

**Property ... Cresting the Wave?  
(How to Make Money!)  
By John V. Kamin**

Surfers like a big wave that's cresting and ride it down to nothing. Skiers like to get to the mountain crest or ridge crest and let gravity pull them down rapidly.

But if you're a property owner, you don't want your property values to go down. If you're a buyer, you certainly don't want to buy at the crest and then ride down newly-purchased property like a surfer or skier and you're probably not thrilled about the Federal Reserve Board's attempts to "cool" the housing market.

What you're trying to do is buy poorly managed, neglected but modern buildings where some careful updating can give you the opportunity to increase rental cash flow 20% to 50%.

**Who Else Is Affected?**

County officials, in states where property taxes are re-assessed every year or two, are quite pleased to see real estate values rise. It means local governments can collect millions more in higher property taxes! And they do. Even in California with Prop 13 Tax Limitation statues, real estate sales at higher prices are replenishing state coffers with huge higher property tax inflows! Officials and legislators can hardly wait to spend unexpected new monetary inflow!

Homebuilders are affected by cresting real estate prices. They're running out of buildable lots in established suburban neighborhoods. This forces builders and contractors to move to "farther out" to commuter suburbs amidst lengthier approvals, red tape delays and rising prices. Consumers resist as home prices escalate.

**Red Flag Signals**

Prediction: You are nearing the crest in the real estate property market, although you may not be there yet, specifically in homes sales. I further predict that when the crest is reached, you'll know it quickly. Deals will start to fall out of escrow for no reason, listings will double, time-on-market will double and brokers will wring their hands. "For Sale" signs will triple.

**Still Money to Be Made**

If you don't own any property but want to make money in real estate, you can either: A) Wait until the crest is reached and the downturn goes on for a couple of years or so or, B) Search in other venues.

Forecast: While home prices may be approaching a peak in the current real estate cycle, there are still segments of the property market that have not gone up, and will continue to rise well beyond a slowdown in house sales.

**Where Should You Search?**

It's best to be within commuting distance of metro job centers - say a one hour maximum one-way commute to jobs; two hours each way is too far away. Previous Forecaster reports suggested areas in Pinal County, Arizona near Highway 60, east of Phoenix; outlying Orlando, Florida, DuPage/ Joliet/Fox Counties west of Chicagoland (not Cook County) in Chicago Joliet/Aurora triangle and a few other growth areas.

**What's Still Cheap?**

When I mention areas where prices have not soared as much, I'm thinking more in terms of different kinds of properties than outlying suburban single family homes.

A. Leased farmland in growth areas in Kern County outside Bakersfield, CA, some rental rates have gone up hardly at all in 20 years. I know property owners who are still leasing farmland to ranchers and farmers at 1980 prices!

B. Another area where prices have not risen so much is on small cash-flow rental properties such as triplexes and four-plexes, which usually sell at a multiple of income generated. If a property generates, say, \$50,000 in GRI (Gross Rental Income yearly), then it might sell at a multiple of 10x to 15x GRI.

#### What To Avoid

Avoid rent-controlled communities like the plague. What you're trying to do is buy poorly managed, neglected but modern buildings where some careful updating can give you the opportunity to increase rental cash flow 20% to 50% GRI yearly or more.

C. Small commercial business buildings on arterial suburban highways, with heavy traffic frontage have hardly budged since the late 1990s tech-wreck. Plenty of our members are renting office space, store space, clinic space and practitioner space in high rise buildings at ever-escalating rents. It might be time to huddle with your CPA and consider owning your own small business building - 5000-15,000 square feet, renting out the surplus space to your peers to help pay down the mortgage on a 15-year FRM at 6% or so. You'll gain great tax benefits and probably capital gains. These types of buildings have not escalated in price in most areas, not the way home prices have doubled and tripled!

D. I also like PDL (Pre-Development Land) properties where new development is coming in, purchased with commercial highway frontage near freeway exits, but purchased at residential zoning or AG zoning prices for future commercial zoning upgrades as development goes in. Get some income cash flow from old houses or other buildings on the highway or on vacant land and at least lease it out to nearby farmers, equipment parking lots, etc., for cash flow income to defray holding expenses each year until the development creeps your way!

Valuable Tip: Highway ad billboards can bring cash flow rents of \$1,200 to \$2,000 each per month!

Summary: Yes, there is still lots of money to be made in property. Suggestion - recognize that property cycles can be different for different types of property: homes, farmland, PDL, cash flow small triplexes, four-plexes, apartment buildings, cash flow commercial buildings and office buildings with excess space to be rented out.

Highway ad billboards can bring cash flow rents of \$1,200 to \$2,000 each per month!

In other words, you expand your prospecting and bargain hunting to different types of properties than just homes for substantial capital gains. Two books that have made big money for our clients are, How to Make Money Fast Speculating in Distressed Property and The Complete Home Study Course by Dr. Richard Powelson.

#### Making Big Capital Gains with PDL: The "Middle Kingdom"

The Forecaster has published a series of new reports in 2006 about making money with Pre-Development Land (PDL). This involves buying vacant property for potential upzoning from one to 7 miles ahead of already developing commercial property in outlying suburbs near major metro job centers. PDL buyers are trying to get ahead of the curve several years before obvious development shows up; years before the Holiday Inns and Ramadas and gas stations pepper freeway exits and highways and before the fast food franchises and other buyers move in.

You want high traffic highway frontage that is currently zoned residential or agricultural. You prefer buildings on it that you can rent out to help carrying costs. You prefer seller financing since vacant land or PDL property is harder to get a decent loan upon.

PDL buyers want property where development is years away, but still within commuting distance of major job centers. You pay more because you'll have some competition for the PDL property, but you do negotiate and prospect in particular areas.

#### The "Middle Kingdom" Force Time to Work for You, Not Against You

If you're a recent grad, middle-aged manager, clinician, or have a family to raise and educate, you probably don't have much money to spend hence you seek seller financing. But you may have 10% or 20% to put as a down payment.

It's likely the obvious corner acreage, an intersection stoplight parcel, is beyond your means as it is, perhaps, already priced near \$1 million or more.

Forecaster Middle Kingdom refers to the third or fourth lot from the corner, usually several acres (2½, 5, or 10 acres). It's even better if that has an old block building on it, say, a rock shop, a thrift store or a 50-year-old large house - whatever you can rent out to generate monthly bucks. If it's a larger parcel, 7½ acres or 10 acres, you may be able to lease it to a truck farmer or as a parking lot for heavy equipment. Failing that, you may lease it to a billboard ad agency for \$1,200 to \$2,000 per month rental, so advertisers can easily put up signs that will be seen from the highway.

You need the frontage, though, not some back parcel half a block off the highway. You need the frontage for the big capital gains that you're hoping for of 300% to 1,000% or more on PDL land.

#### Last to Sell

When you get your parcel locked up, purchased and financed, down the highway from the corner a bit, what you're really seeking is a big developer to come in and buy up 20 acres or more for that hotel or larger shopping center, including your parcel. Let them come to you. You may put up a sign.

Your lot should sit somewhere near the center of any development, but be a key lot in the Middle Kingdom (the proposed shopping center development anchored by large supermarkets, department stores, or hotels).

If you select correctly, you'll want to be the last owner to sell. Let the developers and shopping center operators first tie up all their land at the corner and neighbors' lots toward you and around you on the other side. You must not be tempted by attractive offers, before the bulldozers arrive.

Let the other owners sell out too cheap. Let the intersection corner owners get their big chunk...they paid more to get more.

During the development period, when the operators may be operating, you will likely get many solicitations from brokers who want to list your property. These brokers are looking over the tax rolls, and can tell by the government stamps how much you paid, which whets their appetite for your property.

#### Weasels Hoping For a Dummy?

What many brokers, developers, and speculators are seeking is a dummy who doesn't know how much land values increased and who will sell too cheap.

You stayed abreast by a subscription to the local paper, by attending County planning meetings, zoning hearings, interviewing Chamber of Commerce people and other such informative sessions for several years before the developers and bulldozers arrive.

Warning: Those with big plans for adjacent parcels (plus yours) may even seek to intimidate or bulldoze you, saying things to force you to sell to them at the earliest date.

You'll also meet potential buyers and brokers who want to tie up your property with a small down payment, and a long escrow or option.

You'll find others who want to write a "weasel" clause into the initial purchase contract, so they can get back their full deposit 100% if they don't give their "approval" to the soil sample, the zoning, or other weasel clauses. Learn how to write and identify those weasel clauses (so they can't be used against you). I suggest Dr. Richard Powelson's course.

Question from PDL landowner: Am I required to sell at current market when I sell?

Answer: No. The parcel next to you may have traded recently at \$X per acre and the one down the street on the other side or across the street too.

But once the developer gets all his other properties locked up with deposits or options and you're the last holdout, what you can do is ask for two or three times what the developer paid for adjacent acreage or nearby property. Instead, you want to be the last one to sell at the highest price - not the early bird who sold cheaper just because he'd had it on the market for years and this was the first "live buyer" he got!

Also, when you do sell, don't sell for a \$500 or \$2,000 deposit with a long escrow. That's basically an option to buy to get your property "off the market". Instead, you'll want at least a \$10,000 or more deposit (depending upon the size of the property and your potential selling price) - not some puny \$500 deposit.

Valuable Tip: When I ask for a deposit, I usually want to get at least 5% to 10% into escrow so if the property falls out of escrow due to flimsy financing or another reason beyond my control, I'll at least get liquidated damages of 10% or so of the property's sale price for keeping it off the market during the escrow period! Simple enough.

If you hold the key lot to the Middle Kingdom, you can charge more and you can ask for a larger deposit than may have taken place on adjacent or nearby properties! That's how you make big capital gains. Developed property will be worth far more once the bulldozers arrive and buildings start going up!

Regarding long escrows: Don't forget that you'll be the one paying property taxes during lengthy escrows that developers may ask for, not them. So, ask for larger deposits and potential liquidation damages without weasel clauses in case sale fails to close.

Tip: Do not take checks you can't deposit upon receipt. Instead ask for cashier's checks to sign a deal, no "hold until closing checks". Have fun, make money, prospect steadily, lock PDL early and sell last!

***[Editor's Note: Don't miss Mr. Kamin's FREE SEMINAR titled "What's Ahead for 2006-2056 and Beyond...How to Profit" which will be held at the "Million Dollar" Trade Show and Educational Conference at the Long Beach Convention Center. Please see the back of this issue for exact time and location].***

*John Kamin is a Consulting Economist and publisher of The Forecaster, 19623 Ventura Blvd., Tarzana, CA 91356, (818) 345-4421. \$180 per year. For more money making ideas, order his latest book Active Money Strategies & Hidden Wealth Builder Secrets For Young Adults: What They Were Afraid To Teach You In School, If They Ever Knew! \$20 plus \$4 shipping and handling and \$1.65 tax. (95 pages.)*

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