THE
Diversified INVESTOR
A Publication of Diversified Real Estate Investor Group
May 2018

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40th Anniversary
1978-2018

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In This Issue >>

Meet The Team >>

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www.diganswerline.org

Diversified Real Estate Investor Group is the leading regional association for Real Estate Investors in the Metropolitan Philadelphia/ Delaware Valley Area. DIG is a National REIA Chapter whose area includes the PA counties of Berks, Bucks, Chester, Delaware, Lehigh, Montgomery, Philadelphia and surrounding counties in South Jersey and Delaware.

We have been serving this area since 1978.

Committee Members

Advertising/Marketplace	Elaine Kochanski
Vendors/Benefits	Marc Sherby
Education/Programs	Don Beck
Facilities/AV/CD Sales	Jon Owens
Membership	Stephanie Pappas
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Director Online Training	Peter Durante
PROA Representative	Michael Mumma
Speakers	Raymond Lemire
Sub-group Coordinator	TK Rodgers
Volunteer Coordinator	Marian Maier

DIG Disclaimer:

Diversified Investor Group recognizes that many opportunities are presented to its members and guests. As an individual, it is your responsibility to investigate, and verify, the validity of these opportunities, and consult with a professional, such as your Attorney or Accountant, before investing, as it is possible to lose money investing in real estate.
DIG neither sponsors nor recommends any offering made to or by its membership or vendors. Diversified Investor Group is not responsible or liable for the performance or offering or the accuracy of any information presented.

Monthly Meeting >>

What Happens at a DIG Meeting?

General Meeting: 6:00 – 9:00 PM

Genius Bar: 6:00 PM
Come to the meeting and step up to the Genius Bar to get your questions answered on the spot. Hosted by two DIG members that can answer your questions or direct you to the person or place for the answers.

Orientation: 6:00 PM
Are you new to DIG and the real estate investing world? Are you looking for some direction on what you need to do to get started? Do you want to learn all about what DIG has to offer and get your investing career on the right track? This is the place for you! Orientation will start at 6:00 pm, and at 20 minute intervals until 7pm. At your orientation, you will receive a brief overview of DIG and all it has to offer, and an opportunity to ask questions from some of DIG's Investors!

Round Groups: 6:00 – 7:00 PM
Real Estate Law, Getting Started, and various other topics, such as Landlording, Foreclosures, Rehabs, Shore Rentals, Note Buying, and many other real estate topics in a Q & A format moderated by a DIG member expert.

This month's Round Groups:

Real Estate Law
Ready, Set, Invest / Getting Started
Ask Me

Open Forum: 7:00 – 7:30 PM

Steals and Deals: 7:00 – 7:30 PM
This is YOUR opportunity as a DIG member to share your deal in front of the room. Fill in the form with the information and it will be announced in front of the group and posted at the meeting for all to copy the information as well as to have it posted to the website after the meeting. Visit the website under STEALS AND DEALS to download the form and submit to executivedirector@digonline.org or fill in the form at the meeting to have your deal presented. **Only DIG members may submit forms.**

Guest Speaker/Panel Discussion: 7:30 – 9 PM
From Rehabbing to New Construction presented by DIG Member, Albert Stroble

Date

Thursday
May 31, 2018

Place

NEW LOCATION
North Hills Country Club
99 Station Avenue
Glenside, PA 19038

Time

6pm Discussion Groups
7pm Open Session
7:30 - 9pm Speaker

Mr. Landlord >>

TENANT LATE RENT WARNING AND THEIR EXCUSES

by Mr. Landlord

Dear Resident:

Your rent is due on the first day of the month. Tm sure you fully understand that we must start eviction proceedings immediately once a payment is late (no matter the reason) and report your late payment to both local and national tenant/credit reporting agencies. We still request however, that you submit your reason for late payment for our records, For your convenience, and to avoid lengthy explanations, you may simply check the appropriate reason below and submit this form with your late payment. Hopefully this form and your payment will be received before you're evicted. Even better, your payments will arrive on time and you will not need this form.

I'M SORRY MY RENT IS LATE BUT. A. The check I've been waiting for did not come in the mail or was late. B. I was in the hospital/jail and I couldn't get to you. C. I missed a week's work because I had to take care of my sick mother son/daughter. D. I had to have some teeth pulled and the dentist won't start work until I give him some money. E. I was in an automobile accident and I won't have any money until my attorney works things out with the other guys insurance, F. I had my billfold stolen when this guy jumped me on the way to the bank/post office/ your office, G. Someone broke into my apartment and took my money. No, I didn't file a police report. Should I? H. I had to have my car fixed so I could get to work, so I could pay you, I. My mother/sister/ uncle hasn't mailed me my money yet. J. I couldn't find your address. I put the wrong address on the envelope, K. I got laid off from my job and I won't get unemployment for a couple weeks, L. I was notable to get a money order and I know you didn't want me to send cash, M. You didn't come by when I had the money, N. My husband / wife / boyfriend / girlfriend / or roommate left and I didn't have all the money, O. They garnished my check and I don't understand it, because the guy told me it would be okay to just pay so much per month and I only missed a couple of payments. P. I told my friend to bring it or send it to you while I was out of town. Q. I haven't received my tax refund yet. R. I got a new job, and I had to work three weeks before I got my first check. S. I didn't pay the rent because my is not fixed. No, I'm sorry I didn't tell you there was a problem before now, I didn't think about it until now. T. My car is broken and I didn't have a ride to your office/the post office. U. I had to help my brother/sister/friend who had a serious problem. V. My grandmother died and I had to go to the funeral. W. I didn't have, or I forgot to put, a stamp on the envelope. X. The check's in the mail. Didn't you get it? Y. I ran out of checks. Z. I'm dead? Please briefly explain if your excuse is not listed above:

WHAT TO, DO IF A RESIDENT DIES

Upon the death of a resident, the police or sheriffs department and the county coroner should be notified immediately. Known relatives of the decedent should also be contacted. If relatives do not arrange for disposition of the body, county officials will make the necessary arrangements. Individuals should not be allowed to take possession of any property of the decedent. Therefore, relatives should be required to identify themselves and present proof that they have been appointed by the court to take the possessions. A receipt for the property should be signed to protect the owner. If the relatives are unable to prove their authority, the County Public Administrator should be contacted and his procedures followed. A court-appointed representative or relative should have a document entitled LETTERS OF ADMINISTRATION of LETTERS TESTAMENTARY.

The estate is liable for any unpaid rent. If the value of the possessions does not exceed a level set by local court practice, certain relatives may be authorized to accept the possessions without a court order. Since this level is interpreted differently by different authorities, an owner would seek legal counsel.

Reprinted from Mr. Landlord newsletter.

Sharpen Your Ax To Close More RE Deals

by Don Beck

Two lumberjacks, Steve and Tom, applied for jobs on the same day and were hired. They were told their pay would be based on how many trees they cut and not by the amount of hours worked each week. Steve always arrived early at the job site, never over extended his break time and often would continue working while eating his lunch. Tom, on the other hand, would show up later than Steve, would take longer breaks and some days, leave early.

At the end of the first week, Steve and Tom went together to pick up their pay checks. Steve was very surprised to discover that Tom had cut the same number of trees that he had cut. He knew he had worked many more hours than Tom and was perplexed that they had both cut the same amount. As they left the office, Steve asked Tom how he had accomplished so much in much less time than he. Tom replied that he had done two things: (1) During his lunch break, he watched other lumberjacks cut wood to learn their techniques. He would ask them questions about why they cut a tree a certain way, and he felt the knowledge he gained in those few extra minutes saved him hours of worthless chopping. (2) Each night he took home the one item that he needed to be successful at this job - his axe - and sharpened it. This way, he knew he would be getting the best possible performance out of the tool he needed each and every day.

We must force ourselves to become less like Steve and more like Tom. Too often, we become so focused on achieving one goal that wee don't see the forest for the trees. We need to step back every so often to critique ourselves to see if there might be an easier and quicker way to accomplish the goal at hand. What Tom did his first week on the job is what we need to do - gain knowledge about the task that needs to be done by talking and asking questions of people more knowledgeable than ourselves. He learned what not to do from people who had already made the mistakes that he would have invariably made if he had not asked. He also sharpened his axe every day the way we need to sharpen our brains, Just as the axe was the tool Tom needed to be successful, our brain is our axe in negotiating real estate deals. No two real estate deals will ever be the same, so by "sharpening our axe" by reading real estate books, attending seminars and asking questions of people more knowledgeable than ourselves, we will find solutions to problems we saw no hope in solving.

Remember, we all started with the same amount of real estate knowledge - none! Ultimately, each one of us decides how far we want to reach to gain the knowledge. It has been my experience that the more knowledge I gain by constantly "sharpening my axe", the more deals I close. Go out there with a "sharp axe" and chop down a forest.

DIG Rehab Tour June 9

DIG's Summer rehab tour is on for Saturday, June 9, visiting projects in Camden, NE Philly and Bucks County. If you want a real understanding of rehabbing, this is the event to attend. Visit homes in various stages of repair and learn what other investors are doing, or not doing, to reap the big rewards. Mark your calendar and make your reservation NOW. Class size is limited to the first 30 to register. Don't be disappointed. This event always sells out. Visit digonline.org to register. You will be notified of the starting location the week before.

Dear Dr. DIG: >>

Q. I am considering buying a cottage being sold by a widow, 84, who wants a 10% cash down payment and will carry back a 90% "interest only" mortgage at 9 interest for 10 years. Is an interest-only mortgage good or bad for me?"

A. I think interest-only mortgages are good for both realty buyers and sellers, The buyers get to deduct their entire mortgage interest payments on their income tax returns, sellers can keep their entire principal working to earn interest dollars.

The only possible disadvantage for buyers is there is no principal pay down on the mortgage balance. But most buyers don't mind this, because in the early years of a mortgage most of the payments go toward interest and very little is allocated to principal reduction.

Dear Dr. DIG:

Q. If my Section 8 tenant is behind in rent do I give a pay or quit notice for just the tenant amount of rent that is due?

A. Yes, you would give a notice only for the amount of rent due and owing that the tenant pays. Normally Section 8 would not be delinquent in their payments, Q. Can I accept rent from Section 8 or the Housing Authority after I serve a notice to pay rent or quit on my tenant?

A. Yes. However, do not accept any rent from the tenant after the notice expires or that will invalidate your notice and any unlawful detainer you file.

Dear Dr. DiG:

Q. I own a house that is rented to tenants, Without my approval, they hired a plumber to install a new water heater. They had not notified me there was any problem with the old one. The plumber sent me a bill for $479. I wrote back to say that I did not authorize the work. The plumber sent me another bill, including a printed form which says if I don't pay he can records mechanics' lien and foreclose. Is this true? What should I do?

A. Except in emergencies, a landlord is not responsible for payment to workers hired by an unauthorized tenant. You should inform the plumber that the tenant ordered the water heater so he should pay. If necessary, retain an attorney to educate the plumber of the consequences of an improper mechanics' lien recording

I had a similar situation. My tenant had a friend who was a plumber install a new furnace without my knowledge. The plumber recorded a mechanics' lien against my rental house. When I informed him it is slander of title to record an improper mechanics' lien, he quickly removed it.

Dear Dr. DIG:

Q. Can I avoid the gains tax forever?

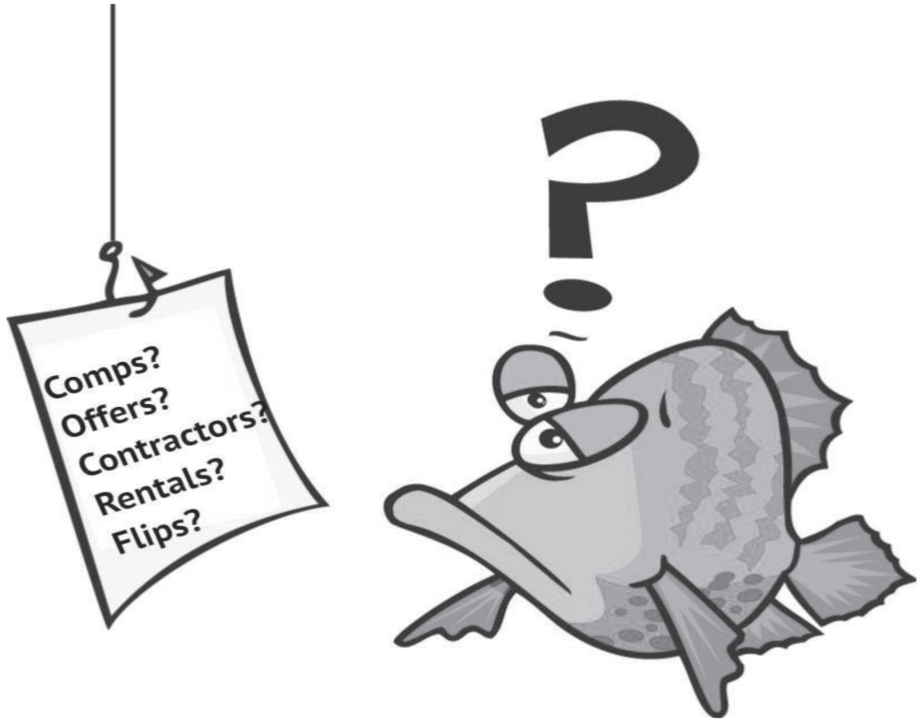
A. Yes. If you always utilize the qualifying tax deferred exchange to dispose of one property and acquire another you will continue to postpone the recognition of gain, the last property acquired will pass to your heirs at a stepped up basis equal to the current fair market value and the heirs may sell the property for cash at the new basis without recognition of gain. The tax deferred exchange transaction and the provisions of Section 1031 of the Internal Revenue Code and related regulations allow a taxpayer to preserve 100% of the growth and appreciation in property and to transfer all of the profit into qualifying replacement property without the payment of gains tax. In order for an exchange to be 100% tax deferred, the fair market value of the replacement property or properties must be equal to or greater than the fair market value of the relinquished property and the taxpayer must use all of his or her equity in the acquisition of the replacement property. This is sometimes called the "equal or greater requirement".

If the exchange transaction meets the equal or greater requirement and if the exchange is properly structured and meets all of the provisions of the code and the regulations, then the taxpayer will postpone the recognition of all of the gain (profit) until some future date, until such date when the replacement property acquired in the exchange is disposed of in a taxable transaction. If the subsequent transaction is also a qualifying exchange meeting the equal or greater requirement, then the recognition of gain from the original exchange is again postponed and the recognition of the gain realized by ownership of the second property is also postponed. The total gain postponed in the second exchange is the sum of the gain realized in the first exchange plus the gain realized by the ownership of the second property.

Upon the death of the taxpayer, the last property acquired in the exchange reverts to the taxpayer's estate. The basis of the property in the estate is stepped up to the fair market value of the property at the time of death. If the heirs sell the property at the current fair market value (the stepped up basis) there is no gain to the heirs and no tax liability at the time of sale.

Still Floundering Trying to Catch a Profitable Deal?

Time to stop flopping around and take the plunge! **The 4-4-2 Rehab Coaching Program** will show you step-by-step how to buy, design, rehab, wholesale, rent or sell a profitable deal.



What Is the 4-4-2 Rehab Coaching Program?

Simply the BEST HANDS-ON and AFFORDABLE way to move ahead in your real estate business and **gain confidence in your investing decisions**.

- **4 one-on-one coaching sessions**
- **4 weeks to find your deal**
- **2 coaches to guide you, on- site, through every phase of your rehab project**

***No other Coaching Program** …*

… goes on-site with you to estimate repairs, evaluate, negotiate and close the deal.
***…** works side-by-side with you in the trenches during every phase of your rehab.*
***…** shares their list of local resources, vendors and forms*

***No other Coach** …*

… has 15 years of knowledge and experience in the Philadelphia & surrounding local market.
***…** has experience as a marketer, rehabber, landlord, wholesaler, designer, realtor and "Certified Business Coach"*

Kathy Gilmore

This is your moment!

Contact Kathy today and gain the confidence you need to

"reel in the big one!"

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Upcoming Events >>

2018

May 31	**FROM REHABBING TO NEW CONSTRUCTION**

June 9	**DIG U REHAB TOUR**

June 28	**20 WAYS TO FIND DEALS IN A COMPETITIVE MARKET**

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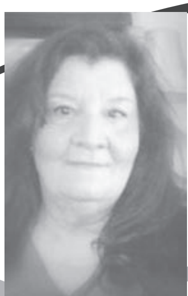

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Monthly Meetings (Subgroups are for MEMBERS only)

Bucks & Montgomery County

Zoto's BuxMont Breakfast Subgroup
Meets the 2nd Thursday at 8:30am in Line Lexington.
Contact Dina Yannich, rentals@yournewhomeagent.com

Rehabbers Subgroup
Meets the 3rd Wednesday at 9:00am in Montgomeryville.
Contact Don Rotanz don@buxmonthomebuyers.com

Vacation Rental Subgroup
Meets the 3rd Wednesday in odd numbered months at 6:30pm in Horsham.
Contact Susan/Larry Cerrito SMCerrito@comcast.net

Lower Bucks County Subgroup
Meets 4th Tuesday of the month. 2224 Lincoln Highway, Trevose, PA 19053 at 6:30 PM.
RSVP Garrymiller1@yahoo.com

Central Bucks Subgroup
Meets the 1st Monday at 6:30pm in Warminster.
Contact Mardi Harrison mardi@funding4flippers.com

Creative Real Estate Investors Group
Meets the 1st Wednesday at 9:00am in Dublin.
Contact Don Rotanz don@buxmonthomebuyers.com

Eastern Montco Sub Group
3rd Thurs of the month except for July and August at 630pm. BERNIE'S Restuarant and Pub, 58 S York Road, Hatboro PA 19040. Robin Laufer, Hatboro443@yahoo.com

Delaware County

Delaware County Subgroup
Meets the 1st Wednesday at 6:30pm in Havertown.
Contact Daniel Harvey dmhinvest@gmail.com No July/August

Chester & Lehigh County

Chester County Subgroup
CLOSED Temporarily.
Looking for a new leader

Chester/Montgomery Subgroup
Meets the 2nd Wednesday at 7:00pm in Oaks.
Contact Steve Babiak sbabiak2183@gmail.com
No January, July and August meetings

Lehigh Valley Subgroup
This group is CLOSED and looking for a new leader
Interested? Email membership@digonline.org

Philadelphia

Philadelphia Subgroup
Meets the 3rd Tuesday at 7:00pm in Philadelphia.
Contact Joe Thomas jestprise@aol.com

Phil-Mont Sub Group
2nd Monday of the Month 6:30 PM to 8:30 PM.
Andy's Diner & Pub, 505 Ridge Pike, Conshohocken, PA 19428. RSVP atjomes42@gmail.com

Philadelphia/Lower Bucks Commercial Subgroup
Meets the 1st Tuesday at 6:30pm in Philadelphia.
Contact Joe Scorese jscorese@firstrust.com
Closed July and August

Phila Breakfast Subgroup
Meets every Friday at 8:00 am in Philadelphia.
Contact Joe Scorese jscorese@firsttrust.com

Philly Riverwards Subgroup with HAPCO
Meets the 3rd Wednesday at 6:30pm in Philadelphia.
Contact Joe Scorese jscorese@firstrust.com

South Philly Rehabber's Subgroup
Meets the 4th Monday at 6:30 pm in Philadelphia.
Contact Stephen Mazza or Joe Scorese
welovephillyrealestate@gmail.com jscorese@firstrust.com

University City Subgroup
Meets the 3rd Monday at 6:30-8:30pm in Philadelphia.
Contact Pex Arellano or Joe Scorese parellano@cbpref.com
jscorese@firstrust.com

New Jersey

Burlington County

Burlington County Subgroup
Meets the 2nd Thursday at 6:30 pm in Maple Shade Township.
Contact Joe Scorese jscorese@firstrust.com

Members, for more information and exact locations please contact the leader or go to digonline.org

NEW GROUPS WELCOME

Want a great way to network? Join a subgroup near you! This is a great way to meet new people and talk about issues that pertain to your area of investing. No group in your area? Why not start one! If you are interested in starting a new group send an email to subgroups@digonline.org.

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74 Steel Avenue	Coatesville	$ 70,000	3BR/1.5BA twin; www.cheapfixerupper.com	215-767-7197
6817 Rodney Street	West Oak Lane	$ 65,000	3BR/1BA ; some rehab needed; rent or flip	484-324-8680
2916 W. Clementine Street	Strawberry Mansion	$ 15,000	3BR/1BA shell; needs complete renovation	484-324-8680
10 unit apartment building	Lansdale	$980,000	Great cash flow; rents below market	267-221-2441
84 E. Columbus Avenue	Pittston, PA	$ 35,000	Duplex; Two 1 BR; Rent range $500 - $550 each	717-587-0440
800 East 9th Street	Ocean City, NJ	$599,000	4BR/3BA; beach block, ocean views; 2 car garage	610-733-7690
Portfolio sale	Philadelphia	$250,000	4 Section 8 turn key properties	215-718-7141
15 Ardmore Avenue	Lansdowne	$125,000	4BR/1.5BA, wholesale deal; motivated seller	267-650-3450
637 Old Elm Street	Conshohocken	$165,000	Wholesale flip; $320K ARV; financing available	267-374-7726
2622 N. Chadwick Street	Philadelphia	$ 25,000	3BR/1BA total gut; N. Philly; Attorney rep. seller	610-659-5926
342 Windermere	Drexel Hill	$133,000	4BR/2.5BA; Finish rehab; $265K ARV	610-389-0115
809 Cloverly	Jenkintown	$175,000	REO; needs rehab; sold "as is"	484-614-1747
3050 Gaul Street	Port Richmond	$ 80,000	3BR/1BA row; needs structural repair & full rehab	609-923-1743
50 Linden Avenue	Lansdowne	$ 65,000	3BR/2BA needs some rehab; $179K-199K ARV	267-875-3641
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738 N. Hazel Street	Allentown	$ 94,000	12 garages w/ roll up steel doors; $95/mo rent each	215-350-3632
5149 N. 16th Street	Philadelphia	$ 60,000	3BR/1.5BA; garage; basement w/ entrance	267-825-0978
119/121 E. Anna Street	Whitesboro, NJ	$ 50,000	2 adjacent lots; no house; Cape May County	267-825-0978
106 Main Street	Darby	$ 35,000	5BR/2BA; Full rehab @$35K; ARV $125K	610-716-1330
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Orlando, FL Timeshare	1BR/$199; 2BR/$299	Mystic Dunes Resort & Golf; Sunday checkin; 1/22-4/9; 5 nights	215-534-1610 Frank
Sarasota, FL	$ 695-795/wk.	Relax on #1 beach in US; 2BR+; see it at www.goSiesta.com	215-344-1100 Jeremy
Bonita Springs, FL	Call for rates	2BR/2BA condo, beach, pool, views, WIFI	614-975-6428 Jen
Ocean City, NJ	$1000-2000/wk.	New 4BR/2BA condo w/ elevator, www.homeaway.com #227402	215-237-1977 Keith
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Ocean City, NJ	$995-3595/wk.	www.nicerentalhomes.com; 4BR/3BA beachblock; sleeps 10; 9th St	610-473-9981 Susan
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Lake Wallenpaupak, Poconos	$ 625/wk. - $350/we.	3BR/1.5BA, sleeps 8, 20 min. from Tanglewood Ski Resort	267-242-2712 Olga
Ocean City, NJ	$ 800-$1750/wk.	3BR, 2nd fl., beach blk., weeks avail August & September	215-364-1970 Lynn
Wildwood, NJ	$1400-1950/wk.	4BR/3BA condo w/pool, 1.5 blks. to beach (call for others)	267-254-3507 Bill
N. Wildwood, NJ	$1800-4495/wk.	www.nicerentalhomes.com; 4BR/3BA fabulous ocean front; pool	610-473-9981 Susan
Ocean City, NJ	$ 550-850/wk.	1BR luxury condo, 1 blk from beach & boards (call for other 2-4 BR)	215-672-7150 John
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Key West, FL	$2400-3900//wk.	3BR/2BA, private pool, sleeps 8	215-266-2575 Ron
Ocean Club, Atlantic City, NJ	$22K/season	2BR plus den, 2.1 BA, front view of ocean, 18th floor	215-237-3147 Morris
Wildwood Crest, NJ	Call for rates	Condo w/pool, sleeps up to 6, on the beach (call for others)	215-431-4689 Walt

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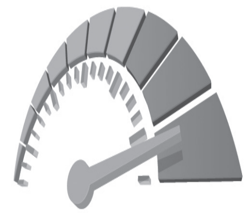

Why Millennials Are Moving the Needle on the Real Estate Market

Knowledge@wharton, Feb 02, 2018

Homeownership is on the rise again in the United States, and millennials make up the largest segment of buying. The climbing rate is a boost to both the real estate and retail sectors because new homeowners buy plenty of products, from furniture to lawnmowers, to fill their abodes. While the uptick in homeownership is nowhere near pre-recession levels, it marks a significant shift from a decade ago, when an unstable job market kept most consumers from even contemplating the purchase of a home. But what has changed? The Knowledge@Wharton show, which airs on Wharton Business Radio on SiriusXM channel 111, invited Benjamin Keys, Wharton professor of real estate and fellow at the National Bureau of Economic Research; Richard K. Green, public policy professor and director of the University of Southern California's Lusk Center for Real Estate, and Eric Sussman, adjunct professor of accounting and real estate at the University of California Los Angeles, to answer that question.

Following are five key points from their conversation.

Millennial House Hunters Are Coming of Age

Economic recovery is the most direct explanation for why more millennials are buying homes. That generation was graduating from college and entering the workforce just as the Great Recession hit. They found themselves in the same predicament as Americans across the age spectrum who were unemployed, under-employed, working part time or filling temporary jobs. "It's really a function of the overall economy improving dramatically," Keys said. "You had this really long overhang of very high unemployment rates or under-employment rates, so they just didn't have the job stability that would lead to the point where you could save up for a down payment and feel confident and secure that you would want to stay in one place for a long time." Green agreed, adding that marriage is the No. 1 predictor of whether people buy homes. The marriage rate among millennials has risen slightly as they have gotten older and more financially stable. Green also thinks fintech has made a difference.

"The way traditional lenders underwrote meant that there were a lot of well-qualified people who weren't able to get access to mortgage markets," he said. "If you look at some of the fintech companies using data science to underwrite people, they are finding people who are very good risks to lend to that they're starting to bring into the market." Sussman put it more simply, saying millennials "are reaching an age where they can finally afford to buy a home. Rates have remained reasonably low, so affordability is possible as well." "If you look at some of the fintech companies using data science to underwrite people, they are finding people who are very good risks to lend to

(Continued on next page)

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Real Estate investing can be stressful at times, whether you're an agent, buyer or seller so enjoy these fun facts, figures and interesting anecdotes to keep it light.

Why Millennials Are Moving the Needle on the Real Estate Market cont.

that they're starting to bring into the market."– Richard K. Green

Buying Becomes More Attractive as Rents Rise

As the saying goes in real estate, it's all about location. The affordability of a home depends or where it is. >From San Diego to Seattle on the West Coast, and from Washington, D.C., to Boston on the East Coast, "affordability is bad," said Green. But homes are relatively more reasonable in many other parts of the country. He cited Dallas and Houston, where job markets are strong and "nice" homes can be found for about $200,000. "Between the Appalachians on the one side and the Rockies on the other, affordability is very good," Green said. "But you get to the coasts, and it's still a real problem." Rising rents, especially along the coasts, "is really shifting the trade-off between owning versus renting," Keys said. Rents are reaching astronomical heights in highly desirable cities because that's where millennials want to be, he said. Young people flock to urban areas for work, and the demand for housing increases as a result. In the San Francisco area, for example, six times more jobs were created than housing units in the last decade.

"That may be the most severe case of under-building, but that's true in a lot of the coastal cities," Keys said. "That's partly because of geographic reasons, partly because of local regulatory reasons, zoning reasons, not-in-my-backyard NIMBYism preventing denser building. But you're really seeing this sharp rise in rents over the last few years. After watching your rent go up and up and up, and potentially bouncing around to look for more affordable rental units, at some point you realize it actually makes sense to buy."

But Sussman points out that money is still a barrier to home buying. Conventional loans require 20% down, which many younger consumers struggle with. "A lot of these folks in this generation just don't have the wherewithal to purchase, and a lot of them are carrying a tremendous amount of student debt," he said. "I want to make sure we're clear about one thing: There's definitely been an increase in the homeownership rate, but it's still by historical standards very low. It's likely to remain low as we look forward in the next decade or two." "After watching your rent go up and up and up, and potentially bouncing around to look for more affordable rental units, at some point you realize it actually makes sense to buy."–Benjamin Keys

It All Comes Back to Supply and Demand

Supply and demand is driving up the prices for both renting and purchasing homes. That's because homebuilding nearly ground to a halt during the recession and has been slow to recover for a number of reasons. Green said conservative estimates put the shortage of housing units in the United States at three million, and 600,000 homes a year would need to be built just to replace older homes that are no longer functional. For builders, there is plenty of money to be made in both the subsidized and high-end housing markets. But the middle-income market is problematic, Green said. Fixed costs ranging from land acquisition to government fees make it harder to turn a profit on a single-family home priced for the $60,000 to $80,000 salary bracket.

"One of the reasons we're continuing to see house prices increase — and this happens on the rental side as well — is we're just not building enough," Green said. "It's like anything else. If you build less of something or make less of something relative to demand for it, the value is going to go up. The first-time market is stuck because the first-time home buyers don't have anything to move up to because the new stuff is so darn expensive." Sussman said he doesn't expect homebuilding to get cheaper anytime soon. "On the supply side, I don't see any real relief there."

Baby boomers are complicating matters, Keys said. That generation has a homeownership rate of 80%, and they are staying in place as they age. The lack of mobility translates into less turnover in housing, especially in the more affordable suburbs. "It will make it that much harder for those chains of events that need to occur to open up those starter homes for new buyers," he said. But Sussman countered that boomers also account for the biggest growth in renters. These older Americans are renting out their homes or passing them along to the next generations while they move into apartments.

"So, you've got both actors moving simultaneously," he said. "People aren't selling, they are staying in their homes longer, they are living longer. And when they finally move out, before they may move into assisted living or something, they are moving to apartments. It's a fascinating trend."

What We've Learned from the Great Recession

The professors agree that the lasting lesson

(Continued on next page)

Why Millennials Are Moving the Needle on the Real Estate Market cont.

from the Great Recession was about the danger of the subprime market, which had a cascading, devastating effect on the economy. "Those kinds of extraordinarily generous lending terms and opportunities aren't there anymore," Keys said. "The biggest change, in many ways, has been toward carefully underwriting the ability to repay. We've seen a tightening of credit scores that really hasn't softened much, and we've seen a much tighter set of standards for income documentation." Green said the "sloppy" underwriting that fueled the subprime market has taught the lending industry to be smarter and more careful. He thinks technology will improve the process even more.

"I am optimistic going forward that we will use algorithmic underwriting in order to figure out who is a worthy borrower," he said. "I think this is particularly important because millennials — and the next generation as well — have an aversion to credit that's unlike previous generations. So, we have large numbers of people called credit invisibles who don't have a deep enough credit file to get a good FICO score or any FICO score at all." Green said technology will enable lenders to look at factors other than credit scores, such as regularity of payments, and incorporate that information into the underwriting process.

"It's possible we'll have a whole new platform that will allow less traditional kinds of borrowers to get approved for loans," he said. "They will be well-underwritten. There will be evidence that they are the sorts of people who will be likely to repay their mortgages. I'm somewhat optimistic that technology will solve this sometime in the next five to 10 years." "There's definitely been an increase in the homeownership rate, but it's still by historical standards very low. It's likely to remain low as we look forward in the next decade or two."–Eric Sussman. Sussman disagreed that technology will play a significant role. "I've always said, if you want to look for bubbles, watch the debt market. Hopefully, the technology will work and they will make better decisions, but I would watch lenders very carefully because that's where bubbles form — on the debt side."

Is This the New Normal?

The According to the U.S. Census Bureau, homeownership rose to 63.9% in the third quarter of 2017, the highest rate in three years. But that's still not close to levels seen in the last 20 years.

Green circled back to marriage, which he said goes hand-in-hand with homeownership. Whether the overall lower level of homeownership is the new normal or a temporary trend depends on the marrying patterns of subsequent generations.

"I think there's reason to believe the marriage rate is going to stay depressed ... for the simple reason that women are better educated than men are now, and women aren't interested in marrying men who aren't as economically productive as they are," he said. "If the marriage rate stays depressed, then I think the homeownership rate will stay depressed. But if this is wrong and we see millennials just wait longer to get married, then I think we'll see more homeownership."

Sussman thinks less homeownership is the new normal. He doesn't see that changing, regardless of demographic shifts. "We still have supply issues. No matter what the spend might be, I don't see the ability to increase supply rapidly," he said, noting infrastructure problems that are prevalent throughout the country.

For Keys, the answer isn't yet clear. He said even if credit standards are loosened a bit from where they are now, it won't have a big impact on the debt market. And there is not enough long-term data on broader shifts in marriage, childbirth or student debt.

"We need to keep an eye on whether this is simply delayed or something more transformative," he said.

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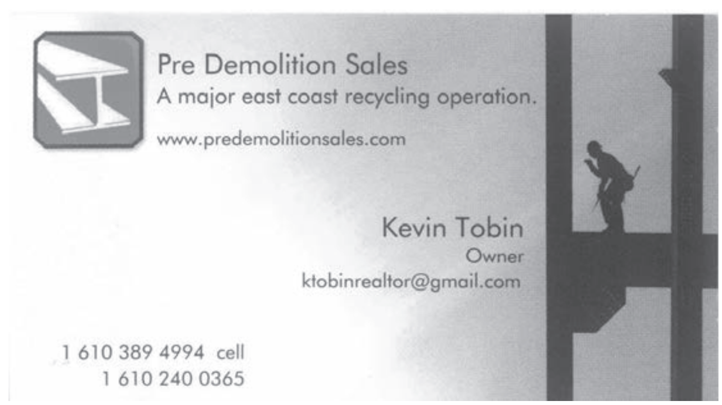

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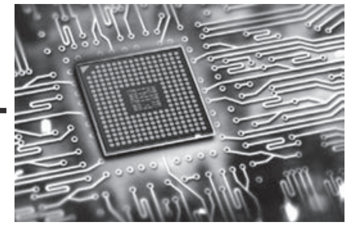
Anyone who has never attended a general membership meeting is cordially invited to come to their first meeting as a guest of DIG. After this guest meeting, we invite you to join for a Full Year Member (12 months). Any return visits to a meeting by a Non-Member require a $25.00 guest fee to be paid.

Technology >>



Zillow is Entering the Home-Flipping Business

Published: Apr 13, 2018 2:49 a.m. ET
LAURAKUSISTO
WOLFEWINKLER

Real-estate listings company Zillow Group is getting into the business of buying and flipping homes, a risky and untested business model for the online service that could disrupt the traditional brokerage business.

Zillow **ZG, +0.00%** said Thursday it will purchase homes from consumers in Las Vegas and Phoenix, renovate them and aim to flip them within 90 days. The company initially plans to hold 300 to 1,000 homes by the end of the year, which amounts to an investment in the $75 million to $250 million range.

Zillow executives said they aren't looking to get rid of real-estate agents, who generate revenue for its listings business by purchasing ads and customer leads. Instead, they say they have handpicked agents to work on the transactions in its "Zillow Instant Offers" business.

Nonetheless, agents are much less essential to these quick-flip transactions, which are powered by technology rather than face-to-face interactions. This is the latest in a string of new technologies and businesses that are threatening to disrupt the multibillion-dollar residential brokerage business and the livelihood of tens of thousands of Realtors.

Credit >>

Is Credit Really Important To A Rental Transaction?

As a landlord, I often get calls from applicants asking me how I look at credit. Many of them discuss their bankruptcies, divorces, or foreclosures; everyone seems to have a legitimate and heartbreaking story. This begs the question "Are there any great renters out there with low credit scores?" The answer is absolutely yes! Some of my longest-term tenants have come out of foreclosures when the housing market dropped. On the flip side, there are plenty of renters that bring

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along a healthy dose of heartache and evictions. As a private investigator that looks at rental files and people every day, I see the entire spectrum of credit, criminal, and eviction records. I have found the easy files are the approved and declined, but what about those gray areas in the middle? For example, your applicant has 700 credit score, no criminal, good job, and great rental history, that's a no brainer. On the flip side, they are a 480, never paid a soul, have several evictions and an open warrants...once again, a no brainer.

Now, what about an applicant who has a 550 Fico, no criminal history or evictions, great rental history and a steady job? If you were to look, the credit score reflects a bankruptcy due to a divorce 4 years ago. See where it becomes a little gray?

To help me make the right decision, I review their application and complete the process in the following order:

First, I run the credit score through my set credit criteria. Every property I have has its own unique criteria due to the part of town, quality of unit, rent, etc. For this example I will use a middle of the road criteria of 650 Approved, 550-649 Conditional, and Below 549 Declined. After this filter, I now move forward with an applicant that is Approved or Conditional; anyone under the 550 is declined. Since our applicant has a 550 Fico, they are conditional and I move to step two.

Second, and extremely important, is the criminal background check. The reality is, I am looking for responsible behavior. Responsible behavior communicates to me that I'll get my rent and they will take care of my asset. If I see a recent drug conviction, I could probably assume there would be drugs in my unit. My tenants' visitors and friends would most likely have drugs on them also, so do I want this type of individual around my asset? If I find shoplifting, what might I expect? Assault? You get the picture. In my units, a conditional applicant cannot have a blemish of criminal history or they are declined.

Third, an eviction record disqualifies all my applicants if it was within the last 2 years. Also, any open judgements to landlords allow me to know they have not paid their rent in the past. Why would I expect them to suddenly change and be able pay me in the future?

For the applicants that are considered "conditional" or "approved," I need to see evidence of a stable job or proof they can pay the rent. Verifying income is difficult nowadays, so a simple paycheck stub is the best way to confirm income. Make sure you check the "Year to Date" totals to ensure they match the answers provided by the applicant in relation to your application questions of how long have they been employed there and how much they are compensated.

Finally, I send out an adverse action letter to those who have not qualified which gives them a chance to explain or clarify anything. What if something was reported incorrectly or some simple paperwork could clear up confusion? An adverse action letter is a simple way to protect the interests of all of the involved parties.

So how important is credit in my evaluation? As you can see, credit does play a role in my evaluation as one step in the process, but it really only weeds out the worst of the worst at the beginning. When it comes to identifying a great renter, no criminal history, no evictions and a good job is really where I place the most importance.

I understand every landlord, state, property, and laws have an effect on our process of onboarding a tenant. There are a million ways to run a property and qualify applicants; the process I shared with you is a good framework to start. No one knows your property or situation better than you.

Being a landlord or property investor can be the best job in the world if done correctly. Credit, Criminal, and Eviction searches are vital to your success. With more and more people deciding to rent instead of buy, being a well-trained landlord is a great opportunity to find success.

About the Author
David Pickron has been a licensed private investigator for over 20 years, specializing in tenant screening for real estate investment owners and property management companies. His company, Rent Perfect, an Investigative Screening Company, helps clients onboard tenants from the initial background check to leasing and payment collection. You can learn more by visiting www.rentperfect.com or calling 1-877-922-2547.