

5 Proven Methods to Make Money Buying Property

By John V. Kamin

The real goal when buying real estate is to make long-term capital gains. A secondary goal is to provide monthly income. A 3rd goal might be to save money paying rent. A 4th less-invigorating goal is to gain tax benefits and deductible expenses.

How you approach property asset acquisition is your choice. But there are so many books, newsletters, pro and con, that it can get very confusing. (E.G. Some on Wall Street try to convince you to buy Real Estate Investment Trusts.) You won't read about that here. I don't own any REITs, don't want to own any and make no recommendations in that regard. I ask, "WHY would I want to pay managers hefty fees and expenses on things I can do myself, to manage properties over which I have no say-so, no control?" Sorry, no sale.

Buying Distressed Property to Make Money – FIRST METHOD

I wrote the book on the subject, which sold out of numerous editions, called How To Make Money Fast Speculating In Distressed Property. This is probably my favorite method, or at least one of them.

Buying distressed property does not mean buying old falling-down fixer-uppers...that's a myth. You may be buying brand new or modern properties. The "distress" part may come from: partnership split-ups, foreclosure, divorce, poor management, asset sell-offs, or for 100 other reasons. My preference is for properties that are less than 10 years old, preferably no more than 20 years old (though occasionally I may buy older properties).

Seek Need-to-Sell (NTS) Properties Only

1. When buying distressed properties, you are looking for properties that must be sold, regardless of price, that are going to be sold.

2. You are probably going to be operating in the distressed part of the 7 to 10 year real estate cycle, the down cycle. That is not now. The current real estate cycle is topping out on the upside. While you can prospect now for properties, you probably will get more "profit candidates" during the bottom of the cycle when everyone hates real estate, when there are too many properties to be sold and not enough buyers, the opposite of today's situation.

DEVELOPING SOURCES: You will have to develop some sources as outlined in the book, talk to a number of people and subscribe to a legal newspaper. Perhaps an example will make it clearer.

Junk to Cash-Flow Treasure?

When my father-in-law went to an East Coast lawyer (to update a will), the friendly lawyer, noting he was interested in real estate, told him about a nearby property that the attorney couldn't sell, to close out an old estate. My father-in-law decided to buy this triplex, offered \$6,000, just to get it off the books. It had everything wrong with it. It was on the edge of a bad neighborhood. It had two nonpaying tenants and one vacancy, at very cheap rents with zero cash flow. The tenants were ruining the building, not paying their utilities, and the estate had no money with which to fix the plumbing and other problems. But the building was sound. Long story short: he kicked out the nonpaying tenants, repaired the plumbing, carefully selected 3 new tenants, painted the building and fixed sagging steps.

After a little more than a year and \$20,000 repairs, the building was yielding 5 figures cash-flow rent. He sold it later for \$60,000 to a newly retired man who wanted to earn 20% per year on rising rents for retirement cash flow. Today, the same building is worth 6 figures.

Constant "Hunt" Mode

The point is, if you want to buy distressed properties cheaply to make large capital gains, it's good to always be on the lookout and alert, always indicating your interest to lawyers, bankers,

brokers, executors, retired folks, whenever and wherever you encounter them; whether it's once a year, 10 times a year or 50 times a year. Sooner or later, NTS opportunities will pop up for long-term capital gains, especially on cash-flow properties in what is an era of rising rents.

Predevelopment Land – SECOND METHOD

A second goal is acquiring predevelopment land for growth in value! This can be entirely different than acquiring distressed property but might also turn up NTS deals.

We recently did several reports on buying predevelopment land for long-term capital gains. Preferably with rentable buildings or houses, to provide lease/rental cash flow to pay the mortgage and expenses, while awaiting development. Here are some tips for predevelopment land acquisition.

1. Everything depends upon location, location, location; the 3 most important rules in property development.

2. You must have arterial highway frontage, suited for current or later commercial/multi-residential development; even if you are 2 to 8 miles down the highway. ("Main Drag".) If you don't have the potential commercial frontage, or the property is not likely to be commercially developed in a reasonable number of years (4 to 7), don't buy it.

3. You will want to change the zoning, or have commercial zoning if it already exists, down the road. That means no cul-de-sacs, no "off the main drag" properties.

4. I prefer properties within commuting distance of 1 million population or more metro areas, with at least 500,000 decent jobs within commuting distance. Two hour's drive or three hour's drive is too far to commute. High gas prices can mess up even 1-hour commutes. Small towns may never develop unless they're located within driving distance of major metro job centers.

Among areas recently recommended, have been outlying Orlando, Clark County/Las Vegas, the San Diego/Los Angeles corridor, the north Gold Coast near Ventura County, the Chicago/Joliet/Aurora triangle, anything within commuting distance of Dallas/Ft. Worth, the Baltimore/D.C. corridor extending out to Virginia and near Dulles, East Coast corridors such as the Philly metro area, but across the river (lower-taxed, lower cost) in New Jersey. You probably want to use seller financing, around 6% or so, at least 5 to 10 year terms when buying, minimal down payments of 10%, 20%. That way, if development does not occur in your time frame, you haven't got much at risk and can go elsewhere. Avoid the boondocks. I also avoid condos (due to tough resale and high monthly fees) and avoid one-industry towns, isolated small-to-medium size towns.

Buying Homes to Make Money -- THIRD METHOD

Probably anyone you meet who has been a homeowner for 10 years or more, chances are good that they'll tell you their home purchase was "The best investment I ever made." Therefore, let us consider a bit of heresy/blasphemy regarding real estate. Remember these words:

"Buy a home to make money from the get-go." Focus. What you do care about is if you'll be able to sell it for high 5 figures, 6 figures or more than you paid in a few years. You also care whether you will be able to refinance in 3 to 5 years and pull out \$100,000 extra or more! If a house purchase doesn't have at least these 2 possibilities for A) substantial capital gains and B) great cash pullout refis, don't buy it!

What You Don't Care About When Buying Homes to Make Money

If you need a 2 BR, 2 BA home and the best buy is 4 BR, 3 BA to make money, buy it. If it's a great location but underbuilt, with excess land you can sell off to recoup your money to a developer to build McMansions, buy it.

You don't care whether a house is painted purple, whether it has broken windows, whether there are 6 unrepaired cars parked on the front lawn; none of that matters. Overgrown shrubbery? Buy a chain saw. Hate the color? Buy new carpet, repaint it. Small kitchen? Expand kitchen to triple the size for big gains upon resale. (I told you this was heresy and blasphemy

among brokers; you're unlikely to hear such advice from them.) And remember, location, location, location.

Lousy neighborhood? Stay away. You want only neighborhoods going up not stagnant or going down, no matter how cheap it is.

More heresy. Think resale before you buy. Think resale before you spend \$1 on rehab or redo. You only want to spend dollars that will double or triple when you resell in 3 years, 5 years, or 10 years.

More Tips

When buying a home, if it's too small or too large, it doesn't matter much; you can always slap on a couple of extra bedrooms for \$25,000-\$50,000, add an addition.

PREDICTION: You must have low-to-manageable property taxes.

FORECAST: If California ever got rid of Prop 13 tax limitations, it might kill the real estate market for 5 to 7 years.

Acquire Cash-Flow Rental Properties The Easy Working Person's Way

VALUABLE TIPS. **FOURTH METHOD:** When reselling your old house to buy a new house, don't. Keep the old place as a rental, to generate monthly cash flow of \$15,000 to \$30,000 per year. Re-mortgage it while you still live there as occupant, for a much better mortgage rate, before you move and before you buy your new one.

Pull the mortgage cash out of the old joint to assist with buying your new property. Select your tenants very carefully, screen them thoroughly; check all references, employment, credit history, etc.

Then, as rents rise over years, as house prices rise, you'll make lots of money. As subscriber and friend Prof. David Schumacher says, "If you think prices are high now, wait 20 years!"

Forecaster advice has been consistent: "Buy a home to live in, and add 1 to 5 homes for rental cash flow as time goes by, for a very comfortable retirement indeed!"

FIFTH METHOD: Own small commercial buildings for steady cash flow, long-term capital gains. Nearly every practitioner or businessperson should acquire small commercial buildings to house his practice or business and halt paying rent. Lease out extra space to peers to pay off the building. It works. Clients do it. Some make millions! Why not you?

A Few More Things to Make Your Search/Treasure Hunt Easier

85% of the U.S. population lives within 50 miles of a major body of water. Don't get too far from the water, for better growth, bigger gains, easier resale and rising cash flow. You buy something because it's great, not just because it's cheap. Ask yourself before you buy, "Why would someone else want to buy this from me in a few years at a substantially higher price?" If you don't get clear-cut answers, avoid.

ANOTHER TIP: Homebuyers and renters 5 years or 10 years from now (whenever you're ready to resell) will need jobs to buy your property, to qualify for a mortgage. If all the jobs within commuting distance are mostly entry level or minimum wage (I'm thinking of resort and ski areas such as Vail, Sun Valley, Whistler, also Branson) avoid; run for the hills and take your money out with you!

Try to avoid-no-growth cities with stagnant or declining population. This might include Bangor, Boston, Raleigh, Fargo, Lansing, Green Bay, Duluth. Avoid small towns. At resale time you don't want two guys at the Rotary Club flipping a coin to see which one is going to buy your property this time, which one is going to buy the next deal super-cheap that comes up.

Why wait 10 or 20 years for growth that never comes. You don't want your monthly cash flow income decapitated because you can't raise rents in an area where there are no new jobs, while

property owners near larger growth metro areas are doing well, making upward adjustments and changes in cash flow every year! Careful.

If you have more questions, I suggest you buy the books referred to in the footnotes to help you make \$10,000's, 6 figures, and more!

FORECAST: In 50 years \$1 million will not be very much money. It may not even buy you a 3 BR 2 BA house in a major metro area!

I suggest you get on board the train to expand your knowledge and to make an occasional commitment. You don't need 20 deals or 50 deals. Just one good property purchase every 2 or 3 years can make you a multi-millionaire! Structure your time so that time works for you, not against you. Put inflation to work for you, in what is obviously a fiat money economy subject to ongoing yearly inflation and rapid change, month after month, year after year, decade after decade! May the force be with you.

[Editor's Note: Don't miss John Kamin's FREE seminar at 1:00 p.m. on Saturday, October 23, 2004 at the Los Angeles Convention Center!]

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