

# 2017

## Real Estate Investor

## Market Research Report



## Real Estate IRA Investment Trends & Insights

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# Introduction

Traditionally, the most common real estate purchase for buyers is their primary residence. However, over the last 50 years, real estate has become a perennial choice for investors.<sup>1</sup> The choice to invest in real estate diversifies one's portfolio, reduces risk, and typically offers good returns on investments. These concepts are particularly true for investors using real estate to build a comfortable retirement nest egg.

Now, more than ever, people are investing in real estate as a way to save for retirement. The improving US real estate market and growing interest in self-directed retirement savings plans present an opportunity for people saving for retirement. For 35 years, The Entrust Group's clients have consistently and increasingly invested in real estate with self-directed IRAs.

Using figures from Entrust's database of real estate investors and insights from respected organizations such as the National Association of REALTORS® and Zillow, Entrust puts this unique real estate investment opportunity in perspective. The 2017 Real Estate Investor Market Research Report breaks down national Real Estate IRA investment trends and insights, what IRA investors paid for properties, why investors are buying, the current rental market, and more.

## Entrust IRA Real Estate Investment Trends

### Where Investors Bought Real Estate

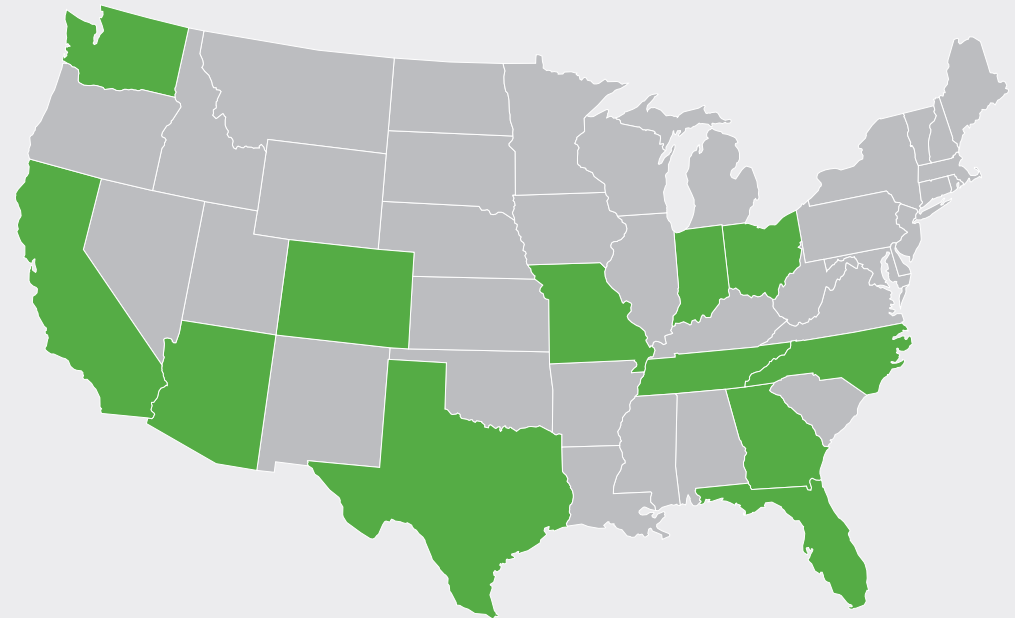
Entrust clients in California, Texas, Colorado, Florida, and Arizona apparently know a good thing when they see it. In 2016, once again, these states led the list of where Entrust clients bought the most properties. Additionally, Florida and Arizona also ranked on Kiplinger's 2016 list of best places to retire.<sup>2</sup>

A nearly 4% increase in the number of purchases moved Missouri up in the state-by-state listings. Ohio, Tennessee, Indiana, and Washington made their first appearance on the list of top states where Entrust clients bought real estate. California, however, remained the top choice, with one-quarter of all purchases among Entrust clients made in the Golden State.

### ► Percentage of 2016 purchases

<b>CA</b>	25%
<b>TX</b>	9%
<b>AZ</b>	9%
<b>MO</b>	7%
<b>FL</b>	5%
<b>CO</b>	4%

<b>OH</b>	3%
<b>IN</b>	3%
<b>NC</b>	3%
<b>TN</b>	3%
<b>GA</b>	3%
<b>WA</b>	3%

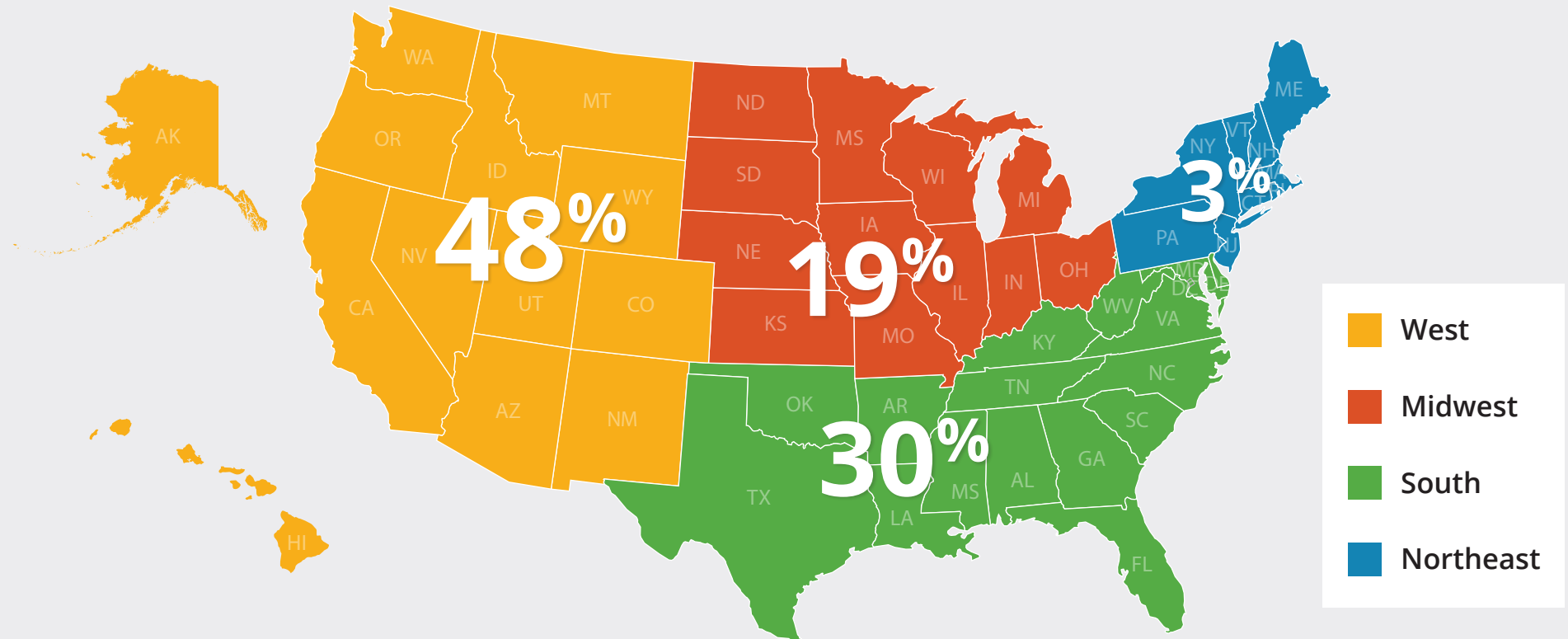


## Regional

As the national real estate market continued its revival, significant regional shifts started in 2016. Investment purchases in the West decreased by 7%, perhaps the result of higher purchase prices. This could have either deterred investors altogether or encouraged them to look at properties in other, less-expensive regional markets. This idea is supported by the increase in investment purchases in the Midwest and South.

Region	2015	2016
Northeast	5%	3%
Midwest	15%	19%
South	25%	30%
West	55%	48%

### ► Entrust Real Estate Purchases by Region

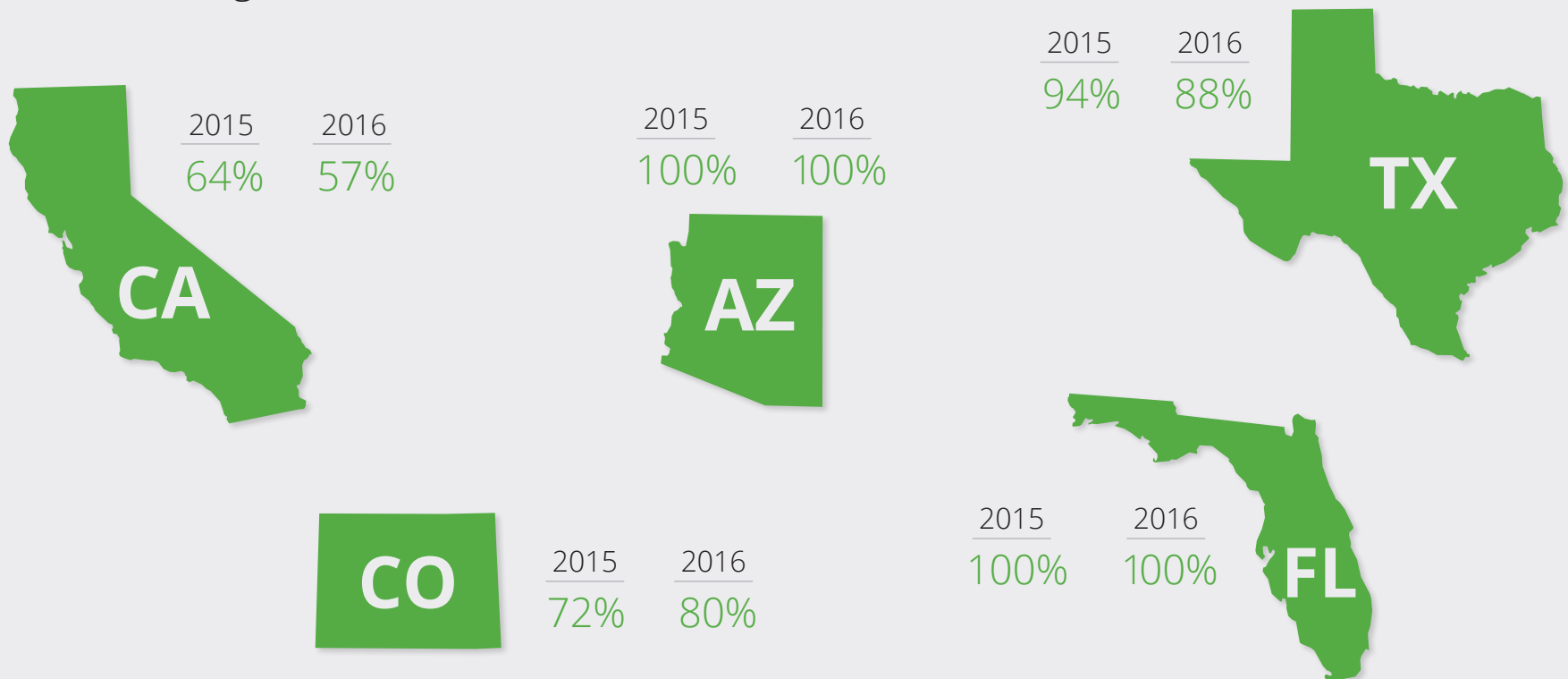


## In-State

Californians and Texans were more willing to buy out of state in 2016 than in 2015. This may be explained by the hot, but expensive, property markets in those two states. Interestingly, self-directed investors in California and Texas were among the first to embrace real estate as a retirement saving asset. Their willingness to purchase in other states may indicate a more mature investment market.

Floridians and Arizonans maintained their solid, 100% preference for local real estate, and Coloradans increased their in-state purchases by 8%.

### ► Percentage of In-State Purchases



## Purchase Prices of Investment Properties

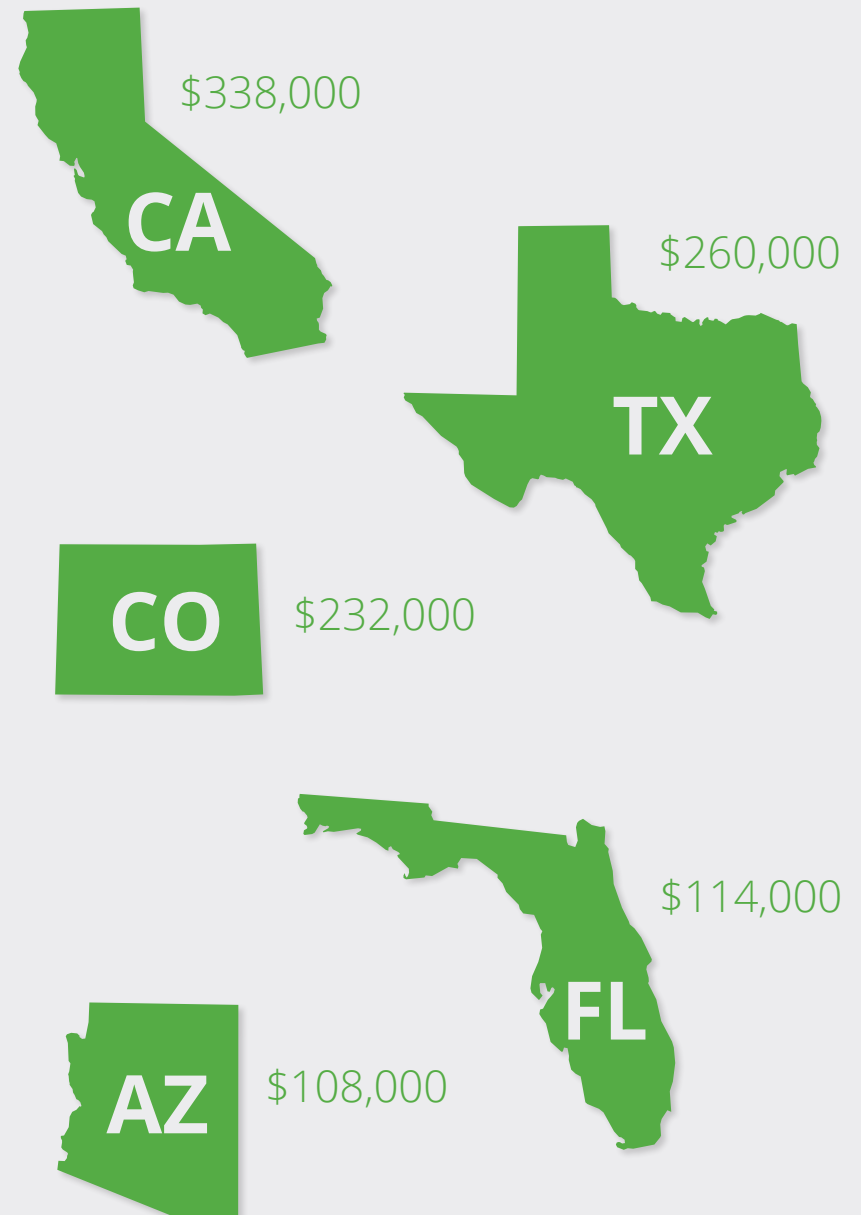
The real estate market is one of the indicators that points to a recovering US economy. It is no surprise that the average purchase price paid by Entrust clients increased in 2016 (\$192,500) over 2015 (\$178,000).

However, this overall increase was not represented across all regions.

### Breakdown for the Top Five States:

- California prices increased an average of \$134,000 (66%)
- Texas prices increased an average of \$99,000 (61%)
- Colorado prices increased an average of \$81,000 (54%)
- Florida prices decreased an average of \$9,000 (7%)
- Arizona prices decreased an average of \$22,000 (17%)

### ► Average Purchase Price in Entrust's Top Five Markets



## Where Investors Sold Real Estate

For the first time, Entrust's Real Estate Investor Market Research Report includes data on property sales made by Entrust clients in 2016.

In total, Entrust clients sold over \$24 million in property value in 2016, for an average return on investment of 24%.

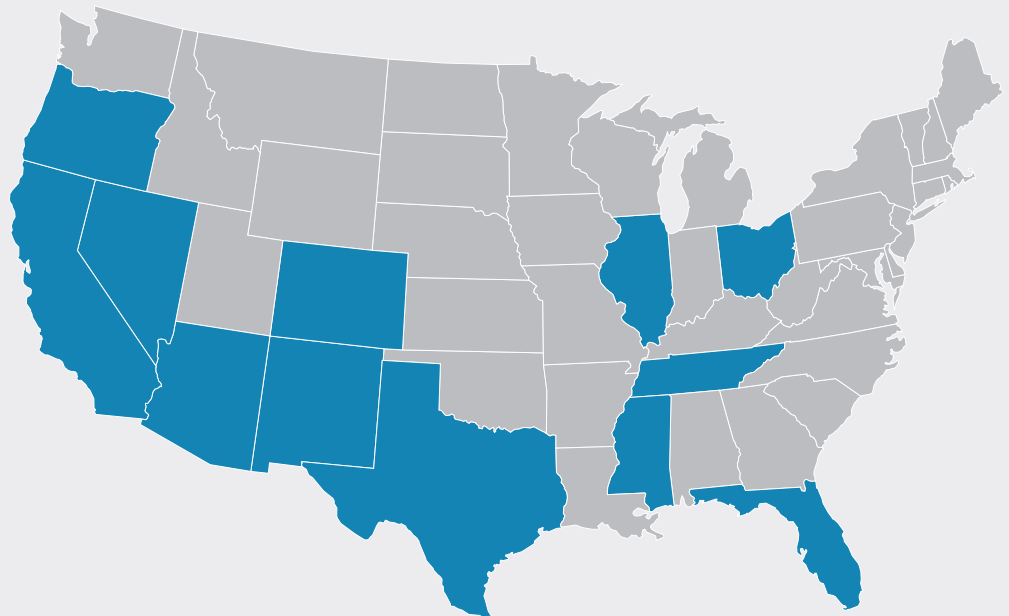
## Top 5 States

The states where the most sales took place diverge slightly from the list of states where clients purchased property in 2016. California leads both lists. In 2016, Californian clients made 40% of the sales transactions and 25% of the purchases. Nearly 10% of sales transactions were in Florida and 4% in Arizona—two states also on the Top Five list for purchases. The surprises were Tennessee at 7% of sales transactions and New Mexico at 5%.

## ▶ Top States Entrust Clients Sold Real Estate in 2016

<b>CA</b>	40%
<b>FL</b>	10%
<b>TN</b>	7%
<b>NM</b>	5%
<b>AZ</b>	4%
<b>TX</b>	4%

<b>OH</b>	3%
<b>NV</b>	3%
<b>IL</b>	2%
<b>MS</b>	2%
<b>CO</b>	2%
<b>OR</b>	2%



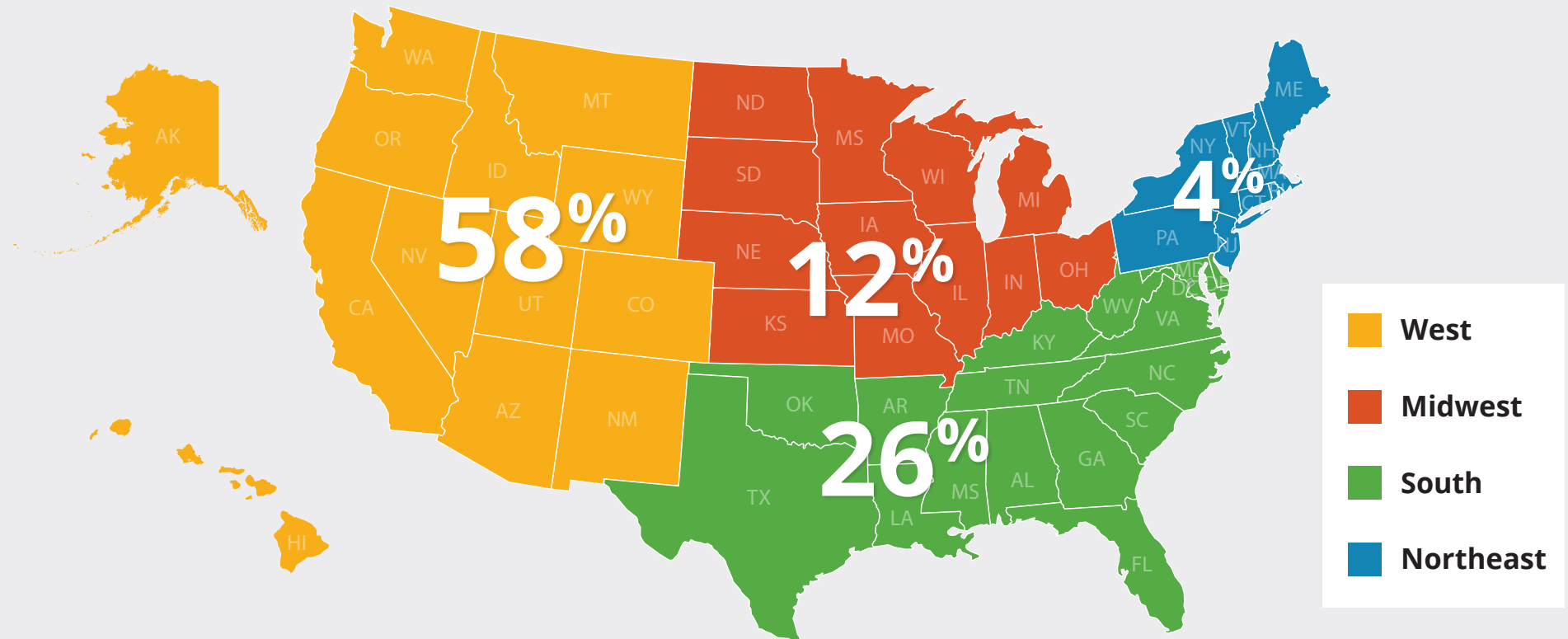


## Regional

With so many sales taking place in California, the regional sales map tilts heavily to the West. Average sales prices, however, were highest in the Northeast.

Region	% of Total Transactions	Average Sales Price
Northeast	4%	\$181,000
Midwest	12%	\$96,000
South	26%	\$92,500
West	58%	\$151,000

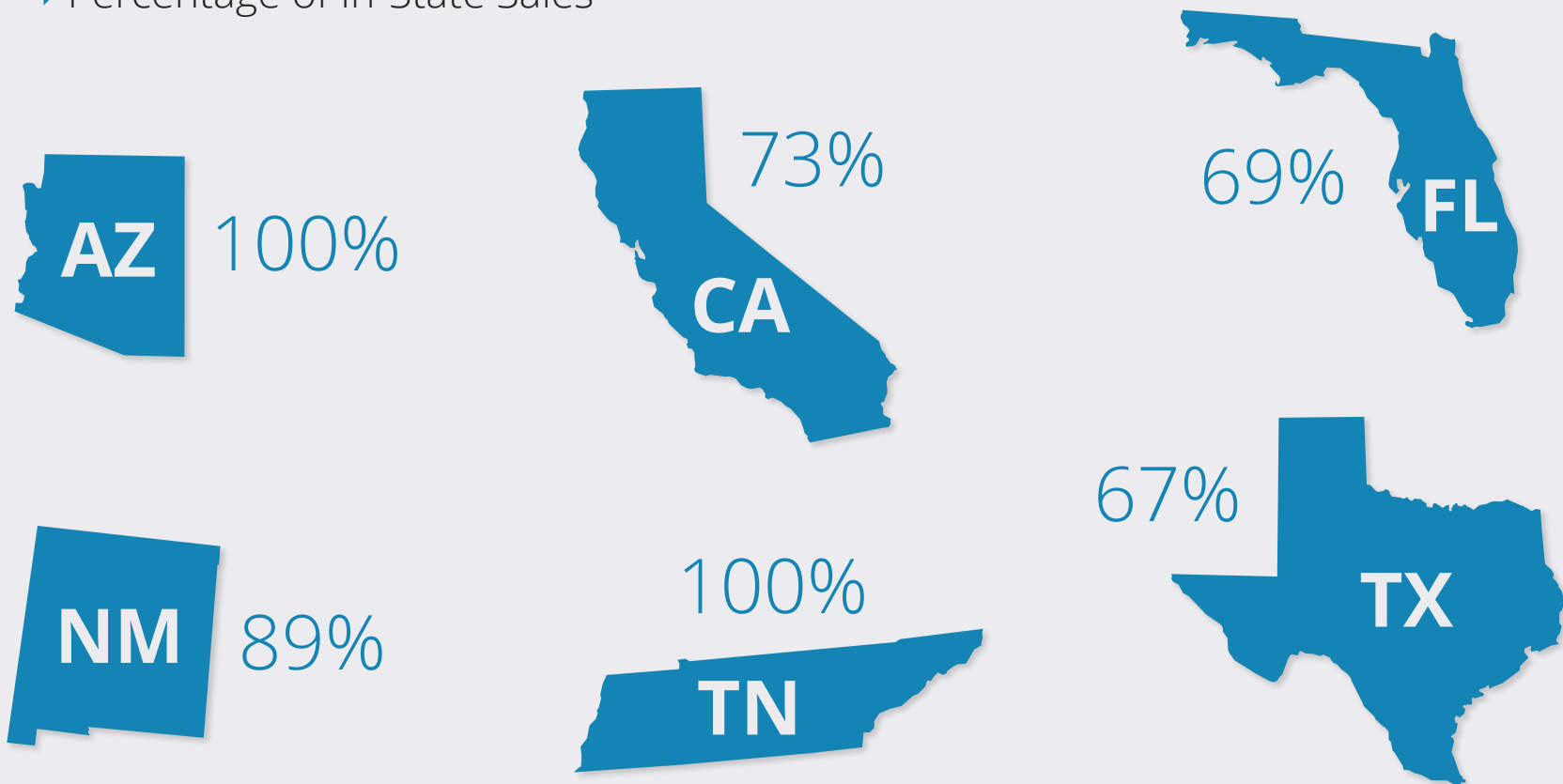
### ► Entrust Real Estate Sales by Region



## In-State

As the purchase data demonstrates, real estate investors tend to buy close to home. Thus it follows that sales figures would lean toward in-state transactions. This was the case for Entrust clients in 2016.

### ► Percentage of In-State Sales



## Return on Investments

Entrust IRA investors in Colorado and California gained the biggest return on investment, at 91% and 42% respectively. This is not including rental revenue stream gained while the IRAs owned the properties.

Below are the top states with the highest returns.

### ► Top 5 States with Highest Return on Investment

State	Avg. Sales Price	Avg. Purchase Price	Avg. ROI
CO	\$145,000	\$76,000	91%
CA	\$172,000	\$121,500	42%
NM	\$66,000	\$61,000	8%
TX	\$98,000	\$93,500	5%
NV	\$83,000	\$80,000	4%

## Types of Investment Properties Bought and Sold

Slightly more than half of the real estate purchases made by Entrust clients in 2016 were single-family residences, a 7% increase from 2015. Multiple-family residence purchases showed little change. The biggest gain came among clients buying vacant land; this increased from 12% to 18% year over year.

More than half (59%) of the properties sold by Entrust clients in 2016 were single-family residences. In second place was vacant land at 24%. Multiple-family residences accounted for 12% of sales.



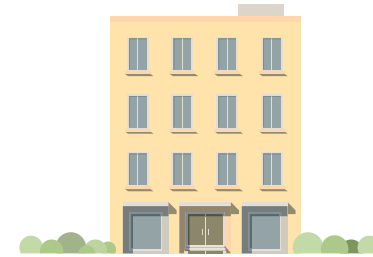
### ► Single-Family Residence

<u>Purchased</u>	<u>Sold</u>
51%	59%



### ► Multi-Family Residence

<u>Purchased</u>	<u>Sold</u>
27%	12%



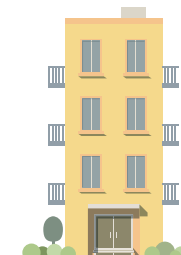
### ► Commercial Real Estate

<u>Purchased</u>	<u>Sold</u>
1%	1%



### ► Vacant Lot

<u>Purchased</u>	<u>Sold</u>
19%	24%



\*Includes resorts and villas

### ► \*Other

<u>Purchased</u>	<u>Sold</u>
2%	4%

## Types of IRAs Used

Traditional IRAs, those that provide a tax deduction for the account holders' contributions, remain the most popular way to invest in real estate for retirement. Nearly three-fourths (73%) of investors used a Traditional IRA, followed by Roth IRA with 16%.

There may be good reason to consider using a Roth IRA. Real estate is typically held as a medium-to long-term investment, for a median of five years.<sup>3</sup> During this time, if a Roth IRA has satisfied the qualified distribution criteria, the Roth IRA gets a tax-free revenue stream from the

rental income. Likewise, any underlying appreciation in the market value of the property is tax-free, as are distributions.

The big surprise in 2016 was the addition of Individual 401(k) accounts as a way to invest in real estate. For the first time, this percentage rose to 1%, accompanied by drops in the use of SEP IRAs (down 3%) and SIMPLE IRAs (less than 1%).

In sales, as in purchases of real estate assets, investors relied primarily on Traditional IRAs. The percentages were very close for purchases and sales.

### ► Account Types for Real Estate Investments

Account Type	Purchases	Sales
Traditional IRA	73%	67%
Roth IRA	16%	17%
SEP IRA	9%	11%
SIMPLE IRA	<1%	<1%
Individual 401(k)	1%	1%
Other	<1%	3%

## National Real Estate Trends (Non-IRA)

### Buyer and Seller Profiles

Granted, not all home buyers and sellers are investors. In fact, most are buying or selling family homes. Data regarding who is buying and selling can provide insights into motivations and trends. For example, the age of the typical buyer decreased from 44 to 43 in 2016, indicating a trend toward younger buyers.



#### The Typical Buyer<sup>3</sup>

- ▶ 43 years old
- ▶ \$88,500 median household income
- ▶ 83% bought a detached, single-family house
- ▶ 35% first-time buyers
- ▶ 66% married
- ▶ 86% bought previously owned house



#### The Typical Seller<sup>3</sup>

- ▶ 54 years old
- ▶ \$100,700 median household income
- ▶ Sold for a median \$43,100 over the original purchase price
- ▶ 76% married
- ▶ 72% moved within the same state after selling

### ▶ A Generational Look at Home Buyers and Sellers<sup>3</sup>

Generation	% of all home buyers	% of all home sellers
The Silent Generation 1925-45	8%	13%
Older Boomers 1946-54	14%	20%
Younger Boomers 1955-64	16%	20%
Generation X 1965-79	28%	29%
Millennials 1980-95	34%	18%

## Why Investors are Buying

Over one-third (37%) of real estate investors bought property in 2016 for the purpose of generating a rental income stream, a decrease of 5% from 2015.<sup>3</sup> Counteracting this decrease is the increase from 8% to 12% of those who purchased investment properties for future retirement<sup>3</sup>. The opportunity for value appreciation (16%) and finding a deal that was

too good to pass up (15%) were the next most common reasons for purchasing an investment property.<sup>3</sup> These reasons are congruent with the motivations for investing in real estate with an IRA.

### ► Reasons for Real Estate Investment Purchase<sup>4</sup>

Reason for Purchase	2015	2016
Vacations or Family Retreats	7%	9%
Future Retirement	8%	12%
Potential Price Appreciation	14%	16%
Low Real Estate Prices / A Good Deal	16%	15%
Generate Income by Renting	42%	37%
Low Mortgage Rates	8%	8%
Other	5%	3%

## Rental Market Research

More than one-third of US households—nearly 43 million—rent.<sup>5</sup> Nearly 20 million of them rent in buildings with five or more units, while 15 million rent single-family houses.<sup>5</sup> No surprise that 78% of the properties purchased by Entrust clients in 2016 were

single-or multiple-family residences. The rent generated by these properties creates a steady revenue flow into their tax-advantaged retirement savings accounts. The overall median monthly rent was \$940, with units built after 2000 bringing in a median rent of \$1,090.<sup>5</sup>

While, according to real estate website Zillow, the rental market is cooling down from the red-hot growth we saw in 2015, it still remains healthy. Overall, rents rose 1.4% in 2016, compared to 6.6% a year earlier.<sup>6</sup> However, the rental market is influenced by location and the percentage increase in several states was considerably higher than the national average.

State	2016 Avg. Rent	2016 % Increase
OR	\$1,600	6%
ID	\$1,100	6%
WA	\$1,600	6%
MA	\$2,100	5%
ME	\$1,300	5%
CA	\$2,300	5%
RI	\$1,600	5%
UT	\$1,400	4%
IN	\$1,100	4%
WI	\$1,100	4%

Drilling down to more local markets, it is evident why Oregon, Washington, and California are among the states with higher rent increase—and higher rents, period.

City	2016 % Rent Increase
Seattle	8%
Portland	6%
Sacramento	6%

In contrast, rents actually declined in Pittsburgh (down 3%), Houston (down 2%), and Milwaukee (down 2%).

Entrust clients invest in real estate in states where more than 10% of the population are renters:<sup>5</sup>

CA	8%
TX	6%
CO	6%
FL	13%
AZ	11%

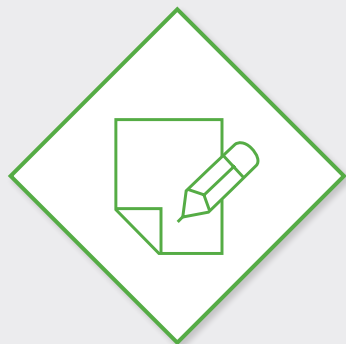


## Three Reasons to Invest in Real Estate with an IRA

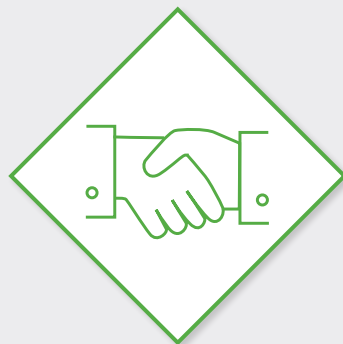
- 1** Invest in what you know. You can leverage your familiarity with real estate by investing in real property.
- 2** Diversify your portfolio to protect against market volatility and inflation.
- 3** Generate revenue and watch the value of your investments grow on a tax-deferred or tax-free basis.

Retirement saving and real estate purchases have something in common: both involve decisions that blend personal and business considerations. For many people, owning real estate in a self-directed IRA is one more step toward a comfortable retirement.

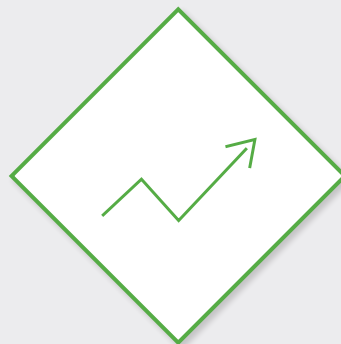
- ▶ Real Estate IRAs are a convenient and effective way to diversify your portfolio, and Entrust makes it straightforward and easy.



- ▶ **Open an IRA with Entrust**



- ▶ **Purchase a property with an IRA**



- ▶ **Rent property to generate income**



- ▶ **Sell property at a profit to grow IRA**

# References

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For more than 35 years, Entrust has been an acknowledged authority in self-direction. Entrust strives to provide personal, professional services and education that empowers clients to control their investment choices. You can rely on The Entrust Group for up-to-date education about self-directed alternative investments with IRAs. Our reports, webinars, and live events can help you keep up with increasing demand to diversify your portfolio.



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