THE AZREIA ADVANTAGE

ARIZONA REAL ESTATE INVESTORS ASSOCIATION NEWSLETTER

"AZ Real as it Gets"

APRIL 2023

Contents

ARIZONA REAL ESTATE INVESTORS ASSOCIATION

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What a Possible HUD Announcement in 2023 Could Mean for Private Landlords

by David Pickron, Rent Perfect

Have you ever been punished for something you didn't do or that was completely out of your control? My guess is you have and that the thought that flashed through your mind at the time went something like this - "I didn't do anything wrong!" Frustration sets in as you try and figure out what you could have done differently, reaching the conclusion that sometimes these things are simply out of your control. The situation below might be one of those times.

For property owners, although it hasn't happened yet, this scenario may soon play out based on some recent actions being considered by HUD.

On April 2, 2022, Marcia Fudges, Secretary of the US Department of Housing and Urban Development, issued a memorandum to her staff with the subject line: Eliminating Barriers That May Unnecessarily Prevent Individuals with Criminal Histories from Participating in HUD Programs. In short, HUD is trying to determine what criminal criteria HUD programs should use, if any when qualifying an applicant. At that time, she called for a six-month study period that ended on October 14, 2022. History shows, when HUD makes a policy for government housing, they slowly try to implement it in the private sector. And even though it hasn't happened yet, it may be coming. This is where the "unfair" results kick in. Think about those jurisdictions that have a source of income as a protected class, where it is illegal to discriminate against people who use Section 8 vouchers as income. As a private landlord, whether you want to or not, you are required to take Section 8 housing if your rents are in line with the standard rental rate of local housing providers. If this happens, the government just took your private housing and turned it into Government Housing, and you must follow all of HUD's rules and recommendations or else.

For example, I have an income-producing rental home in Tucson, Arizona. The market value of rent is $1,100 per month and a Section 8 voucher is willing to pay $1,100. Section 8 rationalizes that your financial risk is covered by the government so there is no need for me as a private landlord to financially qualify them any further. The most I can require is three times the applicant's portion of the rent which is usually zero, to begin with. As part of my normal tenant onboarding process, I then run the applicant through a background check to see if there is any criminal history and subsequently find this individual has several felony drug convictions. Right now, I can decline this individual based on a "no felony drug

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Phoenix Monthly Meeting

Monday, April 10 – 5:15 pm

- *Market Update and Trends*
- *Unlocking New Revenue Streams Expert Panel*
- *Networking and Trade Show*

Tucson Monthly Meeting

Tuesday, April 11 – 5:45 pm

- *Market Update & Market News*
- *Unlocking New Revenue Streams Expert Panel*
- *Haves and Wants*

EXECUTIVE DIRECTOR'S MESSAGE

Unlock Your Real Estate Potential

Dear AZREIA Members,

As the Executive Director of AZREIA, I want to emphasize the importance of being a member of our organization. In these uncertain times, it is more crucial than ever to have access to regular market data, analysis, and opinions that can inform your investing decisions. At AZREIA, we provide our members with up-to-date information that is critical to their investing businesses, helping them stay ahead of the curve and make informed decisions.

Additionally, as we all know, the real estate market is facing increasing prices and competition. That's why we offer national and local discounts to our members so that they can stay competitive in the market. Our fast and accurate communication of important information also ensures that our members have the information they need when they need it, allowing them to act quickly and decisively.

Furthermore, government affairs on both the local and national levels are heightened, making it essential to stay informed and connected legislatively. Also, as an AZREIA member, you have access to a vast network of fellow real estate investors, with whom you can collaborate with to solve problems quickly and creatively. Our subgroups and special networking meetings allow members to connect with like-minded individuals and share ideas, helping to build valuable relationships that can lead to profitable business opportunities.

We are also committed to focusing on local information and activity that is important to our members' businesses. By keeping our members informed about what is happening in their local area, we help them to make better investment decisions and stay ahead of the competition.

Finally, during the month of April, AZREIA will be launching a membership drive. We want to encourage all of our members to spread the word and help us add new members to our network. By joining AZREIA, new members will gain access to our networking events and resources, which will bring more deals and money to the table for everyone. It also allows us to continue providing our members with the best resources available. During these ups and downs in the market, these are the things we want to prioritize! Every cent of membership goes back into providing more for our membership, and we have some big plans in the works!

For our existing members, through the Membership Learning Hub on our website, we have created a video that explains how members can get $20 for every new annual subscription that signs up with AZREIA using their referral link. We will also be offering prizes for members who participate in our membership drive, so stay tuned for more information!

Being an AZREIA member provides access to vital information, resources, and networking opportunities to help you succeed in your real estate investment ventures. We hope you will continue to support our organization and spread the word about the benefits of membership.

Smarter Investing,
Michael Del Prete
AZREIA Executive Director

Five Common Misconceptions About Self-Directed IRAs

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by J.P. Dahdah

Your investment dollars matter. Whether you are adding money to a retirement account, buying a new rental property, or diversifying your portfolio, there's critical information you need to know. At Vantage, we make it easy for clients to invest their IRA savings outside the stock market and into alternative assets such as real estate.

If you're considering a Self-Directed IRA (SDIRA) which is an individual retirement account that can hold alternative investments, then it's important to have the right information on hand.

Here are five common misconceptions.

- **Misconception 1: SDIRAs are only for wealthy individuals**. Contrary to popular belief, SDIRAs are not just for wealthy investors. There is no minimum investment amount required to open an SDIRA account, making it accessible to every investor. We encourage investors at every level to consider the SDIRA a tool in their diversification toolbox. Looking at the accounts available, and the ways alternative investments can round out your portfolio, ensures you are taking an expansive view of your options.
- **Misconception 2: SDIRAs don't require professional management or advice**. While SDIRAs are self-directed, real estate investors may still benefit from professional financial advisory services. Seeking advice from a registered investment advisor with knowledge of alternative investments can help you develop an investment strategy and set critical milestones. We encourage real estate investors to consider their needs, and not be limited by the name of the SDIRA account. If management or advice is the right option for you, it's worth bringing on knowledgeable professional third parties.
- **Misconception 3: SDIRAs are not regulated by the government**. SDIRAs are subject to the same regulations as traditional retirement accounts. It's crucial for investors to understand the rules and regulations that govern SDIRAs, including how much you can contribute, when you can take withdrawals, the tax implications of contributions and withdrawals, and which investment types can be held in an SDIRA. As an investor, doing your homework, and potentially working with an advisor, ensures you know all the IRA guidelines upfront.
- **Misconception 4: SDIRAs can be used for personal gain**. SDIRAs are specifically designed to help investors save for retirement, and there are regulatory limits on how funds can be used. Income generated through an SDIRA must be reinvested back into the account or distributed as a withdrawal, and withdrawals before retirement age may be subject to penalties. Consider your retirement time horizon and your financial goals. An SDIRA is a strong investment option for future retirement. However, it doesn't offer the same opportunities for short-term personal gain or pre-retirement income.
- **Misconception 5: SDIRAs are not subject to annual reporting requirements**. Like other investment accounts, SDIRAs have clear annual reporting requirements. Investors are responsible for gathering and providing annual reporting documents. Failure to meet these requirements can result in penalties or disqualification from the SDIRA account. When considering an SDIRA, it's important to recognize and understand the annual reporting requirements. Therefore, make sure you are up to date on your paperwork and keep your account humming along nicely.

To Wrap Up

By understanding the rules, regulations, and strategies associated with SDIRAs, you can accurately assess investment options and set up a retirement plan that aligns with your financial goals.

Remember:

- SDIRAs work for a wide range of portfolio sizes.
- You may want to consider professional services if you don't feel confident doing it all yourself.
- SDIRAs are regulated by the U.S. Government similar to other retirement accounts.
- The funds in your SDIRA are earmarked for retirement, so there are liquidity restrictions to consider.
- Failing to meet SDIRA reporting requirements can result in penalties or disqualification of tax-favored benefits.

Begin with the End in Sight

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by Michel J. McGirr

My clients know that one of my favorite sayings relating to business formation is that "an ounce of precaution is worth a pound of cure." There are few scenarios where that quip is more true than when it comes to planning out and documenting the life plan of a business partnership. In my career, I've drafted hundreds of operating agreements and shareholder agreements for LLCs and corporations, ranging from single-member entities to entities with dozens of shareholders. What I consider to be perhaps the most important element of an entity's governing documents is what is referred to as 'buy/sell' terms.

Buy/sell terms are the roadmap for how a buyout of a member of an entity is to be handled. Typically the buy/sell terms include, among other things, descriptions of how valuations are to happen (and how frequently) and payment terms for the purchase of membership interest. The buy/sell terms will also often include 'triggers' for when the buy/sell provisions come into play, including disputes among members, the disability of a member, and the death of a member.

First, we can talk a bit about those triggering events. The importance of including dispute triggers for a buy/sell lies, at least partially, in the concept that the operating business will be more valuable complete than if the members were to strip it down and sell it for parts. So, to maximize the benefit to all members in an irreconcilable dispute, you can draft into your buy/sell terms a mechanism to allow members to buy out others, on fair, pre-determined terms. In the event of the disability of a member, it is valuable to establish, in advance, what a disabled member's rights are in the disabled state, as well as what the definition of 'disability' is, as agreed upon by the members. Finally, the triggering event of death is important to consider you build your business not only to provide immediate income but also to establish security for your loved ones even after you are gone. Building in mandatory buy-out provisions, which can even be funded by life insurance policies paid for by the business, can ensure that your loved ones will receive the fruits of your labor in your absence.

Second, let's discuss briefly why including valuation provisions in your buy/sell terms is important. In the occurrence of one of the triggering events discussed above, one member will be having their membership interests in the business acquired, often without any choice in the matter. Thus, it's important that, in advance of a triggering event, the members have agreed on a mechanism for how the business is to be valued upon a triggering event occurring. Sometimes, that mechanism can be as simple as, "each year, we will sit down and agree, in writing, on the value of the business for the coming year." At other times, valuation is much more complicated, often involving calculations of 'EBITDA' and determining the proper factor by which the EBITDA will be multiplied. Regardless of how simple or complex your valuation mechanism is, having the mechanism pre-determined and in writing will prevent a great deal of heartache and legal fees at the time of a triggering event when emotions are high and the last thing the parties want to be fighting over is money.

Finally, it's important to outline in your buy/sell terms how payment for the purchase price will be made. Sometimes, the parties have funded the buyout by buying life insurance policies, so payment of the purchase price can occur immediately upon the policy(ies) paying out. In other instances, parties agree that the purchase price will be paid over time, secured by a promissory note by the business or the members to the departing member.

At the outset of a business relationship, parties often are enjoying a bliss akin to newlyweds, and they don't consider that every business relationship, in one way or another, comes to an end. By sitting down and having a few conversations, then reducing those conversations to writing, while still in that early joyous state, a great deal of headaches, and, equally (if not more) painful, legal fees can be avoided.

The Phocus Law team assists business owners daily with sorting through the ins and outs of business ownership. Because of this experience, we are able to offer insight on what works best, and can often cater that advice based upon the personalities of the partners, the industry of the business, and many other factors. If we can assist you in structuring your business, please don't hesitate to reach out. I can be reached by email at: Mick@PhocusCompanies.com or by phone at 602-457-2191.

Hacked the Hackers

by Jill Bright

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In January 2023, the FBI revealed it had secretly hacked and disrupted an international ransomware gang called "Hive." Hive was one of the most prolific cybercriminal groups that extorted businesses by encrypting their data and demanded massive cryptocurrency payments in return.

Hive used a ransomware-as-a-service (RaaS) model featuring administrators, sometimes called developers, and affiliates. RaaS is a subscription-based model where the developers or administrators develop a ransomware strain and create an easy-to-use interface with which to operate it and then recruit affiliates to deploy the ransomware against victims. Affiliates identified targets and deployed this readymade malicious software to attack victims, and then earned a percentage of each successful ransom payment.

Hive actors employed a double-extortion model of attack. Before encrypting the victim system, the affiliate would exfiltrate or steal sensitive data.

The affiliate then sought a ransom for both the decryption key necessary to decrypt the victim's system and a promise not to publish the stolen data. In addition, Hive actors frequently targeted the most sensitive data in a victim's system to increase the pressure to pay.

After a victim pays, the affiliates and administrators split the ransom 80%/20%. However, if any victims did not pay the ransom, Hive would publish their private data on the Hive Leak Site.

Using lawful means, government hackers broke into Hive's network and put the gang under surveillance, stealthily stealing the 300 digital keys the group used to unlock data from the organizations that were currently under attack.

Additionally, the FBI distributed more than 1,000 decryption keys to previous Hive victims.

News of the takedown was reported online when Hive's website was replaced with a flashing message that read, "The Federal Bureau of Investigation seized this site as part of coordinated law enforcement action taken against Hive Ransomware."

The takedown was a global initiative requiring cooperation across national borders and continents between the FBI, German Federal Criminal Police, and the Dutch National High Tech Crime Unit. The German police and Dutch crime unit seized Hive's servers at the time of the takedown.

This takedown was different than other ransomware cases — there were no monetary seizures because investigators intervened before Hive demanded the payments. The undercover infiltration, which began in July 2022, went completely undetected by the gang until the January 2023 announcement.

In the end, it was reported that the FBI's operation helped a wide range of victims, including a Texas school district. The FBI provided decryption keys to the school district, saving it from making a $5 million ransom payment. At the same time, a Louisiana hospital was spared a $3 million payment and the loss of important data.

Short of any arrests, Hive's hackers will likely either set up shop soon under a different brand or get recruited into another ransomware-as-a-service group. Either way, the sting operation took down Hive's nefarious activities and saved numerous companies from losing millions of ransom dollars and millions of data bytes.

Article provided by contributing author:
Diana Hoffman
Corporate Escrow Administrator
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Rentals | Apartments | Fix and Flip | Auto | Flood

If you rent it out, flip it, live in it, or drive it, we insure it!

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Join the hundreds of Real Estate Investors that trust us to take care of their insurance needs. Like you, we invest in real estate and understand your business. As a broker, we have the tools to make sure you get the best rate from quality companies at a great rate!

★★★★★

Gee Gee

Excellent Service! I highly recommend Gila Insurance Group as they are the best at what they do. I've entrusted my insurance needs for my properties with Gila Insurance and have not had a worry since. Great customer service, friendly and professional.

★★★★★

Bridget Pruss

As a new investor, Derek took the time to ensure I understood the process and provided me with key learnings/ considerations that I didn't have to ask. I value this since "I don't know what I don't know." I consider Derek/Gila to be my go-forward partner.

Visit us online and let us start shopping for you.

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Interesting Stats from The Augustyniak Team at Peoples Mortgage

by Andrew Augustyniak

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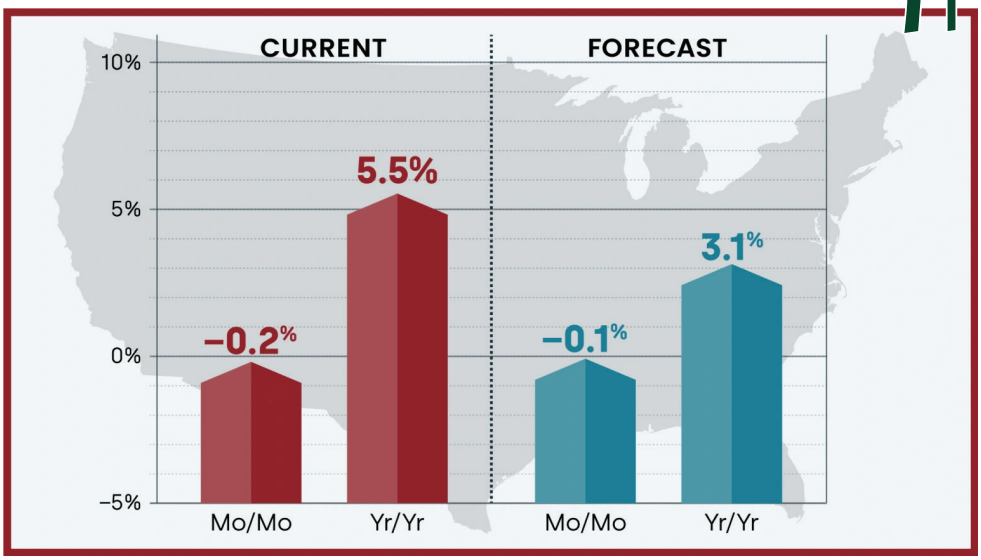
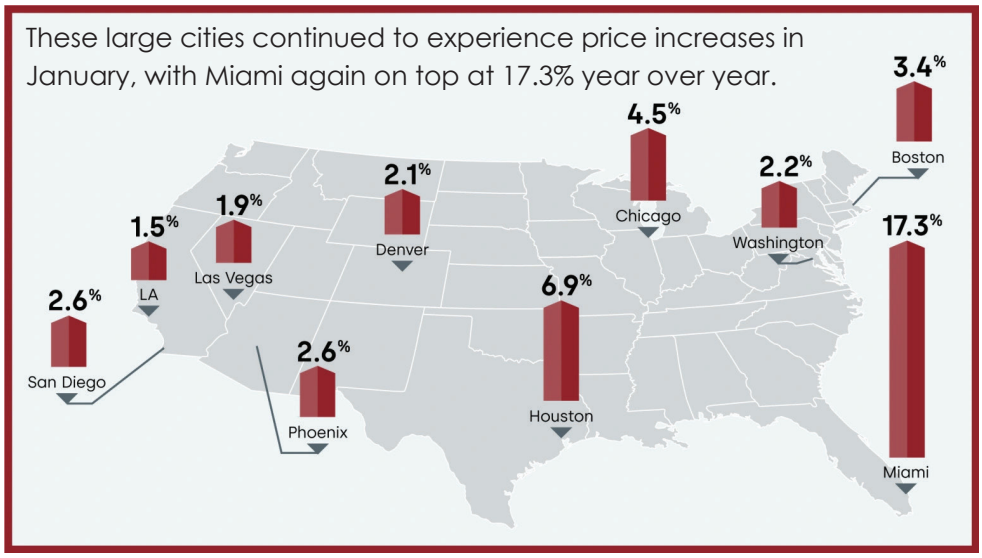


I hope everyone's 2023 is off to an amazing start. Compared to this time one year ago, there are definitely many more deals to be had. The question is – will those deals continue to get better? Or have we reached the point where buyers should start taking advantage before it's too late? The below stats may show why those buyers sitting on the sidelines waiting for prices to decrease, may be waiting forever.

US Home Price Insights – March 2023
The CoreLogic HPI Forecast indicates that home prices will decrease on a month-over-month basis by 0.1% from January 2023 to February 2023 and increase on a year-over-year basis by 3.1% from January 2023 to January 2024.

Only time will tell, but even with everything going on from an economic and political level, Arizona continues to be a hotbed for people coming in from other states!



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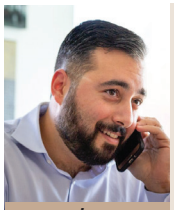
Gold to Platinum – Unlock the Development Potential of Your Existing Property



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by Nicholas Tsontakis

The Arizona real estate market has grown by leaps and bounds over the last 13 years. With the rise in prices over the booming years, those holding multiple single-family homes who bought early on during this time will find it hard to replicate the deals they got. Buying low and seeing prices almost double in a few years is a wonderful treat! However, the market has cooled off slightly due to many would-be buyers staying on the sidelines waiting for more certainty. This may be the right time to maximize the value of your existing properties. Your gold mine is ready to go platinum! With a good plan, developing your existing properties can help you get top dollar whether your goal is to sell or continue renting.

The first thing to understand is that planning for development, i.e. the efforts before building, can take from 6 months to a year if you need design, engineering, and city permits. The benefit of the current market situation is that rents have remained more or less stable, so you can continue to cash flow while you plan. At the same time, prices and interest rates may signal to you that acquiring new property right now may not be your goal. Focusing on the properties you do own means you can remain productive while you and your potential buyers watch the market and wait for the dust to settle.

The next planning concept essential to maximizing your property value is understanding your zoning district. Almost every city and county have a Zoning Ordinance, this ordinance defines zoning categories and every property you own falls into one of these categories. Single-family homes are typically zoned in single-family areas. The Zoning Ordinance defines what can and cannot be done on a given property. Typically, it restricts things like density, lot coverage, limits of the development area, building height, and the number of stories among other things. Understanding these limits is the key to developing your property to its full potential. The more you know about your property, the more options you have to unlock giant profits without the need to acquire new property. Do your research or consult with your real estate agent to see how much more you might be able to rent a 4-bedroom house vs. the current 3-bedroom configuration in your area, or see if an addition to the property makes sense financially. Once you determine the potential for additional profit, hire an experienced architect to dive deeper into the zoning ordinance to see how the home can be expanded and altered and to what extent. Some architects offer this as a stand-alone and cost-effective service. This knowledge can take your property from good to great.

There are generally two ways to make your existing property profit more through development assuming the house is already in good, livable condition: the remodel and the addition. The goal of a remodel for your rental property, not including cosmetic updates which can also increase rent, is to find ways to add a bedroom or bathroom without affecting the home's structure or other major systems. Who knew that rotating the laundry room and removing a hall closet in favor of a new bedroom could add $200/month with minimal interior work? This type of spatial analysis should be done by an architect, one who deals with the creative layout of space daily. The other way to improve your current investment, if zoning allows, is a home addition. Especially in older homes with small rooms, an addition can have your old property feeling like a modern house commanding maximum rent or selling for top dollar. So many homes in Scottsdale or Phoenix's older neighborhoods have master bedrooms that fall well below today's size standards but work perfectly for a secondary bedroom, in those cases, it often makes sense to add a master suite on the opposite side of the house. That one addition creates tremendous value which can increase both rent and sale prices. Again, architects are skilled at laying out these spaces so that interior and exterior along with the old and new blend together to form a more beautiful whole.

While you continue your journey to acquire as many single-family homes as your financial plan demands, sometimes the path of less resistance involves remodeling or adding to the properties you already own and already purchased at the perfect time. So, use your time wisely as you and your fellow market watchers wait for your confidence boost.

Here are a few links to Zoning Ordinances/zoning information for different cities in the Phoenix Metropolitan area*:

Scottsdale: https://www.scottsdaleaz.gov/codes/zoning

Phoenix: https://phoenix.municipal.codes/ZO/6

Tempe: https://library.municode.com/az/tempe/codes/zoning_and_development_code?nodeId=ZONING_DEVELOPMENT_CODE_PT4_DEST

Fountain Hills: https://fountainhills.town.codes/ZO

Paradise Valley: https://www.paradisevalleyaz.gov/DocumentCenter/Home/Index/31

Mesa: https://library.municode.com/az/mesa/codes/code_of_ordinances?nodeId=COOR_TIT11ZOOR

Chandler: https://library.municode.com/az/chandler/codes/code_of_ordinances?nodeId=PTVIPL_CH35LAUSZO

Gilbert: https://www.gilbertaz.gov/departments/development-services/planning/land-development-code

Glendale: https://library.municode.com/az/glendale/codes/code_of_ordinances?nodeId=APXAZO

Peoria: https://library.municode.com/az/peoria/codes/city_code?nodeId=PTIIPECO_CH21ZO

*To find out the zoning for your property, it helps to call the city and ask a planner. Most cities will use something like an R1 prefix for single-family residential (e.g. R1-8 in Phoenix is a single-family residential district where the lots are at least 8,000 square feet). Most likely, you want to start your search in the ordinance for "development standards" and this will show you the zoning restrictions for a property. Your search should not end here, calling someone in Planning and Development is a must as some properties have more complex guidelines like a particular property might have a zoning adjustment that applies or there might be a zoning overlay, like those in historic districts, which has additional development implications.

How Does the Financial Market Drama Impact the Fix & Flip Industry?

by David Nielson

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by Rob Jafek, Manager
Boomerang Capital Partners, LLC

You are the professionals at adding value and fixing and flipping, so we look to you to understand what's going on in that world. We work together with you to create more opportunities. When we want to know what's going on with concrete costs and permitting holdups or whatever, we call you, and in the same way that we're the 'money guys' - we'd like to let you know what's going on in our world. We know lots of people who do what we do, and we have respect for a good chunk of them so we will discuss the industry, rather than our specific situation. Of course, if you want to chat about our particular situation just give me a ring or we can grab a taco – I'm always up for that.

The finance world has been interesting. The first impact that probably comes to mind is the failures of Silicon Valley Bank and Signature Bank. These affect our world only indirectly. On the downside, spreads (the rate paid over the reference rate, which is usually SOFR) are likely to creep a bit wider to accommodate an increase in the banks' cost of funds and as they try to make up a bit of lost ground. The upside is that the reference rate will likely come down a bit, and indeed the 2-year is lower by nearly 1% over the last month. The net effect of the wider spreads and lower rates should be that the net rates should be the same for a while.

Digging deeper into the weeds but staying with the banks is CSFB, which is a large player in the world of structured finance. Structured finance in our world, refers to bundling groups of loans and selling them to buyers who wouldn't otherwise be interested. Why would someone want a bunch of something they don't want singles of? Because a pool of assets can allow for some part of those assets to have issues and the pool still is ok. And you can create payout priorities so people that want less risk can stand at the front of the priority queue, for which they will accept less return, and allow others who want more risk (and return) to stand subordinate in the payment queue. Why does this matter? Since the Fed started raising rates, and then CSFB having issues, the structured market has done very little for the past 6-9 months. Many hard money lenders use this method to offload loans they make. If you've been at this a while and you have ever wondered why the person who services your loan isn't the one who made your loan, the answer is likely that your loan was sold into one of these pools. This has made hard money loans a bit tougher to come by.

And then, as you know, volumes have been lower. With tighter spreads and no one buying loans on the backside, there has been a contraction in the marketplace. Interestingly, it has hit the big guys and the small guys the hardest. The 'big guys' because they were dependent on structured financing to keep their machines going. And the smaller guys that were actually brokers and acted as sellers to those big guys (they may have called themselves 'lenders'). New sources and models are being developed to address the opportunity.

Let me just make sure to reiterate this discusses the markets as a whole and no particular situation, ours or someone else's. We have a lot of respect for many of our competitors, even though their methods or models differ from ours. Yes, there are some bad apples too, but there are many talented lenders and 'money people' out there, who understand and serve the industry well, and we are (generally) happy to be in their midst.

What is the impact of all this? Not much at present in the short term, and moderate in the longer term. So why spend all this time discussing and covering the financial market drama when we could be discussing supply chain issues or challenges in acquiring foreclosure properties? Because there will be a lot of pressure over the next bit to worry about these things. Hopefully, this has helped you consider the impact and determined it as interesting, but no factor and you can get back to doing what you do best: adding value.

A Better Strategy for Your Properties During Uncertain Times

by Ellis Tran

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It's no secret that the state of the current real estate market leaves much to be desired. Over the course of the last year in most major metro areas, the market has done a complete U-turn, and the standard playbook for real estate investors simply can't be counted on anymore.

Interest rates have almost doubled over the last 18 months, inventory is low, and supply chain issues are continuing to wreak havoc on the new construction sector. House flipping is not as concrete a strategy as it once was, and sweeping layoffs at many major companies are making those who own and manage rentals feel a little uneasy.

So, what's a real estate investor to do? Unprecedented times call for innovative solutions, and that's where PadSplit comes in.

Don't do what everyone else is doing.

The vast majority of residential real estate owners are doing what everyone else is doing: competing for the 9.5 million small-household renters making more than $50,000 per year – the ones who can afford to live in a traditional apartment or single-family rental.

Yet against the backdrop of economic uncertainty, there's another – much larger – group of Americans whom real estate investors often overlook: the 14 million one- and two-person households earning less than $35,000 per year.

The rental market's "sweet spot."

PadSplit helps rental property owners convert existing single-family homes into co-living spaces, giving low-income workers the ability to live in the communities they serve, while boosting earnings for owners.

For these 14 million low-income renters, traditional housing has barriers to entry that are far too high. In most cases, they must earn at least three times the monthly rent to qualify for an apartment. When the median cost for a studio apartment across the United States is over $1,500 a month, these renters are quickly priced out. Expensive security deposits and credit score requirements only add to the barriers they face.

PadSplit connects these workers to more affordable housing, in the form of individual rooms in co-living properties. Rates are much lower than other housing types, allowing renters, whom we call PadSplit members, to save money and build their credit. We help match members with available rooms in cities across the country, offering instant approvals and next-day move-ins.

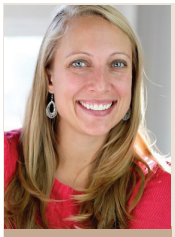
Many PadSplit property owners, whom we call hosts, are proud to play a role in solving the affordable housing crisis, but there are also plenty of financial incentives to focus on this underserved sector of the population.

Start earning 2x-3x more on your investment properties.

By being part of the largest co-living marketplace for the workforce, PadSplit hosts can earn more than 2x NOI, simply by converting underutilized space into more bedrooms. PadSplit takes care of advertising, screening, and placing members, and hosts reap the rewards of more consistent income flow and reduced vacancy costs.

Learn more about PadSplit and how you can earn more while also helping provide affordable housing to workers in our communities at padsplit.com.

Is the Infinite Banking Concept at Risk Like Silicon Valley Bank?



by Olivia McGraw

Olivia McGraw
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To adequately evaluate if the Infinite Banking Concept (IBC) is at risk like Silicon Valley Bank (SVB), we first need to understand what happened with SVB, and how banks operate.

When we introduce clients to IBC, the first step is to understand banking. It is impossible for us to discuss banking without highlighting the greatest problem with banks – their risky endeavors with fractional reserve lending. Quite simply, fractional lending means that for every $1 deposited, banks only need to keep .03 cents, or 0% as of March 2020, ready for a withdrawal. This system "banks" on depositors not all wanting to access their deposits at the same time. Lending your deposits at a marked-up rate is how banks make money. Now let's say that the bank specializes in lending to risky start-ups. Then let's say a rumor spreads about the lack of liquidity, thanks to a drop in the stock market and some other factors, depositors become concerned and begin withdrawing their deposits. The rumor spreads about the lack of liquidity then the situation snowballs into a classic *run on the bank*. Until a few weeks ago, we often had to refer clients to the movie *It's a Beautiful Life*, to harken back to a time when runs on the bank were a regular event.

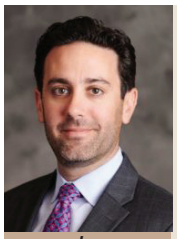
Unfortunately, most people live with the comfortable illusion that "this could never happen to me." But what if it did? Well, if you have less than $250,000 on deposit, your deposits are FDIC insured. Great. But what if your company or fix-n-flip biz needs a regular cash flow buffer in excess of this threshold? Now you have the SVB situation. However, this could actually happen to any bank at any time. The bigger question is how fast could you transfer your deposits elsewhere and are you confident you can beat your neighbor to the bank?

Without starting down the entire conversation of what is IBC and how does it work, let's simply examine the security element of IBC. IBC is a vehicle for savings and investments that utilizes a niche form of whole-life insurance. That last sentence has plenty of buzzwords that a Google search will immediately claim are a bad idea. However, it is a powerful vehicle for warehousing your wealth if done properly. Why? Because the insurance carriers we work with must keep liquid $1 in assets for every $1 in liabilities. What is their liability? Not that you want access to your "savings" or cash – rather that you die before anyone expects and they must now pay the death benefit. By the nature of insurance, this death benefit must be larger than the cash you have stored with them. So if you simply want your liquid cash, that is of far less concern than you prematurely expiring. That liquid cash can also go to any account with your name or business name. If your current bank is in distress, find one that isn't, open an account, and make a transfer. (As a side note, when banks were in peril during the Great Depression, it was not the government who came to their rescue but instead the insurance companies).

If you're concerned about where our nation is headed economically, we need to have a conversation about IBC. The next time you need a loan for a property, you could borrow from yourself at a significantly lower rate than your local bank or a hard money lender. Schedule a consultation today to explore your options.

Olivia McGraw: omcgraw@unbridledwealth.com

Phoenix Makes Source of Income a Protected Class (Effective Soon)



by Mark Zinman

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www.zona.law

In September 2022, the City of Tucson passed Source of Income (SOI) as a protected class. Former Attorney General Brnovich published an opinion in December, finding the ordinance was preempted by state law and unenforceable. Tucson put a hold on their law and asked the new Attorney General to review the opinion.

In the interim, Phoenix passed SOI and said it was subject to the AG coming out with a new opinion. Since then, the AG has published a new opinion finding that Tucson had the legal right to pass SOI. Therefore, Phoenix has the same right and it will just be a matter of time before the SOI law in Phoenix will become effective. As of the writing of this article, it is not yet effective.

Therefore, property owners in the city of Phoenix should assume that the Source of Income is a protected class and that they must now rent to Section 8 residents. We expect that there will be testers – this means people will simply robo-dial landlords, asking if they accept Section 8 residents. If they say no, they will file a fair housing complaint. If you own property in the city of Phoenix, then you must state that you accept Section 8. Property owners would be wise to go to the Zona Law podcast on YouTube and watch the attorneys analyze SOI as it applies in Tucson, as the same analysis applies to Phoenix.

While Section 8 and similar programs serve an important purpose, mandating that owners participate will entirely change the landlord-tenant relationship as a two-party contract. Leases will now be a contract between the landlord, the tenant, and the government.

Here are a couple of preliminary points for owners to follow:

1. **What is included/considered SOI?** Housing vouchers, rental subsidy (including but not limited to Section 8, HUD, Home Inc., etc.), Supplemental Security Income, Veteran's benefits, rental assistance, salary, or other legal sources of income. You must accept payment of rent from such sources, even if it requires you to participate in a program such as Section 8.
2. **Can a landlord opt out of these programs or participation in rental assistance?** No. As SOI is now a protected class, a landlord cannot opt out of such programs and must accept the applicant if they otherwise qualify.
3. **What qualifications must a person with a voucher meet?** All applicants must meet all of your qualifications, including credit and criminal background, except any requirement relating to income that would automatically bar them without the voucher.
4. **What is the appropriate response to an applicant who asks if we accept Section 8 vouchers?** "Yes, we do. Please apply and we accept anyone who qualifies."
5. **Our rental standard requires that an applicant must make 3 times (3x) the rent to qualify for an apartment. Can I reject an applicant using a Section 8 voucher as they won't make 3x of the rent?** No. When qualifying someone using a voucher or other subsidy, you would require they make 3x the monthly rent for their portion of the rent, not the full rent which includes the subsidy. For example, if the rent on an apartment is $2,000 per month, usually you would require the applicant to have a $6,000.00 income in a month. With a housing voucher, you would only require they have 3x the tenant portion of the rent. If the rent is $2,000.00 but the subsidy covers $1,500 per month, then the tenant's portion is only $500.00, and they would only need to show 3x the $500.00 per month.
6. **Housing assistance is offering us $2,000 for the unit, but our market rent is $2,500, do we have to lower our rent?** No.
7. **Can I charge the regular deposit, or do I have to reduce this?** You can charge up to 1.5 times the full monthly rent (including the subsidized amount). You can charge the same as you would to any other tenant, just not anything additional.

Overall, it is important to note that this only applies to Tucson and Phoenix (not surrounding cities or suburbs).

conviction in the last 7 years" which is a key part of my rental applicant criteria. This is where it gets tricky based on what HUD could propose regarding criminal history because of the memo referenced above. They are trying to justify mandating the removal of any criminal history search, claiming that a criminal history has no correlation with you as a private landlord receiving the rent because the Government is covering that part. That is a scary thought process.

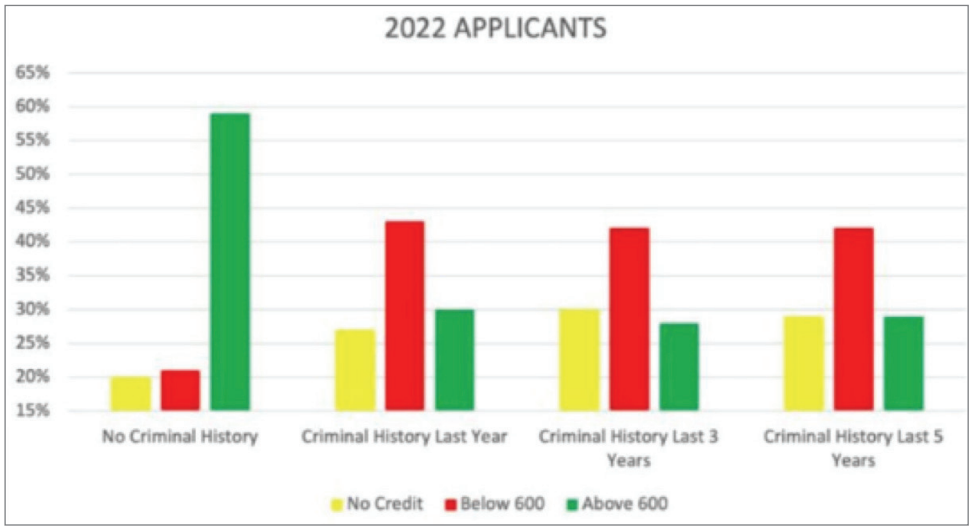
As most jurisdictions vote to add a source of income as a protected class, more private rentals will be sucked into Government Housing Rules and criminal histories could become a thing of the past. And it won't stop there as HUD will slowly try and use a similar disparate impact argument in the other areas that we as private landlords use to protect our investments, forcing the private market to follow the direction of HUD, leading to the demise of criminal history and ultimately private landlords.

Knowing the Section 8 payment tables in your area and comparing them with market rent will help you decide if you want the government as a partner or not. If you have homes or rentals that can demand higher rents than what the housing authority is willing to pay you will be able to duck this discrimination claim for now. But you never know how long that is going to last as the market has something to say about it.

All these moves have made me look at landlords in the private market and get to the root of the HUD study by asking this critical question; does criminal history affect a person's ability to pay rent? I access my own data sets from our tenant background screening company, Rent Perfect, and analyzed actual and factual numbers to answer this question. We took all applicants who applied for a qualification to rent either a single-family or multi-family rental across all fifty states from January 1, 2022 through October 15, 2022. See the graphic for specific results. Generally speaking, applicants with no criminal history are twice as likely to have a credit score over 600, which translates to rent getting paid more consistently and on time. As a landlord, those are the type of odds that play in my favor.

Getting rid of criminal history as a qualifying factor for HUD properties now, and inevitably for private individuals in the future would put you and your property at risk both financially and physically. At Rent Perfect we know different criminal histories pose more of a threat than others, but we also know landlords are not the judge and jury nor hold any special training on how to determine recidivism rates or risk based on each crime. Our research results clearly show that no matter what the crime is, whether felony or misdemeanor, credit scores go down and collecting rent is riskier for those with a criminal history than those without.

So, what do you think about it? Rather than sulk in the corner which may have been your childhood response to unfair treatment, we all need to band together and fight to protect our rights as private landlords. Uniting your voice with a local Real Estate Investment Association (REIA) can help us as landlords stand our ground and protect our investments. After all, we didn't do anything wrong.



AZREIA Phoenix Meeting	AZREIA Tucson Meeting	Phoenix Real Estate Club
Monday, April 10	Tuesday, April 11	Tuesday, April 25
In-Person 5:15 pm	In-Person 5:45 pm	In-Person 6 pm
Venue 8600	Tucson Association of Realtors	AZREIA Office
8600 E Anderson Dr	2445 N Tucson Blvd	4527 N 16th St #105

This month we are joined by successful Co-Living Rental Experts investors for a discussion on how you can revitalize your rental to produce better cash flow. Timely, market-driven information and education make these meetings a must-see. Don't miss it!

Phoenix – *Market Update and Trends with Sarah Perkins*

The Market Update and Trends presentation will equip you with the necessary knowledge to stay ahead of the competition in the ever-changing world of real estate. Whether you're a seasoned investor or just starting out, this is information you cannot afford to miss. With our reliable data and expert analysis, you'll gain the confidence to make informed decisions that will help you maximize your profits and grow your business.

Phoenix – *Legislative Alert with Mark Zinman of Zona Law Group*

Join in on the exclusive opportunity to be informed about upcoming legislative changes that will significantly impact real estate investors in Arizona. Join us for the "Legislative Alert" presentation featuring Mark Zinman from Zona Law Group, a prominent attorney in the field of real estate law.

In this informative session, Mark Zinman will delve into crucial legislation updates affecting all real estate investors operating in Arizona. You'll discover how these changes could impact your investment strategies and what you can do to remain compliant under the new regulations.

Phoenix Main Meeting – *Unlocking New Revenue Streams Expert Panel*

If you're a property owner, property manager, or real estate investor, you know that diversifying your rental revenue streams can help you increase your profitability and expand your portfolio. But where do you start? How do you identify new opportunities and tap into them effectively? Our Expert Panel has got you covered. This panel of industry leaders and experienced operators will share their insights, strategies, and tactics for identifying and capitalizing on new rental revenue streams.

From short-term rentals like Airbnb and VRBO to corporate rentals, furnished apartments, and conversions of common areas to add additional bedrooms, our panelists will provide actionable advice on how to navigate these diverse rental options and maximize your ROI. You'll learn how to differentiate your properties, attract more renters, and stay ahead of the competition.

AZREIA's Unlocking Diverse Rental Revenue Streams Expert Panel is a must-attend event for any property owner or real estate investor looking to expand their rental portfolio and increase their profitability. Don't miss this opportunity to learn from the best and take your rental business to the next level.

Tucson Monthly Meeting

We will join in person for all the great networking sessions including Haves & Wants, a Market Update for the Tucson area, and an Unlocking New Revenue Streams Expert Panel.

See Phoenix Main Meeting

Phoenix Real Estate Club

This is some of the best real estate networking anywhere! Meet face-to-face with other investors to find out what your real estate investing business needs! Haves & Wants, structured networking activities, market discussion, and Member Deals. It all still happens!

AZREIA ADVANTAGE: CALENDAR OF EVENTS

Check www.azreia.org for the current schedule.

APRIL MEETINGS		
AZREIA – Phoenix *Monday, April 10*	**AZREIA – Tucson** *Tuesday, April 11*	**Phoenix Real Estate Club** *Tuesday, April 25*
APRIL SUBGROUPS – Join like-minded investors, share ideas, network, and learn in small group settings.		
• **South East Real Estate Club – In-Person & Online** *Saturday, April 1* • **Cashflow 101 Board Game** *Saturday, April 1* • **Tucson New Investors – In-Person & Online** *Monday, April 3* • **Prescott Subgroup** *Monday, April 3*	• **AZ Women in Real Estate (AZWIRE)** *Tuesday, April 4* • **Income Property Owners (Buy & Hold)** *Thursday, April 6* • **Burley's Raising Capital – In-Person & Online** *Tuesday, April 11* • **Beginning Investors** *Thursday, April 13*	• **Burley's Tucson Raising Capital** *Wednesday, April 13* • **Multi-Family Subgroup** *Monday, April 17* • **Experienced Real Estate Investor Happy Hour** *Wednesday, April 19* • **Notes Subgroup** *Monday, April 20* • **Fix & Flip Subgroup** *Wednesday, April 26*
UPDATED INFORMATION & REGISTRATION ONLINE AT WWW.AZREIA.ORG/CALENDAR		

LEGALLY SPEAKING

Q: My tenant put an above-ground swimming pool in the yard. I am concerned that someone could get hurt. Is there anything I can do?

A: Your best time to address this type of issue is before your tenant signs a lease. Any conduct that you do not want on your property, should be expressly prohibited in your lease. For example, you could write, "Resident will not install or erect any permanent or portable swimming or wading pools, playground equipment, trampolines, storage sheds, or other facilities anywhere at the Residence without Landlord's prior written consent." You may also want to check what insurance you require your resident to carry, as that could be an issue. Otherwise, your only argument is that it creates a health and safety risk, which would be up to a judge.

– 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.

AZREIA MONTHLY MEETINGS AT A GLANCE

April 10th Phoenix Meeting

- **Market Update & Trends with Sarah Perkins** Updates on Market Data Analysis and the Rental Market provide the absolute latest information essential to your real estate investing business by Sarah Perkins of theAZMarket.com.
- **Phoenix Main Meeting: Unlocking New Revenue Streams Expert Panel** If you're a property owner, property manager, or real estate investor, you know that diversifying your rental revenue streams can help you increase your profitability and expand your portfolio. But where do you start? How do you identify new opportunities & tap into them effectively? Our Expert Panel has you covered. This panel of industry leaders & experienced operators will share their insights, strategies, & tactics for identifying & capitalizing on new rental revenue streams. This panel is a must-attend for any property owner or real estate investor looking to expand their rental portfolio & increase their profitability. Don't miss this chance to learn from the best & take your rental business to the next level.
- **Market Update & Market News** The latest Fix & Flip and rental data along with further analysis of our Seller's Market. Plus, current events and news important to your investing.
- **Legislative Alert with Mark Zinman of Zona Law Group** In this informative session, Mark Zinman will delve into crucial updates on legislation that affects all real estate investors operating in Arizona. You'll discover how these changes could impact your investment strategies and what you can do to remain compliant under the new regulations.

April 11th Tucson Meeting

- **Tucson Market Update**: The latest sales volume, pricing, supply, and demand numbers for both the Tucson market.
- **Tucson Main Meeting: Unlocking New Revenue Streams Expert Panel** If you're a property owner, property manager, or real estate investor, you know that diversifying your rental revenue streams can help you increase your profitability and expand your portfolio. But where do you start? How do you identify new opportunities & tap into them effectively? Our Expert Panel has you covered. This panel of industry leaders & experienced operators will share their insights, strategies, & tactics for identifying & capitalizing on new rental revenue streams. This panel is a must-attend for any property owner or real estate investor looking to expand their rental portfolio & increase their profitability. Don't miss this chance to learn from the best & take your rental business to the next level.
- **Haves & Wants, Power Networking, and Deal Sharing:** Come prepared to listen, learn, and share.

April 25th Phoenix Real Estate Club

- This is some of the best real estate networking anywhere! Meet face-to-face with other investors to find out what your real estate investing business needs! Haves & Wants, structured networking activities, market discussion, and Member Deals. It all still happens!

Don't Forget to Use AZREIA's Premier Business Associates!

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Jack Hilton
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Jill Bright
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Scott Kump
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Monthly Events	**Monthly Events**	**Monthly Events**
✓ AZREIA Chapter Meeting ($10/Meeting)	✓ AZREIA Chapter Meetings FREE	✓ AZREIA Chapter Meeting ($20/Meeting)
✓ Phoenix Real Estate Clubs ($10/Meeting)	✓ Phoenix Real Estate Club FREE	✓ Phoenix Real Estate Clubs ($20/Meeting)
✓ Subgroup Meetings ($5/Meeting)	✓ Subgroup Meetings FREE	✓ Subgroup Meetings ($20/Meeting)
The Home Depot Discounts	**The Home Depot Discounts**	**The Home Depot Discounts**
✓ The Home Depot Rebate	✓ The Home Depot Rebate	X The Home Depot Rebate
✓ The Home Depot Paint Discount	✓ The Home Depot Paint Discount	X The Home Depot Paint Discount
✓ The Home Depot Cabinet Discount	✓ The Home Depot Cabinet Discount	X The Home Depot Cabinet Discount
✓ The Home Depot Appliance Discount	✓ The Home Depot Appliance Discount	X The Home Depot Appliance Discount
Education & Seminars	**Education & Seminars**	**Education & Seminars**
✓ Significant Member Only Discounts	✓ Significant Member Only Discounts	✓ Guest Pricing
✓ $30 Launch Pad	✓ $30 Launch Pad	✓ $100 Launch Pad
Additional Features	**Additional Features**	**Additional Features**
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✓ Access to Market Updates & News Charts	✓ Access to Market Updates & News Charts	X Access to Market Updates & News Charts
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AZREIA members now have the opportunity to get a 'thank you' credit from us when a new member uses your referral link! You can earn $10 for Standard referrals & $20 Plus referrals.

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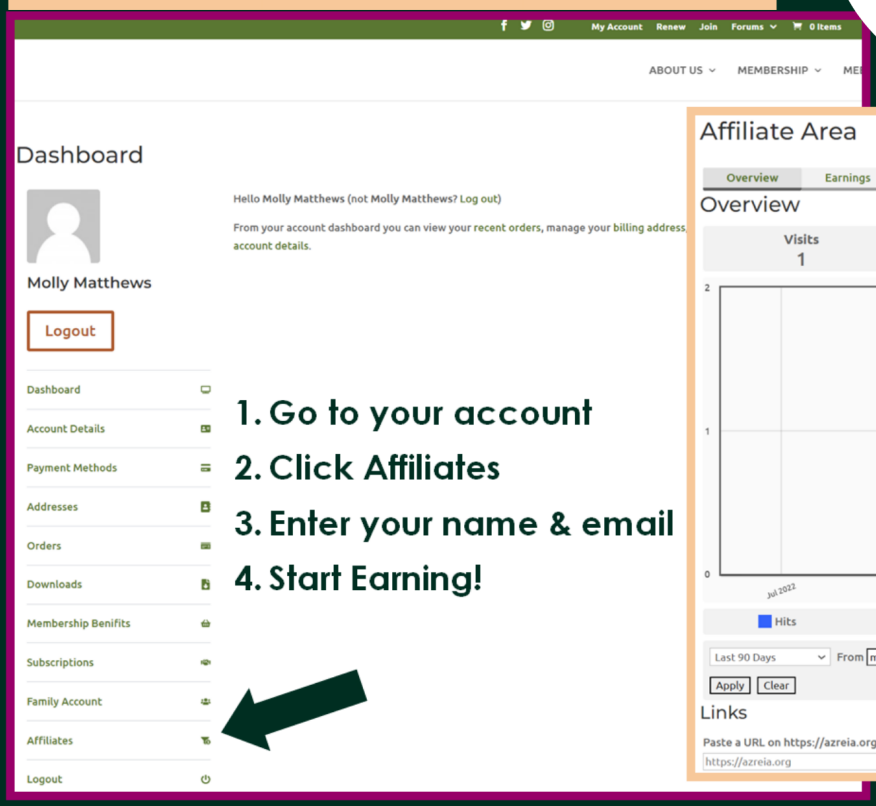
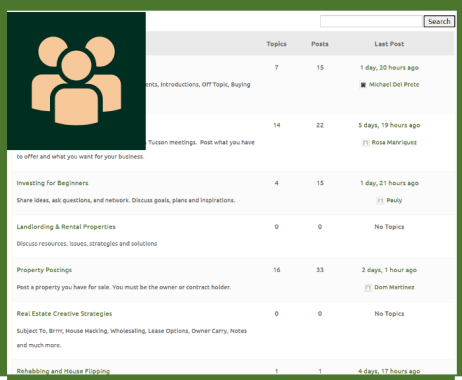


1. Go to your account
2. Click Affiliates
3. Enter your name & email
4. Start Earning!

Your Affiliate Dashboard will look like this on your account

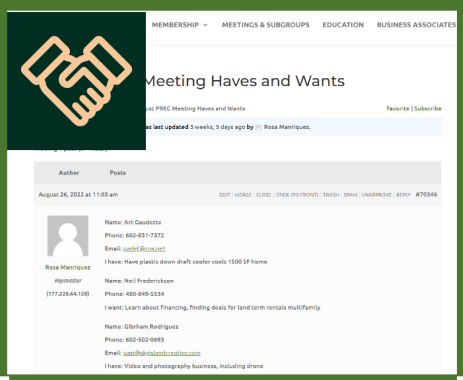
FORUMS

VISIT AZREIA.ORG/FORUMS



Network with Other Investors Online

Post Your Properties



Do Your Real Estate Deals

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