Time's Almost Up -- --
Sell Your Cash-Eating Alligators Now!

By John V. Kamin

CASH-EATING ALLIGATORS. WHAT YOU SHOULD KNOW.

Some get the "cash-eating cannibals" concept immediately. But after speaking at seminars and interviewing new subscribers, I know that some understand the words, but "sort of" get the concept. Don't really understand and use it. A 3rd group doesn't get it at all.

Cash-eating alligators is the term I use for properties pitched to you, or owned by you, that will eat your wallet, cannibalize your cash, empty your purse. I don't see this concept discussed thoroughly in **most** books about real estate, so I better do it to make sure every **reader benefits.**

As you know, from the book How To Make Money Fast Speculating In Distressed Property, there are certain kinds of property that will **cost** you **cash** instead of filling your wallet. Landlocked properties. Properties that can't be developed to a higher and better use. Vacant lots. Golf course building sites. Timeshares. Even vacation condos that require big fees, high taxes, high maintenance costs, whether you use them or not. Properties in high crime or slums. Neighborhoods getting worse, instead of better. Hard-to-sell because of undesirable neighbors.

I could make this list a lot longer, (e.g. remote properties devoid of a constant stream of buyers; mountain "goat farms" or sand and desert good for nothing but propping up boulders.)

Instead, the Forecaster message is about **cash-flow properties,** in various stages of growth and development, that throw off monthly income (to help you pay mortgages and insurance expenses). This seems simple. Properties that you can rent out or lease. (e.g. I lease my ranch to a sheep farmer, since I don't have the time nor inclination to run it and manage it aggressively.)

Another type of cash-flow property is one that saves you spending money elsewhere. (e.g. If you buy a house and live in it, it may save you $1000 to $2000 a month rent, or $12,000 to 24,000 cash per year which you don't have to pay out of pocket to a landlord who gets all your tax benefits, depreciation, etc., + long term capital gains growth in value). Lived in or rented out homes/buildings are **not** cash-eating **alligators.** They provide people with this space, you are doing a **good deed,** then collecting cash monthly, as your reward.

Bottom line: you can easily see the **contrast** between cash-eating alligators and cash-flow properties destined for higher and better uses, long term capital gains. It's a **simple concept.** Then, **why** is it so many people don't "get it"?

TIMING

Part of the reason could be the hot-hot-hot current real estate market. People **think** it will go on **forever.**

PREDICTION: It won't. Real estate runs in **7 to 10-year cycles,** and you're at or near the top of the current cycle right now.

QUESTION: Do you really want to be holding cash-eating alligators as the hot cycle cools **down**? Do you really want to be trying to find buyers for second-rate cash-eaters during the tougher 50% of the cycle when most folks can't even get prospects out to look at and make offers upon good properties?

Forecaster advice then, for 2003 and coming 2004, has been: "**Sell** your **worst** properties now, in today's hot market, but **keep** the **best"**. While you can. Our hot advice also has been: "If you've got balloon payments coming up, or you're paying too much interest on your existing mortgage, refinance now, take care of those problems, **lock** in low rate 15-year FRMs (Fixed Rate Mortgages) while they're well below 5 ½%. **Solve** those **problems.** Take **action. Dump** the cash-eating alligators, while you still have time,
without deep discounting.

INCREASING CASH FLOW RENTAL INCOME AND CAPITAL GAINS PROFITS.

BACKGROUND: Many clients for decades have taken our advice to buy duplexes to 4-plexes, apartment buildings, small commercial buildings, and to conduct yearly surveys (to find out competitor rents, etc.) as well as to explore getting **maximum** capital **gains** upon resale.

BIG QUESTION: **How** do you deal with low-rate competitive sellers or lowballing landlords?

Example: Let's say average rental rates are $2.20 sq. ft. in the 4-block area in which you own a building. But when you, the owner, have a vacancy, out of 6 available spaces in your 4-block area, one is priced at 41.50 sq. ft., 2 of your competitors had space at $2 sq. ft., 2 more have comparable space at $2.25 sq. ft., and I ask $2.75 sq. ft. What to do?

If you've done your **survey** correctly, these are all comparable spaces or "comps".

FILLING VACANCIES AT HIGHER RENTS

One thing to do would be to carefully **eyeball** and **evaluate** the $1.50 sq. ft. lowballer's space. Are there **disadvantages** to that space? (e.g. 2nd floor walk-up? Less parking? Buried back-of-mall? Less signage exposure? Extra costs, such as parking lot maintenance, or group utility assessments? Low ceilings? No bathrooms for customers' use?) Without **careful inspection** you can't know why that space is rented 25% to 40% cheaper, unless you evaluate it, in depth.

Then, when you get prospect calls or interviews from potential renters, **you'll know precisely** what to say, what the situation is, why your space is better, worth the average price or more, and why the lowballer's space its cheaper.

Better yet, show prospect a photo of lowballer's space, with disadvantages highlighted.

A 3rd thing to do is, if you're averaging 3 to 5 calls per week from prospective renters in a good area, is to **do nothing.** [e.g. If the low man on the landlord totem pole's space gets **rented** by one of those callers, suddenly **your** space is going to look pretty good. And those rental prospects who **thought** they could get a 25% to 40% discount on your space by just mentioning Mr. Lowballer, are suddenly going to find that they're talking about space that is "no longer available" (from your competitor). You'll be able to rent your space easier.]

Sometimes, it's even better for you to **send** the **cheapskates to** the cheap **competitor;** when his space is "off the market"-- then you get to pick the better tenants. Make sense?

This is especially true in small towns, suburbs, or hot job areas where space may be at a premium, whether residential apartments or houses for rent, or small commercial buildings.

WHAT ABOUT MAKING HIGHER CAPITAL GAINS?

The first thing to remember is that you need only one qualified buyer willing to pay your price. While you want to tell the world about the property you have for sale, it's not necessary to have 10 buyers, 20 buyers, 30 buyers. You only need 1.

You may run into a similar situation as the landlords. There may be 5 or 6 competitive sellers out there, some higher than you, some lower than you, especially when square footages are comparable. What to do? Again, you want to **evaluate** the **competitor** building **sellers, in detail.**

Do they have more highway exposure, or less? Are their expenses of ownership liable to be higher, or lower? Do they get more vacancies, or less? Are the buildings modern, or obsolete? (e.g. High ceiling buildings with double energy costs.) You need to know these things, in detail, not just "drive-by guesses". Evaluate the competitor buildings outside and inside, then you'll know how to mention the plus features on your buildings for sale so that you can get excellent capital gains upon resale.

If there are things that need to be done to your buildings, to compete more effectively (repainting, repositioning, repaving a parking area, some remodeling) then just do it to max out the capital gains profits.

What if the lowball seller is the only lower-priced seller, and the 5 buildings for sale nearby are priced higher than yours using traditional measurements such as square footage, location, etc.?

Simple. Send the lowball buyers to the lowball sellers. When Mr. Underprice's property is no longer "on the market", when it's unavailable, suddenly your property is going to be looking much better to prospective buyers.

Sometimes strange things happen when you do this. If the lowball seller suddenly gets lots of prospects wanting to buy his building (because it's underpriced compared to other nearby properties for sale) he may raise his price (making your building look underpriced). Remember, you only need one solid buyer when reselling, although it helps if you have several bidding against each other Got the idea?

WHAT ABOUT FORECLOSURES?

PREDICTION: There will be **many more foreclosures** 2004-2007. Even in today's hot-hot-hot property market, 2003 foreclosures are at **Record** rates.

What's the cause? Basically, it's **people living** a lifestyle **beyond their means, on credit.** Perhaps they buy too much house, get too deep in credit card debt, can't cover the payments.

Another cause is so many homes being **bought** with **little down** or no money down. Then, when things go sour, when debtors become **overwhelmed,** they just walk away, handing they keys over to the lender.

VALUABLE TIP: Check nearby **locksmiths.** See how much business they're getting from which banks and other lenders (sources) to change the locks on foreclosures and walkaways!

FORECAST: Another cause of future foreclosures 2004-2008 will be ARMs, Adjustable Rate Mortgages. When interest rates rise, so will ARM monthly payments!

PREDICTION: When inflation increases, will interest rates be far behind? Interest rates will start to move up too, as the public catches on to a flood of fiat money and higher inflation, higher costs for everything!

FORECAST: When businesses do finally achieve some "pricing power" do you think they're going to **lower** prices? No, instead firms will **raise** prices at their very first opportunity!

(e.g. In the Los Angeles metro area, occupancy is 96% on apartments, vacancies a super-low 4%. So, **rents** are **rising,** going up sharply. Apartment owners have some "pricing power". They're starting to use it.)

<u>WHAT DOES IT ALL MEAN</u>?

FORECAST: You'll be happier, make more long term capital gains, increase your monthly cash flow if you **stick** with cash-flow properties in growing suburban areas, within commuting distance of metro job centers. You'll be happier if you avoid those cash-eating alligators that rip and tear at your finances, your budget. Chatzky also points out that people who pay their bills as they come in (rather than letting bills pile up to pay all at one time) are generally **happier,** according to her studies.

While money doesn't guarantee happiness, cash-eating alligator properties can trouble you, cause much unhappiness. Eliminate them! Stick to cash-flow properties, with **positive** cash flow instead of negative cash flow; they can help you **solve problems that plague most folks.**

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