

REAL ESTATE ECONOMIC REPORT

KINGSMAN

CAPITAL



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Report was published in June 2021

MIGRATION PATTERNS

Top Inbound States	
Idaho	70%
Arizona	64%
South Carolina	63%
Tennessee	63%
North Carolina	61%

Source: North American Van Lines, Inc.

Top Outbound States	
Illinois	69%
New York	65%
California	64%
New Jersey	64%
Maryland	61%

Source: North American Van Lines, Inc.

Top MSA Destination Cities (Moving To)	Top MSA Origin Cities (Moving From)
Phoenix, AZ	New York, NY
Houston, TX	Anaheim, CA
Dallas, TX	San Diego, CA
Atlanta, GA	Chicago, IL
Denver, CO	Riverside, CA

Source: North American Van Lines, Inc.

MAJOR POINTS:

- People are moving away from high population density states/cities due to COVID-19.
- People move to warmer climates like Arizona, the Carolinas, Texas, and Florida if they can work from home.
- Unemployment ran rampant during 2020 due to the pandemic. Due to a lack of jobs, people are fleeing high cost of living states.
- Some states in the south do not have a state income tax. They are driving an increase in inbound migration. Companies are also relocating to these states.

WHAT THIS MEANS FOR REAL ESTATE:

- We always look for employment and population growth. These metrics tend to correlate with quality long-term real estate investments.
- You will see a ton of development in these states.
- When investing, don't just look at state population growth. Drill down into smaller submarkets to see where people are moving.

INTEREST RATES

1970s

Before the 1970s, no one would have ever guessed there could have been high inflation and slow to no economic growth at the same time. Many economists believed that inflation and unemployment had an inverse relationship to one another. But, of course, they turned out to be wrong when the 1970's record annual inflation hit 12.4%, and unemployment was at 8.5%. That was when a new term called stagflation was coined. The 1970s was a time of high gas prices, high unemployment, and mass uncertainty.

Today & The Future

Now, if the description of the 1970s above sounds very familiar to today, it should. Based on our last report, unemployment is at its highest since the Great Financial Crisis in 2008. In addition, the most recent CPI data states the year-over-year April inflation rate is 4.2%, but I am sure you see a higher rise in prices in your everyday life. Housing prices are at record highs, gas prices are through the roof, and food at the grocery store keeps going up. So what's the problem? According to Yelp, about 60% of business closures due to the coronavirus pandemic are now permanent. Also, during this time, we have expanded the currency supply by over \$7 trillion. This is a recipe for stagflation in the future.

At the beginning of the 1980s, to combat the rapid high inflation, interest rates were increased to over 18%. No, that is not a typo. And, of course, everyone knows the line "History is doomed to repeat itself." As we see similar economic times to the 1970s, real estate investors should be wary of interest rates rising in the future. Now, if you have a 30-year fixed-rate mortgage, you may not be concerned, but if you have a mortgage with an adjustable-rate, now is the time to start strategizing on how you may combat your mortgage rate spiking in the future.

1031 EXCHANGE

There has been a recent discussion on the Biden Administration's new tax plan to abolish 1031 exchanges and the right to defer capital gains tax on property gains over \$500,000.

What is a 1031 Exchange?

- A 1031 exchange is a swap of an investment property for a property of equal or greater value, which allows capital gains taxes to be deferred.

Benefits?

- The most significant benefit is the deferment of capital gains of an investment property.
- It gives the ability for investors to move their investments around in their portfolio on a timeline that fits their desired growth.
- You can also use 1031 Exchanges for estate planning.

What might surprise you about 1031 exchanges?

- From a survey in 2020 from the National Association of Realtors, about 12% of all real estate transactions were part of 1031 exchanges from 2016-2019
- The same survey showed that 84% of 1031 exchanges were by smaller investors. Not the real estate tycoons you hear about today.





About Kingsman Capital

Kingsman Capital, LLC is a real estate investment company that offers passive investment opportunities to individuals looking to invest in multi-family real estate. Our goal is to invest in cash-flowing, value-add properties that meet our investor's needs and help improve the communities we support. We look for submarkets with population and employment growth, which are critical indicators of a growing rental market. We also help investors who want to purchase and invest in their properties actively. For more information, please visit www.thekingsmancapital.com, or for a free consultation, please call us at one of the numbers listed below.



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