JULY
2023

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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Midyear National Legislative Update

Charles Tassell, National REIA Director of legislative Affairs

Overheard in the Senate

The U.S. Senate's Banking, Housing & Urban Affairs Committee held a "State of Housing 2023" focused session in early February and a few key insights reflected the political divide that is likely to prevent substantive housing legislation from moving forward in a split control House/Senate. Housing is considered a priority due to affordability issues regarding interest rates and the expanding presence of Wall Street investments in single family housing. The partisan divide can be differentiated:

- Democrat solutions: Tax credits and housing vouchers.
- Republican solutions: reduction in regulatory red tape and caution against additional federal spending.

The Committee's makeup is as follows:

Majority Members (12)

Brown, Sherrod (OH), *Chairman*
Reed, Jack (RI)
Menendez, Robert (NJ)
Tester, Jon (MT)
Warner, Mark R. (VA)
Warren, Elizabeth (MA)
Van Hollen, Chris (MD)
Cortez Masto, Catherine (NV)
Smith, Tina (MN)
Sinema, Kyrsten (AZ)
Warnock, Raphael G. (GA)
Fetterman, John (PA)

Minority Members (11)

Scott, Tim (SC), *Ranking Member*
Crapo, Mike (ID)
Rounds, Mike (SD)
Tillis, Thom (NC)
Kennedy, John (LA)
Hagerty, Bill (TN)
Lummis, Cynthia M. (WY)
Vance, J. D. (OH)
Britt, Katie Boyd (AL)
Cramer, Kevin (ND)
Daines, Steve (MT)

It is important for NREIA Members living in these communities to make it a priority to meet with these offices representing 20+ states, as they will have a significant impact on everything from HUD regulatory oversight to new legislation. Whether you attend the Washington D.C. Day on the Hill event (taking place in March) or not, reaching out through your local REIA to develop relationships with these offices, as community stakeholders will be crucial for future efforts to be effective — especially if residing in Ohio & South Carolina!

Join ICOR, VIRTUALLY, July 12th at 6:30 pm for "The State of The State Market Update, from an Economic & Interest Rate Perspective"

Blue Print for a Renters Bill of Rights

U.S. President Theodore Roosevelt, who referred to his office as a "bully pulpit." He said this because it is a terrific platform from which to advocate an agenda and lay the groundwork for pushing policy, even when Congress cannot or will not move. This largest of soap boxes (currently being used by the Biden-Harris Administration) recently pushed the latest in a new round of housing policy in late January by supporting a multi-pronged housing blue-print aimed at federalizing housing policy and ultimately, nationalizing housing.

The key features listed are:
1. Protections against Evictions.
2. Rent Control and Affordable Housing.
3. Health & Safety Standards.
4. Fair & Equal Access to Housing.

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July @ ICOR IS VIRTUAL!

July 12th, Virtual for ALL Locations
The State of The State, From an Economic & Interest Rate Perspective

Join us in July for an insider's look at the Colorado economy and how real estate might be affected. Economist Richard Wobbekind PhD, Associate Dean at the Leeds School of Business, University of Colorado Boulder, was a guest of the Federal Reserve Board at the May meeting in Kansas City.

Highlights:

- The State of Interest Rates — what changes are coming and when?
- The economic outlook for both Colorado and the US overall.
- Job & population growth in Colorado
- Insights from the Fed's recent meeting
- How global events will impact Colorado economically

After Rich's presentation, a panel of seasoned investors will analyze — in real time — the information Rich shared and how they will apply it to their investment strategies.

Don't miss:

- Strategies for evaluating interest rate trajectories
- Inflation analysis
- Real estate market condition/trend analysis based on economic forecasts
- How to utilize and monetize the information gleaned from Rich Wobbekind's expert analysis

Our Presenter

Richard L. Wobbekind is Associate Dean for Business & Government Relations, Senior Economist and Faculty Director of the Business Research Division and at the University of Colorado Boulder. He joined the faculty at the Leeds School of Business in 1985, and has served as an Associate Dean since 2000.

As Faculty Director of the Business Research Division his responsibilities include developing an annual consensus forecast of the Colorado economy and performing various economic impact assessments of the Colorado economy. Wobbekind also produces the quarterly Leeds Business Confidence Index for Colorado.

Wobbekind teaches MBA students in macroeconomics, public policy, and managerial economics. He has received three awards for teaching excellence from the students of the Leeds School. Wobbekind has lived in Colorado for more than 44 years and has spent much of his time studying the development of the Colorado and regional economies. He received a BA in economics from Bucknell University and an MA and Ph.D. in Economics from the University of Colorado at Boulder

To register visit www.icorockies.com/events for your Zoom link.

Save the Date for ICOR's July Meetings

ICOR – Colorado Springs
Virtual
Wednesday, July 12th, 6 PM-9 PM (MDT)

ICOR – Denver
Virtual
Wednesday, July 12th, 6 PM-9 PM (MDT)

ICOR – Northern Colorado / Fort Collins
Virtual
Wednesday, July 12th, 6 PM-9 PM (MDT)

Webinars & Workshops

Door Knocking Field Trip
In Person
Saturday, August 26th

On Saturday, August 26th at 8:30 AM SHARP you have the opportunity to spend the day out meeting with sellers in the real world with someone who has made his living knocking on homeowners' doors for nearly 40 years!

Real Estate Market Movers Happy Hour
In Person
Wednesday, August 30th

Thriving investors will point the way to success — especially in 2023! We stand at the threshold of a new era of investing. Join us to get new insights on today's market — so you can move faster and with greater certainty

Multiply Your Returns With Multi-Family Investing
In Person
Saturday, September 30th

- Advantages & Disadvantages of Apartments
- How you actually have more control over the value of your Apartments than with SFH's
- Key Ratios Used in Valuing Apartments
- Analyze the Numbers on Real Complexes

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

Summer Break will be over before you know it...

Are you going “F’All In” as ICOR goes back to school?

ICOR™
Investment Community of the Rockies

We are back for our third “semester” of investing in “Colorado & Beyond” education—continuing to build on our past educational series. Initially, we focused on building a solid foundation of investing skills. Next, we focused on creative financing to combat a shifting market and raising interest rates. And now, we are looking at markets and investing strategies that work in today’s market.

Five full-day workshops taught by some of ICOR’s best educators and investors!

SATURDAY, AUGUST 26TH
Real Estate Door Knocking Field Workshop

$125 – Members
$175 – Non-Member

SATURDAY, SEPTEMBER 30TH
Multi Family Investing & Syndication Workshop

$125 – Members
$175 – Non-Member

SATURDAY, OCTOBER 14TH
Real Estate Property Bus Tour: Come check out the emerging Longmont market along with Greeley!

$125 – Members
$175 – Non-Member

SATURDAY, NOVEMBER 18TH
Understanding Mid Term Rentals & Arbitrage Investing Workshop

$125 – Members
$175 – Non-Member

SATURDAY, DECEMBER 9TH
Out of State Investing Workshop: The Best Markets for ROI in 2024

$125 – Members
$175 – Non-Member

Choose one or go “F’All in” 2023 and SAVE 300+ off these great learning opportunities...

$295 for ICOR Member (includes lunch for all five workshops)

$495 for Non-Members (includes lunch for all five workshops)

Register at https://bit.ly/42nuDTq

Midyear National Legislative Update

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With the massive expansion of the federal government into the traditionally state and local domain of housing during the Covid Emergency, the 10th Amendment is further being pushed aside with this new round of policy surge. Over 20 departments are preparing new regulations to further these 4 points over the next 6-12 months in a "whole of government" response. This is being done as if inflation and chronic underbuilding of single-family & multi-family housing are natural disaster. However, the Blueprint is really little more than an excuse for an anti-capitalist and statist agenda by a few elites who are completely unplugged from the reality of housing in America. The language within the report is very telling:

"Prior to the pandemic, few federal or local efforts supported eviction prevention or a fair eviction process and only a few of these have been evaluated." (Pg. 17, Paragraph 3)

In all 50 states, all territories, and throughout the land, evictions have been unfair. Note to every member of the Bar and housing judge or magistrate — they just called you corrupt and complicit! The real irony and most telling piece that this is an agenda more than a solution, is the admission that "only a few have been evaluated!" If only a few of the few have been evaluated, how can they all be unfair? In a typical political response this is a solution in search of a problem.

The real focus is on a core group of housing advocate wish-list items, long shown to be ineffective. The first of, course, is **Rent Control**. Please see the response below for a simple summary of how devastating bad this idea is for a community.

Second, **Rent Setting** — the DOJ and other agencies are seeking to halt the process of dynamic rent setting: the same process airlines use to sell tickets, Hotels use to sell rooms, and just about every other facet of the market works in response to changing demand. Again, it's anti-market and anti-capitalism.

The third focus, is **Source of Income (SOI)**. This is the rule that overrides Congress' intent to make the housing Choice Voucher Program, often referred to as Section 8, mandatory rather than voluntary. The reason for making it mandatory? HUD programs, as (mis)managed through three-thousand various Public Housing Authorities, are so poorly run that housing providers do not want to participate in their programs. Rather than fix the program and compete in the marketplace, this administration and housing activists are pushing for laws that ban choice and guarantee the government is a partner in as many housing choices as possible.

While there is lip service to eviction prevention, the main answer has been "hire more attorneys." As this does little to resolve the financial shortfall, it does drag out the process and tie up eviction courts causing even longer delays in addressing the problematic and even dangerous residents in communities. The real focus has been to greatly reduce a property owner's ability to screen residents, and thereby limit risk to the community and the asset.

Following up on the Texas Deptartment of Housing case in 2014, HUD, in conjunction with FTC, CFPB, FHFA, & the USDA want to set new standards for resident screening. The FTC is especially interested in credit reports being utilized by housing providers who use the reports to determine if someone actually pays their bills (or not!). To date over 40 states and or municipalities have developed various limitations on screening criteria.

Ironically, after rolling out these "new" policies as a blueprint to federalize American housing, they committed to work with renters and their advocates rather than the stakeholders of the millions of units presently being rented.

Rent Control: a housing solution for the economically uninformed.

In recognition of how devastating rent control experiments have turned out around the country and the world, thirty-one states have preemptively banned rent control. Some areas are trying to repeal those bans, and many smaller communities are considering the controls, as their decades of mismanagement of housing development have caused a lack of investment that is intensifying an increase in housing costs. As industry representatives, it is critical to relay the short and long-term impacts while also committing to and working through real solutions on housing rather than easy knee-jerk language. If in doubt about how to convey the concern, consider turning to something as simple as artificial intelligence chat-creator "ChatGTP" (chat.openai.com), as noted below:

Even AI gets it: Rent control is bad news

The following is a summary statement on Rent Control generated by AI: *Rent control policies are designed to regulate the rental market by setting a cap on the amount of rent that landlords can charge for their properties. While the aim of rent control policies is to provide affordable housing to tenants, there are several problems associated with these policies: Shortage of Housing Supply: Rent control policies can lead to a reduction in the supply of available rental units, as landlords may choose to convert their properties to other uses, such as condominiums or commercial buildings, in order to avoid the regulations.*

Reduced Quality of Housing: *Rent control policies may discourage landlords from making investments in their properties, leading to a decrease in the quality of housing available to tenants.*

Inefficient Allocation of Housing: *Rent control policies may result in an inefficient allocation of housing, as the low rents may cause tenants to stay in apartments that are too large or too small for their needs, or in locations that are not optimal for them.*

Disincentives for New Construction: *Rent control policies can discourage developers from building new rental properties, as the potential profits may not justify the costs of construction.*

Inequitable Distribution of Benefits: *Rent control policies tend to benefit current tenants, who are able to secure affordable rents, at the expense of new tenants, who may have to pay higher rents due to the shortage of supply.*

*Overall, while rent control policies may provide some short-term benefits to certain groups of tenants, they can also have **significant long-term negative effects on the rental market**, including reduced housing supply, reduced quality of housing, and inefficient allocation of housing. As such, policymakers need to carefully weigh the costs and **(lack of)** benefits of rent control policies before implementing them.*

Seller Finance Coalition: With new committees and leadership in the U.S. House, the National Real Estate Investors Association has hit the ground running with the Seller Finance Coalition. A new bill is being prepared for a bipartisan and bicameral introduction, and due to years of foundational relationship-building, is progressing nicely. Several new Congressional and Senate offices were quite open to the idea that sellers should be able to sell more of their own properties with less government restriction. For more information about the SFC please visit sellerfinancecoalition.org. More to come on this important issue!

Three states are legislatively active:

Maryland, Tennessee and Colorado are all in legislative struggles and we are engaging members in those states to communicate a message of concern about their issue. Ranging from Bans on Wholesaling to the repeal of Rent Control Bans, or the expansion of inspection programs around the state, the industry members in these areas need help. Please check out the Legislative Action Center on NationalREIA.org to take part.

Stay up to date:

Stay up to date with current industry news and updates by visiting RealEstateInvestingToday.com. Likewise, visit NationalREIA.org/advocacy to stay up today with current legislation and governmental actions.

SHORT TERM LENDING EXPERT
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Investing in Equity or ROI?

Real estate has long been regarded as a lucrative investment avenue, providing opportunities for both long-term wealth accumulation and immediate income generation. When considering real estate investments, it's essential to align your strategy with your financial goals and current income situation. In this article, we explore two distinct approaches to real estate investing: focusing on properties with lots of equity for long-term wealth and prioritizing ROI for immediate income.

Building Long-Term Wealth with Equity:

For individuals looking to build long-term wealth through real estate, the key is to focus on properties with substantial equity potential. By purchasing properties with significant equity, investors position themselves to benefit from the appreciation of the property over time.

Appreciation Potential: Properties with substantial equity have the potential to appreciate significantly, allowing investors to accumulate wealth over the long term. As property values rise, so does equity, providing a solid foundation for future financial growth.

Leverage for Future Investments: Owning properties with substantial equity enables investors to leverage that equity to fund additional real estate acquisitions or other investments. This strategy, known as equity leveraging, allows for the expansion of investment portfolios and further wealth creation.

Market Flexibility: Investing in properties with equity provides a safety net in case of market fluctuations or unexpected expenses. Having a cushion of equity ensures that investors can weather temporary downturns without jeopardizing their long-term investment goals.

Prioritizing ROI for Immediate Income:

On the other hand, some investors prioritize immediate income generation when buying real estate. This approach focuses on properties with high Return on Investment (ROI) potential, emphasizing regular cash flow from rental income.

Cash Flow Stability: ROI-driven investments aim to generate consistent rental income that exceeds the property's expenses, including mortgage payments, maintenance costs, and property management fees. This ensures a steady cash flow that can be used to cover expenses or reinvest in additional properties.

Short-Term Profitability: Investing in properties with a strong ROI allows investors to quickly recoup their initial investment and start profiting. This income can be reinvested in other ventures or used for personal financial needs.

Diversification Opportunities: Investing in income-generating properties enables individuals to diversify their investment portfolio beyond traditional stock markets or savings accounts. Real estate offers a stable income stream independent of market fluctuations.

When it comes to real estate investing, there is no one-size-fits-all approach. Your investment strategy should be tailored to your financial goals, risk tolerance, and current income situation. If your objective is to build long-term wealth, focusing on properties with substantial equity can be a wise choice. On the other hand, if generating immediate income is your priority, then prioritizing ROI through income-generating properties is crucial.

Remember, real estate investments require careful consideration and analysis. It is essential to conduct thorough due diligence, assess market conditions, and consult with professionals such as real estate agents, financial advisors, or property managers to make informed decisions aligned with your investment strategy. By understanding your goals and aligning your investment approach accordingly, you can navigate the world of real estate with confidence and work towards achieving your financial objectives.

PAMELA MAASS, ESQ. / PAM@LAWMOTHER.COM / LAWMOTHER.COM

Why "Just a Will" Is Never Enough

When it comes to estate planning, many people believe that a simple Will is sufficient. However, relying solely on a Will can lead to unintended consequences and complications for your loved ones. To ensure that your final wishes are carried out smoothly and to protect your assets, it's essential to understand the limitations of a Will and the importance of a comprehensive estate plan. In this article, we'll explore why a Will alone is insufficient and why you should consider a more comprehensive approach to estate planning.

Understanding Wills and their Limitations:

- A Will is a written document that outlines how your assets should be distributed after your death.
- While a Will is an important component of estate planning, it is not sufficient on its own.
- A Will must go through the probate court process, which can be lengthy, expensive, and subject to public scrutiny.
- Assets with beneficiary designations, joint tenancy, or marital property ownership may not be governed by a Will.
- A Will does not address incapacity planning or grant decision-making powers to trusted individuals during your lifetime.

The Downsides of Relying Solely on a Will:

- Going through probate can be time-consuming and costly for your loved ones.
- Probate exposes the details of your estate, including beneficiaries and assets, to public record.
- Scammers may target beneficiaries who have recently inherited money, using information from public records.
- A Will only covers specific assets and may not address all your property or financial needs.
- It does not provide immediate authority to manage your affairs in case of incapacity.

The Benefits of a Comprehensive Estate Plan:

- A comprehensive estate plan includes various tools and strategies tailored to your specific needs and goals.
- Trusts, such as a revocable living trust, can help avoid probate, maintain privacy, and provide immediate asset management in case of incapacity.
- By using a trust, you can specify how your assets should be distributed, protect beneficiaries from mismanagement or creditors, and ensure continuity in managing your properties.
- An inventory of your assets is a critical part of an estate plan, ensuring that your loved ones have a clear understanding of your holdings and where to locate them.
- A comprehensive plan allows you to pass on not only your wealth but also your values, stories, and wisdom through family legacy planning.

While a Will is an essential part of estate planning, it should not be considered the sole solution. To protect your assets, provide for your loved ones, and avoid complications, it's crucial to develop a comprehensive estate plan. This plan should include tools like trusts, which offer probate avoidance, privacy, and immediate asset management. Additionally, maintaining an inventory of your assets and engaging in family legacy planning ensures that your loved ones are well-prepared and guided in carrying out your wishes. By working with an experienced estate planning attorney, you can create a comprehensive estate plan that reflects your unique circumstances and provides peace of mind for you and your family. If you are ready to take the next step to protecting your family with a comprehensive estate plan, Law Mother: Asset Protection and Estate Planning provides a complimentary 15 minute call to ICOR members. Please visit Lawmother.com/go to schedule your call. During this call we will answer your questions, explain our process and get you scheduled for the next step.

SELF-DIRECTED IRA EXPERT
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Compound Interest: How It Works In Building Wealth

Compound interest is a fundamental concept in personal finance that can be utilized to generate long-term wealth through the ability to let your money work for you. Compound interest allows for exponential growth of investments, hence the phrase "the power of compound interest." The more frequently the interest is compounded, the faster the investment will grow. This is because with more frequent compounding, there will be more added interest to the principal amount, which leads to more interest being earned on that interest. As a result, the investment grows faster over time helping you reach your financial goals.

Understanding How Compound Interest Works

It is important to first understand the difference between simple and compound interest. Simple interest is calculated only on the principal amount, whereas compound interest is calculated on both the principal and the interest earned. One of the key differences between compound interest and simple interest is the time period. Simple interest is usually calculated based on a fixed period, regardless of the amount of time the money has been invested. In contrast, compound interest is based on the amount of time the money is invested. The longer the investment period, the higher the returns from compound interest.

Compound interest is an essential concept for investors to grasp as it allows for exponential growth of investments over time. Understanding how compound interest works can help in making informed investment choices. To start becoming familiar with how compound interest works, one must first understand the variables in the compound interest formula. This formula involves four main variables: the starting principal amount, the interest rate, the frequency of compounding, and the duration of the investment. It's important to understand how each of these variables affects the overall outcome of an investment. By doing so, they can gain the maximum advantage from compound interest and achieve their financial goals.

The principal amount refers to the initial sum of money invested. The interest rate is a percentage of the principal amount that is added to the investment each year. The frequency of compounding refers to how often the interest is added to the investment, which can be daily, monthly, quarterly, or annually. The more frequent the compounding, the faster the investment will grow resulting in higher returns. For instance, an investment with monthly compounding will yield faster growth than an investment with quarterly compounding.

Starting with a larger principal can have many benefits when it comes to building wealth with compound interest. A larger principal means that the potential earnings will be higher, resulting in greater wealth accumulation over time. For instance, if two individuals invest in the same investment vehicle, but one starts with a higher principal, they will earn more interest than the individual with a smaller starting principal. Additionally, a larger principal can help individuals reach their short-term financial goals faster, as they have more money available for investment.

Lastly, the duration refers to the time frame for which the investment will grow. Investments need time to compound in order for the returns to grow. For example, consider a self-directed IRA account with an investment that has an interest rate of 5%. If an individual opens the account with a $10,000 initial investment and leaves it untouched for 10 years, they will earn approximately $6,386 in compound interest on that investment. However, if they hold that investment in the account for 20 years, they will earn approximately $16,386 in compound interest. Add the fact that these investments are being conducting inside of a retirement account, those profits are also growing either tax-deferred or potentially tax-free. This illustrates how the duration of an investment can greatly impact the power of compound interest and help you achieve your long-term financial goals.

How It's Calculated

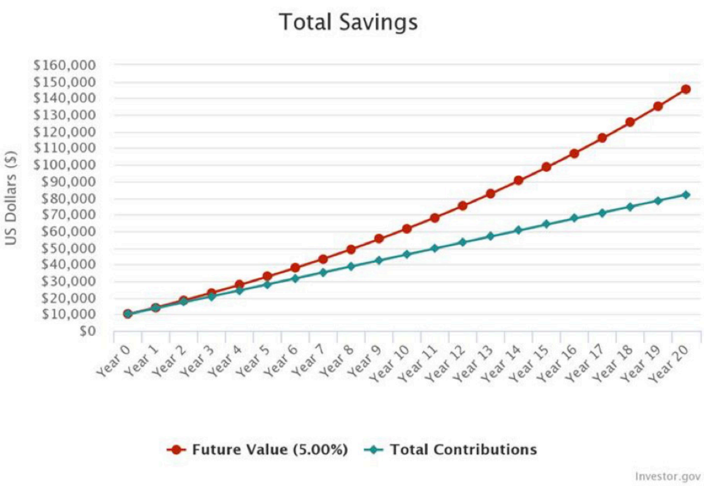
The most important aspect of understanding compound interest is the compound interest formula. Each component of the formula plays an important role in calculating the future value of investments. To calculate how much compound interest you would receive over time, you can use this compound interest calculator from investor.gov. This is a great tool to help you with your financial planning.

Creating Generational Wealth with Compound Interest

While compound growth can benefit anyone who starts early and holds quality investments for a long period of time, it can also be used to create generational wealth that can benefit not just the current investor, but also their children and grandchildren. Using the concept of compound interest to create generational wealth is a smart strategy that can help individuals and families build long-term wealth that can benefit future generations by being passed down.

For example, if you start with $10,000 and add a $300 monthly deposit, you'll have contributed $82,000 in 20 years, but with an estimated 5% interest rate compounded annually, your money will have grown to over $145,500. If you increase your contribution to $500 per month with the same interest rate and the same duration, your investment will now be worth $241,197! Small changes in contributions, interest rates and duration can make a huge impact on the long-term growth of your investments and the ability to reach your savings goals.

One way to take advantage of compound growth is through tax-advantaged retirement accounts, such as self-directed IRAs, Health Savings



Accounts (HSA), Coverdell Education Savings Accounts (ESA) and 401(k)s. These accounts allow investors to contribute pre-tax dollars, which can reduce their taxable income and potentially save them thousands of dollars in taxes over the course of their career. In addition, gains in these accounts are tax-deferred until they are withdrawn, which can further boost investment returns. Some accounts, like the Roth IRA, even grow profits tax-free!

To maximize investment returns and create generational wealth, investors should diversify their investments across a range of asset classes, private and public, and custodians like Quest offer alternative investment solutions. By starting early, investing in quality companies, taking advantage of tax-advantaged retirement accounts and employer-provided plans, diversifying investments, and utilizing dollar-cost averaging, investors can maximize returns and create a legacy of wealth for their loved ones.

Understanding how compound interest works is extremely important when devising a financial plan to work toward financial freedom. Small differences in interest rates, compounding frequency, and investment duration can have a big impact on the final value of an investment. By understanding the compound interest formula and how it's calculated, individuals can make informed decisions and maximize the power of compound interest. When investing, careful consideration should be taken, but if you ever have questions about self-directed IRAs or setting up a retirement plan, reach out to an IRA Specialist and schedule a 1 on 1 consultation today.

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Learn to Think Like a Banker

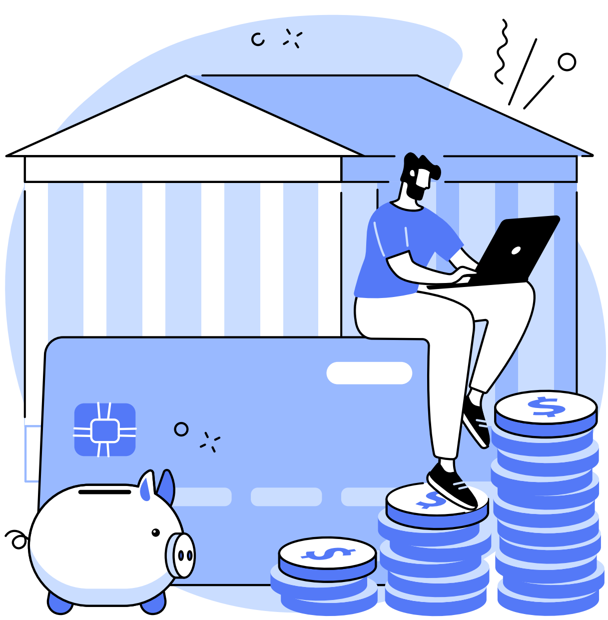
Would you like to learn the best kept secret in finance? Did you know you can both save for retirement and use that same money for your current real estate investments without the clunky hassle of a self-directed IRA? Why have you never heard of this? Because what is popular and familiar isn't always what the wealthy are doing with their finances. They invest time and brain power to understand one of the most powerful financial tools available — the *Infinite Banking Concept*.

Not only am I an educator in IBC, I'm also a practitioner. In the last five years my husband and I learned how to think like bankers. Bankers know that the way the bank makes money is if it is moving—not sitting in the vault behind the counter. Bankers know that to make money they must take dollars on deposit, and loan them out with interest to borrowers. Borrowers willingly accept the terms of the loan in hopes of making money from the money borrowed. But rather than make an external bank wealthy from the interest, we treat ourselves with the same respect we would any other financial institution… and pay our loans back with interest. This changes when we retire. At that point we can take out "loans" from our policy — without paying taxes on our retirement income because no one pays taxes on loan, then our loan will simply be reimbursed when one of us "graduates"… because that's how life insurance works.

Five years ago we started our "bank" by launching a *properly designed, dividend paying, permeant life insurance policy*. Each of those italicized words are essential in making the entire concept function. A year later, we took out our first loan to purchase a car. Because this is a simple life necessity, we are decided to be responsible for car payments and make monthly payments — with interest, back into our "bank". Before this loan was fully repaid, we took a second loan as a down payment on our first real estate investment. Our property is cash flowing beautifully — paying not only for itself, but also repaying our second policy loan. Then a year later we took out our third policy loan. The money is not simply pooling and earning .02% interest in a savings account. It is moving, and making compounding interest, dividends (profits), and serving a purpose inside our policy. But because this is the only vehicle on the planet that earns compounding interest on the gross amount accumulated in the policy, we are also borrowing out the net and making money outside the policy through purchases & investments.

Is your brain spinning? Excellent. We should talk. What is simple is not always easy, but there is always a beautiful moment when I meet with clients and the light bulb goes off. They understand the freedom, opportunities, security, and fun they can have when they learn how to appropriately apply the principles of banking to their own system.

This summer is the perfect season to invest in your own education. A consultation will only cost your time. But if you wait another year before we talk, that time could cost you compounding interest that you could have earned if you started today.



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Purchasing Flood Insurance

Often when homeowners or real estate investors are looking to purchase a new property, they often forget to ask, “is the property in a flood zone?” The good news is you have choices, you could purchase flood insurance if your property is in a flood zone or is outside the flood zone. An insurance agent could check with the property address, if the dwelling is in a flood zone. Currently, you could purchase flood insurance through FEMA or through the WYO “Write Your Own” flood program through private insurers.

Flood insurance is available for homeowners, business owners and even renters. There is a difference between how water losses are considered to be a flood loss, vs a covered hazard insurance water loss. Hazard insurance policies would provide coverage for **Water Damage** that occurs as a sudden and accidental discharge of water. This can often be from a broken pipe, toilet, refrigerator, washing machine, or HVAC system doesn't drain properly, causing a flood. The resulting damage can be severe, depending on the location of the leak and the amount of time it has been leaking. Water damage can often occur on second floors and then can leak to the lower levels and cause extensive and expensive claim damage.

I, regularly, get the question from investors, “is water damage covered that originates from the roof?” This is always reviewed on a case-by-case basis but can be covered if it is related to a covered peril from a storm (hail).

Even though each claim has its own merits, **flooding events like surface ground water or flash flood are normally excluded** from hazard insurance policies.

Flood damage is damage to the home, personal property, or commercial building as a direct result of a flooding event. There should be significant rain over a short period of time to create a flooding event or flash flood. If the rental property or commercial building is in a high-risk flood zone, the property owner must have a separate flood insurance endorsement or policy to have coverage for a flood caused by weather events. Flood insurance is often required by the mortgage lenders for properties that are in a designed flood zone. The most common flood policy is normally covering the building or home. I always recommend to the investor to include coverage for property inside the building as well as a loss of rents or additional living expense coverage. These additional costs for additional living expenses and contents can sometimes be greater than the damage to the building or home. I review many flood policies and I have found that many policies do not includes these important coverages.

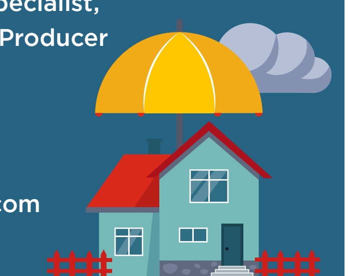
Flood insurance will provide money to repair or even rebuild a home, if it is damaged or destroyed by flood. When a homeowner has to file a claim, they are only responsible for paying the deductible. As a result, the homeowner retains the home, keeps making their mortgage payments, and everyone will be happy.

According to FEMA, a flood insurance policy covers the following:
- The insured building and its foundation
- Electrical and plumbing systems
- Central air conditioning equipment, furnaces, and water heaters
- Refrigerators, stoves, and built-in appliances such as dishwashers
- Permanently installed carpeting over an unfinished floor
- Permanently installed paneling, wallboard, bookcases, and cabinets
- Window blinds
- Detached garages up to 10% of building property coverage (detached buildings other than garages require a separate building property policy)
- Debris removal

If you notice above, what is not covered is the loss of use/additional living expenses and or loss of rents. However, some private carrier could cover it.

In Colorado, purchasing the right flood insurance can be difficult. Before purchasing your new property ask to see if the property is in a high-risk designated flood zone before initiating the property purchase.

Feel free to contact me and I can assist you with the correct flood policy for your investment property.



OFF MARKET REAL ESTATE & DOOR KNOCKING EXPERT

TONY YOUNGS

Buying Foreclosures Directly From the Owner

There are some important things to consider today when making an offer to a homeowner in foreclosure. If and when their home goes up for auction, the opening bid is calculated by the balance of the loan, court fees, attorney fees, and advertising costs for the legal ad. At the auction, the auctioneer will open the bid at that amount. If no one else bids, the house is sold back to the lender and it becomes a lender-owned property. However, if someone bids a price over the opening bid, the lender gets paid what he is owed in full, and the surplus funds will be used to pay a second mortgage or underlying liens. It may not be enough to cover the entire lien but they are entitled to whatever the amount may be. After all underlying liens are paid, if there are any funds leftover, it goes to the homeowner. However, not all states inform the owner of this and the homeowner usually has to file a claim to recover it.

I recently attended an auction in my county and there was a house that had an after-repair value (ARV) of $366,800 The opening bid was $94,000. Several people started to bid against each other and the house was sold at $216,000. That meant the buyer got the house for 59 cents on the dollar. It also meant the defaulting homeowner will receive about $122,000 dollars if they claim it. I'm sure there are probably some junk fees that would be collected before the owner can receive it, too. Therefore, when I am offering to buy a house from a homeowner in foreclosure, I like to be up front with them and tell them that if their home goes up for auction, they are entitled to the excess funds if the home sells to a third-party bidder. I also them know that they may have to claim them.

Next, I explain the benefits of selling before the auction. I inform them that if they allow me to make an offer, we will calculate the amount they would receive if it goes to auction and sells for the average price. I show them some of the recent sales at the auction and what they might expect. Then I write an offer explaining that selling before the auction means they will not have a completed foreclosure against their credit which, in turn, could hinder them from getting another home in the near future. I also offer to help them find a place to live, like an apartment or rental house. I do this because in the past, some owners have no idea where they can move. Finally, I explain that my offer is a for sure thing, and if they choose to go to auction in hopes of getting more money, there is always a possibility that if no one bids, there will not be any money left over.

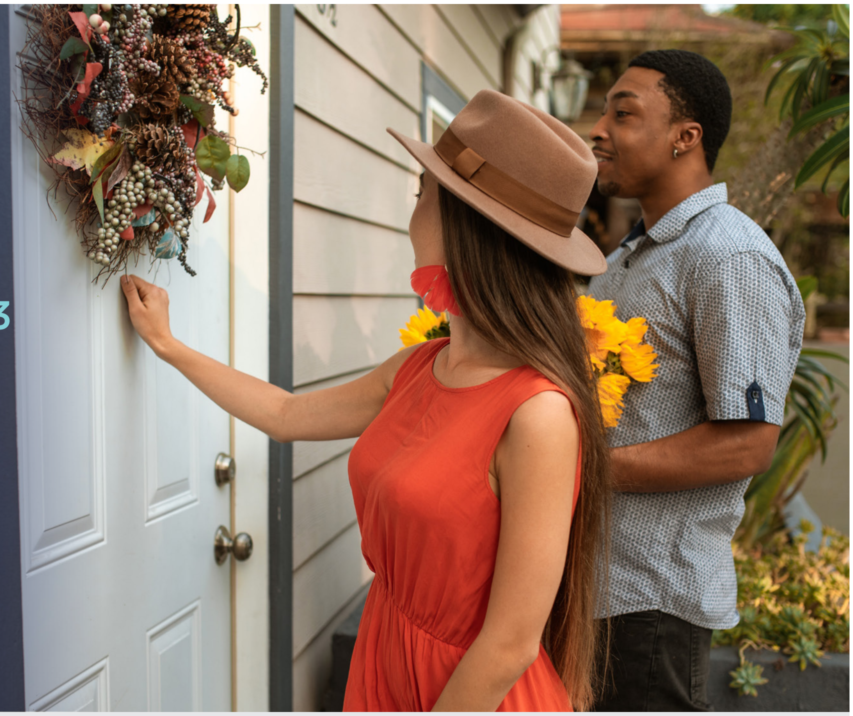
Therefore, when dealing with homeowners in foreclosure, we should try to get as close to what they might receive if it goes to auction. In the case study described above, the house sold for fifty-nine cents on the dollar — which is not too bad. So, how can we do this?

Here is what I do; I attend foreclosure auctions as often as possible and collect data on each house by writing down the opening bid, and if applicable, what it sold for. Next, I do the comps on the after repair value (ARV). Then I make note of what percentage it sold for. At most county courthouse websites, you can usually print any documentation justifying the figures on what a house sold for.

In addition, there are many other benefits of attending foreclosure auctions. One very good reason is that gives you the pulse of the local market. As long as there are investors bidding on houses, it is safe to buy in the hidden market. On the other hand, if you attend a foreclosure auction and there aren't any investors, there is probably a good a reason why. It may just be a hint that now is not a good time to buy. Although, I have seen investors buy during bad times as well as in good times — they just change their strategy. For example, in bad times, you buy and hold.

In real estate, I don't put all my time in the foreclosure arena, the majority of my time is working the hidden market. The information I have provided is by no means the rule, it is just something to consider on your real estate investing journey. However, since the beginning of the year, more and more homeowners are selling their homes before the auction date.

Meet Tony in person during ICOR's Real Estate Door Knocking Field Trip, Saturday, August 26th at 9 am. For information, visit www.icorockies.com/events/re-door-knocking-field-trip



SATURDAY, AUGUST 26, 2023
8:30 AM - 5:00 PM
DENVER, CO

Real Estate Door Knocking Field Trip

When it comes to learning about real estate investing, we can all agree that getting face-to-face with sellers is where the rubber meets the road. No classroom training or roll playing takes the place of sitting at a seller's kitchen table, asking the hard questions, creatively structuring a win-win deal, and memorializing that agreement in a written offer. NOTHING!

If you want to SEE the fastest, cheapest, most effective way to get face-to-face with motivated sellers, then join us for a day full of door knocking with real sellers on Saturday, August 26th at 8:30 AM – 6:00.

We'll spend the day out talking to sellers and constructing win-win deals at their kitchen tables. What's the fastest, cheapest, most effective way to get face-to-face with motivated sellers? When you see a For Sale sign in a seller's yard, get out of your car and knock on the seller's door. It's as simple as that!

You're thinking: The seller will slam the door in my face; the seller will yell at me; the seller will tell me to get lost or call the cops! We know something else, too: You say this having never spent a single day out knocking on homeowners' doors —especially out knocking doors with someone who has done it for nearly 40 years!

Some of the Questions We'll Answer While We're Out Door Knocking:

- Which homes should you go to?
- How and where should you stand when at the seller's door?
- What should you carry with you?
- What do you say when the seller answers the door?
- What do you do if no one is home?
- Why will 8 out of 10 sellers invite you in?
- What are the best types of neighborhoods to work?
- What do you do after the seller invites you in?
- How do you get to the seller's kitchen table and why it's THE place to be?
- What are the MOST important questions to ask a seller?
- How do you construct a win-win offer?
- What do you do if the house is vacant or bank owned?

On Saturday, August 26th at 8:30 AM SHARP you have the opportunity to spend the day out meeting with sellers in the real world with someone who has made his living knocking on homeowners' doors for nearly 40 years!

We promise you'll come away with some really great stories, plus a couple of big Ah-Hah moments that can dramatically change the course of your real estate investing life! Register Now!

Use Your Camera to Scan This QR Code for Information or to Register for this Amazing Opportunity to Knock on Doors, Talk to, & Make Offers to Sellers! Or visit www.icorockies.com/events/re-door-knocking-field-trip

PETER MCFARLAND / INFO@FUSIONTAXLAW.COM / FUSIONTAXLAW.COM

Converting your Primary Residence to a Rental

Sometimes it never rains but it pours. As a tax lawyer who meets with many people during the week, I'll go an entire year without advising on a concept but then suddenly, I'll talk about it several times in one week. This past month, exactly that happened — I found myself talking to prospective clients who wanted to convert their primary residence to a rental. So why not double down and explore it here as well?

Converting to a rental is a pretty simple maneuver that brings with it many tax rules. Most are beneficial when you know how they work, and you plan ahead.

Tax Basis

The first question that arises when you convert a personal residence into a rental is how to determine the property's tax basis for depreciation purposes during the rental period and for gain/loss purposes when you eventually sell.

Oddly enough, two different basis rules apply:

1. If, after conversion to a rental, you sell at a gain, your basis on the conversion date is the usual computed amount (cost of home plus improvements, minus depreciation).
2. If, after conversion to a rental, you sell at a loss, your basis on the conversion date is the lesser of the computed basis or the fair market value.

Deductions

Once you've converted a former personal residence into a rental, you can now deduct expenses. Here is a quick summary of the most important things to know:

- You can deduct mortgage interest and real estate taxes on a rental property.
- You can also write off all the standard operating expenses that go along with owning a rental property: utilities, insurance, repairs and maintenance, yard care, association fees, and so forth.
- Finally, you can also depreciate the cost of a residential building over 27.5 years, even while it is (you hope) increasing in value.

Passive Income/Loss

According to the tax code, real estate is a per se passive activity. Unless you are a real estate professional (as the Code defines the term), if your rental property throwing off a tax loss can complicate things.

The so-called passive activity loss (PAL) rules will usually apply. In general, the PAL rules allow you to deduct passive losses only to the extent you have passive income from other sources, such as positive income from other rental properties or gains from selling them.
Eventually, your rental property should start throwing off positive taxable income instead of losses, because escalating rents will surpass your deductible expenses. Of course, you must pay income taxes on those profits. But if you piled up suspended passive losses in earlier years, you now get to use them to offset your passive profits.

Another nice thing: positive taxable income from rental real estate is not hit with the dreaded self-employment (SE) tax, which applies to most other unincorporated profit-making ventures. The SE tax rate can be up to 15.3 percent, so it's a wonderful thing when you don't have to pay it.

Always keep in mind the good news here. You don't pay the taxes on the property appreciation until you sell. And you could always consider a 1031 exchange.

What is the downside?

Many practitioners do not warn their clients about the downside of converting a primary residence to a rental. And it involves long term capital gain.

The greatest advantage of owning a primary residence is the long term capital gain exclusion on a primary residence. Married couples in 2023 can exclude $500,000 of capital gain on the sale of their primary residence if they lived in the house for 2 out of the last 5 years.

That's a huge benefit — that's an amazing amount of income that doesn't get taxed.

Let's run two examples:

Assume Alice and Bob buy their house for $535,000 and over the course of owning it make about $35,000 of improvements. Seven years later, they sell the house for $800,000 and buy a rental with the proceeds while keeping a small amount for a downpayment on a new house.

A&B sell and buy a rental

Purchase price: $535,000
Improvements: $35,000
FMV at sale: $800,000
Gain not taxed: $230,000
Tax: $0

A&B sell their house and never pay tax on $230,000.

Now, assume Cathy and Dave do exactly the same, but they convert the property into a rental instead and sell outside the 5-year window to qualify for the capital gain exclusion:

C&D – convert and sell rental later
Purchase Price: $535,000
Improvements: $35,000
FMV at sale: $800,000
Taxable gain: $230,000
Tax (at 15%): $34,500

Now what would you do with an extra $34,500? I'm sure we can all think of something we'd rather do than give it to Uncle Sam. Granted, to keep it simple I've left out depreciation, but you get my point.

The other advantage that Alice and Bob have over Cathy and Dave is that they don't have to do a 1031 exchange to avoid tax. They immediately reap the benefits. Instead, for Cathy and Dave, the most powerful exit strategy open to them is to avoid tax with a 1031 exchange. This isn't quite as good because it just kicks the problem further down the road. The only way they can have the same outcome as Alice and Bob (i.e., not ever paying tax on the gain) is to die and give their children a stepped-up basis.

Thoughts

Lots of moving parts to every scenario and a good tax advisor is necessary to understand what you might be leaving on the table. At Fusion, we pride ourselves on our tax plans and our ability to do a deep dive to find the bigger picture and ensure that no opportunity is left unexplored.

BYRON ELLIOTT, ESQ. / BYRON@3PILLARSLAW.COM / 3PILLARSLAW.COM

How Do Sponsors Raise Capital?

Raising capital is often one of the most important parts of real estate syndications, since it is the proverbial fuel to the fire. As such, it is important for investors to understand some of the most common ways in which sponsors can raise capital. For more information about sponsors and the basic structures of real estate syndications, please see the previous article titled "What is a Real Estate Syndication?".

Sponsors can raise capital from investors in a variety of ways, including private placements, crowdfunding, and other registered securities offerings. Securities offerings are regulated by the Securities and Exchange Commission (the "SEC"), and sponsors must comply with SEC regulations to raise capital through such offerings.

While there are numerous ways for sponsors to raise capital, the most common offering investors will see are 506(b) and 506(c) offerings, which are both contained in Regulation D of the Securities Act of 1933 and act as safe harbors under Section 4(a)(2) of the Securities Act, which requires registration of securities prior to sale.

506(b) Offerings

506(b) offerings have no limits on either the total amount raised or the total amount each investor can invest. In addition, accredited and up to 35 non-accredited investors can invest in a 506(b) offering, so long as the non-accredited investors are sophisticated. Sophisticated investors are those that are defined as those investors that have "such knowledge and experience in financial and business matters that they are capable of evaluating the merits and risks of the prospective investment."

To assess whether investors are accredited or non-accredited, sponsors may allow the investors to self-certify that they are accredited or non-accredited, provided that the sponsor does not have a reasonable belief runs contrary to the self-certification information.

If non-accredited investors participate in a 506(b) offering in which the offering amount is $20 million or below (in gross proceeds), the sponsor will only have to provide unaudited financial statements to each investor, and any other information required to be provided in accordance with the disclosure requirements for Tier I Regulation A offerings. However, if non-accredited investors participate in a 506(b) offering in which the offering amount is more than $20 million (in gross proceeds), the sponsor will have to provide audited financial statements, as well as any other information required to be provided in accordance with the disclosure requirements for Tier II Regulation A offerings.

If a 506(b) offering contains exclusively accredited investors, there are no explicit disclosure requirements, although sponsors must provide all material information are incentivized to provide as much documentation to investors as possible to avoid any liability under the anti-fraud provisions of the federal securities laws. However, whatever documentation the sponsor decides to provide to the non-accredited investors must also be provided to the accredited investors. Regardless, sponsors will need to provide the private placement memorandum (the "PPM") to each investor, which includes a business plan, other details of the deal, and the potential risks of investing.

One of the most notable characteristics of 506(b) offerings is that it prohibits general solicitation or advertising. This means that a sponsor cannot freely advertise their deal to the public, whether that be on social media, in-person, on a podcast, via mail, etc. However, marketing efforts are allowed only if such efforts are directed towards investors with whom the sponsor has a "substantial, pre-existing relationship." A substantial, pre-existing relationship involves a relationship between the sponsor and a prospective investor that was cultivated prior to the commencement of an offering, in which the sponsor has acquired significant information from the prospective investor such that the sponsor can evaluate, and has in fact evaluated, the prospective investor's financial circumstances and sophistication, in determining their status as an

accredited and sophisticated investor. This is, however, a very convoluted topic and in order to break it down fully, the details of the general solicitation provisions under Regulation D shall be addressed in a later article.

506(c) Offerings

506(c) offerings are similar to 506(b) offerings in that there are no limits on either the total amount raised or the total amount each investor can put into a deal. However, that is pretty much the only similarity between these two types of offerings.

As opposed to 506(b) offerings which can contain both accredited and non-accredited investors, only accredited investors can invest in 506(c) offerings. In addition, sponsors conducting a 506(c) offering must take reasonable steps to verify whether investors are "accredited" within Sections 215 and 501 of the Securities Act of 1933; investors cannot self-certify as an accredited investor in a 506(c) offering. In a 506(c) offering, the SEC allows sponsors to verify an investor's accredited status by one of three methods:

(i) reviewing the investor's prior two years' income tax returns and obtaining written investor certification that the investor reasonably expects to meet the required income level ($200,000 for an individual and $300,000 joint income with a spouse or spousal equivalent) again in the current year;

(ii) reviewing recent (within the last 3 months) verification of the investor's assets via bank or brokerage statements, appraisal reports, or similar documents and verify liabilities via a credit report; or

(iii) obtaining written confirmation from the investor's broker-dealer, investment advisor, attorney, or CPA that the investor is meets the definition of an "accredited investor" based upon information verified within the last three months.

The biggest distinguishing factor between 506(b) and 506(c) offerings, as well as the most attractive for sponsors, is that sponsors conducting a 506(c) offering can engage in general advertising for their deal. Unlike a 506(b) offering, a sponsor engaging in a 506(c) offering can freely advertise their deal, whether that be on social media, a website, a podcast, in-person conversations, etc. To be safe however, sponsors should have a reasonable, good faith belief that their audience, regardless of advertising medium, consists of accredited investors. As mentioned earlier, there are details to these general solicitation provisions, which shall be addressed in a later article.

506(b) and 506(c) Filing Requirements

Whether the choice is a 506(b) or a 506(c) offering, sponsors have an obligation to notify the SEC that the sponsor is conducting a private offering of securities under Regulation D. This notification takes the form of the Form D, which is required to be filed with the SEC within 15 calendar days of the date of first sale, which is the date in which the first investor is irrevocably committed to invest (ex: signing the subscription agreement), or the date in which the first investor transfers funds to the sponsor. Additionally, sponsors have an ongoing duty to make blue sky filings, or state filings, in each state in which an investor is a resident in, within 15 days of the first sale in that state.

Penalties for Failing to Adhere to Regulation D Requirements

If a sponsor elects to conduct a 506(b) offering and subsequently fails to comply with each of the requirements, what will happen?

The sponsor could face criminal or civil lawsuits from the SEC or state governments, depending on the nature of the violation, as well as civil lawsuits from investors. Incarceration may be possible depending on the severity of the offense. Subsequently, the sponsor, or any individual principal, if convicted of such a violation, could be barred from future capital raising under exemptions from registration, such as 506(b) and (c) of Regulation D, or, at the minimum, be required to disclose such violations in future deals.

In addition to legal action, investors, under federal and state law, have a right of rescission which they can exercise in the event the sponsor violates any of the applicable requirements under Regulation D. Investors exercising their right of rescission forces the sponsor to return the offering proceeds to investors, plus interest.

Conclusion

506(b) and 506(c) offerings are the most common ways in which real estate operators raise capital to deploy towards both large and small-scale development and value-add projects. Investors should acquaint themselves with the requirements of both types of offerings, by consulting qualified securities counsel, to assess whether the sponsor is complying with all applicable rules and regulations and how such compliance, or lack thereof, may impact a potential investment in the deal.

ICOR's Business Member Directory

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