

How and Where to Make a Fortune in Real Estate

By John V. Kamin

Builders often think three to 12 months ahead, buying land “as available” to build houses and keep their work crews together.

They finance the early purchase of new land by using options and loans as they sell off the homes under construction; that’s the traditional way.

The problem is, with the home-building boom propping the USA economy, providing jobs during a 2003-2006 expansion, there’s now a shortage of metro building lots.

Second New Trend: The shortage has led to building of McMansions (big new multi-story homes in older neighborhoods) and buying up smaller “tear-down” houses. That sets nearby property owners’ teeth on edge as the McMansions rise.

The usual response, builders going far out into the suburbs and then buying up tracts of land for hurry-up building, is stalled. The high price of gas is discouraging lengthier commutes. Also discouraging: clogged freeways and highways, lengthening commute time, costly gas and cars.

Another New 2006 Trend: Getting the homebuilding zoning is proving tougher and more time-consuming for builders who are operating on shorter schedules. Builders don’t want to wait two to four years for a zoning commission to grant them permission to build.

Prediction: As interest rates rise, it becomes costlier for home builders, especially those whose credit may be already stretched thin or near limits to absorb delays as readily-buildable home sites grow scarcer. Since the Federal Reserve Bank (FRB) raised interest rates 17 times since 2003, it simply costs a lot more money to hold raw land, before you get the go-ahead to build and start selling! Profit strategy? Get that dirt!

Several large firms have now decided to tie up huge tracts of land for building in five to 10 years. Once land-accumulators get the land tied up, by purchase or options, then they start work on getting the zoning and the planning for utilities, etc. That way, they can buy 1000s of acres and later resell to builders 10 lots to 100 lots at a time!

Dirt buyers’ problem? They must figure out in advance where people will want to live in 2011 to 2016. Where they will want to buy? One answer upon which they focus? Go for the growth areas, concentrate on them, in states such as California, Arizona, Nevada, Hawaii, Florida, and even New Mexico. (How did New Mexico sneak in there?)

Clark County (Las Vegas), Nevada is unquestionably a growth area, as is Orange County, Florida; Orange County, CA; the San Diego/L.A. corridor, counties near San Jose (Silicon Valley) and Phoenix. Smaller but often fast-growing cities are: Bakersfield, CA, Tucson, Arizona, Reno, Nevada and some others.

Summary: Their main idea is: 1) Think five to 10 years ahead. 2) Tie up large tracts of land, ranging from sections to 1000s of acres of agricultural land. 3) Rezone for houses within the next decade.

The cheap way? You tie up the land in partial sections, using five-year options of 5% or so per year for the right to buy. Meanwhile, the farmer/rancher/owner pays the property taxes and upkeep until you do buy or until your option expires.

If you don’t buy, you just lose the 5% or 10% per year option value. But if the area does develop as you expected, then you buy and make fortunes!

Sound interesting? Some firms are set up to provide financing for land developers. Large pension funds like to get in on these deals, both for financing (collecting interest) with some added equity positions in the land.

Pre-Development Land: Make Fortunes!

Forecaster Moneyletters 2004-2005 suggested buying PDL (Pre-development land) with commercial potential and highway frontage. Basically, you're buying small acreage parcels for potential up-selling, but you're buying or optioning the acreage at agricultural land prices. One recent Forecaster moneymaking suggestion was buying in Pinal County, Arizona near the Maricopa County line along Highway 60 exits! Early buyers watched values soar! Maybe, if it has some old farm buildings or other rentable barns, you can rent out the buildings or lease out the land for occupancy, storage, or even billboards at \$1,200 each per month and up. In the meantime, as the cities and metro areas grow toward you, you've covered your carrying costs, and hopefully the land grows in value.

PDL land can be a great capital gains maker. Leasing it out to farmers, ranchers or occupants while you wait can cover the carrying costs in case the development doesn't show up as fast as you planned, or in case you get a long-lasting recession, or if you've blundered on the growth potential.

Caveat: PDL must have the potential commercial blacktop arterial highway frontage in order to grow; not something off the main drag, or a block or six blocks off to the side of the highway. It helps to be at or near major intersections, too, within two or three parcels. That way, when they build the hotel, mall, shopping center, or gas stations nearby, developers have to buy your small acreage parcels to expand.

Remember with PDL, following the big dirt-buyers/developers is good, even if the big boys don't plan to develop the land for five to 10 years. If they put up 2,000 homes on their massive acreage, all those residents will need malls, fuel, entertainment, shopping and other facilities! That's where you, the PDL lockup owner/buyer comes in. You bought two to 20 acres at farmland or ranchland prices, but you then rezone it for commercial usage!

More on this and other smart money-making, forward-looking ventures in upcoming Forecaster reports. Don't miss.

Foreclosure Sales Increase; So Do Foreclosure Websites

With numbers rising on homes in foreclosure, estimated up 53%, many more people are becoming interested in buying a home in foreclosure. Why? Cheaper price. It's like buying a used car, depreciated, instead of a new one at a much higher price.

Prediction: There are more foreclosures to come! Example: Many people with little down payment or none, opted for ARMs (Adjustable Rate Mortgages). But when the Federal Reserve raised interest rates 17 times in a row, rates on ARMs (and monthly payments) have begun to soar.

Forecast: ARM rates are going much higher as are the newly-figured monthly payments! It's logical that there will be people who can't afford the new payments and won't make them.

Valuable Tip: In metro areas, watch how busy the local locksmiths are (ask them). If they're super-busy (changing locks for recently-foreclosed homes given back to lenders on bad loans) then foreclosures in your area indeed are increasing rapidly.

One of my favorite ways to find foreclosed properties has always been to peruse county legal newspapers (where foreclosure notices are published, also notices of Trustee Sales). Then, you can go to the courthouse steps at the Trustee Sale (or wherever the foreclosure sale is being held by the mortgage holder) with a cashier's check as a deposit (usually \$10,000) and try to buy the home cheap.

Clean deals. At the Trustee Sale or mortgage lender's sale, the lender is only allowed to bid the price of the amount owing on the mortgage plus attendant costs. Usually, that wipes out all subordinate liens and mortgages, such as second mortgages, third loans and home equity loans. You buy the property free and clear. (E.G. I bought one uncontested property at \$500 above the price of the mortgage loan plus outstanding costs. I guess I could have bid \$1 above the lender's bid and still got the property.)

For more on these methods, I refer you to our bestselling book, How to Make Money Fast Speculating In Distressed Property.

Websites May Help In Locating Properties in Foreclosure

One website that's run by the government that lists properties that it is foreclosing upon or have already foreclosed is www.homesales.gov. This serves foreclosed properties sold by FHA, USDA, and VA. HUD, which also forecloses on thousands of properties, has its own website.

Some non-free websites are www.realtytrac.com and www.foreclosure.com. The problem that exists with many websites is that the properties are not available, or not even for sale. TIP: Just because someone has filed a default notice against someone who has not paid a couple of mortgage payments does not mean the property is for sale yet. Also, many of the properties listed on private websites may have already been sold.

No Substitute for Your Eyeballs

Prediction: You will not be able to go 100% by the appraisals that are on various websites. Just as with used cars, a 2002 Chevrolet may have 8,000 miles or 158,000 miles on it, no matter the price. It may have interior damage, body damage and engine damage. There's no substitute for "eyeballing" and inspecting an individual property and coming up with your own estimate of its worth. You can check the appraisal, check recent "comps" (comparable sales in that area) free with a realtor, or if it's an expensive building, you can even hire your own appraiser for a "quickie estimate". But your eyeballs may turn up broken windows, burst pipes, leaking roofs or unusable carpeting that the websites do not show. I don't think I've ever purchased a property that didn't need thousands of dollar's worth of work; much of it hidden, or only discovered upon closer inspection. You are free to hire a paid appraiser of your choice, too.

Warning: If you are using appraisals done in 2005, 2004, and earlier, they could be obsolete and off the mark.

Forecast: Foreclosure sales are going to become a lucrative way to make money from 2007 to 2020. But not right now, since many homeowners in foreclosure don't have much equity. Maybe they bought with low down payments, 5% down, or nothing down. There's not much money to be made if there's no equity in the property after you fix it up and re-rent or re-market it! You need property that has at least 20% to 35% equity (resale value) to make big money. If the homeowner only put 3% down and walked away after missing a few payments, there will be little or no equity on a recently-purchased house

now in foreclosure. Careful. There's money to be made, but it requires eyeballing, patience, inspection, current appraisal, good location, and some "seed capital". The property itself may require some expensive tender loving care before you can resell it or even get a high loan-to-value upon it with refinancing.

Tip: Most of the properties sold by VA, HUD, USDA, FHA and other government entities, the financing can be arranged through the government at low rates upon qualifying. But not all.

Some of the best deals may be sold at auction with no guarantees and no recourse. I prefer those, especially if the auction has "no reserve" (required minimum bid amount)!

Buy Far-Away Properties?

Prospecting. My motto is, "If you can't afford to inspect it, if you can't afford to walk every foot of it, you can't afford to buy it."

But I do encourage you to prospect, beginning right now, in your treasure hunt for undervalued must-be-sold properties. What if you've already looked at six or 10 properties and found nothing? You're not working hard enough. In my experience, I have to look at 100 carefully-selected properties (not just drive-bys with the realtors) to find three properties upon which I may wish to make an offer, of which one or two may be finally acceptable, or worth negotiating upon.

But with \$100,000s of potential profits at stake, it's worth some footwork, investigation, and days, weeks, or months of prospecting time. After all, if you don't prospect for foreclosures, how much money can you expect to make in foreclosures? That's right, none. Just get out there and do it. Have fun with your money. I guarantee you'll learn something, and it could be exceedingly profitable, although I can't guarantee your profits!

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 + \$4 s & h Add \$1.65 tax. 95 pages.

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