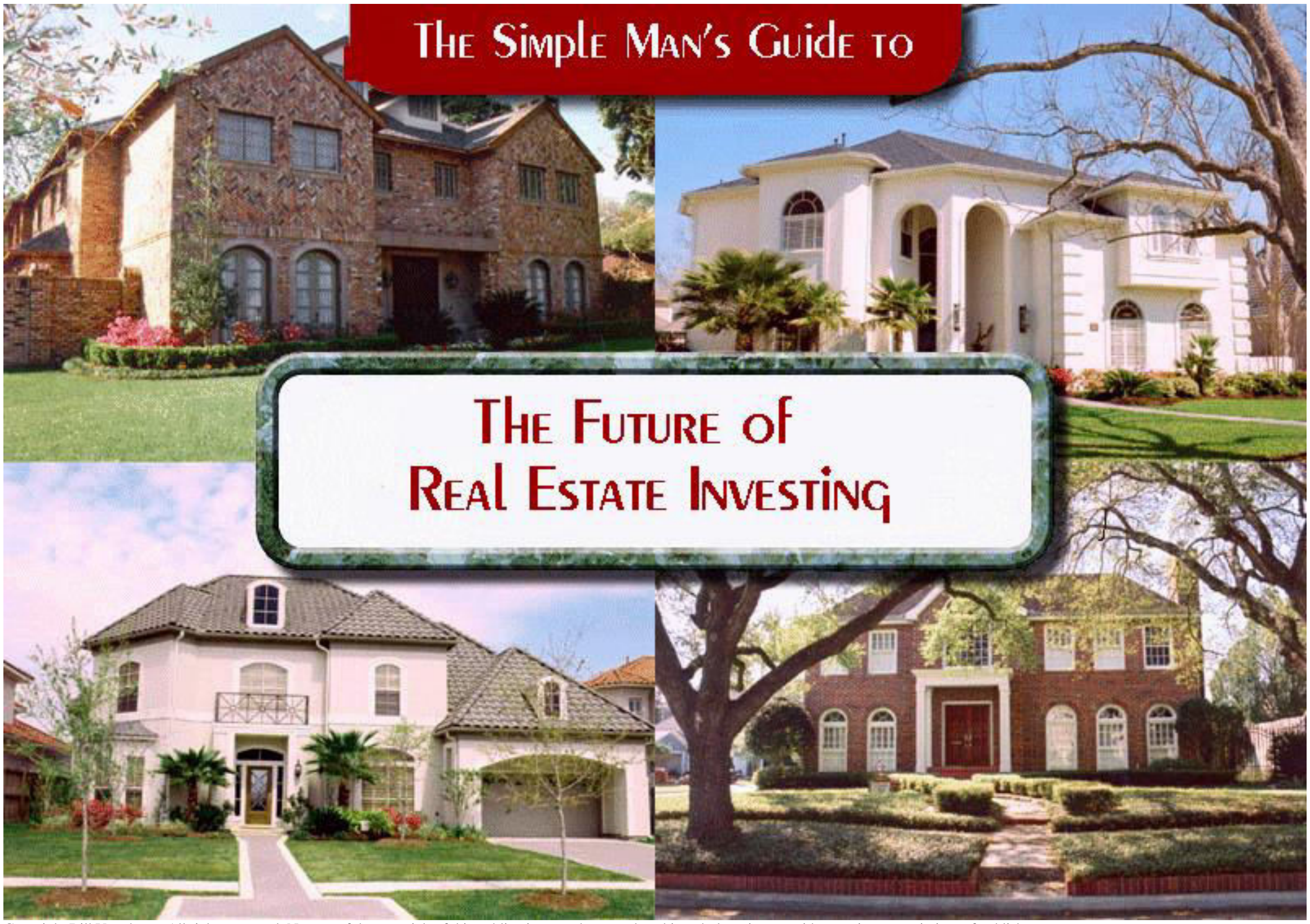

The Future of Real Estate Investing

What You Need To Know To Succeed in the
Coming Era of Major Change

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market parameters in your area at any given
time. Inflation and other economic factors may somewhat alter certain formulas and their results.

About The Author

My name is Bill Vaughn. A yankee by birth and a devoted husband by choice,it is my loving wife and precious daughter who have motivated me beyond what I thought myself capable of. And although I do have a Masters

degree in business, this came only after I had become a successful real estate investor. Real estate profits earned me a college education that I had not been able to afford when I was a young man.

Over the years (no, I do not wish to recall how many) I have had the good fortune to do a fair amount of investing in real estate. I have also had the misfotune of having to learn by trial-and-error. All in all, however,I feel satisfied that I have done quite well.

In 1989 I authored the somewhat well-known real estate program, "The Simple Man's Guide to Real Estate" which sold hundreds of thousands of copies during the years since, via the wonders of the World Wide Web. The success of that program - and of the thousands of students it serves - has prompted me to give serious thought to the future of real estate investing. Research has led me to firmly believe that investing techniques must soon change radically, simply because, as noted by the Census Bureau, the population is expected to double within the next 50 years. And, while the population increases, the available lands do not. More on this later. Suffice it to say, investors who begin planning the new strategies adapted to this situation will be those who continue to prosper, while those who choose to believe that investing won't change will, in all likelihood, go the way of the Dodo bird - and so will their hard-earned wealth.

That said, let's begin by taking a long, hard look at the likely scenario if, indeed, the population doubles within the next 50 years.

The Birthing of a New Age

Barring a world-wide catastrophe that could thwart the expected population growth, the US Census Bureau estimates the population of the world will double within the next 50 years. But what does that really mean, since the current population of the United States is only 260 million? (UPDATE: As of 2010 the population is roughly 320 million, as predicted herein) Would we, in 50 years have a population of a mere 500 million?

While I would like to believe we could keep it down to such a small number, that would be virtually impossible. Many countries have already reached their "carrying capacity", and many more are not far behind. Soon, one of two events must occur out of sheer necessity - either there will be major wars or pandemic to effect adverse possession of greater geographic regions so a country's population can be sustained, or international borders as we known them will have to be removed, allowing the immigration of people to readily take up residence wherever available lands will allow.

In the 16th - 18th centuries, people emmigrated from the old world to the Americas simply because there was no opportunity for them to better themselves. Too many people; too little land; all too little opportunity. During this, the 21st century, we will likely see a mass emmigration to countries where land is still available. One such country is the United States. I believe it is safe to say that, precluding wholesale catastrophe and wars, the population in America could easily balloon to over one billion souls, each one needing a place to live. That is more than four times the current population. Yet even now, land values are rising as available lands fall to development.

Imagine trying to buy a little piece of this planet when there are 6 billion people jammed onto it, each one tenaciously vying for space! Can you possibly believe that, given such circumstances, current real estate investment techniques will work? I doubt it.

It is said that "those who do not learn from history are doomed to repeat it". If we really want to gain some insight into coming changes, we need only to study the past.

In Hawaii, for example, the amount of land area is terribly small in comparison to the demand for it. To cope with this dilemma, it has come to pass that while it is still possible to buy a home in Hawaii, it is almost impossible to buy the land it sits on. Homebuyers are usually forced to lease the land their homes rest on, because the owners of that land realize all to well the value of it. Ownership of the small amount of available land insures a prosperous future for generations to come. Loss of ownership of that land results in becoming one of the masses at the mercy of those who own the land.

You can find this same scenario throughout the British Isles, Europe and countries like Japan, where population has already exceeded carrying capacity. Judging from what has already begun elsewhere, I believe it is safe to assume that a similar scenario will soon take place here in the States, as well as Canada and parts of South

America.

Okay, by now you are sneaking ahead of me and you might be saying something like, "So what? It will take 30 years for the U.S. population to double, and 50 for it to hit a billion. By then, I'll either be dead or too old to care!"

But let's consider that a moment. While you, yourself, may be dead or too old to care, your children, grand- children and future generations of your family will be the ones suffering if you have not taken steps to insure their future. They will not be able to do it themselves, because land will no longer be available except to the excessively rich. Is this the social position you want for your family for generations to come? At the mercy of those who do own the land? Never being able to get ahead because land leases keep rising as the demand continues to grow? This has already happened in the Isles, parts of Europe, Japan and Hawaii. Again, "Those who do not learn from history are doomed to repeat it...repeat it...repeat it...".

Of course, as with any prediction, no matter how logical it may be, there will always be those who will rebutt it. Some will say that real estate will remain as it has always been, others will state with some certainty that the population will not reach expectations simply because Mother Nature tends to step in periodically with a catastrophy that decimates the population.

Let's look at those thoughts for a moment. Is it realistic to believe the population in the US could grow to a billion people without it affecting how real estate is handled? What about that phrase "...as it has always been".This would infer that real estate transactions have not changed in the past. But, in fact, they have. For example, let's go out tomorrow and try to find a lender who will write a fully assumable mortgage! Or go into the heart of urban New York and find an apartment building that is not rent controlled. Perhaps you may want to run out and simply stake your claim on a piece of government owned land and build your home on it. The point is, real estate has always been in a state of continual change. And it will continue to remain in a state of change as long as the population grows and the amount of land remains unchanged.

That takes us to the theory that Mother Nature is going to knock us for a loop. In all likelihood, she will. But never in the recorded history of Man has nature decimated the population to the point of stagnation. Man has always propagated himself to the point of continual growth. In spite a century of WW1, WW2, a half dozen other wars, the pandemic of flu in 1918 (which claimed over 40 million lives), AIDS, and much more, Man is more proliferate than ever before. Sure, we get the wind knocked out of our sails every so often, but we always seem to recover - and expand - even more quickly.

Logic and common sense, along with a knowledge of history should prove to us that change is imminent. Those who prepare for it will prosper. The rest will fade into the ever-growing crowd. The decision you make now will affect the future of your family for many generations to come. Make that decision wisely.

Assuming that I now have your attention and there is a growing concern in the pit of your stomach as you try to visualize a billion people in the States and 12 billion world-wide, let's take it another step further.

We will assume that you are leaning toward a desire to become a holder of the lands, for the sake of your family's future security. We will further assume you are familiar with current investment strategies (if not, you may want to obtain a copy of "The Simple Man's Guide to Real Estate" atwww.intellibiz.com). How can you use what you know to get from point A to point B without going broke? It costs big bucks to buy real estate, and the headaches of being a landlord to dozens - perhaps hundreds - is not at all appealing.

Take heart, dear reader - all is not lost. Where there are problems, there are solutions. They may not be obvious, at first, but they are there, and you can use them. That is the sole purpose of this book, to give you the know-how and the tools to begin preparing for the coming of the New Age of Real Estate.

If you are not well-versed in current techniques, I urge you to learn them now. And while I may be somewhat biased, it is for legitimate reason thatI recommend "The Simple Man's Guide to Real Estate". It is comprehensive, easy to understand and it works! You will need to know some of these techniques if you are to begin adapting to the coming changes. Their use will put you in the position you will need to find yourself in if you are to realize success in the future.

For those of you not well-versed, current techniques will be briefly detailed in this book so that you may better understand how everything works to your best advantage. But you would still be wise to become adept at using them, and understand them intimately.

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The Winds of Change

The entire premise for this book is based upon a rapidly expanding population, all of whom need space in which to exist. Once the population approaches 10 billion, major changes must begin to take place if we are to survive. Yet one thing is certain not to change - the availability of land! It is highly unlikely that humankind will be colonizing other planets in the next 100 years. It is just as unlikely that underwater colonies deep within the bowels of the oceans will become a reality during this period. Therefore, barring a de-populating factor on a catastrophic scale, land will become scarce and of ever-increasing value.

This leads me to firmly believe that owners of land will, as time goes by, become more and more reluctant to sell those lands. Instead of selling land, they will begin leasing it, as is currently the practice in many areas around the world. America will see the rise of Land Barons - those who own the lands - and the masses who lease them.

In a way, this makes perfect sense. After all, we are all here for just a short time, and then we leave everything behind. So why should we actually have to own the land as long as we can still live on it?

In time, homebuyers will still be able to buy homes, or even build their homes, but it will be on land that is leased from those who own the lands. The landowners will make the rules, and will profit for many generations to come

from the leases they have given to others. A steady, perpetual stream of income, without any of the headaches associated with being a landlord. The land owner is responsible only for the land, not the buildings on it. The buildings will be privately and separately owned, either by those who occupy them, or by other landlords who have built or purchased the homes as rental properties. Of course, the land baron could also build such homes on his lands, then either sell or rent those homes to others. But the land will not be sold - only the buildings on it. The occupants of the homes will have to lease the land from the landowner.

As available lands shrink, it is likely that laws will be passed to protect homeowners from unscrupulous land barons. Land leases will be formulated with some protections built in, by legislative action. But all in all, the masses will still be at the mercy of the owners of the land, much as the masses are currently at the mercy of landlords and employers.

Land leases will vary in length of term, cost of the lease, payment options and the rights the landowner may retain to the land. For example, a landowner might include in his lease agreement that he shall retain the right to harvest timber from some portions of the land, farm certain tracts, or even drill for oil, all of which can be largely inconvenient for the homeowner. Some may include automatic increases in the lease, to account for increasing taxes and expenses. The lease agreement might even specify that in the event the home is destroyed by a disaster (fire, flood, tornado etc.) that the lessee shall have a short period of time to rebuild, and if not done, the lease becomes void. The landlord may then lease to another, at a higher rate.

Furthermore, it would become necessary for the landlord to protect himself from non-payment of lease. Nowadays, a landlord only needs to evict the tenant. But if that tenant actually owns the house that sits on your land, how can you evict? What recourse does the landlord have?

It is possible the landlord's lease will include a clause that will allow him to place a mechanic's lien on the house in the case of non-payment. If this is the case, the tenant could put him off until the tenant eventually sells the house - if ever - at which time the lien would have to be paid off, with interest and late fees. More likely, however, the landlord will include a clause that states any lease payment not made on time will automatically become a second mortgage on the house. When three such payments are included in that mortgage, the homeowner can be charged in default, and the landowner will have the right to force foreclosure. The tenant would then lose his home, as is often the case today.

When the mortgage on the house is separate from the land, such protective measures will be necessary. Otherwise, landlords will find themselves never getting paid. On the other hand, the homeowner or tenant will also require certain protections, to insure that lease payments will be reasonable, to assure that land barons will not abuse the lands or violate the tenant's privacy, and to guarantee that the land baron will not cause a situation that could jeopardize the rights of the tenant. For example, if the landlord makes some bad investments and files bankruptcy, and the lands have to be sold, what will be the rights of the tenant?

In such a case it is reasonably certain that tenants - especially those who own their home - will require certain protections to be written into the lease. A wise tenant would include a clause that gives him first right of refusal in the event the property is ever offered up for sale, for any reason. The tenant might also want to include a clause that would prevent the land baron from using the land as collateral against loans, or to have liens placed on it which could jeopardize the rights of the tenant. While it is unlikely such a clause would be enforceable, it would be possible to restrict the amount of total liens that could be placed on the property. Such restriction could, for example, state that the land owner shall not mortgage the land in excess of 50% of its fair market value. In this way, should the landowner be foreclosed upon, the tenant would require less money to purchase the property, as he would still have first right of refusal if the land is ever to be sold.

As you can see, such changes will require an entirely new set of rules for real estate, whether you are an investor, a landowner, a homeowner or the landlord who rents the homes. It will also mean new rules for (and from) lenders, the government, Realtors and Title Agents. No area of real estate would be left untouched.

The Coming King of Techniques

You may be wondering, what with all the possible changes, which technique will come to rule the roost of real estate. Will it still be the standard purchase agreement, used by those who want to own their own home, revised to include only the buildings and not the land? Or is is more likely that it will be primarily a lease of both the buildings and the land? The lease option and contract for deed will probably be very limited in their use, due

mainly to the due-on-sale clause which is likely to remain written into all mortgages. They can still be used for properties that are owned free and clear, or those that are privately financed.

In "The Simple Man's Guide to Real Estate" I included a chapter entitled "Sell the House, Lease the Land". This little-known technique is likely to become king within the next two or three decades as land begins to disappear from the selling block, but will soon make way for a revised purchase agreement, which is likely to retain the crown for a long time to come. In other words, there must be a transition from the needs of today to the requirements of tomorrow.

To help you to understand this more fully, we should first take a peek through the window of tomorrow. Once we know how things are likely to end up, it will become much clearer as to the steps which must be taken to get there. And knowing those steps is paramount to being successful in setting yourself up to be on top of the pile when the fat lady sings.

Imagine a world in which the population of America quadruples to approximately one billion. For every person you now see during your present day, you will now see four. For every car that ties up traffic on your way to the mall, there will be four. Businesses, industries and residential homes and apartments will quadruple as well.
Where there are fields today, there will be industrial and commercial centers, homes and apartment buildings. After all, one billion people need jobs and places to live. For every home that now exists, there will be three more in fifty years. A crowded world, to be sure.

As you take a closer look, you will discover that certain individuals own the land and never sell it. Some will own small parcels - perhaps just the one there home is on, which they inherited. Others will own vast amounts of land. Everyone else in that tremendous crowd will either live in a leased apartment or home, or will own a home that rests on someone else's land. Such homes will be bought and sold just as they are today, except that the land will not be included - it is too scarce, and much too valuable to sell. Nearly every available plot will have homes built upon it. Local ordinances restricting the building of homes unless they are on large, expansive lots will no longer be valid - homes will, by necessity, be built upon smaller and smaller parcels. Condos, townhouses and multiplexes will abound in an attempt to house as many people as possible.

You may also begin to notice something very new. A vast number of these homes, condos and townhouses are owned by large corporations. These corporations, forecasting the need for land, had purchased huge tracts of land. Then they began building housing. Later, they would either sell those homes and lease the land, or lease both. They were well aware that perpetual profits would come from these lands, with a minimum of maintenance and expense.

This, then, is the typical American town or city in the year 2050.

As we begin to thread our way back through time, we notice that around 2035 that major corporations are beginning to buy up all the real estate they can afford to lay their hands on. Their managers are already seeing the coming trend, and they are beginning to lay the groundwork to insure they will be prepared for what will soon be. But they, in turn, might be somewhat disappointed to learn that a lot of parcels are already locked up tight, owned by the families of investors who began earlier still. They had read this book, took it to heart and began putting together transactions designed to put more and more land into their private portfolios. Some of these families, I'm sure, will cut their own throats and sell their holdings to the big corporations, or to other wealthy investors. But the smart ones will keep their lands, because they know they will never, ever again be able to replace them at any price. They know the future of their families for many generations to come will depend upon that land for their income.

The land they own is now paid for because they had the foresight to buy it before it was so scarce.

They are already leasing it to homeowners and tenants. Some are building more living units on their land, because they will make more income from leases as the number of units increases. Land, then, will become like apartment buildings today - the more units you have on the land, the more lease payments you can collect. Each new unit reduces the per unit expenses, increasing profits further.

We begin to slide back to the year 2010. The population has already increased in the U.S. to about 320 million (UPDATE - it is now 2010 and the population is nearly 320 million as predicted her 10 years ago), and the crunch is already becoming noticable to those who are wise enough to see the signs. Homeowners are increasingly reluctant to sell the land. Instead, they sell only the house, then lease the land to the homeowner. This trend is growing. Investors, noticing this trend begin scurrying to buy up available properties - there is a very real boom

about to begin in real estate. Somehow you get the uneasy feeling that soon- very soon - it will be nearly impossible to buy a little piece of the earth to rest your weary bones upon.

Bankers have already begun writing a different kind of mortgage - the "split" mortgage. Investors, wanting to keep the land but not the house will create a market for this new kind of mortgage. This split mortgage will consist of two separate mortgages - one on the land, the other on the buildings. Split mortgages are convenient because the investor can then sell the house without having to pay off one mortgage and getting another on just the land. Bankers will appreciate not having to write new (and redundant) mortgages on the same properties over and over again. Banks will also appreciate the simple fact that they will make more money, as more and more families can now afford to buy their own homes, because they are not buying the expensive land that it sits on, nor will they have to pay as much property tax - the land owner pays the portion that applies to the land. Oh, but the bankers are a happy bunch! And all those families who can now afford owning their own homes are also very ecstatic. And all those businesses that make their living from homeowners who furnish, appliance, remodel and maintain their homes. Times are good, indeed. But underneath all of this prosperity lies those clever individuals who sparked it all - those cagey investors who looked into the future and began preparing for it by bu ying - and holding onto -the land.

Getting From Here to There

Fifty years is a big step. In fact, many of us will no longer be alive in 2050. But our families, hopefully, will see that time, and that scenario. Will they be the lessee or the lessor? With they take in the wealth, or will they pay it out? That depends, of course, on what you decide to do now. Either you will begin taking the appropriate steps to be the owner of the lands, or you will not. That choice rests with you. For those who have already decided to be on the winning side (and those who may yet be undecided), from this point on we will look into the methods available which can take you from where you are now, to where you want your family to be in the next few decades. As you can see from the logical timetable earlier, the time to start is now. It takes time and effort to build a portfolio of lands that will be paid off in time to take advantage of the new age of real estate. And they must be paid off! If they are not, you will be vulnerable. Everyone will want your lands, and if you still owe on them, that leaves the door ajar for them to get those lands. The objective should be to build up as large a portfolio of lands as you possibly can, and have them fully paid off by the year 2025 or 2030. And while that may seem a long time to get into position, it is not suggested you rest on your laurels - it will take you that long to get those lands paid off, particularly if you hold many, or large parcels.

If you are already investing - or plan to start soon - the easiest method of getting started is to simply begin retaining rights on properties yousell. Most homeowners won't complain if you keep air rights above 10 feet over their house. Unless, of course, they plan on building a high-rise home. Simply insert a clause into your agreement that states that you, the seller, retain all air rights of the property above a certain height. I normally allow for about 10 feet above the existing roofline, to allow the homeowner to install an antennae, satellite dish or whatever.

I can hear some of you saying, "What for? What good does that do?" Well,I'm here to tell you that such rights can become extremely valuable in the future. Even today, cell towers and high buildings are going up everywhere. If you own the air rights, people have to pay you to build such things, or they will be encroaching on your legal rights. Imagine fifty years from now when the population is so great, just how many existing buildings will have to rise upward? Owners, wanting the most units per parcel of land (to increase income and decrease costs) will want to add units. And adding UPWARD requires the least amount of land, which is too valuable to waste. If you are the smart investor that owns the "worthless" air rights above that property, he will have to buy those rights from you before he can build. Get the idea? You could very well be holding some pretty powerful aces. What if your great-grandfather had obtained air rights over New York or LA before the skyscrapers were built? Ash the Rockefellers - their ancestors did exactly that!

But what good does that do? Once you sell those rights, you no longer have the asset you need. The ace has been played! Not necessarily true, my friend. No one says you need to sell those air rights for money, You can trade them - for an owner-interest in the land. While you won't get a full ½ ownership of the land, your air rights should get you at least 10% ownership of the land and entitle you to a 10% cut of all income from that land. Your 10% ownership will be inherited by your heirs, throughout the generations. A 10% ownership of 10 parcels is equal to 100% ownership of one parcel, with a huge difference: your parcels have not cost you a dime. They came from air rights that you arbitrarily kept from previously owned properties. Those air rights cost you nothing.

Then again, if you own a number of small- percentages in various properties, you can trade them for full ownership in a single property, just like investors do today. This offers you more control, but it takes away the diversity. Some lands have the potential to earn more in leases than others. The more properties you hold an interest in, the better your chances of a higher income. So you would have to choose which is more important to you - diversity, or complete control.

Having mentioned diversity, let us take a look at another option for building your portfolio, particularly if you are short of funds. Many people simply are not in a position to run right out and buy a lot of real estate. But those same people could very well afford to own a part interest in some choice properties, particularly if, as an investor, you bought low and increased your equity through fix-ups. When you sell, instead of taking all your equity in cash, you can always take a part interest in the land portion of the property. Chances are good that your buyer would appreciate this - his mortgage payments will be smaller, and he still has full use of the land. Depending on just how much equity you give up, and how large an interest you hold in the land, you could avoid having to pay any taxes on that land. Simply put into the agreement that the buyer shall be liable for all property taxes, as payment in full for using (leasing) your share of the land. Now you have no expenses. Once he resells or transfers the property, you can either cash out (seller buys out your share so he can sell) or you can offer to buy the balance of the land from him and he can sell the house. After that, you will have generations of lease income flowing your way. Of course, if you can't afford to buy the balance of the land, your part ownership can continue with the next owner. And again, with enough of these part ownerships, you can trade them for full ownership of another parcel, or sell off a few so you can purchase the balance of other properties you hold an interest in. You already have willing buyers - the homeowner who uses the land. Chances are excellent he would be more than happy to buy you out.

These methods, of course, are minor, but they can get you started without much of a cash layout. From here we begin looking into more substantial methods of building up your portfolio of lands.

You could begin by approaching your banker when you enter into your next transaction. Ask him to have the appraiser provide separate appraisals for the land and the improvements (buildings). Inform him that it is your intention to get separate mortgages for each, since you plan on keeping the land and selling the house. Be prepared for any kind of reaction. Some bankers will laugh; others will be intrigued, but not interested. But there are those who will say, "Why not? It makes perfect sense, and sounds like wise investing." After all, it is exactly what corporate "raiders" do when they buy a company. They know that the individual parts of a business are usually worth more than the whole. They break it up, sell off the parts and pocket huge profits. This, then, would be your objective in your real estate transactions.

In some cases, you may very well get the land for free, or almost free. Example: a fine home on 7 acres of good land. Asking price: $150,000. Tax assessor indicates the land is worth $92,000 and the home is worth $58,000. The local government says you can subdivide the land into 2 acre lots. You get a $53,000 mortgage on the house and an $87,000 mortgage on the land. You subdivide - the house on three acres plus (2) two-acre building lots. As a single building lot, the land was worth about $13,000 per acre. As separate building lots, it is worth closer to $16,000+ per acre. Therefore, each of the two remaining lots is worth $30,000+. The house on three acres is worth approximately $93,000. You now have a number of options to choose from.

Since the land that goes with the house is valued at $39,000 and your land mortgage is $87,000, the amount of mortgage that actually rests against the other two lots is $48,000. If you sell those two lots for $30,000 each and pay off the mortgage portion they represent, you would still have $12,000 in your pocket, as well as the house with three acres, valued at $93,000. You could then sell the house only (not including the land) for $60,000 - a real bargain for a family who could never afford the $93,000 property. You pay off your $53,000 mortgage on the house and pocket the remaining $7,000. You now have $19,000 in your jeans, and you still own the three acres of land upon which the house sits, and your remaining mortgage is $39,000. Leasing the land to the new homeowners should net you approximately $250-$300 per month, and your mortgage payment on the land is approximately $350/month. To avoid a loss, you can use the $19,000 in your pocket to pay your mortgage down to $20,000. Your new mortgage payment would then be under $180/month. This nets you approximately $70-
$120/month which should take care of property taxes. Congratulations! You now own three acres of land that brings in enough income to pay for itself. In the future, it will bring in a nice profit once the mortgage is paid off and lease payments are raised in accordance with inflation and land values.

Another option would be to sell the house with the three acres and keep the(2) two-acre lots, or sell the house plus one of the lots, keeping the third lot for yourself at a total cost of nothing, give or take a few dollars. If you choose either of these options, however, it may be quite a few years before you are collecting leases on them,

unless of course you find homeowners willing to build on those lots and lease them from you. Hm-m-m. Nice possibility. They build their dream home for half-price (no land cost), and you now have two leased properties.

Let us assume, however, that you are unable to locate a banker in your area that would provide you with a split mortgage. All is not lost - you still have some interesting options at your disposal.

Let us assume that you used good investing techniques (like those in "The Simple Man's Guide") and purchased that $150,000 property for $130,000, with $10 ,000 down. You could still subdivide the (2) two-acre lots and the three acres with the house. Each two-acre lot is worth approximately $30,000, for a total of $60,000. Your mortgage is $123,000, of which the house on the three acres is worth $93,000. Assuming the bank would normally require a $5,000 down payment on a property, if someone were to purchased that $93,000 home on three acres, they would require a mortgage of $88,000.

Now, sell both two-acre lots and the house only. The house, worth $58,000, can easily be sold for $60,000 since the homebuyer is getting a big break not having to buy the land. The two lots will fetch about $60,000, all for a total of $120,000, which pays off your mortgage. You now own the three acres of land, free of any mortgage.
That land has a value of $39,000 and it only cost you a $10,000 down payment and subdivision fees. You can, of course, mortgage the land for approximately $20,000, which gets all your cash back plus a profit. You lease the land for its value at $400/month. This should pay your mortgage payment and the property taxes on the land.
You are free and clear, owning a piece of property that is being leased, and it isn't costing you anything. In a few years, you will own it free and clear and you will have perpetual profit coming in from that parcel.

Another option is to sell the house on the three acres for $93,000 and use that money to pay off most of the mortgage through a refinance onto the (2) two-acre parcels. You now own those two parcels with a mortgage of approximately $13,500 on each. You likely will not want a mortgage, because these two empty lots are not bringing in any income, so you would sell one lot for $30,000, pay off both lots and pocket the extra $3000. You now own a two-acre lot worth $30,000 and all it cost you was $7,000 - your original $10,000 down payment less the $3000 you just got back. Again, you can get a small mortgage on that lot to get your $7,000 back, if you need it for your next deal. Just bear in mind this will result in a negative cash flow, as there is no one leasing that land from you.

It is easy enough, however, to create a lease occupant for that lot (or both, if you keep both). Advertise these prime building lots as available to build dream homes on. Specify that, since the homebuilders will not have to buy the land (it will be leased for less than it would cost to buy), they can afford a better home. If they were to buy the land, it would add about $450/month to their mortgage. But the lease would only be $350/month, which means they can build a home worth about $10,000 more than they could otherwise afford.You would then have two lots, with two good leases coming in.

You could get similar results by equity sharing the house on the three acres and, once the mortgage paydown and appreciation supports it, you would cash out by getting the land instead of cash.

Here is yet another method of "getting there from here". Concentrate on buying up those fixer-uppers that you can get for a song, then fix to appreciate its value. As an example, you find a vacant farm home out in the country on several acres of land. It has been vacant a few years, and needs about $20,000 in work to raise its value to $150,000. You can buy the place, as is, for $95,000 because of its condition, and it is costing the owner money each year in taxes while it falls into disrepair. Your mortgage is $90,000.

The tax office says the land is worth $85,000. You repair the property, and now the house itself is worth $65,000. You now sell the house with a 5 year lease on the land included for $90,000 ($65,000 for the house plus $5,000 per year for the 5 year lease). Use the proceeds to pay off your mortgage. You now own that several acres of land, free and clear. In five years, you will be able to get lease income from it. You can get your investment back by taking out a mortgage on the land, but bear in mind you will not be receiving income from it for 5 years. Of course, you could simply sell the house only for $65,000, refinance your mortgage onto just the land. Now, you own the land worth $85,000 which is bringing in about $400-$500/month, and your mortgage is $25,000. The income should pay your mortgage and taxes each year. Eventually, you will own the land free and clear and be pulling in a nice profit, as values and land scarcity force values (and your lease income) up.

All that said, there is a much simpler method of getting there from here. Simply buy up homes using your usual investor techniques, fix them up and rent them out (hopefully with a positive cash flow). Then, simply sit back and collect rents until, eventually through mortgage paydown and appreciation, the building, itself, out-values your

remaining mortgage. At this point, sell just the house and pay off your mortgage, keeping the land and leasing it to the homebuyer.

Example: you buy a home for $100,000, fix it up a bit, then rent it out. When you bought the property, tax records indicated the land was worth $65,000 and the building was worth $35,000. With the fix ups, the building is now worth $45,000. Your mortgage is $95,000.

Now you wait. In about 12 to 13 years, your remaining mortgage balance will be about $75,000, and appreciation should have increased the value of the house to more than $75,000. Now, simply sell the house (excluding the land) for its value and pay off your entire mortgage from the proceeds. By this time, the land should be worth in excess of $100,000 and the lease payment should run about $800/month or more - all profit to you on a property owned free and clear (less annual property taxes, of course).

Multi-Unit Dwellings

Multi-unit dwellings should be handled differently, for the most part. While you can use the previous strategies to divest yourself of the depreciating portion of the property (the buildings), it may not be wise to do so. Apartment houses, for example, have a lower cost-per-unit as far as expenses are concerned, including land value. If you buy apartment buildings, you may want to keep them for the following reasons:

1. If you sell the building to an investor, you will only get one lease payment from your land

2. Apartment buildings, by their very nature, are apt to be in locations that will later be built upwards, creating more units

3. Apartment buildings are more apt to have a positive cash flow.

With these things in mind, let's look at that 3 story, 6 unit apartment building 20 years from now:

The population has risen dramatically. Your 3 story, 6 unit is now a 5 story 10 unit. Your profit margin is much higher, since the original 6 units are nearly paid for, and all you owe is the cost of adding the additional four units. Land values have risen dramatically because of the population explosion.

Forty years from now, you have the entire property nearly paid off, and both dwellings and land have increased in value by so much that land has become virtually impossible to purchase, and rents are proportionately higher. You begin selling off individual units of your complex, and each unit's buyer is paying you a lease for the land.
Whereas the land as a single parcel might lease for $3000/month, by leasing it to 10 tenants you could charge each occupant $400/month and net $4,000/month - a $1000 per month bonus to you for having such foresight.

As a rule, apartments are more apt to have a positive cash flow than single family homes, which is yet another reason to consider keeping them.

If, however, you get an apartment building and have a need to sell it, by all means try to at least keep the air rights. If future owners ever want to build higher, they must pay you (or your descendants) to do so.

Multi-unit dwellings also include single units in a multiplex, such as condos and townhouses. Unless you own the entire complex, it will never pay you to own individual units 30 years from now. Because you do not control the land, or air rights - or much of anything, for that matter. It is just a single living unit, period. While these may make for decent short-term investments (up to 10 years) it might not be worth keeping them that long- the equity you have in them would likely become more valuable if invested in something that includes ownership of the land under it.

Creating Your Own Complex

Perhaps the most profitable method of owning lands that have multiple leases coming into your pocket is to develop it yourself. While this may seem intimidating, it really is not. All you need to do is obtain the raw land, then make a pact with a contractor to build homes for people who want their homes built in your little mini- community. Since you will be owning all the land, anyway, you may not even have to subdivide it, but you may want to do so anyway, just in case you need to sell one off for some reason.

Let's say you locate 40 acres of rural land near (within 25 miles) an expanding metro area. The price

tag is
$100,000 and the land can be subdivided into (12) 3 acre house lots and 4 acres of "common" areas - roads, tennis court, pool, small convenience store (extra profits for you) etc. Each house lot becomes worth approximately $25,000-$30,000 once subdivided and road and utilities brought in.

You may be able to finance this land easily and inexpensively via a rolling option. In short, you agree to have the land subdivided, then option parcel #1 for $8,000. The option states that once you find a homebuyer to build on parcel #1, you will pay for it and your option automatically rolls over to parcel #2, and so on. Of course, since you find a homebuyer first, and they put up a deposit, you won't be laying out any of your own cash. And, since you are buying the land but you are not selling it (only leasing it),you could end up with 12 lots each paying you a healthy lease, all for which you effectively paid nothing. Deposits from the homebuyer/builders pay for YOUR land, plus the road and utilities you agree to bring in. You can either arrange the building of their home via a contractor, or allow them to make their own arrangements. At any rate, they should be paying you a big enough deposit to cover the cost of the land plus the road and utilities. It should be made clear that this deposit is NOT for purchase of the land, but it could easily be for the first five years lease. That way, for the first five years they only have a small mortgage to pay on the house, only. Makes it easy for them. Then, you charge a pre- determined lease with an automatic biennial increase of 5-10%.

Let's say the lots are costing you $8,000, the road costs $30,000 and bringing in the utilities costs $12,000. Selling 12 homesites, the cost for the road and utilities is divided by the 12, or $3,500 each. So you would need a five year lease deposit of at least $11,500 on each home. You may want to raise that to $15,000, to help cover your property taxes during that five years, so you do not incur a negative cash flow. You may also want to include "selling benefits" such as a community tennis court, pool etc. If so, add these costs and divide by twelve to determine the minimum deposit required of each homebuilder.

You could also simply build a number of units on the property yourself, or partner up with a good contractor. If you do it yourself, you could lease the homes or sell them, depending on your goals. If you team up with a contractor, your agreement could state that his profit comes from the construction and sale of each unit, while you get the land as your profit.

Life Estates

How would you feel about getting free land, and in the process you would be helping out elderly homeowners to lead a better, more care-free life? Put more "gold" into their golden years.

There are literally millions of retired homeowners in this country, and the number is growing each year as medical advancements allow people to live longer and the "baby boomers" begin to reach retirement age. However, for most of these folks, their "golden years" are all but golden. Social (in)Security is all that many of these folks have to live on, putting them in a very poor situation. They could lose their homes, or at least they may just scrape by.

For you, the investor, there is a lot of potential here. A potential to help these people while helping yourself. By and large, many of these homes are all paid for - free and clear. But property taxes, insurance plus a rising cost of living place the homeowner into jeopardy. But it does not have to be that way, because you have what they need, and they have what you want.

What they need is more income. What you want is the land that their home sits upon. The object is to obtain ownership of the land, while they keep their home and increase their discretionary income. Here is but one way that this can easily be accomplished.

We must first find an elderly homeowner who needs more income and owns his home free and clear. This should not be too difficult, but it will likely be the most difficult part of putting this strategy together.

For this example, we will say that the value of the property is $100,000 and that the land portion is worth $60,000. This is the part you want to own, but the last time you had $60,000 in cash lying around was never. What to do? How can you own that land and still help those people?

In many areas, property taxes and insurance on a $100,000 home will run around $3,000 per year. Assuming the couple may have around twenty years left, these expenses will cost them about $60,000 over that twenty year

period. As you will notice, that is the exact same amount as the value of the land - $60,000.

Let's say that you offer to the homeowner that in exchange for ownership of the land only, you will sign an agreement to pay all property taxes and insurance on the entire property for the rest of their lives. Furthermore, since they will still own the house to either pass onto their heirs or sell, as the new owner of the land you will provide them with a life estate on the land - it is theirs to use, without cost, for the rest of their lives, or until they sell or transfer ownership of the house.

Let's break that down into just what the homeowner gets out of this deal:

1. They still own a $40,000 house, which they can sell or pass on to their heirs
2. They save approximately $3000 per year for twenty years on taxes and insurance, which is more income for their golden years.
3. They have the security of a life estate to the use of the land. Being a life estate, their lease is binding even if you sell the land to someone else. The lease cannot be broken.

Here is what you get:

1. A $60,000 piece of land that only costs you around $3000 per year. You would pay nearly this much, anyway, in taxes each year, even if you bought the place outright, so this is a real bargain
2. When the homeoners pass away, you or your family no longer pay the portion of the taxes or the insurance on the house - you pay only that which is due on the land.
3. When the homeowners pass on OR when they sell or transfer the property, the life estate (free lease) ends. From this point on, you may charge a lease for the land from whoever owns the house. In twenty years, for example, the lease value should be at least $1000-1500/month (even in poor economies property values tend to double every 10-20 years. A fair land lease is usually about 1% of the land value each month).

In such a scenario, you would effectively own a nice piece of land for its taxes and insurance only. The elderly folks would have an extra $60,000 in spending money over the next twenty years, and they still have a very saleable asset - the house. And remember - when the house changes hands, you have an automatic tenant paying you a lease.

As a safety precaution, your agreement with the elderly homeowner(s) could include a "first right of refusal" clause, giving you the exclusive right to buy the house if it ever goes up for sale. You would not have to make an offer - you only need to meet the best offer they get. And, being an option, you are in no way obligated to buy the house - you simply have the exclusive right to, if you wish.

It could be argued that those elderly folks are getting the poor end of the deal. But are they? Consider this: if they simply sold the land for its $60,000, they would then be forced to pay a lease for it - around $6,000 per year.In twenty years that comes to $120,000. They have lost $60,000. In addition, they still would have to pay the portion of property taxes that apply to the house, plus their house insurance - another $30,000 over twenty years. Total losses: $90,000 over twenty years, from a "straight" honest deal. On the other hand, by entering into the life estate, they lose a $60,000 piece of land, but they gain $60,000 in savings - a wash, so to speak. What is important here is that they need the savings more than they need the land.

Of course, if they just sold the land and invested the $60,000 in CD's, they would earn about $1500/year, but that's barely enough to pay the property taxes on the house and their insurance. They

would still be out the
$6,000 a year to lease the land back.

Any way you cut it, your life estate offers them the best deal for their needs. And you get land virtually for free. That is, provided you can afford the taxes each year. If not, then you cannot afford even free land. But if the small annual cost is too much for you, remember that you now own a $60,000 piece of land, free and clear except for the life estate encumbrance. Your net worth has increased by $60,000 - surely you can find a way to use that to increase your income? Maybe as collateral (not down payment) toward purchasing another property that provides a positive cash flow in excess of $3000 per year?

As you can see, the Life Estate can be a powerful tool for obtaining land. But it can be much more. For example, you can make a similar life estate offer based on the entire property, not just the land. Granted, your annual costs will be more, but at the end of the term you would own both the land and the house. Such a life estate would be based on the purchase price of the house versus the rental value, times the number of years. The

purchase price includes what you would normally pay in interest over the term involved. For example, if the price of the house is $100,000 and the term is 20 years, based on an interest rate of 8%, your payments would equal
$836.44 per month, times 240 months for a total of $200,744.60. This is what you would pay for the property if you bought it outright over 20 years. This, then, is the amount you would pay the seller - $836.44 per month. But...

And this is a big "but": the sellers stay in the property as tenants, so they must now rent the property from you. Fair rental value for a $100,000 property is somewhere around $800 per month, so this appears to be a wash. Accordingly, it looks like you should get the entire property for free if you are going to let them live there rent-free for the rest of there lives. From a numbers point of view, that may be correct, but then there is nothing in it for the sellers except they will no longer have to pay property taxes or do the maintenance (and pay for any maintenance). This saves them no more than if they simply traded the land. So, you need to provide the seller with a reason to also give up ownership of that $40,000 house as well as the land- you have to provide him with more of what he wants - money!

If you go for the entire property under a life estate, you would then have a $100,000 property. Even if you were to get the property for free, you would have over $3000/year negative cash flow for property taxes and insurance.
And you would owe Uncle Sam a huge bite on the $100,000 asset you just obtained. To avoid the tax bite, you must actually pay for the property. So your agreement might read that you agree to pay $100,000 amortized 20 years at 8% interest payable in 240 monthly installments of $836.44. A separate agreement would state that the sellers agree to pay you, say, $636.44 per month in lease payment every month for the next 20 year (an unbreakable 20 year lease). You would then owe them $200.00 per month, plus you would pay the taxes and insurance on the property each year - about $5400 per year negative cashflow. Over 20 years this costs you
$108,000. But if you had simply purchased the house outright, it would have cost you over $200,000. And in twenty years the property is likely to be worth at least $200,000. So, if you can afford the negative cash flow, in twenty years you would profit with a free and clear $200,000 property, and the rents would be gravy every month.

Assuming, however, you cannot live with such a negative cash flow, there are options to consider. Choose properties that include subdividable land, and your agreement (mortgage) with your seller permits it (you can add the clause that does this), you can then subdivide the land and either build one or more additional units on it, or sell the other lots. This option must be spelled out in your sales agreement as being permissible. Remember - your seller holds your mortgage, not a bank. There is no "due-on-sale" clause, and you can add that you reserve the right to subdivide and sell (or build upon) the subdivided lots.

Or look for an elder who owns and lives in a duplex or multiplex. In exchange for the property, free and clear, you will provide him with his unit free for life, plus he would be entitled to whatever TODAY'S net rents equal. You would also agree to pay him an additional $300 per month, for life. Where would this money come from? Well, let's say today's rents are $500 per unit for 3 units (besides his own), for $1500/month. Expenses are currently
$200/month (he has no mortgage), so he would get a set, non-changeable $1300/month, plus $300/month from you. Within a year or two you can usually hike the rents on the three units by $50/month, providing you with
$150/month (this amount is not part of today's net). Apply this to the $300/month you owe the seller. Since the property taxes and insurance are already taken care of in the expenses prior to figuring the net rents, your only cost for the property is now $150/month. In a couple of years you can likely raise the rents again, eliminating your debt altogether. And, if you can cut monthly expenses, you earn even more. As the years pass, increasing rents provide you with even more profit, and at the end of the term, you own the building - and all rents- free and clear.

Here is what the seller gets - $1600/month for at least twenty years for a total of $384,000. No management hassles (you are the new landlord), plus his own unit at no cost. This is $72,000 more than he would receive if he kept the property - and the hassles. If this is not enough, borrow $80,000 on the property that you now own and put $40,000 into a twenty year annuity. This will provide you with an addition $2500 per year you can pay him.
Take the remaining $40,000 and put it into a safe investment, such as 12 month CD's. Every year, take out what you need to pay the next 12 months payments on your mortgage. This $40,000 will last you for nearly 6 years. Before the money runs out, you refinance, as your property has likely appreciated somewhat. Pull out more cash, and use it to keep you payments going. Keep doing this until the term is over and the property - and rents - are yours. With a solid positive cash flow from rents, you will be golden.

Here is a simpler life estate. Assuming the owners want a smaller, care-free more convenient home (after all, they are getting older, the kids have gone), you can make them a deal they would find hard to refuse. For this

example, the property is worth $100,000. The folks want a nice $50,000 condo closer to town. Here is what you offer:

The sellers, upon getting their $100,000 would pay $50,000 for the condo, plus an association fee of over
$100/month for life. So, in order to add to their income, the remaining $50,000 must bring in more than $100/month in income. At their age, it is most prudent to invest safely, so CD's are likely the solution. Assuming they set this up as a twenty year annuity earning about 10%, they would receive approximately $5000 per year, of which at least $1200/year goes to condo fees. So, their additional income is $3800/year, or roughly
$316/month. If you can match all of this, you can get their property. Here is how you can do just that.

Offer 1) to buy them the condo and 2) pay the association fees for life. In addition, you will provide them with
$320/month for life, no matter how long they may live. In exchange, you get their property worth $100,000 free and clear.

First, buy the condo, and give them a life estate to it. $2500 down on a $50,000 condo negotiated down to $45,000 leaves you a $42,500 mortgage. At 8% amortized thirty years, your payments are $311.85. Add the condo fee, it comes to somewhere around $450/month. Add the $320 per month you are paying the sellers and your total debt is just $770/month. And you can afford it because you own their old home free and clear, renting it out for $800/month. You have just added a $100,000 property to your net worth, minus your mortgage on the condo, so net increase to net worth - at no cost to you - is around $60,000. But that's not all - since they hold a life estate in your condo, once they are no longer with us, the condo is also yours to rent out or sell. Add that to your net worth.

You can do the same thing if the folks want to move to Florida or Arizona. The magic of this lies in providing these people with what they need most, and receiving real estate as payment for your services to them. You are solving their problems, and allowing them to live out their years in greater comfort and security. And, they save thousands each year by not having any more property tax payments to make! They are truly "golden", thanks to you.

How do you find such homeowners? Advertise for them. Fliers, business cards, ads in the newspapers. A well- placed flier that says something like, "Attention Retired Homeowners - Put more GOLD in your Golden Years. Live better, with greater security and increased income. Put an end to property taxes and expensive maintenance forever. For more info without obligation, call XXX-XXXX."

People will call, you can count on it. The rest is up to you and your ability to give them what they need.

Buy the Land, Lease the House

In those instances where a seller has no mortgage on his place (or just a relatively small one), offer to buy the land and lease the house. Explain that this gets him a good bit of cash now, plus a lifetime of income from leasing the house, which he will continue to own. To make this a good deal for him (and you) offer him a long term lease, like 10 or 20 years, provided you have the right to sublet.

Again we will use the $100,000 property, with the land valued at $60,000 and the buildings at $40,000. Since you are only buying the land, chances are a bank will only loan you around 50% of its value, or $30,000. As an investor, you should only be paying about $50,000 for the land, at most. At closing, you will owe the seller an additional $20,000 plus the first of the lease payments. You agree with the seller to pay him $200/month for 10 years to pay off the remaining $20,000. The lease on the house should not exceed $350/month because you will own the land - the most expensive portion of the property- and you won't be charging him a lease for the same period of time for which you agree to lease the house (preferably twenty years). But you can lease the place out - land and house - for about $800/month. From this you pay the seller his $350/month lease. This leaves you with
$450/month, which goes to the seller toward purchase of the land. Your debt on the land to your bank is $30,000. For twenty years at 8% interest comes to roughly $250/month. You now have $200 per month left, which goes to your seller towards the purchase of the land.

While you now have no income, you own the land without cost (except property taxes). In 10 years, you will begin to have a positive cash flow, as well, because your debt to the seller for his land will be paid, putting $200 per month intio your pocket. More, actually, because every couple of years you should raise the rent on the property. So, you should begin having a small positive cash flow within two years. In ten years, positive cash flow

could easily be $300/month. In just ten more years, your bank loan is paid off, and positive cash flow is now the entire rent payment less $350/month lease to the seller. If your lease was twenty years (which it should have been) he will now most certainly drive up the lease by a lot. That's okay, because your lease has expired and you do not renew it. But as the owner of the land under his house, you can now begin charging him a lease for the land. Most homeowners in this position might decide to simply sell the house, instead (especially since he is now twenty years older). He may even offer it to you. Whether or not you buy it is up to you, but you already have a mortgage-free income from the land. Why bother with a depreciable such as buildings?

On properties with no existing mortgage, you may even be able to work out a Contract for Deed with the seller, contracting only for the land. As above, he keeps the house and leases it to you. It is exactly the same as above, only there is no bank involved. This could save you a lot in interest charges if you work it right. Assuming you agree to pay him the full value of the land ($60,000) at 5% interest (that's all he would make on CD's - he is not a bank, and does not have the overhead of a bank, so he shouldn't be getting bank rates) and the term is for the twenty years of your lease on the house, you would owe him $396/month on the land, plus your lease on the house of not more than $400/month. Now, sublet the house with the land for $800/month and the land is yours for free. Again, in a couple of years as you begin raising the rent, your positive cash flow will begin.

The reason I say you should look for properties owned free and clear (or almost free and clear) is because almost every mortgage found today has a nasty little clause called "due-on-sale". A due-on-sale clause prevents a seller from selling under a contract for deed, lease option or wraparound mortgage.

Investing Today for Tomorrow's World

This is the real crux of this book - using today's investing strategies to benefit you in tomorrow's world. After all, it is difficult to use tomorrow's strategies before they are accepted as the norm. But while many of the previous strategies can and do work in today's world, this section will explore the use of more traditional techniques in getting you where you want to be -the owner of the lands.

In addition to retaining whatever minor rights you can in every property you sell (air rights, timber rights, mineral rights etc.), current investment strategies can be actively used to acquire lands. Bear in mind - land does not depreciate, but buildings do. The upside - your holdings won't fall apart and require little, if any, maintenance.
The down side - you cannot depreciate land on your taxes.

Straight Purchase as rental :

This really needs no elaboration since the investor will own both the land and the buildings, anyway. What is needed here, perhaps, is a more judicious look at the potential of the property before buying it. Any property with a positive cash flow is nice to have, but some properties will mutliply in value much more than others when the land crunch comes. Her are a few things to look for:

1. Is the property a multi-unit? These often result in better cash flow, and potential of adding additional units if population warrants it.

2. Is the property near (but not in) an urban area, or area that is experiencing growth? If so, its value could increase quickly once the crunch begins. Urban areas may not be desireable for the majority of people looking for a home.

3. Is the property in a large urban area? If so, the building may not be of value later, but the land certainly will, as high-rises replace tenements.

4. If a single family home, is the lot large enough for either subdivision, or additional dwellings? (It may not be zoned for additional dwellings now, but if a land crunch comes, that will likely change out of necessity). If so, such properties could someday multiply your profits.

5. If the property is rural, and likely to remain that way even in a land crunch, can it be used for "gentlemen's farms"? A small amount of arable acreage will become extremely valuable as people find a large population with little available land a real strain on food supplies. Those who can grow their own will pay big bucks for the priviledge.

6. Large rural lots that can be subdivided (later) into a number of gentlemen's farms may well be worth its weight in platinum. Lumber, which is also apt to be in huge demand and short in supply would only add to your wealth as the timber is later cut to make room for these mini-farms for the wealthy.

(Note: such mini-farms would ideally be located w ithin commuting distance of a city, for

employment. However, in 50 years the majority of workers my work from home, via electronic work stations).

Properties that fit any of the above descriptions are most worthy of your serious consideration. When buying a rental property, take a moment to determine how that property can best benefit you in the future.

Lease Option:

Where a property can be purchased in this fashion, it is pure gold in your portfolio. Your tenant pays your mortgage and expenses, and even makes your down payment for you when you exercise your option and buy the place. After you buy it, hang onto it. Later, as the crunch begins, you can cash in by selling the house and leasing the land. During the early stages of the crunch, while some land is still available, use the cash from the sale of the house to purchase more land. Of course, if the buildings appear to fit the description of one that can have additional dwellings added on, keep the building, too. Otherwise, it is a depreciable which you have already depreciated, so get rid of it.

You can also lease option a property, then arrange to sell the house only to your tenant. If your mortgage will have a due-on-sale clause (and it will), you may have to arrange this sale and transfer of rights only after the funds from selling the house will be sufficient for paying off your entire mortgage. Depending on the down payment you make, this could take 10-15 years. While mortgage paydown, alone, may not accomplish this, appreciation should speed up the conversion. For example, the house only is worth $40,000 and the land is
$60,000 today, and your mortgage on the entire property is $85,000. In 10 years, your mortgage will still hover around $77,000, but the value of the house only is now $70,000 due to appreciation. In another year or two, you can sell the house to pay off your mortgage, then lease the land to continue your profits forever.

Contract for Deed:

Even better than a lease option, if you can swing it. Because everything you pay is applied to the purchase price (as opposed to only a small percentage under a lease option), your paydown is much quicker. Otherwise, you can use this in the same fashion as a lease option, only your profits should be greater. Again, this is no good if the current owner has a due-on-sale clause in his mortgage - unless you get the bank's written permission.

Options:

Always one of my favorite strategies, options cannot be beat when it comes to huge potential profits with very little risk. With an option, you can cash in on a property whose value increases dramatically, either by chance or by your efforts. You risk virtually nothing except a small amount of consideration as option money. And in most cases, I do not put up cash. Rather,I will agree to make certain improvements to a property during the option period, and these improvements generally require no cash - just a little bit of work.

One of my favorites was a little, vacant two-bedroom bungalow on one over-grown acre. The paint was peeling off the siding, and the lot had little character. Inside, all it needed was a little paint and some carpeting. Fixed up, the place would fetch close to $95,000, but as it sat, the seller was asking $59,900. I offered her a six month option at $60,000. As consideration for the option, I agreed to spiff the place up. Of course, in order to make my profit I would need to spiff it up, anyway, so for all intents and purposes the option did not cost me a dime.

The next day I mowed and weeded, and had a friend put up a cute little fence along the front. That weekend I rented a power sprayer and paint sprayer, then repainted the exterior. During the following week my wife painted the interior while I picked up some carpet remnants from a wholesaler, then laid the carpets. Total cash outlay -
$0. But I had put $780 on my credit card.

I had already advertised the property for sale at $89,900. During the third month, I got a buyer and let him dicker me down to $87,500. I exercised the option and resold the property all on the same day, so I needed no financing of my own, nor any down payment. I walked out of the Title Agent's office with a cashier's check for
$27,500. I paid off the credit card after having made only one payment out of my pocket. Total net: $26,700. Total time spent working the deal and fixing the property up: about 70 hours. That's almost$4,000 per hour -

even most doctors don't make that much! But such is the power of the option.

Options are easier to get if 1) the seller is in no hurry to sell, or 2) the property is unlikely to sell quickly. I particularly like using options on vacant single family properties that I can fix during the option period. Profits go up accordingly.

The easiest options to get, however, are on parcels of raw land. Land is considered a speculation rather than an investment, and is harder to sell than a home. It is also more difficult to finance - banks do not like to mortgage land for more than 50% of its value. And since you do not want to lay out huge amounts of cash to cover the remaining fifty percent, you need to use your investor's wits. Here are some ideas to get you started using options on raw land that you want to own.

Vacant buildings are my favorite for optioning. This is because it is far easier to find a buyer for a property with a dwelling on it than to sell raw land. Furthermore, the property, in all likelihood, has sewage, water and other utilities already included, which increases the value of the land accordingly. Vacant buildings can be fixed up enough to garner some interest from buyers, and the sweat you put into a building comes out as more profits.

I will normally look for a vacant property owned by someone who lives out of the area. Absentee owners find it more difficult to deal with a property and care for it. And all too often they are unable to keep up with local changes that may have increased the value of the property. For example, new industry, or a new shopping mall may be planned just down the street, increasing the value of properties nearby. An absentee owner may not be aware of this. Or, because of growth, a residential property now falls within an area zoned commercial, which also increases value dramatically.

Still, I try to option any vacant property I run across, provided I can seea potential in it. But the question now arises - how to use this technique to own and retain land. Actually, if the property is such a good deal that it will make for a good rental, I will keep the entire property. But, since that usually involves some cash outlay up front (down payment, closing costs, fix-ups), I normally try to avoid hanging onto the dwelling.

Being a "vacant", and usually in rough shape (outward appearances), I try to concentrate on those that I can option for about two-thirds of the fixed up value, or less. In other words, if a property will appraise for $100,000 once I have fixed it up, my offer would normally be well under $70,000.

Using that example of a $100,000 property, the land is likely to appraise for $55,000 and the dwelling for $45,000. That means the dwelling is only worth $15,000 when I make my offer, since the land portion of the property will not appreciably change before I close, no matter what I may do to fixup the place. Further assuming that I can sell the fixed up dwelling for $45,000 without including the land, that $45,000 will leave me owing just
$25,000 for the $55,000 worth of land. As most banks will mortgage lands for ½ the value, this is well within their range. So, I would use a double escrow to exercise the option, then resell the house portion. My mortgage of
$25,000 plus the house buyer's $45,000 pays off the person selling the property to me. I now own a $55,000 lot, have only a $25,000 mortgage on it, and I have the homebuyer paying me a monthly lease payment of about
$500/month. If my mortgage runs for 20 years at 8%, my monthly payments are just $209/month.

Property taxes are probably around $200/month, so I now have a $55,000 lot that I own $30,000 equity in, and my tenant pays both my mortgage and taxes, leaving me a net income of $100/month. Not bad for something that did not cost anything.

The homebuyer gets a real deal, too. His mortgage payment is only about $295/month! Even when the lease is included, he is only paying $795/monthfor a $100,000 property. Had he purchased it outright with 5% down payment, his mortgage payment would be $697/month, and he would also owe the $200/month taxes on the property, for a total of $897. He is saving $100/month.

Optioning raw land with the intent of owning land is a little tougher. In order to keep you out of the negative cash flow, you need to be clever. After all, without dwellings, there is no lease payment coming in to cover your mortgage payment and taxes. Therefore, your objective would be to option a large parcel that, once subdivided, will allow you free and clear ownership of a portion or two after selling off the remaining lots.

To make this work, the parcel must have enough current road frontage to create enough buildings lots that, when sold, will pay for at least ½ of the entire property (a bank will only loan you about ½ to buy it), with enough cash left over to build a temporary service road to the remaing lots. If the parcel is heavily wooded, you might be able to sell off enough timber and stumpage to build the service road - after all, some of the land must be cleared

anyway, to build the road and the homes.

Once the service road is in (you exercised your option and bought the property with the sales of the earlier lots that had road frontage), you may now advertise and show the remaining lots. Sell only as many as needed to pay off your mortgage, and keep any remaining lots for yourself.

Example: 40 acres, asking price $95,000. Zoning board will allow 4 acre-lot subdivision. There is enough current road frontage to stake out three lots, plus a road access to the remaing lots. You market those three lots (which will be costing you about $10,000) for $20,000 each, and find buyers for all three during your option period. With
$60,000 coming in at closing, you use $50,000 toward purchasing the entire parcel (you now have a $45,000 mortgage)and $15,000 for building the service road and marketing the remaining six lots. You find buyers for three of those six lots, for a total of $60,000. You pay off your $45,000 mortgage and use the remaining $15,000 to turn that service road into a paved road. You now own two lots free and clear, each worth $20,000. You have no mortgage. Not bad.

But you are concerned that you might not be able to sell all three roadside lots during the term of your option. Not to worry - use a "rolling option". A rolling option is an option that exists on only one of the subdivided lots, instead of the entire parcel. Once you find a buyer for that lot, you exercise your option and buy it, and your option automatically "rolls" over onto the next parcel, and so on until you have sold all the lots. In other words, you only have to buy those lots one at a time, as needed.

Once again - and I cannot repeat this often enough - the single most important key is to plan your investments with the objective of coming out of it with ownership of land. If you want to also own the dwellings and have all the associated headaches, that's fine, as long as they provide a positive cashflow. The day is coming when ownership of the lands will be more valuable than cash, because it will generate a never-ending supply of income, with very little, if any, maintenance.

Now What?

Okay, so you have managed to become the owner of lands. Now what? If the land has dwellings on it, you likely have lease income. And if you also own those dwellings, you have more lease income. But what if you own raw, unimproved land? Taxes come due on it each year. Even if you have no mortgage, that is still a negative cash flow. And negative cash flow is not good.

If the land can be put to the plow, there is an excellent chance you can lease the land to someone who wants a gerden plot, or a local farmer who needs it to grow hay for his livestock. Such leases should pay your taxes on the property. Nearer to metro areas, land that can be gardened can be setup as a community garden, where tenement families can each have a small parcel to grow some of their own food. Or, you can grow the crops yourself and sell them at the local Farmer's Market. If your lot is next to a business or tenement, you may be able to lease it for parking space. Or maybe you can lease it to the community for a park, or ballfield.

In rural areas, you might consider different options (pardon the pun). If the land has good, standing timber, you could sell off enough board feet each year to a sawmill to cover your taxes. The large limbs they leave behind, along with scrub trees could be sold as cordwood (about $250/cord here in NH). Even if you just sell the stumpage rights to someone who sells cordwood (he cuts and removes it) you can still make $25/cord. (A cord of wood is 128 cubic feet, or a stack that is four feet wide, by four feet high by eight feet long). Hardwood such as oak commands a much better price than softwoods such as pine and other firs. (Softwood is not useful as cordwood.)

If your rural lot is large enough and cleared (acres rather than square feet), local farmers may want to lease it. Or, you could grow a crop and sell the crop - hay, vegetables etc. Hay requires little maintenance - it regrows itself each year from its own seeds, and just needs to be cut and baled.The farmers who use hay will cut and ba le it. You get paid so much per bale. Alfalfa is the best and most expensive, followed by oat hay, timothy, millet and so on.

If your parcel is zoned commercial, lease it out to seasonal businesses -farmer's markets, flea markets, Christmas tree sales. Or, host your own flea market every weekend during the good weather months, charging vendors for the space they use. In the right area, a two-acre flea market can yield you about $2000 per weekend (100 vendors at $10 per day). If you run the flea market from Memorial Day to Labor Day, that's about $26,000.

Not bad, considering taxes are only a fraction of that.

A friend of mine had a nice piece of land that wasn't suitable for any of the above - nicely wooded, the trees were not suitable for timber. But the zoning board permitted him to turn it into a "rustic" camping area for all the biker's that came to New Hampshire every summer for the Loudon races. These were just basic tenting sites, without much in the way of amenities. He did have to build a restroom area, of course, but he normally earns over $1100 a day during Loudon Bike Week, and close to that on weekends all summer long. So the one-time expense, plus the cost of hiring someone to clean, is well worth it. Someday, that parcel will be ready for development and he will make a fortune from it.

The idea, of course, is to look your properties over very carefully, to determine their assets, and best use. If some work needs to be done, you might even be able to barter for it rather than pay cash. In the case of my friend with the camping area, some sites had to be cleared. He contracted with a cordwood operator - the cordwood fellow came and cleared the trees, and got to keep the wood as payment in full.

Even better, my friend now purchases cordwood each year from that same cordwood guy for $125 per cord, cut and split. My friend sells it in "campfire bundles" to his campers at $5.00 per bundle. There are 128 bundles per cord, so he gets $614 on the wood for which he only pays $125. This nets him almost $500 per cord!

Taking a hint from my friend, I now have wood from one of my lots cut and split. It costs me $80 per cord to have someone do this for me. Then I make bundles, just like my friend, and I bring them down to Boston, where well- to-do people live in nice Brownstone apartments with fireplaces. These people have no place to keep cordwood, so if they want to use the fireplace for romance or atmosphere, they have to buy it in bundles. I sell the bundles to the local stores for $2.50 per bundle. So, I net about $200+ on each cord. I harvest just enough cordwood each year to pay the taxes on that land. I then rent a "chipper" to mulch the small branches, then I sell the mulch to local gardeners. When the time comes to build on this land, the lots will already be cleared, increasing profits even further.

It doesn't take a lot of work to earn good money - it only requires some thought, and a little ingenuity.

When the Time Arrives

Eventually, you will be looking at those properties quite differently. Instead of a marginal asset to be supported they will become valuable assets that will support you and your family for many generations to come (particularly if you have had the sense to put them into a trust).

Within a decade or so your land will begin to rise in value sharply, in proportion to the increasing demand. This is the time that you should have already begun implementing your plans for that property, particularly if it is raw, undeveloped land. Depending on the local situation and your goals, you may have begun building dwellings, or adding to any dwelling(s) already on the property. Some of your less desirable land parcels could be sold at a huge profit, and those profits could be used to add more dwellings to your more valuable properties. The dwellings can be sold (without the land), or leased. I think I would prefer selling them, as I have never enjoyed the hassles of being a landlord. Also, while the land is permanent, dwellings can depreciate, burn, etc.

Even more important is the options you may have in years to come. If you sell the dwellings, eventually you may have the opportunity to repurchase those dwellings at discount (since you own the land). And if your tenant doesn't pay his lease to you, you could place a lien on his house, with interest accruing. Interest, compounded, can accrue very quickly, and eventually equal or exceed the value of the home itself. When the home is finally transferred, either by sale, inheritance or whatever, the new owner must first pay you off in full. The house cannot be transferred with the lien as long as your sales agreement to the original buyer included a clause that states that any lien placed on the home due to non-payment of lease must be paid in full prior to any transfer - in short, a "due-on-sale" clause. You may also include a clause that states your right to place such a lien, with the same due-on-sale clause shall "run with the deed". In other words, if the owner sells the property to another party, that new owner shall be subject to the same terms. You can place a "due-on-sale" clause lien on his home if he defaults on his lease. Sooner or later, you are apt to end up "repossessing" one or more of those homes.
You can then resell it all over again, or keep it as a rental. And even if you don't end up with the home, the forced payment to you could easily amount to three times what they originally owed you in lease payments, due to the accruing interest. Your interest rate should be as high as the law allows (up to 24% in most states), to discourage default, and expand your profits is default occurs in spite of the interest rate.

Within two or three decades, the value of your lands, and the leases, will keep rising. Each passing decade they will rise exponentially faster as the population continues to grow. Within fifty years, a typical lease on a small lot could easily run $3,000 per month, due to normal appreciation and increased demand as the supply is now almost non-existent. Those fortunate enough toown land will not be giving it up at any price. And corporate America, anxious to reap the rewards of such assets will be making some darn good offers on prime lands. You can give in to them, of course, and pocket millions, but soon enough the money will be exhausted. And without the lands, it is unlikely your family will ever regain its status. Therefore, try to be strong and resist the temptation to sell. Future generations of your family will sing your praises!

End of The Future of Real Estate Investing.