JULY
2021

Peak Possibilities

Your Monthly Guide to Informed Real Estate Decisions

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

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Go the Extra Mile For the Seller

By Tony Youngs

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

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

Join ICOR
July 12-14th
from 6-8:45 pm
"Finding Deals in Today's Market": A Panel of Master Marketers, Deal Finders, and Wholesalers

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

When I first got started in the real estate business, I focused on the foreclosure arena like many others. It has and will always be very competitive. A person in foreclosure not only gets hundreds of letters from investors wanting to buy but they get bombarded by attorneys telling them to file bankruptcy because it stops the foreclosure. Even though I was a newbie investor, I still got deals. They chose to sell to me. How did it happen?

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

I recently found a very run-down house in a nice neighborhood with no for sale sign. A neighbor told me the man recently died and had no will or relatives. So I did some research to look for any blood relatives. I found his mother's sister two thousand miles away. She said she had not talked to him in 15 years. So I ask her if she would be willing to apply to be the personal representative for his estate. She said she was 70 years old and did not want to deal with it because she did not want to fly down and go through his things and liquidate all his belongings.

I told her I would do all those things for her. I cut the grass each week to keep the code enforcement off her back. She was approved, and I liquidated, donated all the furniture, and cleaned out the house, the neighbor and I helped sell his vehicles, and

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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

Go the Extra Mile For the Seller

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I offered to buy the house, and she accepted. I rehabbed the house from the ground up and made it look beautiful. I was willing to do the work whether she accepted the offer or not. She sent a letter thanking me for going the extra mile.

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

JULY MEETING INFORMATION

July @ ICOR

Monthly Meeting | July 12th, 13th, & 14th | 6:00 - 8:45 pm
"Finding Deals in Today's Market": A Panel of Master Marketers, Deal Finders, & Wholesalers

In a recent MoneyTalks study, Denver-Aurora-Lakewood, Colorado, round out a nationwide list of the top 10 hardest places to buy a home. This lack of inventory isn't just Denver Metro or the state of Colorado, but rather the entire nation.

Investors and consumers alike are facing an inventory shortage that can be traced back to 2008. Coming out of the Great Recession, developers burnt by the previous housing crisis, have only met the current housing demand by 15%!

So where does opportunity exist? Some have called the current market, the "Perfect Storm" with high demand, high prices, low-interest rates, and material/labor pricing and shortage.

This month we are gathering Colorado's top real estate marketers, deal finders, and wholesalers to review case studies of:

- What do current deals look like?
- What are current seller's needs?
- How are buyers financing current deals?
- What creative financing and acquisition strategies are being used?
- What do margins look like including holding costs, materials, and ultimately timelines?
- What is an acceptable deal flow in the current market?
- And how have investors pivoted in this market?

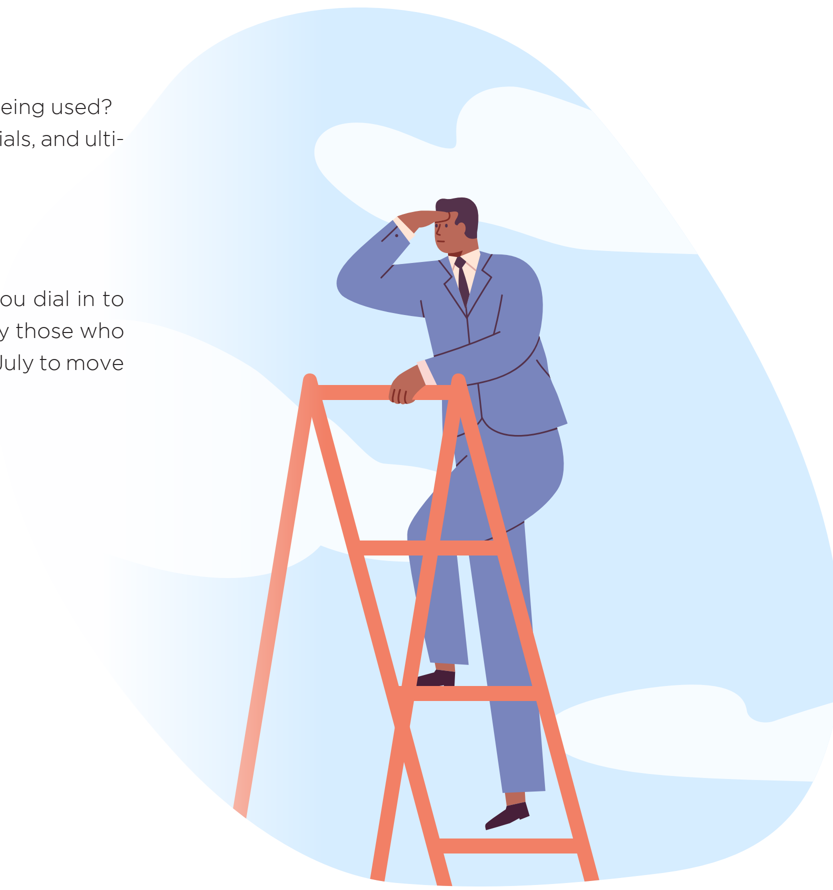
Don't miss this REAL LIFE, REAL DEALS panel to help you dial in to increase your deal flow and direct you to opportunities by those who are experiencing success over the past year. Join ICOR in July to move closer to your next deal!

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

Northern Colorado / Fort Collins
Monday, July 12th
The Group Classroom
2803 E Harmony Rd
Fort Collins, CO 80528

Colorado Springs
Tuesday, July 13th
Hyatt Place Colorado Springs
503 Garden of the Gods Rd West
Colorado Springs, CO 80907

Denver
Wednesday, July 14th
South Metro Denver REALTOR Association
6436 S Racine Cir
Centennial, CO 80111



REBEKAH SCOTT / REBEKAH.SCOTT@REALATLAS.COM / REALATLAS.COM

3 Ways Inflation Can Work to Your Advantage, and What to Watch Out For

It's not every day that inflation is used in a positive light, and nor should it be. Inflation is an unavoidable and ongoing challenge that this country will be facing for the next four to eight years. No matter what side of the political aisle you stand on, our country and our leadership have chosen to print money to help get the masses out of the nightmare that was 2020. Whether you find that statement infuriating or view it as a necessary evil, that is the reality of our situation. However, what if we took the concept of inflation and considered how we as investors might use it to our advantage?

One threat of inflation is rising property prices. Although this may hinder cash flow opportunities, all savvy investors understand that cash flow is only one of three ways to make money owning property. How can we use that to our advantage? When purchasing a property with a 30-year fixed-rate mortgage, expenses are being locked in at that time. Thanks to inflation, that property that you bought for $500,000, in two years may be worth $700,000. Sure, the value of the dollar might have gone down, but you now have $200,000 to use in a HELOC or a cash-out refinance to buy another property. If you can look past the lower cash flow opportunity for the next purchase, this pattern can easily repeat itself. Plus, once you hold a property long enough, and manage it correctly, it WILL cash flow and it WILL make you money.

Next, it is always important to understand the value of collecting high rent rates. Let's say a property is cash flowing zero dollars, but this particular 4-plex is generating $4,000 of income each month. Even though you are breaking even now, when you are ready to own that property free and clear, you will be depositing $4,000 direct into your bank account month after month. Higher rents are a direct result of inflation. This could mean it is possible to reach that income-producing goal quicker than originally anticipated.

Lastly, the only way to keep up with rising prices on housing and other goods is to make sure your salary is keeping up. Wage inflation is rising between 4-6%. Some economists are saying that is an indication of the longevity of inflation. However, others are saying companies are being forced to pay their employees more to get them back to work. Whichever projection is accurate, the ability to increase our income also means the ability to qualify for a larger loan. If more money is coming in the door, paying off that investment or using the equity to further your portfolio becomes easier.

In closing, inflation is on the rise. Instead of allowing it to instill fear, let's get creative and see how we can use it to our advantage. Lock in expenses as quickly and as often as possible. Everything is cyclical and we will soon recover from the current challenge. Staying consistent in investing is key.

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Real Estate Investing With Your Private Bank

The number one most *classic* approach to getting started in the real estate investment industry is beginning with Wholesaling. From Wholesaling, the logic goes, you begin building up some cash to begin doing Fix-N-Flips with. After some Fix-N-Flips are completed successfully, one perhaps begins looking into long-term Buy & Holds.

There are a wide variety of strategies, preferences, goals & objectives out there when it comes to *real estate investing*. I am not here to tell which is right, wrong, better, or worse. My main objective here is to show you how with *any* of these strategies, you can add one extra component to create even more advantages to what you already have going. Let's call the number of things a dollar can do the *multi-tasking dollar*. Let's call the strategy the Infinite Banking Concept (IBC).

The Multi-Tasking Dollar in Real Estate

One dollar in real estate investing can do a variety of things for you. This is the appeal!

• Create Equity
• Create Cash Flow
• Create Tax Deductions
• Create Profit

There are probably more, but let's start with this.

The Infinite Banking Concept

The Infinite Banking Concept is a process by which one can become their own banker. The best vehicle through which to do IBC is through adequately structured dividend-paying whole life insurance.
Let me repeat that so you understand what was just said:

1. **Property Structured** – there are specific ways to structure a policy to create the maximum available cash value inside of a policy now, not only later.
2. **Dividend-Paying** – there are specific insurance carriers where your policy can grow the best.
3. **Whole Life** – no term insurance, not universal life, not variable life, but whole life insurance.

We're not going to spend time here talking about the details of IBC, but I wanted to give you at least a basic framework. Keeping in line with our conversation about the multi-tasking dollar, here are a few components that IBC has.

• Uninterrupted compound growth of cash value
• Unstructured loans from a policy
• Creditor protection
• Guaranteed growth
• Death Benefit
• Interest deductions for businesses
• Disability benefits
• Income tax-free growth

And the list goes.

Infinite Banking & Real Estate Investing

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 could 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 last for generations?

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
• Guaranteed growth
• Death Benefit
• Interest deductions for businesses
• Disability benefits
• Income tax-free growth

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

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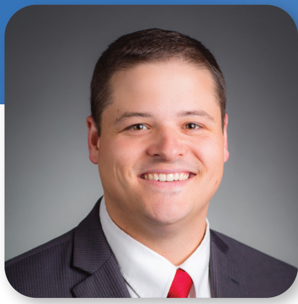

Over Budget Blues

Boomerang Capital finances over 1,000 projects a year and sees thousands more among its network of past borrowers, wholesalers, contractors, realtors, and even other lenders (we call them frenemies). And one thing we know for sure is that no one likes an over-budget project. It is helpful to think quite simply about those unwelcome budget busters as coming from two categories: those you can't control and those you can.

Uncontrollable surprises come from a few places. One with the most significant impact that we see most frequently is being too aggressive with timing and/or uninformed with prices. A project is dependent on people and resources, which can be challenging to get all lined up ideally. Be it permits or subcontractors, inspections, or toilets, almost anything can hold your whole project up. Gantt charts can help organize and look at dependencies, find some open space in the schedule, and help deal with the inevitable curveballs. And on that point, make sure you are updating your timeline and budget as you go so you can see where you are and make needed corrections on time. Note that the longer the project timeline, the greater the chances for issues. One of our borrowers has continuously renovated homes in the Denver city limits, knows the permitting process well, and found an opportunity in the Boulder area. He didn't realize and account for how much longer the permit process would take, which led to additional direct and indirect costs. By his calculation, the extra 2-3 months killed the profitability of the deal.

A related group of issues comes from your budget. An unrealistic budget won't work, so make sure you have up-to-date estimates. Lumber is a prominent recent example, but labor costs have also been quite volatile lately. An excellent way to keep in touch with these types of issues is to know what is going on. There are some great formal ways to get information, such as industry publications (like the one you're reading!) and associated meetings and presentations. But don't overlook the informal sources, too: there can be a lot learned over beers with buds.

Another unpleasant surprise can arise once you get going and have a chance for a more thorough examination of major systems such as foundation, sewer, roof, and HVAC. We always recommend a sewer inspection and roof inspection where possible. If you can identify those in advance, you can work out a price reduction and then include the work in your budget. Many of our borrowers find issues in the sewer line and can negotiate $5-10k price reductions to accommodate, and roof concessions are frequently two to three times.

Controllable budget busters are another type and mainly come from outside 'help.' Once you have a project budgeted and ready to go, it's frequently unhelpful to ask for opinions. Most of those 'helpful' suggestions will involve an 'upgrade' of one sort or another. These can come from a well-intended but inexperienced friend walking the property with you or a self-interested contractor. You might hear things like: "This is a nice kitchen, but you really should do new cabinets." or "You should open up this space." You may also be tempted as you wander around a project and think, "A bit more landscaping might make this place pop." Remind yourself frequently: if it's not in the plan, it's not in the plan.

A recent borrower of ours had a new girlfriend that was a realtor. At the end of one of his projects, she took it upon herself to blue tape the project. When she was done, the property was covered in blue tape. She decided a refinished bathtub needed replacement, and more can lights needed along with more landscaping plants. The outcome was budget overruns because of unnecessary replacements and re-work, ruined subcontractor relationships, and an ex-girlfriend.

Your budget comes under scrutiny here as well. The more specific a budget is, the easier it is to measure progress and variance. You can go overboard with too much detail (like how many screws you plan to use), but broad categories like "I'll spend $40,000 on the kitchen" will not provide enough detail when it comes time to make decisions and order materials.

A well-researched budget with sufficient detail and completeness, including timing that you then stick to will reduce a lot of headaches and heartaches.

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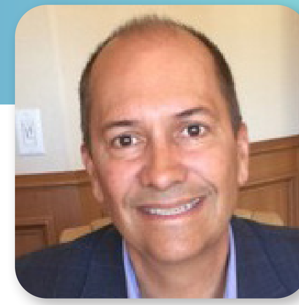

Out of State Investing: Properties vs. Notes

Ever think about investing out of state? For many, it is a scary endeavor, and perhaps rightly so. Think about it: you are buying a property (probably the most significant investment other than your primary residence) in a different state, where it will be rented to an unknown tenant and managed by a property management company whom you are trusting will screen the tenant, collect the rents, make repairs, and ultimately deliver monthly income to you in the form of a check or monthly AFT. Lots of variables can make or break those "consistent monthly checks." Now, suppose you are like most real estate investors. In that case, you only think of investing in the actual properties themselves when investing in real estate without giving a thought to another investment option…real estate mortgages or notes.

As mentioned, investing in out-of-state investment properties themselves can be complicated. And true, there are lots of upside to investing in properties, from the monthly income they generate to the possible tax advantages, to tenants paying down your mortgage, to appreciation, etc…and don't get me wrong, our clients who have invested with us both in CO and out of state since 2008 have generally been thrilled with their investments, both in terms of income generated as well as the extreme appreciation they have seen, but again, its work. You need to follow up with the property managers, maintain the properties, pay taxes and insurance, etc…

But what if you would like a more hands-off, "set it and forget it" real estate investing option? You may want to consider investing in "Notes." By "Notes," I do not mean buying non-performing notes for pennies on the dollar as so many gurus peddle. I don't mean buying second mortgages either. Both are very risky, and I am all about low-risk high return, so those don't work for me. I am talking about investing in Performing, 1st mortgage notes, secured with real estate at 60-65% LTV where the borrowers are typical "A" credit quality borrowers or entities with significant savings and who have put 35-40% down in cash to purchase the investment property securing the Note. Sound too good to be true? Think again. These notes exist and pay around 8%, which is a phenomenal return compared to the meager returns that money market accounts and CDs offer you these days. These borrowers pay on time, and they either send you a check or do an AFT directly into your bank account. It is genuinely "mailbox money."

As I mentioned last month, you need to think outside the box if you hope to generate above-average returns with minimal risks. Purchasing performing 1st Mortgage Notes can be a great way to generate those returns as part of a diversified investment portfolio. To learn more about out-of-state real estate investing with properties or Notes, check us out at Invest1Properties.com.

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You Found a Deal...Now What?

We've cleared what some say is the most significant hurdle and found a deal but correctly estimating the rehab budget is key to determining if the property is indeed a good deal. The following three monthly articles will detail how to determine a rehab budget best. Our goal is to inspect a property in 60 minutes on average and be within 95% accuracy when determining the budget so you can decide on the spot if moving forward makes sense for your investment guidelines.

MAJOR SYSTEMS: The ELEVATION Rehab budget estimator is a two-sheet document that helps investors take a systematic approach to rehab estimation. Your #1 step in determining a proper rehab budget is to focus on the six major property systems as they can total 60%+ of your budget. These systems are:

- **Structural Components** – Are there cracks in the foundation wall(s) on the exterior or interior of the home? Does the property have sloping/uneven/heaving floors or bowing walls? An excellent structural engineer is well worth the $300-$500 for a professional opinion and recommendations on how your experienced contractor can repair the potential problems.
- **Sewer Line** – Always hire a plumber or sewer scope company to the camera the line and provide a video and written report. Repairs can range from simple spot repairs to a whole line replacement. The property sewer line can also be an independent repair from the connection to the City mainline via a tap connection.
- **Roof** – Only one layer of shingles is permitted on a property, and you want to look for sagging roof lines, significant shingle damage, old vents, and flashing problems, along with possible skylight leaking evidence.
- **Windows** – Older aluminum single pane windows typically need to be replaced to achieve maximum After Repair Value (ARV). Installing new double pane windows, which are white (or color for higher-end properties) vinyl in construction with new screens, are ideal for helping with energy efficiency and curb appeal. Adding a window of egress to a basement bedroom adds a tremendous amount of value.
- **HVAC** – A new furnace, boiler, AC unit, and water heater are also major systems contributing to the best sales price after replacement. When finishing a basement, you'll also want to include new ductwork, electrical, and plumbing in your budget. Tankless water heaters can be a great way to save space in smaller properties and help push resale value.
- **Electrical Panel** – Two dangerous brands of panels are Federal Pacific and Stab-Loc, which are fire hazards and can crush a sale. Installing a new panel benefits buyers from a safety and utility perspective.

KEY TAKEAWAYS

It's tempting to start your property inspection when you walk in the door or envisioning your buyer's dream kitchen. Still, when systems can make or break a deal, it's key to properly budget for the best ROI and address the more expensive areas for potential buyers.

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Storage Units Insurance For Investors

For the past few decades, self-storage facilities have been a growing segment in commercial real estate in Colorado and nationwide. Consumers purchase and store items such as boats, RVs, ATV's tools, gardening equipment, and other sentimental items. Storage facilities help to keep these belonging's safe. Nearly 9% of American households are utilizing a storage unit. This is a multibillion-dollar industry that has been built one contract at a time for a 10 X 10 space. In this article, I will show you how insurance policies cover storage facilities. We will discuss insurance exposure as a consumer and as a business owner.

Insurance as a consumer:

If you are renting a storage unit, you will be asked to agree with the terms and conditions of the rental contract whether you intend to purchase the facility's insurance for your personal property or show evidence you already have insurance coverage elsewhere. The storage facility will want to pass the liability to your insurance carrier in the event of a fire or theft.

- **Insurance extension from your current homeowners:** Coverage could also extend from your homeowners' policy to your storage; however, it is usually only about 10% of your home policy's personal property total coverage. If you use your existing home insurance coverage to insure your items in the storage unit, please be sure you talk to your Agent to confirm the coverage extension and limit.
- **Storage unit insurance offered by the facility:** Many storage facilities require proof of insurance before renting a unit. As a result, an additional fee is charged to the tenant with a higher premium and lower coverage. These policies will provide coverage on an Actual Cash Value basis and not the actual Replacement Cost. In addition, the policies offered by the storage facility usually limit the number of items covered under the policy.

Insurance as a business owner:

Real estate investors and other business owners have seen the high demand for storage facilities. The industry has a 90% occupancy rate with lower maintenance and expenses than conventional family rentals. If you currently own or are planning to own a storage facility, I highly suggest that the business owner require your tenants to have insurance for their belongings. With regards to your business insurance policy:

- **Review the building(s) classification:** Most storage facilities are masonry or metal non-combustible construction. Therefore, it is imperative to review the building classification with your Agent to ensure you have the best rate.
- **Reconstruction cost:** Self-storage buildings need to be evaluated differently compared to other real estate buildings. They do not have plumbing and HVAC systems. Please review the reconstruction cost for each building with your Agent to avoid over-insuring it.
- **Loss of income:** In Colorado, the average occupancy rate for self-storage facilities is 90%. Be sure you have enough loss of income coverage in the event of a total loss.

I highly recommended that you forward a copy of your lease agreement to your Insurance Agent. Your Agent can review and give any additional recommendations to avoid gaps in your coverage.

If you would be interested in obtaining more information, feel free to contact me. Our company specializes in Self-Storage Insurance packages for Real Estate Investors.

TAX EXPERT

LARRY STONE / LARRY@COLORADOTAXCOACH.COM / COLORADOTAXCOACH.COM

In-N-Out Burgers — Oh So Good!

They are coming! Last week I saw an In-N-Out Burger location in Aurora, and I was amazed. I love their Double-Double, Fries and a Coke—though their shakes are great too. When I lived in California, dining at In-N-Out Burger restaurants were a treat. Sadly, I will not be enjoying the juicy satisfaction of eating the Double-Double treat due to my new diet called —if you like it, you cannot have it. Just my luck.

Why are we talking about burgers? First, they created systems and processes designed around delivering fresh ground meat to their customers. Prior to opening a restaurant in Colorado, they established their own fresh meat processing facility in Colorado Springs to honor their concept. They maintain a limited menu designed to allow fast preparation and service to their customers. Their stores are designed to get the customers really in and out of the restaurant as quickly as possible.

While getting a juicy burger quickly may be a great objective for In-N-Out Burger, it may not be a good strategy for your tax planning. Many tax professionals have designed their business models to quickly process your tax information and prepare a tax return but not necessarily provide you with planning. This approach can be identified by their process. Does their process begin with preparing your tax return —which is what you think you want? Or do they begin their process with providing you with a detailed tax plan—explaining what to do, when to do it, how to do it, and why? The latter is what most people seek when working with a tax professional—advise on how to do it right.

Working with clients who are interested in doing it right is important to us. We add value to our clients by giving them direction using a detailed strategic tax plan which is in writing. Giving tax advise without documenting why you are allowed to do it under the tax law—the IRS Code, Revenue Procedures and Tax Court Case Rulings is meaningless. It is worth the paper you write it on—nothing!

We are serious about increasing our value with our clients. We offer prospects a Discovery Session designed to identify mistakes and missed opportunities in their tax and investing situation. During this conversation, you will have an opportunity to determine if our proposals would add the value you seek. We recommend that you take advantage of this opportunity as soon as possible so you can make changes to your situation in 2021. Do not wait until you normally prepare your taxes to act. By then, it will be too late to make changes should you want.

As a real estate professional in this industry, you are in a trade or business. No matter what your activity is (fix/flipping houses, wholesaling, or land lording), you should have detailed document advise assisting you in reducing your taxes and saving cash so you can accomplish your own dreams. Your strategic business objectives will lead to success in your business. Although we do not have a drive-thru to serve you, we will be glad to deliver a Discovery Session. Give us a call at 970-668-0772 or email info@coloradotaxcoach.com to discover how to turn your taxes to cash.

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The Power of Leverage

Leverage in real estate is using borrowed money to buy a property. When leveraging a property, you borrow funds from a lender to be able to purchase an investment property instead of having to cover the entire purchase price yourself. The concept of leverage is pretty straight forward, but a more detailed explanation helps one understand the power of leverage.

Most people who invest in real estate need to borrow money as a way to buy a specific property. Typically, they do not have the entire purchase price available. But what if you could buy real estate with all cash? Is this the best method for obtaining real estate? Buying all cash has some advantages. It would certainly be a conservative approach as one would never be faced with a mortgage payment. This would eliminate the stress of having to make a monthly payment. Another advantage is the investor stands a better chance of keeping a property in the event of vacancy or any type of cash flow disruption. Peace of mind is valuable for some people and owning a property outright might bring that to an investor.

Let's take a look at some reasons to consider using leverage. Using leverage may allow an investor to purchase more than one property. Owning multiple properties offers some advantages and disadvantages, but certainly one advantage is the idea of diversity. An investor can "diversify" by investing in different markets, or perhaps different types of properties. Single family, commercial, multi-unit, etc... Owning multiple properties as opposed to just one, means the likelihood of having every property vacant at the same time goes down. If you own a single property and it is vacant, you are receiving zero income, whereas owning multiple properties means you would likely have rental income while dealing with tenant turnover. The possible downside to owning multiple properties is dealing with more tenants.

The most powerful reason for using leverage is the return on investment during appreciating times. Let's look at an example. Investor 1 has $300,000 to purchase an investment property using NO leverage. Let's assume the investor holds that property for 5 years and it appreciates by 20%. When the investor sells the property, it is now worth $360,000. That is a 20% gain in value ($60,000 profit/$300,000 original investment). Not Bad! Investor 2 decides to use leverage and buys 3 properties. Each property requires a down payment of $100,000 and each property's purchase price is $300,000. Investor 2 now owns 3 properties valued at $900,000 collectively. Using the same assumption of 20% appreciation after 5 years, investor 2 decides to sell all 3 properties. Each property sells for $360,000, so investor 2 nets $180,000 in profit. That is a 60% gain ($1800,000 profit/$300,000 original investment) for investor 2. By using leverage, investor 2 has triple the gain as compared to investor 1. Leverage is a powerful tool, especially in appreciating markets, but be aware that leverage can work in exactly the opposite manner in depreciating markets. In depreciating markets, the potential losses can be magnified if an investor is forced to sell at a price that is below their acquisition cost.

What about using leverage in a retirement plan? Most traditional retirement plans do not allow the use of leverage. If a retirement plan investor buys $100,000 in stock, they own $100,000 of stock. On the other hand, a self-directed IRA has the ability to incorporate leverage when investing in real estate A self-directed investor could use that same $100,000 to buy real estate valued at $300,000. The use of leverage has risks, but when managed intelligently leverage has the potential to boost returns on investments. Feel free to contact New Direction Trust Company to learn more about leveraged real estate investments.

Investment Community of the Rockies
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MONTHLY MEETING INFORMATION

June Meetings

ICOR – Northern Colorado / Fort Collins **In Person** Monday, July 12, 6 PM-9 PM (MDT)	**ICOR – Colorado Springs** **In Person** Tuesday, July 13, 6 PM-9 PM (MDT)	**ICOR – Denver** **In Person** Wednesday, June 13, 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, July 2, 9, 16, 23, and 30th	**Rental Property Subgroup** **Virtual** Wednesday, June 16 **Fix & Flip Subgroup** **In Person** Thursday, July 29	**Stone CPA Community Discussion – Q&A** **Virtual** Thursday, June, 22

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