inward.

This is why we do what we do in teaching people about the Infinite Banking Concept. We want to see your life changed for the better.

- Build Equity
- Build Cash Flow
- Create Tax Deductions
- Generate Profit
- Build Up Retirement
- Uninterrupted Compound Growth of Cash Value
- Unstructured Loans from a Policy
- Creditor Protection
- Non-Market Based Growth
- Death Benefit
- Interest Deductions for Businesses
- Disability Benefits
- Tax Advantaged Growth

And the benefits go on and on and on...



CHRIS TANNER / CTANNER@NDTCO.COM / NDTCO.COM

Inflation: A Significant Risk to Your Finances

Most people have heard of inflation, particularly as of late as the US economy opens back up, but many have no real concept of what it is, and more importantly, its impact on wealth creation and preservation.

Investopedia defines inflation as the decline of purchasing power of a given currency over time. An everyday example is gasoline: in 1955 the average cost for a gallon of gas was $.29. 40 years later, 1995, the price had risen to $1.15. Today it's over $3 dollars. The price of gas has risen more than 10-fold in the last six decades. This holds true for nearly all goods and services. The price for goods and services are almost always increasing, which means your purchasing power is decreasing for a given dollar. Are we currently living in an inflationary period? As we look around we see home prices have skyrocketed, building materials have jumped and restaurants are charging more. The average Colorado home is up 12.1% since April 2020*. In fact, the average home price in Colorado has more than doubled since 2012*. More shocking, lumber prices are up 240% since this time last year, which helps explain why the cost of new homes has risen on average by $35,000**. According to the U.S. Bureau of Labor and Statistics, the Consumer Price Index (CPI) has risen to 4.2% which represents the largest increase since September of 2008. The CPI is a leading indicator of inflation and takes into account the cost of food, energy, commodities (cars, clothing, etc...), health care, and shelter.

How does one plan for inflation? There are several strategies that tend to shine during inflationary periods. Here are a few:

1. **Money market accounts, TIPS:** Keep cash in money market accounts or TIPS (Treasury Inflation Protected Securities). Utilize money market accounts whose interest rate adjusts with interest rate changes. TIPS can be bought directly from the Treasury Direct website, through a broker, or via ETFs

2. **Real Estate:** Direct investment in physical real estate, investing via REITs, or joining real estate syndications are all ways to invest.

3. **Commodities:** Commodities like Food, Energy, Precious Metals, and Raw Materials have specific stocks or ETFs that focus in specific commodity driven assets. For example, GLD allows you to invest indirectly in gold, and there are countless energy ETFs. The energy ETFs vary from broad investments in overall energy, to very specific investments in renewable energy, or oil and gas equipment providers. You can buy physical precious metals like gold, silver, palladium, or platinum from precious metals dealers.

4. **Debt conversion:** Convert adjustable-rate debt to fixed rate debt. In general, interest rates rise during periods of inflation. It is a good decision to lock in low interest rates while they are available and move away from adjustable rate debt when inflation is likely.

If you are wanting to protect your retirement accounts from inflation, and you are a believer in owning physical assets, you should consider looking into a self-directed IRA. Self-directed IRAs allow you to own physical assets like real estate and precious metals. Traditional retirement accounts only permit you to invest in paper-based securities like stocks, bonds, mutual funds, and ETFs. Feel free to contact a business development specialist to learn more.

**https://www.zillow.com/co/home-values/*
***https://coloradosun.com/2021/04/29/lumber-prices-new-house-sales/*
****https://www.bls.gov/news.release/pdf/cpi.pdf*

June Meetings

ICOR – Northern Colorado / Fort Collins
In Person
Monday June 7, 6 PM-9 PM (MDT)

ICOR – Colorado Springs
In Person
Tuesday, June 8, 6 PM-9 PM (MDT)

ICOR – Denver
In Person
Monday June 9, 6 PM-9 PM (MDT)

Subgroups
Join these topic-based communities of like-minded investors, share “Haves & Wants”, network and learn in small groups.

Friday Morning Real Estate Networking Exchange
Virtual
Fridays, June 4, 11, 18, & 25th

Rental Property Subgroup
Virtual
Wednesday, June 16

Stone CPA Community Discussion – Q&A
Virtual
Thursday, June, 17

Find out more and register online at www.ICOROCKIES.com/events

ICOR Business Memeber Directory

Service	Contact/Business	Phone	Email
Broker	Melissa Millan	203.241.5571	melissa.millan@gmail.com
Contractor	Dillon Gilster | J & K Roofing	303.425.7531	dillon@jkroofing.com
Contractor	Vern Robinson | Ridge Construction	303.881.1169	vern@ridgeconstructioninc.com
Cost Segragation	Brad Weed | NoCo Invest	970.294.1509	Brad@NOCOInvest.com
Financial Planning	New Direction Trust Company	877.742.1270	info@ndtco.com
Financial Planning	Jason Power | Unbridled Wealth	303.957.9175	jpowers@unbridledwealth.com
Lender	Chuck Townsend | Forrest Financial	303.877.3221	chuck@forrestfinancial.com
Lender	Greg Osborne | Bridge Capital Resources, LLC	303.475.5873	greg@bridgelending.com
Lender	Justin Cooper | Pine Financial	303.835.4445	Justin@pinefinancialgroup.com
Lender	Kim Hubbard | Merchants Mortgage	303.898.1366	khubbard@merchantsmtg.com
Lender	Mark Corbett | Nat Lend	720.390.0473	mark@natlend.com
Lender	Tyler Ideker | Indicate Capital	303.567.6333	tyler@costfund.com
Lender	David | Neilson | Boomerang Capital Partners	480.779.9779	David@boomerangcapital.com
Property Management	Cory Rasmussen | Atlas Real Estate	303.242.8980	info@realatlas.com
Property Staging	Heather Loyal	303.601.6638	heather@teamloyalig.com
Rehabber	Craig Dillion	719.661.8848	craigdillion@me.com
Tax Planning	Stone CPA & Advisors	970.668.0772	info@coloradotaxcoach.com
Title	Bill McAfee | Empire Title, Colorado Springs	719.499.0968	bill@etcos.com
Title	Debbie Myers | First American Title	970.658.4702	DMyers@firstam.com
Turnkey Real Estate	Travis Abbott | Invest 1 Properties	303.649.1607	Travis@Invest1Properties.com
Wholesale	Kyle Rutherford | Networth Realty	720.379.4920	kyle@networthco.com

Three Threats We Had Forgotten About

Over the past year there has not been much room to worry about anything other than the pandemic and the lockdowns. The economic carnage has been obvious enough — economies falling into recessions that were unprecedented in their severity. There is not much to be gained from rehashing this debacle as there are clear signs that a corner has been turned. This is now the year of transition but at this point it is not clear what the economy will be transitioning to. There are those that suggest that everything will return to the patterns of the past and those that assert that nothing will ever be the same. The reality lies somewhere in between as it has been obvious that patterns have shifted as people and businesses adjust to the new realities in the world. Along with these new challenges and threats have come some old familiar issues and these are especially significant for those in the real estate investment business.

The most threatening and perhaps the most immediate is the renewed threat of inflation. It has quite literally been over twenty years since this has figured prominently in any kind of business conversation. It was in the early 1990s when the Fed saw the core rate above 2.0% for more than a few weeks and it is the core rate that matters as far as setting interest rate policy. The "real" rate of inflation includes the price of food and fuel while the core rate does not. The reason for the difference is really down to statistical analysis. The price of fuel and food can be very volatile and this makes it all but impossible to make year over year comparisons (even month over month gets tricky). The volatile prices are excluded and that allows some real comparisons over time. The assumption is that core rates will eventually reflect these changes as there will be differences in things like freight rates and air travel as well as restaurant meals and so on. The core rate has not climbed above 2.0% for over twenty years while the real rate has sometimes spiked to between 3.0% and 4.5% before settling back. The Fed (and other central banks) prefer a rate around 2.0% and strive to keep inflation in that range. It is not high enough to create issues but it is enough to allow some producer flexibility on prices.

So, why is inflation an issue now after two decades? It is not entirely clear that it is — at least not yet. The problem is that it could be setting up to be an issue and that is enough to trigger the Fed to take action as their moves do not have an instant impact on the economy. It takes anywhere from 12 to 18 months for a rate hike to slow the economy and that forces the Fed to take preemptive action long before many people notice that inflation has become an issue. The very fact that inflation is now considered a possibility has had an impact on the bond market. Yields are going up and are expected to continue on that path. The logic is that the Fed will push rates up at some point and that will make investing in the US that much more lucrative — it becomes something of a self-fulfilling prophecy. The real estate investor sees these bond yields rising and realizes that interest rates are likely to follow suit and therefore mortgage rates rise and so on. The one thing that has been sustaining the growth in the housing market has been mortgage rates as there have been price hikes that should have been enough to slow down demand. Now the sector suddenly appears beset with problems. If everything breaks in a negative direction the housing sector is looking at higher mortgage rates, more expensive homes (existing and new), housing shortages, labor shortages and more expensive commodities (lumber is just the most obvious). Pile on top of that the fact that employment rates have not recovered and probably will not for the bulk of the year.

This all assumes an inflation surge that goes unaddressed. To trigger all the downside of higher mortgages and higher bond yields will require the Federal Reserve to reverse course and engage in the rate hike that people seem to expect. At this point the Fed governors and regional Fed Presidents are saying nothing of the kind. Not even the hawks have weighed in with suggestions that rates need to go up. They do acknowledge there is growth in the economy visible but they also hasten to add the caveat that growth will have to be impressive to undo the extreme damage from last year and they still assert the economy needs all the help it can get. There have been some voices of concern regarding the connection between the stimulus and inflation but at the moment the Fed and the Treasury are on the same page as they assert the stimulus is a good thing.

The indicators are generally pointing in a positive direction but there are plenty of caveats. At the top of the list is control of the pandemic. There has certainly been substantial progress but it was promised that vaccines would be distributed en masse by early March and now the promise is for May or maybe June. Will there be further delays? What about variations that make the virus more transmissible? What if variants prove resistant to the vaccine? These developments have not slowed economic progress much as yet but the possibilities are certainly present.

What happens if the consumer doesn't respond as many have predicted or estimated? The polls suggest there is considerable pent-up demand but is that really the case? There will certainly be many eager to resume old patterns but there will also be many that remain cautious for months and perhaps years. Business and other institutions assert they will resume activity but that will not always be easy. Teachers are refusing to go back to work even when required to. People are being ordered back to work but they have the right to sue the company if they fall ill. Will that keep companies from bringing workers back? Will people continue their behaviors over the past year? Will they continue to avoid mass transit or multi-family apartments? Will they demand the ability to work from home?

The real estate sector is in a quandary when it comes to the future of the office building and other forms of commercial construction. If people continue to work from home will that kill demand for the traditional office building? The enthusiasm for working from home has faded to some degree but is still considered a viable option by many employers and employees. What is the future of the shopping mall and the Big Box store? Have people embraced the online option to the exclusion of the brick and mortar? What will retail have to do to bring those consumers back? What happens with lodging and hospitality? It was an assumption by economic developers for years that hotel space was necessary to attract conferences and meetings. Will these resume or will the virtual meeting take over? Will people vacation at resorts again? Attend concerts and events again? There are no simple answers to these questions. It is obvious that many people will indeed return to their old habits but will it be enough for the businesses that were low margin to begin with.

The flip side of the risk is that all of these old consumer behaviors are resumed and with gusto. There is an enormous pile of cash on the sidelines at this point. It is held by the business community and by investors and by consumers. There is an estimate that consumers have socked away over $6 trillion in excess savings. Due to the nearly $2 trillion stimulus/rescue plan the US now has roughly 10% of its GDP in excess consumer savings. That money is just waiting for an opportunity to come into the economy. So, we are back to the discussion of inflation which started this piece. If all or most of that money comes cascading out there will be far more demand than there is ability to meet that demand and prices will rise as a means to control that demand and because in an environment like this there will be far more tolerance for higher prices – at least from those who have the ability to keep up with the hikes. This sets up a whole other issue for real estate investment – too many people chasing too few opportunities and driving prices higher in any market that could be considered hot (or even warm).

ICOR™

Investment Community of the Rockies

COLORADO'S REAL ESTATE INVESTORS ASSOCIATION

6795 E. Tennessee Avenue
Suite 401
Denver, CO 80224

rent perfect

Create your perfect landlord experience with...

ICOR MEMBER OFFER!

Enjoy a lifetime membership for just 95¢

ICOR discount sign up link: **bit.ly/3fLtoW2**

RentPerfect.com | **877-922-2547**

- **Online application process**
- **Credit, criminal and eviction screening**
- **Custom lease creator with digital signatures**
- **Online move-in and move-out inspection process**
- **Online Rent Pay with payment reminders**

AN EASY TO USE, ONLINE PLATFORM FOR LANDLORDS AND PROPERTY MANAGERS