Investing In Property and Knowing What's "Cheap"!
By John V. Kamin

Many times I'm contacted by both subscribers and others, semi-pros to make money in real estate. Many want me to approve their buying a cheap 10 unit to 48 unit property in a remote non-growth area. They found a property 70 miles from Kansas City, or in central Missouri, central Ohio, Maine, Tulsa, west Texas, or eastern Oregon, that's about 35% the price of a similar property in a growth area such as Los Angeles, Clark County/Las Vegas, Phoenix, Orlando, or some of our other favorite growth areas. They say, "I can get this property I found on the Internet at $XX, compared to $XXXX in Southern California, Washington D.C./suburban Maryland. They're excited.

Reality Shock

They stay excited until I tell them the truth. "That property in south central Missouri is half the Los Angeles price, and only appears cheap. That rural 10,000 sq. ft. business building in Montana cannot be resold for the same price as a comparable size building in Phoenix."

Tip O'Neill, former Senate leader, said before he retired, "All politics is local." A profit-chasing real estate buyer might say something similar about income properties or Pre-Development Land. It's all local.

If there are only two potential bidders for your commercial property in Hayward, Wisconsin, muskie capital of the world, then you're not going to get much competitive bidding. Same way in Fargo, North Dakota, or rural Pennsylvania.

The #1 rule is: Go for the growth, go for the metro jobs center, where there is lots of employment, because that's where the growth will be. Yes, even Austin, Texas, and suburban Washington D.C. across the Potomac in Virginia will grow and keep growing, because govt. is a growth industry. I'm not so sure about Seattle, WA, and certainly not Portland, OR, or Portland, ME.

Bucking the Trend. Cheap Stays Cheap

If you go for properties that just appeared cheap for similar units, say, apartment buildings, small commercial buildings or strip malls, they're going to stay cheap for a long time compared to, say, Oceanside, CA, Orlando, FL, Marin County - the far-out suburbs of Chicago.

You're bucking the 1½-century trend, where rural young adults move to the big metro job centers for a better life.

Forgotten Overlooked Paradise? Or Myth?

I know, everyone thinks that when they retire they want to relocate to some spread-out rural place, where land is cheap, population diminished, cost-of-living cheaper, the air is clean, and other such myths.

When I tell them that that's one place where officers relocate the 30,000 parolees from California prisons, or that in the event of a National Emergency (widespread power blackout) those rural areas are low priority compared to restoration of rationed power in the metro growth areas, the big suburban cities, at first they disbelieve it.

They become disillusioned with rural areas when they find out furniture costs double, shipping charges are added to everything, that the cost of living may be much higher because there are only one or two non-competitive supermarkets, and there's only one overcharging, slow guy in town who can repair that complex machinery you bought.

Bluntly, don't buck the century-old growth trend, migration from rural areas to the big cities. This is no longer 1900 nor 1800, a rural farming economy. Local example: the bureaucrats in Oxnard/Ventura County, CA, keep trying to keep everything agricultural; jobs, housing - many hate developers. But the new Gold Coast north of L.A. is overwhelming any stuck-in-the-mud, stuck-in-the-last-century regulators and bedroom-community restrictors. They're losing. We've been recommending commercial and residential multi-unit buildings and even housing in the Ventura County coastal areas south of Ventura for over two decades, and during that time they've gone from an average of $125,000 to over $550,000 for a simple three bedroom, two bath, 40-year-old house. Got it? Don't fight the growth trends, make money out of them.

Other places may appear "cheaper", but they don't have the growth potential, because rural growth there is stagnant or even declining.

More Money Made

People want what they want, and they want the better job-rich opportunity areas, and are willing to pay more for them, because everybody else seems to want them, too. More buyers, more bidders and more growth.

For example: 85% of the U.S. population lives within 50 miles (a one hour's drive) of a major body of water. Simple enough. Avoid the boondocks. Go near the water if you want people to buy your place in a decade or two for what seems a staggering price!

Genuine Bargains near Your Backyard?

Want a bargain? In or out of a growth area? Then read about NTS (Need-To-Sell) properties in the book <u>How To Make Money Fast Speculating In Distressed Property</u>. NTS stands for Need-To-Sell, or as Jim Cramer would put it, "Buy high, sell higher." If you can only get $600 a month for a small rental, residential or commercial property, in Sioux Falls, SD, but the average rent in L.A. metro is $1,350 per unit, what you buy cheap will stay relatively cheap, and what you buy dear will appeal to many more prospective buyers and renters.

Bluntly, you make your deals in nearest growth area by searching for NTS (Need-To-Sell) deals, that must be sold. You search for what author Robert Allen calls "Don't-Wanters at any price". You use tight appraisals on modern buildings as well as rehabs, and you provide liquidity to properties that for some reason need an infusion of cash or cosmetic refinishing in a growth area, to make the most money. Your reward for doing a good deed is a profit. Again, as Tip O'Neill said, "All [real estate profits] politics are local."

Stay out of rent-controlled growth areas. If bureaucrats will only allow you to raise rents 3% per year or less, while your costs are going up in 5% to 25% jumps per year, sooner or later you're going to find yourself in the hole, stuck.

E.G. In suburban Los Angeles County, trash collection/dumpster pickup rates have gone up 75% in the last 36 months. You can't cover cost increases like that with a 3% per year rental jump. The former $35 per-service-call-plumber of the 1980s and 1990s now charges $223 to come out and replace that leaky $15 faucet. If you're in business, and have any kind of industrial machines or office machines, a routine look-over (not repair) can cost $200 to $300 just to come out and diagnose the problem! 3% growth and 3% rent increases in your revenues won't cover services and goods. By our measurements, especially in a fiat money economy, inflation is proceeding at a much faster rate.

You don't need the hassles of rent controls and "rent stabilization" bureaucrats.

What Does It All Mean?

Make money; buy high, sell higher. Buy at steep discounts to current high appraisals by searching aggressively for NTS properties. (I like properties that I can buy at about 5X projected GRI (Gross Rental Income). Improve them to bring them up to full ticket market where people want to live.

I like Coeur d'Alene, Idaho, but I'm not planning to buy any property there in the next 50 years, nor Rifle, Colorado, nor Needles, California. Cheap general boondocks areas tend to stay relatively cheap. Why is New York City so costly? People want it. Drive 90 miles south in New Jersey, you can still buy a decent house on five acres for $98,000. I just sold one!

Make Time Work for You

Make money. Have fun with your money. Go for the growth, and search therein for NTS properties that must be sold: probates, foreclosures, partnership split-ups, estate sales, bank repos, slightly unfinished new developments, and the like. On PDL (Pre-Development Land) make sure the commercial growth and commercial rezoning is moving toward you, get the upzoning potential properties with blacktop noisy highway frontage at residential or agricultural acreage prices, while you wait for the growth to keep moving toward you and overwhelm your property with higher offers! Happy hunting.

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