

Bogleheads; Speakers and our notes on Real Estate—Oct. 9th 2021

Rick H

The disadvantages of home ownership vs renting.

Ashish G

Should you take a 15 or 30 year mortgage?

Siva U

When should you refinance your current mortgage?

Reasons:

Interest rates are lower

Lower monthly payments

Pull Cash out

Shorten Life of loan

Pay down soon

Planning on selling home in near future

Remove PMI

Costs:

What are Title insurance, documents, recording ...etc etc fees?

How long it takes to break even or recover these costs ?

Shopping for loans:

Check your credit score

Conforming or Jumbo loan

Primary home vs Rental properties

OK to pay points (pre-paid interest)

Fixed rates or Adjustable (3yr/5yr/10yr fixed and then Adjustable.. etc)

Life of loan (15 year or 30 year amortization)

What are Interest rates, APR rates.

Closing costs (Title fees, Documents, Recording fees)

Ask for Good Faith Estimate

Places to shop:

Mortgage Agents/Brokers

Local banks, credit unions.

Jeanne T

ATTACHED AT THE END

Art W

Real estate as a diversifier and mistakes to avoid.

- Real Estate as a Diversification from Equities
 - If Affordable Buy Principal Residence. Pay for your House NOT Landlords. It's a Future Asset
 - Purchase Rental Property at a Market Low (like 2009)
 - Real Estate Mistakes
 1. Don't Sell RE Asset That You Can Afford To Keep
 2. Avoid Limited Partnerships (Don't Confuse w/ LLCs)
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Gaurav K

Experience with 4 investment properties across different states and countries.

Betty K

Single Family Rentals. Owning property in a Limited Liability Company (LLC)

My real estate story started 30 years ago in San Diego, by not selling my home when I moved. Renting it out, and eventually 1031 exchanging it into another rental properties. So I realized if I used my criteria for a home others would too! I had moved to Northern California in 2001.

In 2015 I was getting tired of long distance land lording, I had run through 4 managers with varying success. So I sold the S.D. Property for \$1,6 Million and bought 4 replacement properties using 1031 exchange. I wanted out of California, because of the landlord tenant laws being so disadvantaged for landlords. Being close to Nevada, and having the condo in Washoe county, it was my natural choice to buy there. Real property is treated very differently according to state law. Property taxes differ, even from county to county. The current book value for the properties is \$3,5080 Mill.

I moved into one property 3 years ago, when I sold my last Californian home. I took \$220K tax free because it was my primary residence. I have been looking to buy additional properties in Reno, but the market is not friendly for my investment style. I do not like fixer uppers, I stay with A type properties and make cosmetic changes, eg paint, flooring, fixtures, blinds and appliances. My house type is a SFH, single level. 3/2 or 4/2, attached garage and with a small yard, no expensive landscaping.

I have learned by trial and error, but always treated my rentals as a business. In 2016 I realized I had to invest more time learning to be a professional landlord not an accidental one. Education gave me a better understanding for the profitability of real estate investments.

I formed a LLC and transferred the properties into it. Nevada allows serial LLC, so I did not have to form multiple companies. The rationale is to isolate each property legally from the others and yourself. So if lets say one tenant falls down and gets injured and sues, only the property he occupies is affected. Reversely, if your dog bites the neighbor, he can only attach the personal property you live at, since the others are owned by the LLC's. I also have umbrella insurance for all my properties in addition to home owners insurance. Recently I have started requiring renters insurance as well.

I have come from putting a lot of money and sweat equity into my homes, to enjoying a more hands off approach. And going forward might invest more in passive deals, like DST's, which allow 1031 exchanges, REITs or private money lending.

Obviously, my long time horizon and the market timing it allowed gave me the high appreciation in the home values. But it took 20 years to realize how lucrative real estate really is. Just look at the stock market ups and downs between 1984 and 2021! I have a 401k, but despite maxing out my contributions it did not do as well as real estate. You are making money 5 ways: cash flow, market appreciation, equity capture, and tax deductions.

In a way I got lucky, for SFH are the most forgiving real estate holdings. 80% are held by small investors. But do your homework and learn as much about the business as possible. It is much easier now since there are so many online resources. You might feel that real estate is very pricy today, but when I started interest rates were in the double digits!

Huey T

Tax issues related to homeownership and income producing properties

ATTACHED AT THE END

Seng M

Experience owning 100+ rental properties in North Carolina and California.

CONTINUE TO SEE SPEAKERS' HANDOUTS from Huey T and Jeanne T

Do you **need** a real estate agent, **how to find one** and **how do the agents get paid?**

1. Why do you need an agent when you buy or sell property?

- For most, this is one of the Largest Financial transactions we make in our lifetime.
 - Largest? Well...maybe not; that might be Marriage??? LOL
- The vocabulary is UNIQUE & exclusive; making it hard to understand

The average person buys a home every 8-10 years. By the time you do it again, you forget!
- There are MANY steps/choices/decisions.
 - All of which may lead to additional **RISK & EXPENSE**
 - Appraisals – Inspections – Escrow - Title Search – Contingencies - Repairs
 - Just to name a few!

Recommended **SEQUENCE** for buyers:

Step 1: Find an agent

Step 2: Secure the Money

Step 3. Then...Start looking at property

2. How to find a good agent?

- Pick a Location you want to buy in
- Ask friends and family for a referral--BUT make sure they are VERY familiar with YOUR chosen location.
- Don't be in a hurry—this can take 6 weeks or 6 MONTHS
 - but if it's right....be ready to move!
- In addition to the referral method, drop by the TOP 2 real estate firms in the area.
 - Ask who are the top two "highest selling agents" and set up an interview with them
 - Use sales dollars/volume of recent homes sold

Why top agents?

They know that market and desirable areas!

Most important thing in Real Estate: Location, Location, Location

- More likely to have "pocket listings"

Definition: (A home not on the market/on Multiple Listing/MLS)
- May have access to "Legacy" homes=homes that stay in the family
- Remember--Desirable homes can SELL before the "For Sale Sign" is up
 - OR before they are found on the Multiple Listing.
- Most agents have a skilled network of people to help move you thru the transaction

i.e., mortgage broker/lenders/plumber/flooring company/termite folks, etc.

- Look for an agent with minimum of 2 years real estate experience.
- SOME desired Soft Skills/Traits: Problem solver, detail oriented, honest, punctual.
- If you are selling: Ask for a marketing plan

3. How does a Real Estate Agent get paid

- Most transaction have a **buyer's agent** and a **seller's agent**
 - Typically, the TOTAL commission is ~6% of the selling price
Example: ~\$60,000 on a \$1 million home
 - Commission is paid by the SELLER and included in selling price
 - **"DO Negotiate"** **** see some Negotiations point below
 - The Sellers' Agent determines the commission the buyer agent receives
 - The commission for the buyer's agent is included in the MLS
 - Commission encourages agents to show your property to their clients that are looking to buy!
 - Brokers review their agents' transactions
 - Both brokers receive a percentage of the agents commission
 - When the sale is final (after "closing")—Escrow Agents will disburse the commissions to both brokers.

****Negotiation Points to consider for the seller:

- a. If doing more than one transaction—i.e. Will the same agent help you sell and buy?
- b. Is this the 3rd or 4th sale/home this agent has handle for you?
- c. Does the sale represent a large or small dollar transaction?
 - i.e. \$3-5 million piece of property = a larger commissions for both agents.
- d. Is your property in a desirable location? Typically, these properties sell faster.
- e. Is your Home ready for sale? In excellent condition i.e., show like a model home?

Helpful Information

Qualifications of "Real Estate Agent" (Realtor) in CA

Completed initial training & passed the state "real estate exam"

Pay a license fee every 4 years.

Ongoing training requirements--~45 hours every 4 years

Members of National Association of Realtors (NAR) & California Association of Realtors + their local board.

Abide by realtors "Code of Ethics"

Both agents are considered Fiduciary

Real Estate agents

- NOT an employee. They are independent contractor and pay their own business expenses
- Typically paid on “buy” or “sell” transactions

Minimum Education: High school diploma or equivalent

Buying and selling process will vary by State and County

- CA has a “regulatory board”
- Confirm the agent’s license is active
- Records of any disciplinary actions

Many new agents start by developing a “farm” and a “book of clients”

Door to door, cold call, Open house for other agents, floor duty, Flyers in an area looking for clients that want to buy or sell and develop lifetime relationships including referrals

Both agents have a “Broker” (refer to as the “Broker of Record”)

- Cover the liability insurance for the transaction; may cost share w/agent
- Reviews all transaction for agents in their office
- Provide offices and cover some administrative needs.
- Agents usually pay a percentage of their commission to the broker
This varies on what is negotiated

Contracts

- “Listing Contract” used to sell
- “Offer” to buy a home—includes “contingencies”

Buyers

- Do your own needs assessment—sort out “Must haves” from “Would like to have”
BUT be Practical and Flexible
- For most of us we start home ownership with a “starter” home and move up as the property value increases; you may have equity—this is market driven and takes typically 5 or more years
- Declare “you have an agent” whenever you meet another agent
- Buying a new home: Builders typically don’t “co-operate” (offer other agents any commission)
 - Note: Builders Real Estate Agents are typically paid less (~1%) and represent the builder/ not the buyer!

Sellers:

Understand the condition of your property.

Ready for inspections? Means less delays because of needed or required repairs

- Receiving various inspection early helps to prevent delays plus gains a buyer confidence (i.e., full property inspection, roof, termite, septic, pool, chimney)

Loans/"Your Mortgage"

Real Estate agents typically have relationships with several lenders OR mortgage brokers.

- Lenders/Brokers usually have more than 1 programs to offer
- Loan Interest rates typically are held firm (locked) for 30 days; may need to extensions
- Appraisal may have an expiration date
- Review pros and cons on the different loan types (fixed or variables) and the rates with your real estate agent

If your agent can't provide lenders, quote 1 lender and 1 mortgage broker on your own.

- Interest will ~\$518K over the lifetime of the loan. Base: \$1 million dollar loan/fixed 30 years @ 3%

Understand the "total cost" of the loan --compare the APR (Annual Percentage Rate) vs. Loan Interest Rate

- Sample of items that can be included in the APR: Points, Interest, Mortgage Insurance, Application Fee, Loan origination Fee, Underwriting Fee, Broker Fee, Document Fee, Processing Fee

Loan Approval Phases:

- Pre-Qualified—You give share your financial data—considered "preliminary"
- Pre-approved—All the financial details are verified and approved by the specific lender
- Full approval—Appraisal completed, Inspections completed and findings resolved & clear title

Misc. Definitions:

Mortgage Broker: Smaller companies that have access to more than one lender i.e. Mortgage Magic.

Institutional Lender: Typically, Banks i.e., JP Morgan Chase, Bank of America, Some Credit Union, Rocket Mortgage/Quicken Loans.

MLS (Multiple Listing): Database established by cooperating real estate brokers to provide data about properties for sale.

Fiduciary means faithful servant, and an agent is a fiduciary of the client. In real estate, a broker or a salesperson can be the agent of a seller or a buyer.

APR (Annual Percentage Rate): The "real" cost of the loan that includes ALL charges expressed as a percentage.

Loan Interest rate: Amount paid for borrowing money over a period of time.

Common expenses a realtor incurs:

Licensing & education
Continuing education
Professional development and conferences
MLS fees
Association fees
Errors and Omissions insurance
Broker costs and desk fees
Self-employment income taxes
Health insurance
Office supplies
Marketing materials
Internet and cell phone service
Technology products and services
Vehicle expenses

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Tax Deductions for Homes

As of 10/8/2021

Itemized deductions appear better than a lot of people realize, especially when standard deductions are so much higher nowadays.

Standard deductions for year 2021 are:

Single $12,550 + 1,700$ for age ≥ 65

HOH $18,800 + 1,700$ for age ≥ 65

MFJ $25,100 + 1,350$ for each age ≥ 65

There are all kinds of floors and caps for each category of itemized deductions. For example:

Medical: $> 7.5\%$ AGI

Taxes: SALT up to 10k

Mortgage Interest for principal bal up to 750k and only for primary and second homes

Charitable deductions: up to 50% or 30% of AGI depending on types

Casualty loss: 100 deductible per loss event and overall 10% AGI limit

Misc. itemized deductions:

- (1) Those subject to the 2% AGI floor are no longer allowed
- (2) For those still allowed, there are still conditions that must be met to be deductible

Tax Deductions for Income Producing RE Investments

Schedule E to capture operating income, expenses including depreciation (Form 4562)

Form 6198 to show “at-risk limitation.”

Form 8582 to calculate “passive loss limitation.”

Form 8995 to calculate Sec 199A deduction

Form 8960 to calculate Net Investment Income Tax (NIIT)

Issues related to personal use of an income producing property (See Pub 527)