

Residential property investment in the USA

By Ching Yu, Principal Broker, Commercial Broker.

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This is a rather big subject to cover within 45 minutes, and we might talk for days on it. I assumed that many of you have some experience in purchasing real estate property in here and there, so that my talk might be focused on some confusions and concerns from conversations and discussions with some of this audience group in the past. Thanks to Dr. Xudong Xu on collecting some questions from this group that helped my preparation, I will answer these questions along the way or in Q & A at the end.

Disclaimer: I am not CPA, Tax adviser, Attorney, the questions and information in the fields out site of my professional might not be accurate. The material in the seminar has been based on my personal experience only, and it shall not be consider as the industry standards.

I. Some terms that everyone must know in residential real estate field which have either legal meanings or rights:

1. Differences between purchasing primary residence v.s. investment property.

This is also the question #1, “买自住房与投资房有何区别?” from our group, and let’s giving some answers on that.

-Mortgage rates. The rates for investment properties are generally higher than those for primary residences because lenders view investment properties as riskier. Lenders believe they're riskier because there is a greater potential for default if the property does not generate enough income to cover the mortgage payments.

-Expectations. Investors will have different set of criteria which the most important will be ROI (return on investment) than primary residence which will be for life style, family stability etc.

2. Residential v.s. commercial real estate

-1-4 units v.s. commercial RE in multi-family category (5 units and up, apartment).

- Residential property types: Two categories

Single Family Home (SFH): detached; row house (attached townhouse style on each tax ID lot)

*SFH with ADU (Accessory Dwelling Unit), it's new land use zoning in many States in recent years.

Attached: Shared common exterior walls (firewall) between units. Do NOT own land (ownership)

1. Plex: Duplex, triplex, 4-plex. 2 to 4 units attached on ONE tax lot.
2. Condo: owned interior space only, including high rise building or townhouses which do not own each lot, and it is only in different architect style, it's condo in ownership.

3. Co-op: A **co-op** is also known as a housing cooperative. This type of housing is quite different from the others on this list. When you buy into a co-op, you're buying a share of the company that owns the building rather than purchasing the actual property.
The number of shares you own typically correlates to how much space you're afforded in the co-op. Once accepted into a co-op and after purchasing shares, you'll have a vote on common spaces, and you'll split maintenance costs and other fees.

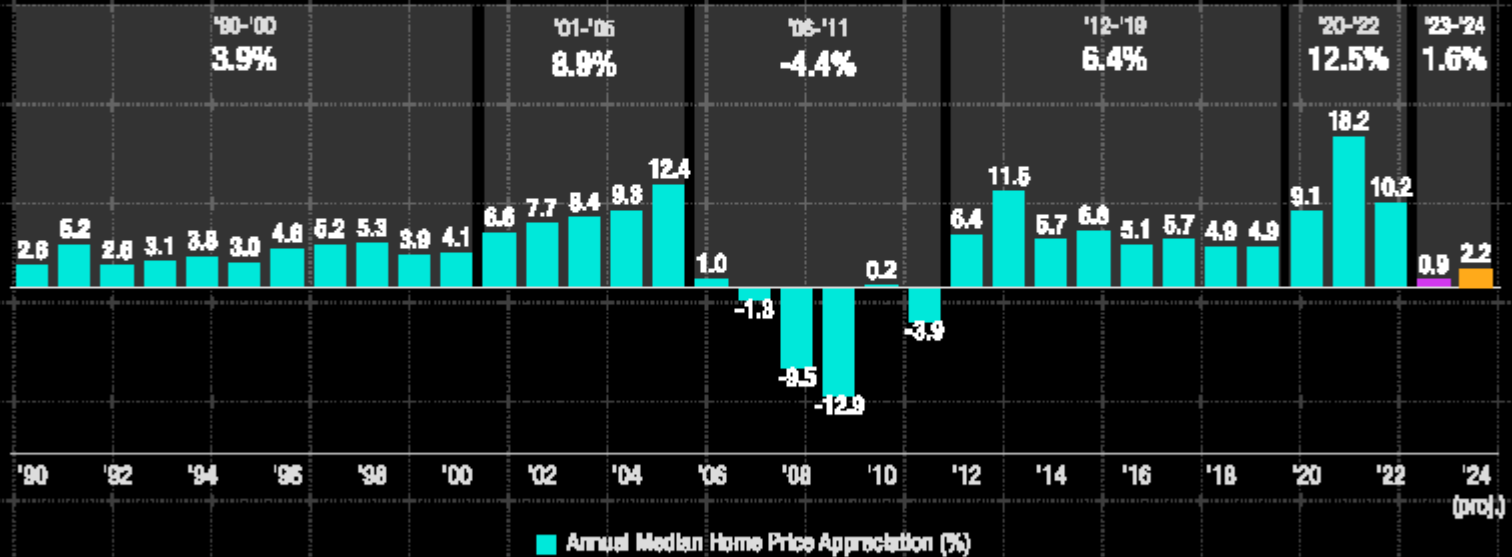
II. Some facts: Why invest in real estate in America?

Everyone has some investment in many fields, and everyone knows “do not put all eggs in one basket”.

1. History: Real estate in the USA.
 - The most invested in real estate by foreigners in the world. America is the safest country for real estate value in the world.
2. Housing appreciation have been averaged 4% over 40+ years to 10+% some years.

[The graphics from KW Reports in Feb. 2024](#)

2. Home Prices - Annual Appreciation



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3. NAR (National Association of Realtors) Jan. 2024 report. Key highlights:

<https://www.nar.realtor/newsroom/existing-home-sales-slid-1-0-in-december>: it has broken down by states, sections...

4. Housing shortage: Supply and demand in the play.

NAR report Key Highlights:

- The U.S. housing market is missing about 320,000 home listings valued up to \$256,000, the affordable price range for middle-income buyers (households earning up to \$75,000).
- Middle-income buyers can afford to buy less than a quarter (23%) of listings in the current market. Five years ago, this income group could afford to buy half of all available homes.
- Among the 100 largest metro areas, El Paso, Texas; Boise, Idaho; and Spokane, Wash. have the fewest affordable homes available for middle-income buyers. Conversely, three Ohio metro areas – Youngstown, Akron and Toledo – have the most.

5. Real estate market runs by cycle, related to economy cycle, but they are not exactly the same. It's a long term investment for sure.

III. Differences from State to State: law, value, market, practice. There are slightly differences.

-But there are very much different between countries. The property right is so much different because of the history in each country. Do NOT confuse, and never assumed.

History: Property Right was from English constitutional background. Since 1215, Americans of the founding generation, their views of property right were strongly shaped by the English constitutional tradition. In the USA, the rights of property owners are absolute right, permanent.

Real estate law and practice were based on Commentaries on the Laws of England (1765-1769); English common law.

-Example: Real estate in China, land market and building market; building sales type; finance; appraisal...how much difference?

IV. Start learning the market through the professional and/or yourself?

-Information resources: Zillow, and many other public websites. Accuracy; the information Interpretation.

Only RMLS (multiple listing systems) are live and correct information. It's State by State. Example, NYC doesn't have MLS, and it's controlled by Brokers, but NY statewide has MLS servicing 62 counties.

V. Interview and hire professionals:

-Real estate Broker/agent: Establish trusted, long term relationship with great broker; choice goes both ways.

-Mortgage broker

-Property management: the basic service including: Locating qualified tenants ; Extensive screening Process; move in/out inspections; Collection of rents and deposits; end of tenancy dispositions; Arrange for maintenance/repairs; 24/7 availability; Marketing of vacant units; Comparative rates; Up to date knowledge of local (State, city, county) Landlord/tenant laws.

-Tax adviser/CPA

-Attorney: What kind of title/deed do you want the investment property in? LLCs?

VI. Raising right questions while you study the information (By investors):

1. Condo/townhouse: Investors have to review HOA documents thoroughly.

CCRs/By Law; HOA rent control; finance report in recent years; litigation (settled or pending); any settlement due to condo owners current year or next few years; etc.

Another important: The right comes with obligation.

2. Tour the neighborhoods and properties.

Get to know the area is more important than the property.

3. Mind set:

-Investment focuses vs. lived-in primary home.

-Do you have the Top 5 priority? Timing, financing, purpose.....

VII. Finance: There are many factors have direct impact to ROI.

1. NOI (Net Operating Income); cash on cash (cash flow before income tax). $NOI = \text{Gross income} - \text{vacancy} - \text{operating expenses before annual debts service}$.
2. Income during property holding period: What is market rent rate?
3. Property management: How are the management and maintenance during holding period have direct impact to your investment.
4. Timing: How long are you going to hold the investment? What is your purchasing cost recovery?

VIII. 1031 exchange (IRS tax code-Tax deferred exchange): To reinvest.

- How to avoid capital gain tax is another big topic. What is a qualified Intermediary? Capital gain tax components.....

-Contact me if you need referring a qualified Intermediary.

IX. Plan your investment strategies to maximize your profit.

“If you’d like to invest, invest in something you know a lot about it”. Don’t listen to media. Do your homework! 功课，功课，功课！

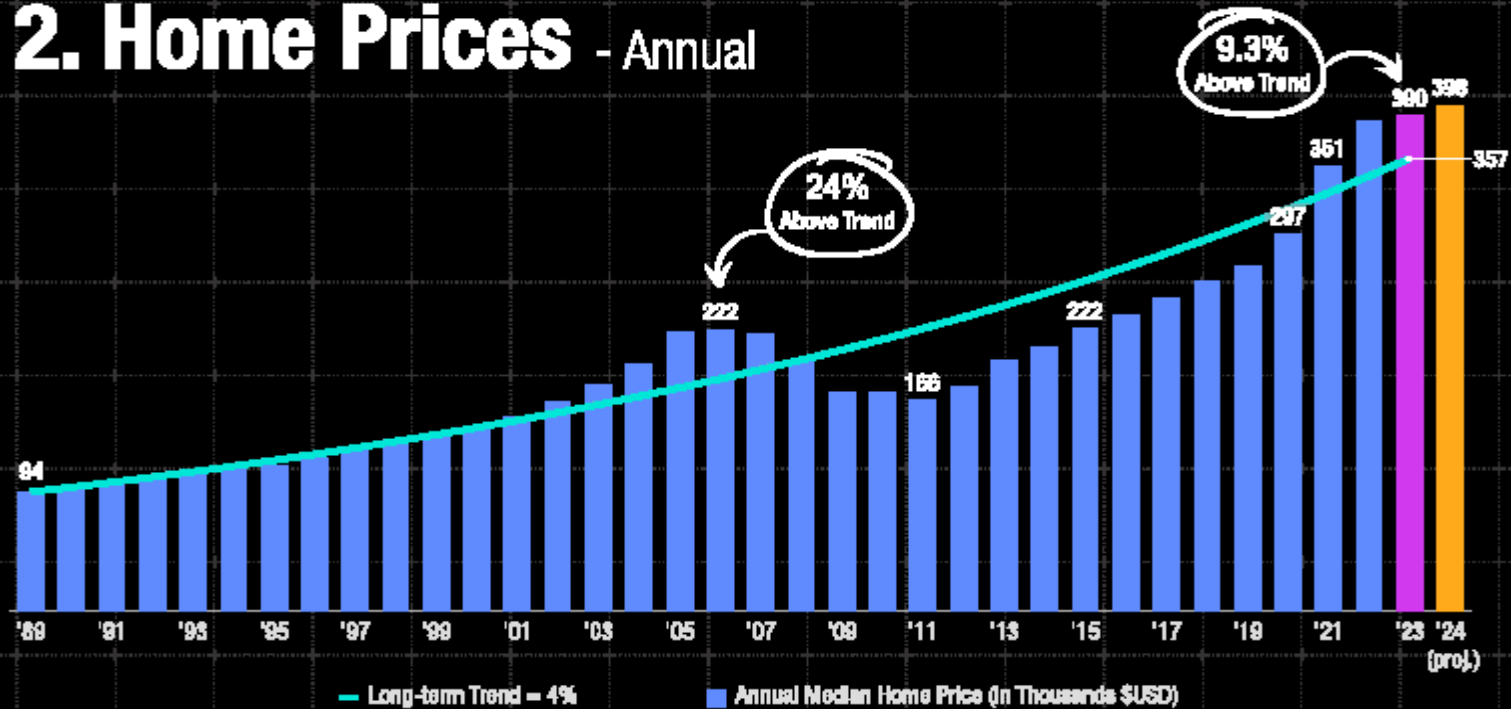
2nd important, a successful investment requires a good team, do you have a good team? Good team should involve family, specialist/advisers in many fields who work for your real estate. Does

your team have good understanding, smooth conversation, efficient communication..... Are you a good teammate? Asking yourself these questions.

References:

1. The graphics- Historical Data from KW Research report on Feb. 2024

2. Home Prices - Annual

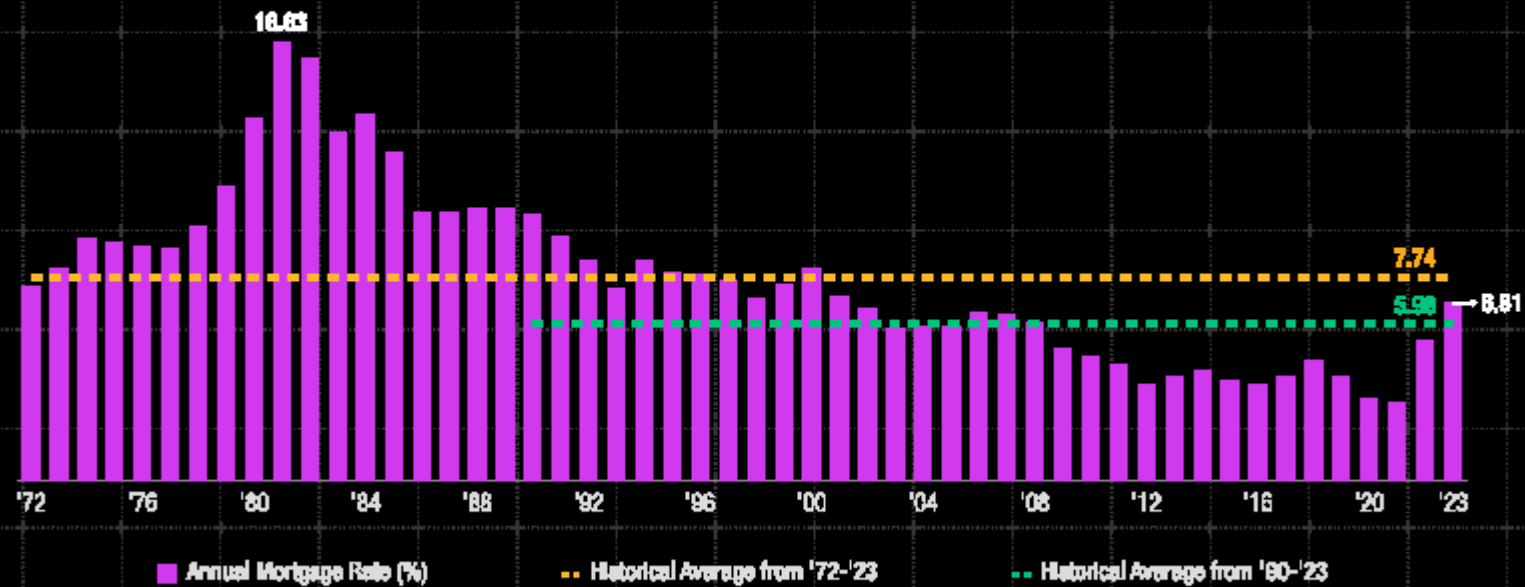


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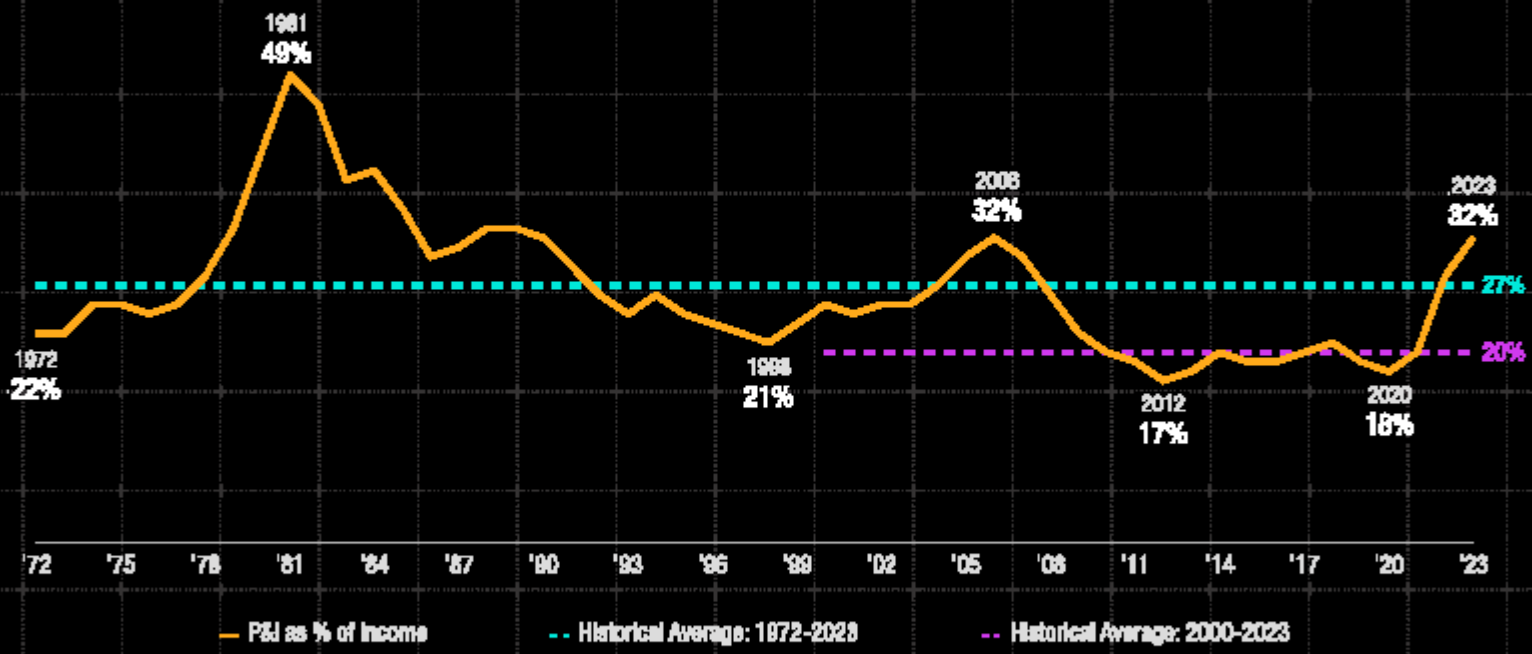
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KW RESEARCH

5. Mortgage Rates - Annual



7. Affordability

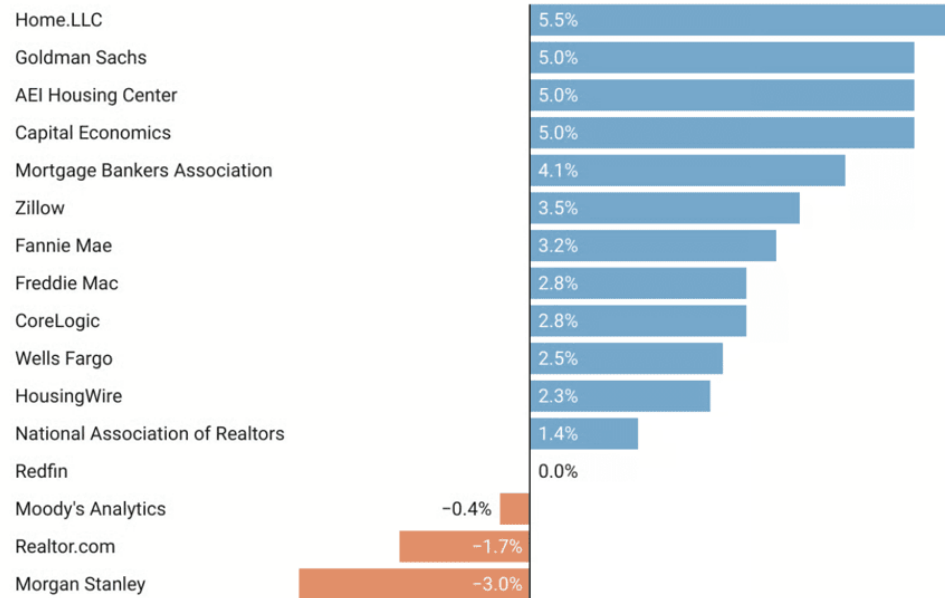


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2. **NAR Jan. 2024 report Key highlights:** <https://www.nar.realtor/newsroom/existing-home-sales-slid-1-0-in-december>
3. The housing forecasts for 2024: <https://www.nar.realtor/newsroom/nar-chief-economist-lawrence-yun-forecasts-existing-home-sales-will-rise-by-15-percent-next-year>

U.S. home price forecasts for 2024

The average forecast tracked by ResiClub expects U.S. home prices to rise 2.38% in 2024



Updated March 5, 2024 to Capital Economics
 Chart: Lance Lambert • Created with Datawrapper



Q. & A.

征集到的问题：

1. 买自住房与投资房有何区别？ Answered.

2. 投资收益主要来源于租金还是期待房屋涨价？ Both. 成功的投资项目应该获得这两方面。

3. 房客拖欠房租时如何处理最佳？ Should follow rental agreement terms by each State. There are steps to do, and Landlords should handle it properly so that landlords will have recourse legally. Any missing step might cost financially to landlord. Property manager shall know how, and it's their professional job. (using Oregon rental agreement as example)

4. 自住房屋贷款提早还完的利弊？ 用 home equity 购买出租房好吗？

-These are two separated questions. You have to look at the family tax (income tax brackets); financing (debts and income changing) and timing (retirement ?)

-Depended on the income trends and new investment income (NOI). Do you have positive cash flow after paid investment mortgage PI (principal & interest) +home equity monthly payment?

5. 房市与利率的关系？ 利率高，购房成本大，利率低，股市涨幅大，股市撤出资金购房合算吗？

There is no direct link between the stock market and mortgage rates. Yes, at times, the stock market and mortgage rates may move in the same direction. At other times, they may move in different directions. Because they aren't directly linked, you can't count on a change in the stock market to be reflected in mortgage rates.

There are many factors that can influence mortgage rates including economic growth, inflation, and the actions taken by the Federal Reserve. The Federal Reserve is responsible for monetary policy. It sets the federal funds rate, a short-term interest rate that can indirectly affect mortgage rates. In addition, the purchase or sale of Treasury bonds by the Federal Reserve affects the supply of money, which then can affect other interest rates, including mortgage rates.

2nd part of question, “股市撤出资金购房合算吗？” There is no cut-and-dried answer, and it needs finance planning of each individual, family financing discussion shall be involved privately.

6.为什么只限制于“住宅型”，不能投资商业房产？

因为时间有限，今天只谈住宅地产。住宅地产的投资比较容易入门，投资金额小；承担的风险和压力也较商业地产小，掌握的好，比较容易体验到良好的效益。另外，涉及商业地产，投资人需要已经有多方面的知识和经验。这两个领域的区别很大，我个人建议，投资先从住宅类开始。

7. 今天报道说以后房地产经纪人的佣金要降到 6%以下，大约会是多少？

回答：有一事实要先澄清，在这个行业，卖方和买方要付的佣金一直是客户和经纪两方谈的（negotiable），写入双方签署的合同，至于多少从来不是规定的，NAR never set it, 可以是\$0 或 100%。近日，NAR 主席就这点在主流媒体上专门发表声明，请大家去看原文。

事实是，买方与经纪之间有州统一的工作合同，可能只有很少的经纪使用。我从 90 年代就一直使用我们州的这种合同，其中有告知买家佣金情况，我们的客户不会有任何困惑。我二十多年使用过有多种佣金(合同中)，比如有时客户需要我一起到其他州或其他国家投资，以付佣金加上咨询费来工作的。

目前情况是全美房地产协会（NAR）proposed (提意) settlement(庭外协意)，最终（the Final）达成要到 7 月份。以下是 NAR 主席的原话

NAR President original post “The settlement, which is subject to court approval, makes clear that NAR continues to deny any wrongdoing in connection with the Multiple Listing Service (MLS) cooperative compensation model rule (MLS Model Rule) that was introduced in the 1990s in response to calls from consumer protection advocates for buyer representation.”

保证消费者的选择性的目的，将来的主要改变大概率将是卖家与买家经纪的佣金脱钩，具体执行跟据各州决定细则。我们州可能会改为买家 客户付买家经纪的佣金。这将是新常态。

8.有什么相对简单的办法把在外州出租房转到小孩名下让他来管理吗？

回复：这个问题迁涉到两方面。第 1. 房产转让。赠送？继承？卖给孩子？哪个是对双方都最合适？各种方式有各类财产转让税收的不

同，对于还有是否公民身份也不同。最有效的方式是咨询房地产专业律师，律师会根据了解你的家庭情况给予正确答案。第 2. 出租房交给家人或亲戚管理是最大禁忌。请回顾以上关于专业管理人员的服务范畴，专业的事交给专业人士做。我们每年都有处理这类问题，都是损失惨重。（用我处理过的典型案例，学生女儿管理等）

下面这个我们州的 Rental Agreement 中的一个步骤为例。 I can't emphasize enough that you should hire licensed property management to manage rental property)

Example in Oregon: What are The Legal Requirements for Termination Notices?

Portland has enacted various tenant protections and renter rights ordinances to safeguard tenants from unfair eviction practices and ensure access to affordable housing. Landlords must **familiarize themselves with these regulations** to avoid violating tenant rights. Termination notices must be in writing and contain specific information as Oregon law requires. This includes the date of the notice, the reason for termination (if applicable), and the date when the tenant must leave the premises. You must deliver termination notices to your tenants through a legally recognized method, such as personal delivery, certified mail, or posting the notice on the rental property in a conspicuous location.

9. 合伙拥有商业地产，location 很好，但自从 JC Penny 破产后一直没有大型商户入住，经营起来就困难。商业地产有恢复的希望吗？ Every type of investment has risks even we do everything right, what's the best resolution in the worse situation would be the real question. I have been there, I hope that you work with a good commercial adviser who can help you to make right move.

About commercial RE market, right now, all types of commercial RE multifamily, retail, office are in very slow market, but industry market is the only one healthy with net absorption, it will remain healthy in 2024. CoStar estimates that office tenants gave back about 65 million square feet of space last year.

Now a new threat looms as hundreds of billions of dollars in loans reaches maturity over the next few years, this is not just the United States' problem, it have spread to Japan and Europe. I think that we will see worse before see good. Some expert said commercial real estate investment activity likely will begin to pick up in the second half of 2024. I think there are opportunities in the slow market as always.

10. 现一些人曾拥有一些投资地产，但年龄大了也不想亲身力为地被投资地产绑住，可1031仍然是自己或雇人管理。你对DST 1031怎么看？

The first, I don't have security license nor DST expert. Investors getting DST are for a sort of reasons, management; no need to go out to qualify a loan; you can invest in with \$100,000, no need big capital.....

DST is security, sold by sponsor. You need DST specialist with security license to work with you. You shall work with qualified 1031 Exchange Company who will help you to find opportunity in the pool of DST.

11. 出租房在售出后，盈利或亏损，在报税上有什么注意的地方？

This is the question for CPA, I am not CPA nor tax adviser. I have two personal advises to you and all investors: 1) keep all original record, invoices, working schedule...all for at least 3 years (I've kept for 6 years) 2) Always work with CPA for your tax return. These are what I have been doing all my life and save us out of trouble.

12. 由于远程办公以及网络购物的大趋势，实体商店及商业办公室的需求将越来越少，是吗？那么 Manhattan 下城 7 年前买的一 1700 尺的商业办公室，若是现在出售是否升值、贬值还是保值？非常感谢。

办公楼市场正在进行行业改进，多元素的办公室的需求增加。对于您问的出售预期，只有由当地有经验的办公楼专业商业经纪来分析，回答。

请参考 Costar 的文章 <https://www.costar.com/article/338468743/some-real-estate-professionals-say-us-office-market-may-still-have-room-to-fall>

13. 购买商业办公室，用个人名义买还是用公司名义买？一次性付清还是贷款买？在税务上等方面会更有利。

单从规避个人资产的安全性而言，我个人认为，所有的地产投资都应该用更具有保护性的方式持有，比如 LLC，请咨询您的律师。税务问题，请咨询您的 CPA。

The last, our job (real estate broker) is professional adviser, I can only give general advice today, in the hope that I helped your preparing in the future investment.

由于时间有限，我无法涵盖所有内容。如果您有任何疑问或想了解更多信息，请随时提问。

希望本次演讲能够对您有所帮助！

谢谢大家！

Thank you!

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