THE AZREIA ADVANTAGE

ARIZONA REAL ESTATE INVESTORS ASSOCIATION NEWSLETTER

"AZ Real as it Gets"

JULY 2024

Contents

ARIZONA REAL ESTATE INVESTORS ASSOCIATION

4527 N 16th St #105
Phoenix, AZ 85016

480.990.7092
www.azreia.org

July Highlights: AZREIA's Online Meeting and 3-Year Podcast Anniversary

by Michael Del Prete

As we move into the summer heat, I want to share some important updates and exciting news with you. In July, AZREIA will be taking a brief pause from our in-person meetings. However, don't worry—we're not disappearing! Our office will still be open and available to take calls to assist our members. We will also host our online monthly meeting on July 8th, so make sure to preregister to stay connected and informed.

> **ONLINE**
>
> ***All Chapters Monthly Meeting***
>
> **3 Year AZREIA Show Podcast Anniversary**
> **Monday, July 8 – 5:45 pm**
>
> - Market Update for Phoenix & Tucson
> - The AZREIA Show-Down Awards
> - Haves & Wants
> - Live Podcast Recording!!!

July Online Monthly Meeting

Date: July 8th • **Time:** 5:45 PM

This meeting is particularly special as we celebrate the third anniversary of the AZREIA Show podcast, hosted by Marcus Maloney and Michael Delprete. Over the years, the podcast has become a cornerstone for our community, offering invaluable insights and inspiration. We are proud to have reached 170 episodes, covering all areas of real estate investing with guests ranging from investors around the country to our very own business associates, subgroup leaders, and members. You can find the AZREIA Show on all podcast platforms and the AZREIA YouTube page.

To commemorate this milestone, we will announce the winners of our Best Member Spotlight Show and Best of Podcast categories.

Nominees

Best Member Spotlight Show:

- Dez Loessberg
- Cecil Gomes

Best of Podcast:

- Paul and Sherr Balyoz
- Tucson's Patrick Allen

We encourage all members to vote for their favorites. Head to our private Facebook group to cast your vote and access the links to the episodes. Your participation helps us recognize and celebrate the incredible contributions of our members.

Agenda Highlights:

- Phoenix Market Update
- Tucson Market Update
- Haves and Wants: Share your resources and deals.
- Interview with Best of Winners

As always, our Market Updates will provide you with the latest trends, data, and forecasts to help you make informed investment decisions. Our Haves and Wants segment are the perfect opportunity to network and discover new deals, so come prepared to share and connect.

Remember, after this brief pause, we will be back in full swing starting August 1st, resuming our in-person meetings and

Continued on page 16

Crafting Your Vision into Reality: Custom Homes, Cabinetry, Additions & Renovations

by Sina Sabeti

Sina Sabeti
Niksi Custom Homes
Phone: (480) 769-5013
sales@niksi.com
13951 N Scottsdale Rd
Suite 211
Scottsdale AZ 85254
www.niksi.com

Welcome to Niksi, where innovation meets craftsmanship to create spaces that truly inspire. From conceptualizing architectural marvels to constructing custom homes, and breathing life into interiors through renovations, Niksi is your partner in elevating your living experience.

Custom Home Builds: Your home is an embodiment of your identity, and our team of experts at Niksi ensures it resonates with your individuality. Collaborating closely with you, we craft custom homes that encapsulate your vision. Each detail is meticulously crafted to reflect your style.

Home Additions: As your life evolves, your space should adapt. Niksi specializes in seamless home additions that not only expand your square footage but also harmonize with your existing layout. Our thoughtful approach ensures your extended space feels like an integral part of your home.

Major Renovations: Our driving force is the pursuit of excellence. Rooted in innovation and a commitment to client satisfaction, we strive to push the boundaries of design and construction. Every project is a testament to our dedication to crafting spaces that stand the test of time.

As we celebrate the artistry of transformation, we extend our gratitude to our clients, partners, and the community for their support. Your trust fuels our aspiration to reach new heights of design and construction.

Mise En Place and Your Investment Property: The Perfect Recipe for Success

by Andrew Bang

Andrew Bang
Boomerang Capital Partners

2152 S. Vineyard #105
Mesa, AZ 85210

Office: 480.779.9779
www. boomerangcapital.com

by Rob Jafek, Boomerang Capital

There's a lot we can learn by looking at how people in other professions handle the same types of problems we run into in our world. And since it's BBQ season (ok - truly, what season isn't BBQ season?) we've been looking at chefs and how they approach their work. In a lot of ways, their business is like ours: time-bound, a lot of balls in the air at the same time, some element of repeatability, but also significant elements of each practice are different, people who aren't involved think it's easy but there's much more to it. One of our favorite tricks we've picked up from chefs is the concept of *mise en place*.

Mise en place is a French culinary term that translates to "putting in place" or "everything in its place." It refers to the practice of preparing and organizing ingredients and equipment before beginning the cooking process. This method ensures that everything needed for a recipe is ready and within reach, promoting efficiency and precision in the kitchen.

How do chefs operate within this concept? First, they read the recipe to understand it from beginning to end before they even start. Second, it's having all the ingredients measured, prepared, and portioned - meaning ready to go. It also encompasses the workspace: utensils and cooking elements ready to go and having a clean workspace so you can find everything you need to get the job done.

Those are the elements that most people are familiar with or understand very quickly, but there are a few other guiding principles that are considered part of *mise en place* that are particularly helpful in construction projects.

Stay organized as you go. "If you have time to lean, you have time to clean" is the clean-as-you-go adage used in the restaurant industry, and it makes a very good point. Job site organization will ensure less loss due to in-attention, theft, and mismanagement of resources.

Stay in motion. Watching a great chef work is like watching a dancer practicing a new dance. While you can see the elements of flair and beauty as they develop, you also see the sweat and things being figured out as they go. Leonard Bernstein, the great American composer, said "To achieve great things, two things are needed; a plan, and not quite enough time." *Mise en place* anticipates this reality through its ethos and focus on economy of motion and effort.

It doesn't matter whether you are cooking or working on your construction project. By using the principles of *mise en place*, results will come faster with more accuracy and repeatable results.

- **Understand the beginning to the end**: Have a plan for not only how you're going to acquire your investment property and what you're going to do to rehab it, but also what you're going to do to sell it.

- **Have all the materials and subs planned out before you make the commitment**: Don't wait until you've laid the subfloor before trying to find a good plumber. And the time to look for lumber is not after you've done the demo. Get materials measured for, planned for, and ordered prior to the time you'll need them for building.

- **Stay organized as you go**: This relates to bookkeeping and budgeting as well as on-site materials. The fastest way to lose money on an investment project is to not know where it went in the first place.

- **Stay in motion because time is money**: When it comes to investment properties, time is money. Every day that your worksite sits idle, it is costing you money. When you have a good plan in place, you're well prepared with materials and labor, and you're organized, you can be sure that your time is being well spent.

Using the principles of *mise en place* can help you serve an outstanding quiche, or help you deliver a beautiful, rehabbed home. You'll have increased trust of your clients, co-workers, and others. With fewer safety mishaps. And all with the benefit of less stress for you!

Understanding "Like for Like" in a 1031 Exchange

by Michael Velasco

Michael Velasco
Exchangeable, LLC.
7135 E. Camelback Rd.
Ste 230
Scottsdale, AZ 85251-1286
Email: Michael@
1031 exchangeable.com
Phone: 1 (877) 385-0228
https://1031exchangeable.com

It allows them to defer capital gains taxes on the sale of an investment property by reinvesting the proceeds into a similar property. The term "like for like," also known as "like-kind," is a crucial aspect of this exchange. In this article, we will delve into what "like for like" means, its significance in a 1031 exchange, and some practical considerations for investors.

Defining "Like for Like"

In the context of a 1031 exchange, "like for like" refers to the requirement that the properties involved must be of the same nature or character, even if they differ in grade or quality. This does not mean that the properties have to be identical, but they must be used for similar purposes. Generally, any real property held for productive use in a trade, business, or investment qualifies as like-kind to other real property held for the same purposes.

Key Characteristics of Like-Kind Properties

1. **Real Property Only**: The like-kind requirement applies strictly to real property. Personal property, such as machinery or equipment, no longer qualifies for 1031 exchanges after changes made by the Tax Cuts and Jobs Act of 2017.

2. **Investment or Business Use**: Both the relinquished property (the one being sold) and the replacement property (the one being acquired) must be held for investment or productive use in a trade or business. Properties held primarily for personal use, such as a primary residence, do not qualify.

3. **Broad Definition**: The IRS interprets like-kind very broadly. For example, an investor can exchange a single-family rental property for a commercial building, raw land for an apartment complex, or an industrial property for a retail strip mall. As long as both properties are used for investment or business purposes, they are considered like-kind.

Conclusion

The "like for like" requirement in a 1031 exchange is a flexible yet crucial criterion that allows real estate investors to defer capital gains taxes and reinvest in a wide variety of properties. By understanding and adhering to the rules and timelines of a 1031 exchange, investors can optimize their portfolios and maximize their investment potential while deferring significant tax liabilities. However, given the complexity of these transactions, professional advice from tax advisors and real estate experts is highly recommended to navigate the process successfully.

20-20-60 Business Model

by Jack Carlson

Jack Carlson
Wealth Strategist
Unbridled Wealth

Call or Text:
(425) 785-6454

jcarlson@unbridled wealth.com
https://unbridledwealth.com/

Unbridled Wealth is part of a family of 33 Unbridled companies. And every single company uses what's called the 20-20-60 business model. Here's how it works:

1. The First 20% of Profits are Given to UnbridledACTS.

This is our on-profit whose mission is to "love people to life" locally and globally. Our founder was inspired by a verse in the biblical book of Malachi which talks about bringing both your tithe and offering to the storehouse and God will open up the floodgates of heaven. We typically give $1-2 million away every year across all of our companies and love the chance to generously participate in bringing flourishing to hurting people.

2. The Second 20% of Profits are Kept as Retained Earnings.

Specifically, this cash funds specially designed permanent life insurance policies for our owners and key employees. This is the strategy that we help real estate investors utilize, only applied to a business setting.

We've used the cash value of these policies to:

- Buy 10 historic, commercial buildings in CO
- Invest in new businesses
- Provide liquidity for our buy-sell agreements
- Weather profit loss during a global pandemic

This concept was inspired by Joseph in the book of Genesis, he told Pharaoh to take a fifth of the harvest during the seven years of abundance so that they would be able to endure the seven years of famine.

3. The Remaining 60% is Distributed to our Owners and Shareholders.

This model has allowed us to create a margin and our own pool of capital that we can leverage for opportunities as they show up. If you're an investor or business owner and curious about how to implement a business banking system using permanent life insurance, please reach out to us at the contact info below.

jcarlson@unbridledwealth.com

omcgraw@unbridledwealth.com

jpowers@unbridledwealth.com

Loss of Rent Coverage: Your Financial Lifesaver in Stormy Times!

by Derek Kartchner

Derek Kartchner
Gila Insurance
Phone: (877) 784-6787
Derek@GilaInsurance.com
www.GilaInsurance.com

Attention all real estate investors! Ever had one of those days when everything seems to go wrong? Imagine this: you're enjoying a peaceful morning when you get a call from your tenant. However, instead of the usual chit-chat about mail mix-ups, noisy neighbors, or the running toilet, they inform you that a burst pipe has turned your beloved rental property into an unintentional water park. Panic sets in. When this happens, there are always a couple of inevitable questions. How do I get this fixed? Who do I call? Is my insurance current? Who's going to cover the rent while the property undergoes an HGTV-worthy renovation? Fear not, because Loss of Rent Coverage is here to rescue your wallet!

Loss of Rent Coverage is like having a financial superhero on standby. When disaster strikes - be it a fire, a storm, or that aforementioned burst pipe - this handy insurance coverage steps in to compensate you for the rental income you lose while your property is uninhabitable. It's your safety net for those unexpected, unwanted "vacations" your rental might take.

The key to this coverage is that it responds to a "covered peril" only. Many people confuse Loss of Rent coverage as insurance on the tenant not paying the rent or a prolonged period of vacancy. That is not the intention of this coverage. Loss of Rent is usually coupled with a repair to the home caused by a covered loss. For example: a tree falls through a roof, a pipe breaks, a fire occurs, and the resulting fix requires time and space…meaning your tenant has to move out. In some cases, it requires that the lease be broken. For others, it's just a month or two, before the tenants move back. Either way, you are not going to be paid the monthly rent. That's where the Loss of Rent coverage enters the scene. Without Loss of Rent Coverage, you'd be staring down weeks of lost rental income, all while footing the repair bill. But with it? You're covered! Your insurer pays you the lost rent, so you can focus on getting your property back in shape without fretting about cash flow.

It won't pay more than what you have been receiving in rent income. Often you will have to provide a lease to prove what the rent was, but it keeps your real estate business moving.

"But wait," you might ask, "Isn't that what emergency funds are for?" Sure, if you love living on the edge. But why dip into your rainy-day stash when your insurance can handle the financial fallout? Remember insurance is intended to ensure that you don't suffer catastrophic financial losses. Loss of Rent Coverage ensures your rental income remains steady, even when life's little surprises try to throw you off balance.

So, next time you're reviewing your insurance policies, give a nod to Loss of Rent Coverage. It's likely included and should at least equal your annual rental income (it can take a while for your home to get fixed). It's the unsung hero of the real estate world, ensuring your finances stay afloat even when your property doesn't. Because let's face it—life happens, and when it does, it's nice to know you've got backup.

Happy investing!

Dwell**boldly**

BOLD ARCHITECTURE for **INSPIRED** DEVELOPERS

SINGLE FAMILY
"SPECIAL SPECS"

SMALL MULTI-FAMILY
"BEST IN CLASS"

602-370-3502

www.Dwell**boldly**.com

Investors Beware!

Investors, when dealing with out-of-state absentee owners, please make sure to verify that they are the actual owners of record with whom you are working and speaking. Otherwise, you may risk dealing with someone other than the property owner.

When investing in properties where there have been multiple Quit Claim Deeds and no title insurance issued, please be aware that the commitment for title insurance will require obtaining an Affidavit of Uninsured Deed. Each Affidavit of Uninsured Deed must be executed by the Grantor of the Quit Claim Deed and also notarized.

Please reach out to our team for more information.

Thank you for your partnership with us!

Your Dedicated Title/Escrow Team,
Janet Moe
Maria Brandenburg

Insights on Foreclosure

by Michel J. McGirr

Michael J. McGirr, Esq.
Attorney at Law

Phocus Law

Phone: (602) 457-2191

Mick@phocuscompanies.com

phocuslaw.biz

Can you think of a more unnerving word than "Foreclosure?" To some, it might mean the unfortunate end of their desperate struggle to keep their property. To another, it might be the foreboding process needed to recapture some portion of a loan gone bad. Either way, for real estate investors, it's an important tool and a valuable opportunity for investment.

Foreclosure: What Is It, And What Does It Mean For Me?

Foreclosure, or the process whereby the lender reclaims property to recoup money from a defaulted loan, typically begins with a few months of missed financing payments or some other default under the loan terms. Usually, the lender will send notices by mail or by phone reminding the borrower of payments needed or to let them know they are at risk of default. The lender generally won't claim the property immediately, as it is a lot easier (and cheaper!) for both parties if the borrower just catches up on their payments when they can. Reassessment of loan payments is common, as the lender and borrower negotiate a solution where the lender gets paid, and the borrower extends their ownership of the property.

However, if the borrower refuses to pay or continues to miss payments, the lender can then record the Notice of Default and Election to Sell. This also needs to be mailed to the borrower, any guarantor, and any other parties to the loan. After the requisite time passes, and if the borrower fails to redeem the property, the property is sold at a public auction and ownership transfers to the new owner. Most importantly, the lender receives the sale proceeds, up to the full unpaid amount of the loan. If, at auction, there are no bidders, through a creditor's bid the lender can gain possession of the property directly, in which case the borrower's debt is reduced by the amount of the creditor's bid.

Borrowers do have some rights here, including that, until the day of the auction, they are able to pay the missed payments, as well as any fees incurred, and keep the property.

As an investor, a foreclosed property might be a good option for finding a deal. There are a few ways to purchase one:

1. **Real Estate Auction:** The fastest, cheapest way to ownership is to outbid everyone at an auction. However, it requires payment in cash, and you purchase the property as-is, meaning you might run into some unknown repair costs, additional encumbrances to the title, or other surprises.

2. **From the Bank:** You can also buy a bank-recovered property, which does take more time, costs more money, and can be less of a bargain. However, this way, you have more opportunity to inspect the home before choosing to buy, title policies are available, and there is, generally, more opportunity for you to feel secure in the purchase.

3. **Pre-foreclosure:** The first stage of foreclosure. Here, you can view the property and purchase it at a lower price, saving you money and keeping the lender from completing the foreclosure process. It can get complicated, however, and so navigate this process carefully.

If you are looking for counsel on navigating the foreclosure process as a lender or making sure you purchase a property safely out of foreclosure, feel free to reach out to Michael J. "Mick" McGirr, Esq. at Phocus Law for help. You can reach his team via email at MMAdmin@PhocusCompanies.com to get that process started.

STATE 48 ROOFING

CALL TODAY FOR A COURTESY ROOF INSPECTION!

- MAINTENANCE
- REPAIRS
- REPLACEMENTS

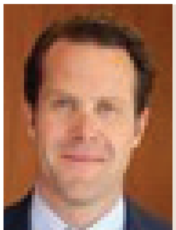
480-268-4509

@STATE48ROOFING

STATE48ROOFING.COM

- TILE ROOFS
- SHINGLE ROOFS
- FLATROOFS

The Backdoor Roth Strategy



by
Mat
Sorenson

Mat Sorenson, CEO
Executive Director

Directed IRA
3033 N Central Ave., Ste 400
Phoenix, AZ 85012

Phone: (602) 609-3659
Fax: (602)-899-9641
www.directedira.com

by Mat Sorensen, Directed IRA

Do you make too much money to contribute to a Roth IRA? If so, the "backdoor" Roth IRA strategy is one of the best loopholes in the tax code you could utilize today. Many high-income earners believe they can't contribute to a Roth IRA because they make too much money. This is false, and here's why:

While direct contributions to the Roth IRA (through the "front door") are not permitted if you make too much, according to the IRS MAGI limits, you can still take advantage of the Backdoor Roth IRA.

What is a Backdoor Roth IRA?

A Backdoor Roth IRA consists of 3 steps facilitated by your IRA's custodian, such as Directed IRA.
• It combines opening/funding a Traditional IRA (or other pre-tax retirement account).
• Then completing a Roth conversion.
• The result is a Backdoor Roth IRA, and it is treated the same as any other Roth IRA.

What is the income phase-out?

•**For single filers:** The phase-out range begins at $153,000 and ends at $161,000.
•**For married couples filing jointly:** The phase-out range begins at $228,000 and ends at $240,000.

These phase-out limits determine whether you can make a full contribution, a partial contribution, or no contribution at all to a Roth IRA or Roth 401(k), based on your modified adjusted gross income (MAGI).

What is a Roth conversion?

A Roth conversion is the transfer of retirement funds and/or illiquid assets from a pre-tax retirement account to a Roth IRA. **The key is the IRS does not limit who can complete Roth conversions based on income.** Many types of pre-tax accounts can be converted to a Roth IRA. This includes but is not limited to the following common account types: Traditional IRAs/Rollover IRAs, SEP IRAs, 401(k)s, Solo 401(k)s, and more! If you do not exceed the MAGI limits set by the IRS, you can contribute directly to the Roth IRA which is not necessary for the backdoor strategy. This is because you can contribute to the Roth IRA through the "front door" directly. Keep this option in mind though, especially if your income increases year over year. **You may need to leverage this option in the near future.**

Why would someone want a Roth IRA instead of a Traditional IRA/other pre-tax account?

The Roth IRA is the optimal type of retirement account that you can have as part of your retirement strategy. Roth IRAs are funded by post-tax contributions, meaning you cannot deduct them in the year in which you make the contribution. Since the account is funded with taxed dollars, the **earnings you accrue on those dollars also grow tax-free** for you to withdraw in retirement (or sooner).

The Roth IRA is an account used by the wealthiest people in the United States (i.e., Peter Thiel, Mitt Romney, and many others), but this option isn't just available for the wealthiest. That is why we want to share this knowledge with as many people as we can. Everyone should be able to enjoy having tax-free income in retirement.

How can I implement the Backdoor Roth IRA strategy?

Regardless of your income level, we can assist you with transitioning your retirement assets to a Roth IRA. It's as easy as 1-2-3. **Implement the Backdoor Roth IRA with these 3 steps:**
1. Open a Traditional IRA and a Roth IRA with Directed IRA.
2. Make your annual contribution to the Traditional IRA.
3. Submit a Roth Conversion request and let us at Directed IRA handle the rest!

That's it. These three steps allow you to leverage the powerful Roth IRA and all its benefits regardless of how much you make. Does this sound too good to be true? Because it gets even better. With a Self-Directed Roth IRA, you have the power to invest in What You Know. A Self-Directed Roth IRA allows you to invest in alternative assets with your tax-free Roth IRA. We can custody a wide array of assets, including but not limited to these popular asset classes:

• Real Estate (rentals/fix and flips)
• Multi-family properties
• Private Lending/Note Investing
• Precious Metals
• LLCs/Private Placements (PPMs)/Syndications

If you don't understand the stock market, why are you trying to beat it? Invest in a tangible and even physical asset class that helps you build a legacy AND a diverse portfolio.

How do I know if I can even contribute to a pre-tax retirement account?

If you want to contribute to a Traditional IRA, you must have "earned income" in the U.S. You can contribute up to $7,000 annually for 2024, or 100% of your earned income, whichever is less. The deductibility of this contribution varies based on your income level and whether or not you contribute to a 401(k) plan with your employer. Although you may contribute to a pre-tax retirement account, these amounts cannot always be deducted. If you make a non-deductible contribution, track it on your Form 8606. If you are reading this after 2024, the IRS has announced future contribution limits and changes. You can find them here: IRA Contribution Limits.

Pro-rata Rule on Roth Conversions

If you previously made deductible contributions to a Traditional IRA or other pre-tax account, you should be aware of the pro-rata rule for Roth conversions.

It ensures IRA owners are converting deductible contributions first, then converting the non-deductible contributions thereafter. Deductible contributions that are converted are subject to taxes. Non-deductible contributions are not.

Top 3 Questions we get regarding the Backdoor Roth IRA strategy:

Q. Is there a dollar limit to a Roth conversion? No. You can convert as much as you'd like within any tax year, regardless of your income. Be aware that you may be triggering a taxable event, but this is intentional and part of the strategy. This allows you to pay taxes now to avoid taxes later.

Q. Can I still do a Roth conversion if I contribute to a 401(k)? Yes.

Q. Do I have to convert my entire account at once? No. You can convert a small amount each year and even forego it for any year. This method is commonly known as "chunking." Chunking is a strategy if you have a large balance you are trying to convert to a Roth IRA. It allows you to spread out the potential taxes due throughout a few years. Non-deductible IRA contributions are a typical place to start with your Roth conversions. When you report a non-deductible contribution to an IRA on your 1040, you already don't benefit from the advantages of a deduction, so why not formally make these funds post-tax in a Roth IRA?

Tax Forms

Here are a few tax forms to be familiar with when you are planning to do a Roth conversion or when implementing the Backdoor Roth IRA strategy.

Form 1099-R: This form reports funds or assets distributed from your pre-tax retirement account. Your custodian files this on your behalf.

5498: This form reports funds or assets received in your Roth IRA. Your custodian also files this on your behalf.

Form 8606: This is where you report your non-deductible contributions made to pre-tax retirement accounts. You are responsible for filing this form.

Form 1040: This is where you report your IRA distributions and the taxable amount (the taxable amount is the distribution amount on your 1099-R minus the total non-deductible contributions from your 8606. This amount could range from $0 up to the amount on your 1099-R). You are responsible for filing this form. Converting non-deductible contributions does not cause a taxable event. Converting earnings within your pre-tax account will cause a taxable event.

Spousal IRAs: Spousal IRAs also qualify for this strategy. Even if your spouse has no earned income, if you are **married and filing jointly** then your spouse can also contribute to a pre-tax retirement account and convert it to a Roth IRA!

How do I get my Backdoor Roth IRA started?

Contact the team at Directed IRA for a complimentary, getting-started call today to see if a Self-Directed Roth IRA is an option for you. We walk you through each step, assist in identifying what accounts you can utilize immediately, and begin your self-directed Roth IRA journey with you in 15 minutes or less.

Our committed team can be contacted at 602.899.9396, and we are ready to assist you in achieving a financially stable future.

If you need a new Roth IRA, be sure to enter this discount code **AZREIA150** to get $150 off your first year's annual fee!

Mat Sorensen

Mat has been at the forefront of the self-directed IRA industry since 2006. He is the CEO of Directed IRA & Directed Trust Company which handles all types of self-directed retirement accounts, which are typically invested in real estate, private company/private equity, IRA/LLCs, notes, precious metals, and cryptocurrency. Mat is also a partner at KKOS Lawyers. He is published regularly on retirement, tax, and business topics, and is a VIP Contributor at Entrepreneur.com. Mat is the best-selling author of The Self-Directed IRA Handbook, the most widely used book in the self-directed IRA industry.

Increasing Popularity of Non-QM Loans

by Andrew Augustyniak

Andrew Augustyniak
Area Sales Manager
M: 480.735.4095
D: 480.691.3791
Andrew@Neighborhoodloans.com
25 S. Arizona Pl., Ste 510
Chandler, AZ 85225

In recent years, the landscape of real estate financing has evolved significantly, particularly in the domain of Non-Qualified Mortgage (Non-QM) loans. As the lender for the Arizona Real Estate Investment Association, I am pleased to provide an update on the growing prevalence of Non-QM loans, including Debt Service Coverage Ratio (DSCR) loans, bank statement loans, and asset-based loans, along with the key factors driving this trend.

1. **DSCR Loans:** These loans are particularly appealing to real estate investors. DSCR loans qualify borrowers based on the cash flow generated by the property rather than their personal income. This method allows investors with multiple properties or those with significant rental income to access financing without the stringent income verification requirements typical of traditional loans.

2. **Bank Statement Loans:** These loans cater to self-employed individuals or those with irregular income streams. Instead of relying on traditional income documentation, bank statement loans assess a borrower's income based on their bank deposits over a period, typically 12 to 24 months. This flexibility helps borrowers who might not meet conventional income verification standards but have sufficient cash flow to service a mortgage.

3. **Asset-Based Loans:** Asset-based loans consider a borrower's net worth, leveraging their assets, such as real estate, investments, or other valuable holdings, to qualify for a loan. This type of loan is beneficial for high-net-worth individuals who may have substantial assets but inconsistent income.

Reasons for the Increase in Non-QM Loans

1. **Changing Borrower Demographics:** The rise in self-employment and gig economy workers has resulted in a significant portion of the population that does not fit traditional income documentation criteria. Non-QM loans provide these borrowers with the flexibility they need to secure financing.

2. **Real Estate Investment Opportunities:** The real estate market, in lower-cost cities and states, continues to be a lucrative investment avenue. DSCR loans, in particular, are tailored for investors looking to expand their portfolios by capitalizing on the income-generating potential of rental properties.

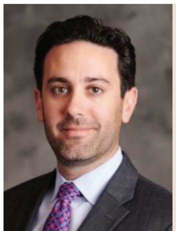
3 **Regulatory Changes and Market Adaptations:** Post-2008 financial regulations have made traditional mortgage qualifications stricter. Non-QM loans have emerged as an alternative, filling the gap left by these stringent regulations and providing financing solutions that cater to a broader range of borrowers.

4. **Increased Lender Confidence:** The robust performance of the housing market and innovative risk assessment models have increased lender confidence in non-QM loans. These loans often carry higher interest rates and fees, making them profitable for lenders while still offering viable options for borrowers.

5. **Technological Advancements:** Advances in financial technology have streamlined the process of assessing alternative forms of income and assets, making Non-QM loans more accessible and easier to process. Automated systems can now efficiently evaluate bank statements, rental income, and assets, reducing the time and effort required for loan approval.

The surge in Non-QM loans, including DSCR, bank statements, and asset-based loans, reflects the dynamic changes in the borrower landscape and the adaptability of the lending industry. These loans are bridging the gap for many borrowers who fall outside the traditional mortgage criteria, thus fueling continued growth in the real estate sector. As a lender, staying informed about these trends and adapting to the evolving market demands is crucial for supporting our borrowers and sustaining our growth in the real estate market.

Court of Appeals Prohibits Suing of Guarantors in Eviction Actions



by Mark Zinman

Mark B. Zinman, Attorney
Zona Law Group P.C.
7701 E. Indian School Rd.
Suite J
Scottsdale, AZ 85251
Phone: (480) 949-1400
Fax: (480)-946-1211
www.zona.law

In the past, we have written several articles about the difference between a guarantor and a co-signor. The summary is that a co-signor is someone who is financially liable and signs the lease, and they have a right to live at the property, though many do not. On the other hand, a guarantor is also financially liable but signs a separate contract and does not sign the lease, and they don't have a right to live there.

We have always suggested clients use co-signors and not guarantors. We believe that since guarantors don't have a right to live in the residence, they potentially can't be named in the eviction because an eviction is a lawsuit for possession.

Recently, the Arizona Court of Appeals clarified the status of guarantors. A landlord (represented by a different law firm) filed an eviction action and named the tenant and the guarantors, who signed the separate guarantee. On appeal, the guarantors argued that the judgment against them was not valid because they didn't sign the lease.

The Court of Appeals agreed with the guarantors. The court held that because the guarantors were not a party to the lease, and eviction is an action for possession, the guarantors could not be named in the lawsuit, and it was wrong for the plaintiff to name them. The court did note that the guarantors were still liable for the amounts owed under the guarantee, but the landlord would have to file a whole separate lawsuit to collect. Since this is a published opinion, this is now the new standard of law in the state of Arizona.

As a result of this new standard, we suggest that if residents do not financially qualify on their own, and landlords want additional parties to ensure payment, they have such additional parties sign the lease and not sign a separate guarantee. This is solely because it may make it easier to collect against the guarantors. Guarantees are still legal and enforceable and may still be the best option in certain instances, but landlords should know their limitations.

An eviction action is often the fastest and cheapest lawsuit that a property owner can file to obtain a judgment against their tenant. If you want to collect against people, the easiest way to do so is to get a judgment against them in an eviction action. If a landlord uses a guarantee, they will not be able to obtain a money judgment against them.

Please note that guarantees are still valid, and landlords can still use them. The landlord will simply have to file a regular civil lawsuit against the guarantor to be able to collect. One thing to consider in favor of using a guarantor is that if a person is listed on a lease, they are counted towards occupancy. Therefore, there will be cases where it only makes sense to use a guarantee. For example, in student housing, a guarantor cannot sign the lease because leases are done by the bed. The guarantors (usually parents) must sign a separate guarantor agreement. The same is often true in one- or two-bedroom apartments. We are not suggesting that all guarantees are bad, merely landlords should be aware of their limitations as the guarantors cannot be sued in eviction actions.

PadSplit

May '24 Phoenix Market Update:

Previous Month Stats

Total Unit Count:
587 (83 properties)

Occupancy:
79%

Weekly Rates:
$215/week ($935/mo)

Days for First Booking in New PadSplit:
3

Days to 80/100% Occupancy
21.1/32.6

Current Month Stats

Total Unit Count:
659 (95 properties)

Occupancy:
81%

Weekly Rates:
$211/week ($914/mo)

Days for First Booking in New PadSplit:
5.5

Days to 80/100% Occupancy
28.3/42.4

Check www.azreia.org for the current schedule.

JULY MEETINGS		
AZREIA – Phoenix *Monday, July 8*	**AZREIA – Tucson** *Monday, July 8*	**Phoenix Real Estate Club** *Monday, July 8*
JULY SUBGROUPS – Subgroups take a break in July! See you again in August!		
UPDATED INFORMATION & REGISTRATION ONLINE AT WWW.AZREIA.ORG/CALENDAR		

Q: I own a small apartment community with 20 doors. It is built in the shape of a square with a pool in the middle. We have had problems at night with people in the pool disturbing residents trying to sleep. We don't know who is causing the problem. Is there any problem with putting up a camera and having it face the pool?

A: No, there is no problem with that, though we do suggest that you put up a sign and notify people that they may be recorded. Given that they are not in their unit, and it's not a private area, they have no legal expectation of privacy and thus can be recorded by camera. This is also helpful so that if it's not a resident, you can identify the people and take legal action against them for trespassing. If it is your tenants, then it's easier to identify them and send them appropriate legal notice. In either case, the better evidence you have (and video is great evidence) the better your case is in court.

– Mark B. Zinman, Attorney, Zona Law Group, P.C.

Information contained in this article is for informational purposes only and should not be considered legal advice. You should always contact an attorney for legal advice and not rely on information published here.

July Highlights: AZREIA's Online Meeting and 3-Year Podcast Anniversary *Continued from page 1*

will be back in full swing starting August 1st, resuming our in-person meetings and continuing to provide the exceptional support, education, and networking opportunities that AZREIA is known for. Save the date for our **August Monthly Meeting:** August 12th at Venue 8600 in Scottsdale and August 13th in Tucson. We are excited to announce that these meetings will feature a presentation by Isabelle Guarino of RAL - Residential Assisted Living. Isabelle will discuss the pressing issue of millions of aging baby boomers who will need care, highlighting that there are not enough beds for all of them. Residential assisted living is presented as a viable solution to this growing problem.

We look forward to seeing you online on July 8th and celebrating the achievements of our podcast and its contributors. Thank you for being a part of AZREIA, and for your continued dedication to your real estate investing journey.

Happy Investing,
Michael Del Prete
AZREIA Executive Director

Invest in Real Estate **with Your IRA**

VANTAGE®
SELF-DIRECTED RETIREMENT PLANS

Popular Investment Strategies

REAL ESTATE
(residential, commercial, or multi-family)

PROMISSORY NOTES
(promissory notes on your terms)

PRIVATE COMPANIES
(REITs, Startups, private stock)

New Account?

Use promo code: ***AZREIA*** to receive **50% off** your new account fee

START A CONVERSATION TODAY! >

Already a Vantage Client?

Refer a friend and get a $100 credit if they open an account.

ARIZONA REAL ESTATE INVESTORS ASSOCIATION · AZREIA ·

Proud AZREIA Business Associate Since 2005

AZREIA ADVANTAGE: MONTHLY MEETINGS

AZREIA Phoenix Meeting	AZREIA Tucson Meeting	Phoenix Real Estate Club
Monday, July 8	Monday, July 8	Monday, July 8
Online 5:45 pm	Online 5:45 pm	Online 5:45 pm
Via YouTube Live	Via YouTube Live	Via YouTube Live

Each year our July meetings are virtual. It's hot and people have left the state to get out of the heat! That doesn't mean real estate investing stops, it doesn't. And that means there is information we need to convey and a market we need to discuss. Read on to see what great content you will be receiving, how to participate in the networking activities, and how to register for the meeting.

The AZREIA Show-Down Awards!

During our July Monthly Meeting, we will be celebrating our 3-Year Anniversary of The AZREIA Show podcast! In order to celebrate, we will be giving away two awards for Best Podcast Interview and Best Member Spotlight Interview. Vote for who YOU think should win the awards during the LIVE RECORDING of this podcast during our monthly meeting. See the nominees below and the links to their podcasts and then go to the AZREIA Facebook Group to CAST YOUR VOTE!!!

Best Podcast Interview Nominations:

Sherri & Paul Balyoz – Episode 8 The Power of Investing in State & Out of State

Patrick Allen – Episode 101 Power of Living Live by Design Through Real Estate

Best Member Spotlight Interview Nominations:

Cecil Gomes – Episode 97 Cancer Scientist Turned Successful Flipper in 2 Years

Dez Loessberg – Episode 120 Exploring the World of Real Estate and Investing

Networking – *Haves & Wants!*

This is a staple of AZREIA Tucson and the Phoenix Real Estate Club meetings and we will provide it virtually this month. Imagine being able to share with hundreds of other investors just like you what your wants are and what you have for them. Face it, we all have wants and needs as investors. Maybe you are looking for a specific type of property; maybe you need partners or training or a referral for a good plumber. Maybe you have something other investors need like a property to wholesale or money to lend or even appliances to sell. We will send all submitted haves and wants to the AZREIA database for all to see!

Phoenix & Tucson Market Update

The complete Market Update and Market News will be delivered just as it is every month. You will see all the trends and current events information. You will hear an analysis of what it all means to you as a real estate investor. It will be exactly the same as if you are in person. This is must-know information for the serious real estate investor, and we are making sure you get it in a timely fashion.

Tucson Monthly Meeting

Please participate in the July 8th online meeting. It includes Tucson Haves & Wants and many of the Market Update and Market News charts and analyses applicable to AZREIA Tucson members presented by Patrick Allen.

Phoenix Real Estate Club

Please participate in the July 8th online meeting. It includes Haves & Wants and the Market Update.

THIS MEETING WILL BEGIN PROMPTLY AT 5:45 PM ON MONDAY, JULY 8TH.

To register: Please go to azreia.org/calendar to register for this event. Once you've registered, the Zoom link will be sent to your email inbox. Simply click this link when it is time for the meeting to join.

AZREIA MONTHLY MEETINGS AT A GLANCE

July 8th All Chapters Meeting

- **Phoenix & Tucson Main Meeting - Online** Everyone will need to register to receive the link to join the meeting! It includes Haves & Wants and many of the Market Update and Market News charts and analysis are applicable to all AZREIA area members.
- **Market Update & Market News** The complete Market Update and Market News will be delivered just as it is every month. You will see all the trends and current events information. Patrick Allen and Michael Del Prete will provide the absolute latest information on market data essential to your real estate investing business.
- **Networking – Haves & Wants** This is a staple of AZREIA Tucson and the Phoenix Real Estate Club and we will provide it virtually this month. This is your opportunity to share with hundreds of other investors just like you what your wants are and what you have for them. All submissions will be sent to the AZREIA database.
- **The AZREIA Show-Down Awards** During our meeting we will be celebrating our 3-Year Anniversary of The AZREIA Show podcast! In order to celebrate, we will be giving away two awards for Best Podcast Interview and Best Member Spotlight Interview. Vote for who YOU think should win the awards during the LIVE RECORDING of this podcast during our monthly meeting. See the nominees, the links to their podcasts, and where to vote in the AZREIA Facebook Group