SEPTEMBER
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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What is Cap Rate and How Does It Affect the Value of an Apartment Complex?

By Anthony Chara

There are 3 figures that go hand-in-hand when trying to determine a commercial/apartment property's value. They are; Net Operating Income (NOI), Cap Rate (CR) and Asking Price or Purchase Price (PP). If you know 2 of the figures you can always figure out the third.

Here I'll be talking about the Cap Rate of a property. More specifically, how the Cap Rate works in conjunction with the Net Operating Income (NOI).

Join ICOR, September 19th, 20th, & 21st for Mastering Multifamily Investing: "Building Wealth through Multi-unit Properties"

Let's get started. First off, Cap Rate is short for Capitalization Rate. In short, Cap Rate is, "The process of converting anticipated future income into present value" according to the American Heritage Dictionary. It's also your rate of return if you bought your property using all cash.

Here's an example: If I purchase an Apartment Complex for $1M and it generates a Net Operating Income at the end of 1 year in the amount of $100K, then my Cap Rate is 10%. The formula for Cap Rate is:

CR = NOI / PP

Cap Rate (CR) = Net Operating Income (NOI) divided by the Purchase Price (PP) of the complex. Therefore, if we plug in these numbers: $100,000 / $1,000,000 = .1 or 10%. If this same complex generated $90K in NOI, its Cap Rate would be $90K / $1M = .09 or 9%. Lower income, lower Cap Rate, but the Purchase Price stayed the same.

Knowing the Cap Rate allows us to accomplish several things. First, it allows us to determine the value of the property. Second, it allows us to compare our complex to other similar complexes in the same geographical area. Lastly, it allows us to compare the 'Cost of Money'.

In our example, our complex had a Cap Rate of 10%. If I research the average Cap Rate in a market, I want to make sure our complex falls within the average or slightly above the average Cap Rate. Let's assume we're purchasing a complex in Dallas. We research the area and find the average Cap Rate to be between 9%-10% for similar complexes. How does our complex compare? It's on the high end of the average. This is potentially a good thing assuming the number's we're analyzing are accurate. I'll get into that topic in another article on Due Diligence. But, for right now, let's assume they are accurate.

One quick thing to remember, since Cap Rate is relative to the Income being generated by our complex, the higher the Cap Rate the better, when we're buying. Think of it this way, if you had $100,000 to invest and you chose to put it into a bank savings account or CD, would you rather make 10% on your money or 8%? If both banks were equal in quality, reputation and safety, you'd probably pick the one paying 10%.

Now, let's assume our Cap Rate was at 8% in the same market. The average market Cap Rate was 9%-10%. Is this a good deal? Probably not. You may be over paying for this complex. Would you want to purchase a $1M Apartment Complex and generate $100K a year or only $80K a year? You'd pay the same purchase price, but get a lower return.

A question you're probably asking yourself right now is, "How do I learn what the average Cap Rate is in a market"? Good question. And the answer is, "Ask".

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SEPTEMBER MEETING INFORMATION

September @ ICOR

Mastering Multifamily Investing: "Building Wealth through Multi-unit Properties"

Join us for an in-depth exploration of multifamily investing, a game-changing strategy that offers distinct advantages over single-family investing. Discover how savvy investors graduate to multifamily properties and learn the key factors that contribute to success in this dynamic market.

Event Highlights:

1. Multifamily vs. Single-Family Investing: Unveiling the Differences

- Explore the fundamental distinctions between multifamily and single-family investments, including economies of scale, cash flow potential, and risk diversification.
- Understand how multifamily properties can provide more stable and consistent cash flow compared to the volatility of single-family rentals.

2. The Path to Multifamily Success: Why Investors Transition

- Learn from experienced investors who share their journeys from single-family to multifamily properties.
- Discover how multifamily investing allows investors to scale their portfolios more efficiently and achieve long-term financial independence.

3. Key Lessons for Aspiring Multifamily Investors

- Analyzing property performance: Learn how to evaluate multifamily properties, assess market demand, and identify potential value-add opportunities.
- Financing strategies: Gain insights into creative financing options, syndication, and partnerships that facilitate multifamily acquisitions.
- Property management excellence: Understand the unique challenges of managing multifamily units and uncover strategies to maximize operational efficiency and tenant satisfaction.

Why Attend?

Are you ready to level up your real estate investment journey? Join us at the Mastering Multifamily Investing event and:

- Gain a comprehensive understanding of the benefits and nuances of multifamily investing.
- Acquire practical skills to analyze, finance, and manage multifamily properties effectively.
- Hear real-life success stories from investors who have achieved remarkable results through multifamily investments.
- Connect with a community of like-minded individuals and industry experts.
- Take the first step towards building a resilient and lucrative real estate portfolio that stands the test of time.

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

Save the Date for ICOR's September Meetings

ICOR – Colorado Springs	ICOR – Denver	ICOR – Northern Colorado / Fort Collins
Tuesday, September 19th, 6 PM-9 PM (MDT)	**Virtual** Wednesday, September 20th, 6 PM-9 PM (MDT)	**Virtual** Wednesday, September 21st, 6 PM-9 PM (MDT)

Upcoming Webinars & Workshops

How to start or Revamp your Real Estate investing Career in this new market
In Person
Wednesday, September 13th

Please Join as we talk to 3 women who have built successful Real Estate Investing careers with Creative Deals and Creative Financing!

"Build Your Own Lending Stockpile"
In Person
Wednesday, September 27th

Are you a real estate investor tired of the constraints and unpredictability of traditional lenders? Dive into the world of "Build Your Own Lending Stockpile: The best kept secret in creative financing."

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

SATURDAY, SEPTEMBER 30, 2023
9:00 AM - 4:00 PM
DENVER, CO

Multiply Your Returns With Multi-Family Investing With Anthony Chara

On Saturday, September 30th, Anthony will be discussing:

- The important numbers you'll need to collect on a building in order to calculate its current and future value
- Why you shouldn't just believe the figures the broker or owner gives you, and how to collect the RIGHT data when they're missing or clearly exaggerated
- How to apply a "cap rate" to the income to get the value of the property (and what that cap rate should be)
- The difference between a "pro forma" analysis (that's what it COULD BE when the building is repositioned) and an "as is" analysis (what it is now, and what lenders are interested in)—you need to be able to do both to fully evaluate a property
- How to "speak the language" so that sellers, brokers, and lenders take you seriously (if you don't know what DSCR, operating ratio, TIMMUR, reserves, and NOI are, you'd better be here)
- How to QUICKLY analyze a lead to see if it's even worth following up on

Attend ICOR's Saturday, September 30th workshop where Anthony teach you:

- Advantages & Disadvantages of Apartments
- How you actually have more control over the value of your Apartments than with SFH's
- Lingo You Need to Know
- Key Ratios Used in Valuing Apartments
- Analyze the Numbers on Real Complexes
- Bring your own deals to analyze live in the workshop!
- And much more!

About Anthony:

Anthony Chara is a seasoned Real Estate investor that has investing and property management experience dating back to 1993. After 16 years working for a fortune 500 company and traveling extensively it was time for a change. He turned to full time Real Estate investing around 2004. He has also started several service and/or education oriented companies.

Presently, he's managing member of Apartment Mentors and founder of Success Classes. He has owned or managed several successful companies during the last 20+ years. Mr. Chara owns or has owned properties in Arizona, Colorado, Florida, Georgia, Indiana, Iowa, Kansas, Louisiana, Mississippi, Nevada, Ohio, Pennsylvania, Tennessee, Texas, Belize and Paraguay.

Mr. Chara turned to Apartments full time in 2004. He's owned, partnered and/or has syndicated over 2000 apartment units around the country since that time. These units range from 31 units in 1 complex in Pennsylvania to 410 units in 4 complexes in Indianapolis. Some of his partnerships include a 100 unit complex in Longview, TX, a 31 unit complex in Pottstown, PA, a 100 unit complex in Macon, GA, a 48 unit property in Lebanon, OH, a 60 unit complex in Burlington, IA, 9 units in a Hilton Hotel complex in Belize and Green Houses & Orange Grove lots in Paraguay.

$125 for members, $175 for Non Members
Register at www.icorockies.com/events/multifamilyinvesting93023

What is Cap Rate? *Continued from page 1*

Contact 3-4 commercial RE Brokers and/or commercial financiers in that market and ask them. Tell them the type of complex, geographical area and quality of the complex and they should be able to give you a one half to one point average. In other words, they'll tell you that Cap Rates range from 8%-8.5% or 9%-10% or 7.75%-8.25% or 6.5%-7.5% and so forth. Most, if not all of the people you speak with should be in the same ballpark. However, you may find that after you speak with 3-4 people, the overall range maybe slightly broader than one half to one point. i.e. 7%-8.5% or 7.5%-8.75%. You're just looking for an average. There are other sources available to research the Cap Rate in a market too, but this is a quick, efficient way to get your bearings.

In our first example, we used our NOI and our PP to determine the Cap Rate. Then, we used the Cap Rate to compare our complex to other complexes in the area. But how about this; what if we want to refinance the complex or figure out the value for our own personal balance sheet, what then? Easy, we just swap two parts of the equation to solve for the third.

As you recall, the formula for Cap Rate is CR = NOI / PP. If we know 2 of these values we can figure out the third. In this second example we want to determine value. To do this we just modify the formula slightly to

NOI / CR = PP

Using our first example, let's look into the future to see how we're doing. After 5 years our NOI has increased from $100,000 to $127,600 per year assuming a modest 5% increase each year. The Cap Rate in the area is 9.5%. What's the current value of our complex?
$127,600 NOI / .095 (9.5%) CR = $1,343,000 PP

Therefore, the value of our complex is now approximately $1,343,000. Not a bad return. What if the Cap Rate had remained steady at 10%? It's the same formula. $127,600 / 0.1 (10%) = $1,276,000. That's still not a bad return.

If our complex were generating an NOI of $108,555 per year and the Cap Rate in the area where this complex is located ranges from 8%-8.5%, what is this building worth? Break out your calculator; you should be a wiz at this by now!

NOI / CR = PP
$108,555 / .08 = $1,356,938
$108,555 / .085 = $1,277,118

This building's value ranges from $1.277M on the low end to $1.357M on the high end. Did you notice that as the Cap Rate increased, the value of the building went down? That's why you're looking for a higher Cap Rate when you purchase. However, you want a lower Cap Rate when you sell. It's not like you can just decide to lower the Cap Rate when you want to sell your complex though. The Cap Rate is driven by the sales averages in that market which are driven by the type of return buyers want for their investment.

It's not uncommon to find Cap Rates in the 3%-4% range in San Francisco or New York City or 8.5%-9.5% in Kansas City. In larger metropolitan areas such as San Fran or New York, buyers pay higher prices because there isn't anywhere left to build. They can command top dollar for rent in those markets. If the buyer wants to increase the value of their complex, they just increase the rent because they know they literally have a captive audience.

In places like Kansas City or Dallas, there's room to build so it's much more difficult to raise rents. Once the vacancy in an area drops below a certain level, a developer just comes in and builds another complex. There's so much competition, it's difficult to raise rents. The only way a buyer can get more bang for their buck is to pay less for the complex up-front. Thus, the Cap Rate is higher.

There are several things Cap Rate is used for. First, it is to determine the value of the property. Second it is to compare our complex to similar complexes in the same market. The third is to compare the Cap Rate to the Cost of Money. Many people don't know about this concept, but you're about to find out and it could save you thousands or tens of thousands of dollars a year.

The Cost of Money in a nutshell is, "How much is the money you're borrowing to purchase this complex costing you"? The true Cost of Money, also known as the Loan Constant, is NOT the interest rate by itself, but for this example I will only talk about the relationship between the Cap Rate and the Interest Rate. This is where a lot of novice buyers get into trouble. If you're purchasing a complex with a Cap Rate of 7%, but your loan is at 8% interest per year, you could still have positive cash flow, but you're literally losing money on the money you're borrowing. This is called 'Negative Leverage".

We recommend that whenever you purchase a complex you almost always want to look for a minimum 2 point spread between the Cap Rate and the Interest Rate on your loan. In other words, let's say you find a great complex with a Cap Rate of 7.5%. That means the Interest Rate you are borrowing money at should be no higher than 5.5%. Not an impossible rate to find, but there may be some prohibitive terms connected to it.

This concept also comes in handy when trying to negotiate the interest rate on a seller carry- back loan. Many sellers will want you to pay top dollar in interest, maybe 8%-10%. I've used this concept to explain to sellers why I can only pay them 6% interest. It's because I'm buying their complex at an 8 Cap and if I pay them more than 6% I'd be losing money. Many of them are understandable at that point, many are not. But, as an Apartment Investing mogul, it sure adds to your credibility with the seller when you can explain this to them.

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Paying for Educational Expenses TAX FREE

Comparison of the Coverdell and 529 Plans

With the new school season just around the corner, you have probably already started working on your school's supplies lists. However, the beginning of the year isn't just the only time you spend money for school. Materials for projects, electronics for homework, maybe even school uniforms and tuition are things that come at all times during the school season. Wouldn't it be nice if the money used for education costs were exempt from federal income taxes? They can be, and there are investment plans that allow you to do this!

The Coverdell Education Savings Account (ESA) and 529 are similar education savings plans that allow you to save for college and other educational purposes, but their differences can determine which one is best for you. Some plans, like the Coverdell ESA, allow you to diversify your investment portfolio by investing in alternative assets, such as self-directed real estate or notes.

In this article, we'll cover the main differences and similarities so that you can get a feel for which account may best fit your needs.

The Coverdell and the 529 are both used for education, and this is the most common similarity. What does education cover? The good news is… that answer is very broad. For a Coverdell, educational expenses can cover everything from school supplies like binders and notebooks, to textbooks and even computers if the school program requires it for the class! For a complete list of qualified education expenses, please view IRS Publication 970.

Another important similarity these two accounts share are the tax benefits. For the Coverdell and 529, taxes grow tax-deferred until distribution. If used for qualified educational expenses, these plans offer tax-free growth! It's important to note that non-qualified expenses that are withdrawn could be subject to federal taxes and a 10% penalty tax.

What can you use these accounts for?

Their differences are where the two accounts are set apart. Though they are both great accounts that can be used for education, one account allows you to begin using it earlier than the other. The Coverdell ESA funds can be used for qualified expenses from Pre-K all the way up to college, whereas the 529 plan funds can be used for qualified college expenses, but has a $10,000 limit if you are using it to cover K-12 expenses. This is something to consider if the funds were needed for secondary school tuition.

What are the contribution limits?

Another difference is the contribution limits. With a 529 plan, the limit varies by state, whereas the Coverdell ESA remains the same across the board (for 2023 the annual contribution limit is $2,000 per child, per year until the child reaches age 18).

One unique characteristic of the Coverdell ESA is that even though contributions must stop at age 18 (the age of majority), the account can remain in that child's name until age 30 or it can be passed along to another eligible family member. (Special needs beneficiaries are not affected by the age restrictions.)

In order to contribute to a Coverdell ESA, the adjusted gross income of the depositor must be less than $110,000 if single, or $220,000 if married and with a 529, there are no income limitations.

It is important to note that gift contributions can be made to a Coverdell. This means that if a contributor's income level was higher than the limit, another person could contribute to his or her place. For example, if a child's parents made too much, but had grandparents who were under the income limit, they would be able to contribute to the Coverdell if they wanted.

What can you invest in?

The biggest difference is who is in control of the investments. With a Coverdell ESA, the account holder has the option to choose his or her own investment. If you want even more flexibility, you can open a self-directed Coverdell ESA which gives you the option to purchase alternative investments. One investment strategy is to partner the child's Coverdell account with their parents' self-directed IRAs to purchase real estate investments and even private loan partnerships. Deciding whether you want to take control of the account or let the state make the investment decisions will be important when picking which education account is best for you.

Coverdell ESA and 529 are both beneficial accounts to have for school savings and qualified educational expenses. However, both come with their own freedoms and restrictions. It's up to you to decide how much control you want to have over the account and how you anticipate your future spendings. When in doubt, consult with a tax advisor to make sure you are accounting for the expenses properly.

If you would like more information about the Coverdell ESA or have questions about which plan might be right for you, you can speak with an IRA specialist at 855-FUN-IRAS (855-386-4727).

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Financial Harmony: Denver's Real Estate Opportunities and the Infinite Banking Concept

Denver, the Mile-High City, is not only famous for its breathtaking landscapes but also for its flourishing real estate market. With a consistent influx of new residents and businesses, the city's property scene promises lucrative returns. While real estate opportunities abound, having the right financial strategy is paramount. This is where the Infinite Banking Concept (IBC) seamlessly fits into the Denver real estate narrative.

Fix-and-flips in the Mile-High City

Denver's housing market is characterized by its fast-paced growth, and with this growth comes the increasing demand for housing. The neighborhoods within the city and its suburbs are witnessing aging properties that could use refurbishing. For the real estate investor with an eye for potential, this provides an avenue for profitable fix-and-flip ventures. Traditional financing often ties investors down with structured repayment schedules, sometimes stifling cash flow or even missing other opportunities because funds are tied up in repayments. One of the unsung benefits of utilizing the Infinite Banking Concept for such ventures is the unstructured nature of the loans. When an investor borrows against their specially designed whole life insurance policy, they're essentially borrowing from themselves. This means repayments can be flexible, aligned with the investor's cash flow. It provides significant breathing room, especially in the unpredictable world of fix-and-flips where timelines can vary.

Furthermore, the traditional means of financing such projects often involve loans with stringent conditions, unpredictable interest rates, or cumbersome processes. IBC, however, offers a refreshing alternative. By tapping into the cash value of a specially designed whole life insurance policy, investors can access funds quickly. The fact that there's no need to undergo extensive credit checks or await approval from external entities ensures that investors can act swiftly, capitalizing on opportunities as they arise.

Long-term Investments

Denver's steady population growth paints a picture of long-term housing demand. Rental properties, especially in areas experiencing infrastructure development or closer to employment hubs, can be goldmines for passive income. The beauty of IBC here is twofold. First, it can be used to finance the purchase of these rental properties. Second, the cash flow generated from the rentals can be funneled back into the whole life policy, enhancing its cash value and, in turn, increasing the financial reservoir from which an investor can draw in the future.

Moreover, with the IBC, long-term investments come with an added layer of security. Whole life insurance policies not only provide the policyholder with a death benefit but also grow the cash value over time. This growth, coupled with the rental income, can bolster an investor's financial position, making subsequent investments or even personal expenditures more accessible.

Diversifying Investment Portfolios

Diversification is a cardinal rule in investing, and Denver's real estate offers a sturdy platform for this. While stock markets can be volatile and bonds sometimes offer minimal returns, real estate, especially in a market as robust as Denver's, provides stability.

The Infinite Banking Concept complements this diversification strategy beautifully. As an asset, the cash value in a whole life policy grows at a guaranteed rate, irrespective of market fluctuations. By investing in Denver's real estate using funds from the IBC, investors effectively have assets in both the real estate market and the financial market (through their policy). This dual approach offers both the potential for appreciation (from property) and the safety of guaranteed growth (from the insurance policy).

In Conclusion

The vitality of Denver's real estate market, when combined with the flexibility and security offered by the Infinite Banking Concept, paves the way for innovative investment strategies. Whether it's the immediate returns from fix-and-flips, the steady income from long-term rentals, or the sheer joy of diversifying one's portfolio, Denver's property scene paired with IBC is an investor's dream.

For those already familiar with the Denver real estate landscape, the introduction of the Infinite Banking Concept as a financing tool is like discovering a secret weapon. And for those just venturing into property investments in the city, understanding and leveraging IBC could very well be the cornerstone of their success. The harmony between Denver's real estate opportunities and the Infinite Banking Concept is not just financial – it's a wonderful cohesion of vision, strategy, and prosperous returns.

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Why Should You Ask for Renters Insurance?

Landlords and property managers have a long list of priorities when renting a unit to a new tenant. They need to prepare the rental property is in good condition by doing the necessary maintenance and repairs. Once the new tenant has passed the screening process, landlords will send the lease with their conditions. A common requirement is Renter's Insurance.

Talking to your tenant/renter about the benefits of renters insurance will greatly assist your tenant. For most tenants, buying a renters insurance policy might seem like an unnecessary purchase. However, it is a mutually beneficial policy that can benefit the renter and the landlord. According to the Insurance Information Institute, many landlords require tenants to purchase renters' insurance to avoid disputes regarding legal liability claims, damage to landlords property as well as tenants belongings.

Coverage for the tenant:

Renter's policies offer coverage against a variety list of perils such as fire, smoke, theft, vandalism, wind and hail, damage caused by water and other events out of their control. It protects the tenant's personal property such as furniture, clothes, sports equipment, small appliances, electronics and more.

In addition, renters policy covers personal injuries and legal expenses under the personal liability limit. An example, if someone other than the tenant gets injured while being on the property and sues the tenant—this would be a personal liability claim on the renters policy. Another common claim that I have been involved with is, the tenant overflows the bathtub and causes damage to the landlords property. The renters insurance may assist the tenant by paying the damage to the landlords home.

Renters policies can provide coverage for dog bites either under medical coverage or personal liability. This can apply both on the property or off the property. If your tenant has an animal, ask them to purchase at least $100,000 in liability coverage and confirm that the animal is covered under the renters insurance personal liability policy.

Another important coverage section is the additional living expense coverage. If a tenant is obligated to move out of the rental due a covered loss. For example, during the Colorado fires in October of 2020, renters that were evacuated were able to find coverage for their additional living expenses such as paying for a hotel and meals until they were able to get back to their home.

Coverage for the landlord:

Renters insurance policies offer property damage coverage to the landlord in the event a fire or other accident caused by the tenant's negligence. The landlord could be covered under the renters policy up to the liability limit. I recommend a minimum of $100,000 personal liability on the renters policy.

For example, a tenant leaves the water running which causes damage to the rental unit and to the unit below. The renters policy could cover the resulting damage to both units caused by the tenant's negligence with the liability coverage. Renters insurance can also pay for damage to a landlord's home from a large fire due to the tenants negligence. Landlords should also request to be added as an additional insured on the tenants renters policy as to receive any cancellation or renewal notices.

Conclusion:

Renters insurance is inexpensive, and it is essential. It can be a mutually beneficial and inexpensive way to protect both the tenant and the landlord. It is an extremely inexpensive policy that protects both parties. Coverage and laws can vary, so please check with your attorney if you have any legal questions.

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Courage to Invest in Real Estate

Investing in real estate builds wealth for generations. It provides opportunities for long-term wealth stability and immediate mailbox money. It is also complex. How do you do something new that is expensive on your own without making mistakes? There is a lot of fear in real estate investing. How do you overcome it?

My name is Jennifer Reinhardt. I work in real estate and have done over a billion dollars in real estate transactions with my team. I own my own investment properties. I did not grow up in a family that invested in real estate. My parents discouraged me from real estate investing. It is risky and was for rich people, was my family's perception. We buy one house, pay it off, and live off our 401k and social security. That was the plan. But that plan is more challenging, in my opinion. I don't want to work until I die. That is the hard path.

Recently, I bought my grandma's house near Denver University. My mom and sister didn't want the project, and after my grandmother passed away, it needed a lot of updating.

While my grandmother was alive, she worked as a housekeeper. She was a single mom and always worked very hard without breaks. As a little girl, she only got to see the ocean once and never got to go back. In her 70s, she got cancer and never got to pay off her home.

I wanted to keep that tiny home in our family, so I am fixing it up. I have other rental homes and work in investment brokerage. My goal is to coach other people on how to have more time with their families and how to be able to rest while working on their purpose. Gentrification is real, and I wanted to keep the home in my family. My great-grandmother was one of the original settlers of Washington Park, and this home was the last piece of property in Denver proper that was in my family.
For women especially, you can't work hard enough to be able to rest. You must have investments. Single moms are supposed to be poor. I want to shift that way of thinking to honor both myself and my grandmother. I am a single mom, but I get to live in a nice neighborhood. I can attend my son's school events. I can help my daughter as she becomes an adult. I show up. I recently traveled to the ocean by Encinitas and feel so blessed that I can live the life I do. Working in real estate investing and taking on clients gives me purpose.

The way I learned was to have a mentor. I work closely with Atlas Real Estate, where I learned how to analyze and run investment deals. The people I work with have many homes and are down to earth. I believed that I could do it, too. And I am.

Now, I can run workshops and teach other people how to own and invest in real estate to gain freedom in their lives. Join us here and sign up for our in-person and webinar events: https://www.realestateambitions.com/

The way out of fear is education and action. With mentorship and guidance, we can navigate the investment world together.

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

Exploring Real Estate Investor Deductions for Attending Educational Seminars

As a real estate investor, staying ahead of the game with industry trends, strategies, and insights is paramount to your success. One effective way to gain knowledge and network with like-minded professionals is by attending educational seminars.

Not only do these events provide valuable educational opportunities, but they can also offer tax benefits in the form of deductions. As a tax professional who works closely with real estate investors and professionals, I see a lot of confusion on this topic and hope that this will help clear it up.

1. Educational Criteria:

To claim tax deductions related to educational seminars, you must ensure that the event is directly related to your real estate investment activities. The Internal Revenue Service (IRS) allows deductions for seminars or conferences that maintain, improve, or enhance your professional skillset in the real estate investment field. It should directly contribute to increasing your knowledge and ability to generate income from your real estate investments. It should not, however, teach you a new set of skills. Seasoned investors, therefore, can typically deduct these costs while new investors cannot.

2. Tight Nexus to Income-Generating Purpose:

In addition, the educational expenses need to be relevant to the activity that is generating income. I once handled an audit where the taxpayer was trying to deduct life coaching lessons as a business expense. The taxpayer argued that the life coaching was business related because the lessons and methods learned for his personal life spilled over into the business and impacted business operations.

The IRS conceded that this could be the case, but that not all the cost of the coaching event was business-related. We produced a calendar of events, and the proportion of cost that could be applied to business-specific programming was deemed deductible while the remainder was a non-deductible personal expense.

3. Deductions must be Reasonable:

Reasonability is a key factor when it comes to deducting expenses for tax purposes. In other words, the expenses must be considered reasonable within the context of your industry and your specific income-generating activities of your business and cannot be lavish or extravagant.

To determine the reasonability of an expense, the IRS considers factors such as the nature of the expense, the industry standards, and the general expectations of a prudent businessperson. For example, if you are a real estate investor, it would not be considered reasonable to deduct the costs of luxury vacations as business expenses, even if you attended educational seminars while on vacation. However, deducting expenses for attending educational seminars or industry conferences directly related to your real estate investments would be seen as reasonable and necessary.

Ultimately, reasonability is about ensuring that the expenses you claim as deductions align with the standard practices and expectations of your industry. It is crucial to exercise caution and discretion, keeping thorough records and documentation to support your deductions in case of an IRS audit.

4. Deductible Expenses:

With the foregoing running in the background, when attending an educational seminar related to your real estate investment activities, you can deduct a range of associated expenses from your taxable income. These deductible expenses may include:

a. Registration Fees: The cost of registration for the seminar is typically fully deductible. This includes any fees paid for admittance to the event, workshops, or conference sessions.

b. Travel and Accommodation: If the educational seminar requires you to travel, expenses such as airfare, lodging, meals, and local transportation are potentially deductible. However, the deduction is limited to the time spent attending the seminar, rather than personal sightseeing or recreational activities.

c. Materials and Resources: Any books, manuals, educational materials, or specific resources necessary for the seminar can be deducted. Be sure to keep receipts or records of these expenses as documentation for your deduction claims.

3. Networking Deductions:

In addition to the educational aspects, attending seminars often involves networking opportunities with other real estate professionals. Expenses incurred during networking and social activities may also be deductible if they occur directly before, after, or during the educational event.

However, it is crucial to exercise caution and comply with IRS rules regarding these claims. Keeping records and documenting the business conversations or meeting topics is essential when making deductions for networking expenses. I typically advise keeping a list of the who, what, when, where, and why of the expense and how it relates to business/income-generation.

4. Documentation and Record-keeping:

To substantiate your deductions, it is crucial to maintain accurate and thorough records. Retaining copies of receipts, invoices, and registration information will provide the necessary documentation to support your claims should you be audited by the IRS. Furthermore, keeping detailed notes about the topics covered during seminars and workshops can also be helpful in demonstrating the direct relationship of the educational event to your real estate investment activities.

Conclusion:

Attending educational seminars as a real estate investor not only allows for knowledge and skill enhancement but also provides potential tax deductions. By keeping a close eye on your expenditures and meeting the criteria set by the IRS, you can significantly reduce your tax burden. Ensure you maintain proper documentation of expenses and determine the eligibility of networking activities as deductions to maximize benefits.

When in doubt, it is wise to consult a tax professional to help you decide. Working with experienced tax advisors who specialize in helping real estate professionals will help to ensure good discernment for maximizing deductions while claiming them properly. Utilizing these deductions can ultimately enhance your overall real estate investment strategy and financial success.

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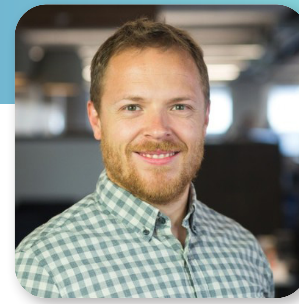

Summer is Upon Us!

Landlord's Guide to Summer Preventative Maintenance

Summer is here, and as a landlord, it's important to keep your rental property in tip-top shape for the season. One crucial step is to carry out preventative maintenance on the property. Preventative maintenance involves taking proactive measures to identify and fix potential issues before they escalate into costly repairs.

Below we'll outline some items to check and maintain for the summer months, but before that, here's why preventative maintenance is so important as a landlord:

Keep your tenants happy and comfortable

Summer can be uncomfortable, especially if the air conditioning isn't working! By carrying out preventative maintenance on the HVAC system, you can ensure it's in good working condition and ready to handle the hot temperatures. Additionally, you can inspect and clean the gutters, repair leaky roofs, and fix any plumbing issues. These measures will ensure that your tenants are comfortable and happy in your rental property during the summer.

Save money on costly repairs

Preventative maintenance can help identify potential problems early on, allowing you to fix them before they become bigger and more expensive to repair. For example, if you notice a small leak in the roof, you can fix it before it causes significant damage to the property - drywall and water do not go well together. Regular maintenance of appliances and systems such as HVAC, plumbing, and electrical can also help extend their lifespan, saving you money on replacements and repairs.

Minimize liability risks

As a landlord, it's your job to ensure that your rental property is safe for your tenants. By carrying out preventative maintenance, you can identify potential safety hazards such as loose railings, faulty wiring, or uneven flooring. By addressing these issues early, you can prevent accidents from occurring, minimizing your liability risks. At the end of the day we all want residents and tenants to be safe and healthy.

Without further adieu, here's your summer preventative maintenance checklist:

- **Check the air conditioning:** Make sure that the air conditioning unit is clean and free of debris, and that it is working properly. Replace the air filter if necessary.
- **Inspect the roof:** Check for any damage or leaks on the roof, and replace any missing or damaged shingles - summer is a great time to tackle any roof issues. Trim any overhanging branches that could cause damage to the roof during summer storms.
- **Clean gutters and downspouts:** Clear any debris from gutters and downspouts to prevent water damage to the house. Ensure that the downspouts direct water away from the foundation of the house.
- **Test outdoor lighting:** Make sure that all outdoor lighting is working properly, including porch lights, landscape lighting, and motion sensors.
- **Clean and inspect windows:** Clean windows inside and out, and check for any damage. Replace any damaged screens, and repair any damaged window seals.
- **Check irrigation systems:** Inspect and test any irrigation systems to ensure that they are working properly. Replace any broken or damaged sprinkler heads.

Happy landlording everyone! If you ever have any maintenance-specific questions, we're always available and happy to help.

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