B. K. Haynes

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PART ONE

Little or No Money Down

If you had a sailboat, empty pockets, and grand ideas about crossing the ocean, you would certainly need wind in your sails. But, of more importance, you would need someone with deep pockets to finance your voyage. The winds of chance blow for us all. In successfully undertaking a voyage to financial independence, it is the lack of adequate provisions that could hold you back. By the sweat of the brow, we spend precious time on the docks of time, sacrificing opportunity for mere survival.

Simply put, we miss out on the grand voyages of our lives because we spend most of our time making money, merely to survive on the corrosive docks of the world. Our investments are often short-sighted and meager. The rich, in general terms, sacrifice neither wealth or sweat, because they can afford to live off of the sweat of others, this primarily in the form of interest on their investments. When those of modest means borrow money from other people to pursue and acquire perishable and pleasurable things in life, they often discover themselves aground on a sandbar of debt. The debt-laden person, if emboldened with grand ideas and great expectations, could find his trip to riches cancelled or indefinitely postponed.

Your journey to riches begins with money from other peoples' pockets, unbridled initiative, and innovative thinking. Think about the monster wave of 77 million baby boomers now approaching retirement who see themselves at home in the countryside. This tsunami is surging beyond the cities

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PART TWO

Small Beginnings

Washington D.C.

JAPS ATTACK PEARL HARBOR –December 7, 1941–Frank Sinatra

War clouds - the stinking Japs. A seven-year-old knickered street urchin is tossing a knife into a half-divided square in the dirt of a tree box in front of a run-down row house. The name of the game is "Land." The boy carves out a slice of ground, and the perimeter has changed. The boy has gained land, and his opponent has lost terrain. To the victor belongs the spoils of territory.

I had nothing in my pockets but marbles as a kid, and "relief" trucks dropped off food supplies in front of our house, but didn't know I was poor. "Land" was the game I loved to play. My waterfalls were the fountains at Union Station where I dived for tourist coins, much to the chagrin of the cops; and my tunnel to freedom was the congressional subway on Capital Hill where I stole rides with the country's bigshots, not knowing or caring who they were.

Washington. D.C. outskirts

FRENCH BOMB HANOI IN LOOMING WAR–Christmas, 1946–Hank Williams

The Cold War–Asia falling to Commies. A twelve-year-old malcontent sulks about a Christmas stocking stuffed thin with an I.O.U from his errant dad. Armed with a 22-caliber rifle in snowy woods on a dark December night,

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PART THREE

The Sixties

Arlington, VA

CUBA CRISIS THREATENS NUCLEAR WAR–Oct., 1962–Four Seasons

The flames of fear**.** President Kennedy orders a boycott of Cuba over Soviet missiles and pledges fallout shelters for Americans. A 27-year-old college-educated peanut vendor listens to news reports of the crisis while counting his coins in the basement storage area of his apartment complex. Why worry? The tyrant had not kissed him yet.

I was stuck in a crummy apartment at ground zero and felt I had nothing else to lose. Fear, of course, can be noiseless, as when experienced in a wide wilderness. Thousands of city dwellers whistled to themselves and struck out for the countryside. This was the first spark of the sixties' land boom and migration to the countryside. Hell, even *I* had scraped up enough coins to buy a lot in the country. I used to remark to friends that "I'm going up to the land."

***Washington D.C*.**

200,000 MARCH ON WASHINGTON–August, 1963–Peter, Paul & Mary

I was still living in the apartment when Martin Luther King led the civil rights charge onthe nation's capital with Lincoln's creed that all men are created equal. The fifties had come and gone, and the newly-affluent and

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PART FOUR

The Seventies

Three factors were evident in the reason for rapid population growth in rural areas during this decade: (1) a generally healthy economy, as the country skipped over one crisis after another (2) the completion of the interstate highway system, and (3) the "Back-to-the-Land" movement.

Kent State, Ohio

FOUR KILLED BY GUARDSMEN–May, 4, 1970–Jackson Five

Dissent over the U.S. invasion of Cambodia turned bloody as National Guardsmen fired at student demonstrators on the campus of Kent State University in Ohio. When the students refused an order to disperse, the gathering was sprayed with tear gas. Students responded by throwing rocks, and a shot was heard. Tired and edgy guardsmen then fired into the crowd about 25 yards in front of them. Four in the throng were killed, and ten were wounded.

In 1970, the world's wounds were ripped open by tragedy, instability and chaos. Anti-war protesters burned down a bank in California, venting their rage with shouts of "burn, baby, burn" and "death to corporations." U.S. and Vietnamese cavalry and paratroop units invaded Cambodia. Student anti-war strikes closed down or curtailed activities at 451 colleges across the nation.

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PART FIVE

The Eighties

As the result of a prolonged farm crisis, record numbers of rural Americans fled their farms and home towns reversing a general country-wide population trend of people moving from cities to rural areas and dampening land values in outlying regions beyond commuting distance.

Edinburg, VA
710 FAMILIES TO LEAVE LOVE CANAL–May, 1980–Robert Palmer

Government officials, concerned about health hazards, ordered 710 families to evacuate their homes in the Love Canal area of Niagra Falls, New York. The homes were built near an old chemical dump, and scientists said they had detected chromosome damage in 11 of 36 residents.

Bad news seemed to follow bad news as the year progressed. Money was tight all over, and interest rates continued to skyrocket in the peculiar inflationary recession. Home construction was at a standstill, and mortgage rates were out of sight. Homes and commercial buildings that had been planned for construction in 1980 were indefinitely postponed. Thousands of builders were going broke. Millions of people were out of work. The cities were hit particularly hard by the economic downturn. Investment gurus advised clients to channel some of their available money into America's future–country properties near small growing towns.

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PART SIX

The Nineties

With an aging population, it is not surprising that the booming rural counties in the U.S. are mostly in warm-weather regions with retirement communities, golf resorts, beaches, and casinos. And counties oriented toward golf and outdoor recreation such as Washington County in southwest Utah are actually surpassing traditional "retirement" counties in population gains.

The vast majority of "recreational" counties throughout the country appear to be gaining population in record numbers. Dare County, for example, on the Outer Banks of North Carolina, is experiencing phenomenal growth to the point where people flock to the beach year-round.

Less dramatic growth is occurring in rural "manufacturing" counties where jobs are likely to be plentiful. In Arizona, residents in Prescott commute 100 miles to Phoenix. In Virginia, a 70 mile commute has become commonplace. In Washington state, most of the non-metropolitan counties are growing faster than they did in the eighties, this as commuters search for a better quality of life. Even the "poverty" counties are fair game for commuter homesteads. The 1990 census showed 73% of these poorer counties experiencing growth as we entered the nineties.

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PART SEVEN

The New Century

Wardensville, W. VA
CUBAN BOY SEIZED BY U.S. AGENTS–April, 2,000–

A bitter standoff between Cuban exiles and the U.S. government ended at dawn on April 22 as armed agents broke into the Miami home of relatives harboring little Elian Gonzalez and seized the sobbing 6-year-old from a bedroom closet. The youngster was then flown to Andrews Air Force Base near Washington D.C., where he was reunited with his father, a Cuban national, for the child's relocation to Cuba. Furious exiles from the Castro regime, their eyes filled with pepper spray and tear gas, wept for the boy outside of the Miami home, as if the tot were a bird set free and now being returned to a cage.

The image of armed police seizing a frightened child was flashed across television screens around the world. Janet Reno, the Attorney General, said to negotiators who were haggling over the boy's fate, "You are running out of time." And then she broke the impasse by issuing orders to take him by force.

Castro's revolution had divided many Cuban families, but the Elian Gonzalez feud contained the spark of potential armed conflict between two

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PART EIGHT

Anatomy of a No-Money-Down Land Deal

The concept of buying property with none of your own money and using other people's money, is behind all great fortunes made in real estate. All over the country there are thousands of successful real estate investors who became rich after literally starting from scratch. Many of them began right here, in Virginia's Shenandoah Valley. This first decade of the twenty-first century promises that there will be more millionaires created in the United States than ever before. Inflation virtually assures this. But equally important is the fact that, during the first ten years of this century, most our population will fall into the fifty to fifty-nine year-old age group.

Aging Baby-Boomers

Historically, this burgeoning crop of baby-boomers has been the most inclined toward opportunity. During the first decade of the millennium they will be in their peak earning years, most with a laser-guided eye focused on retirement. Their thrust for increased income will be intense. Competition for the coming fortunes in real estate will be keen. Make no mistake about this.

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The Low Down on Country Fixer-Uppers

How to Buy Them at the Right Price

Let's say you want to be a player in the real estate game, and you've decided to buy old homes, fix them up and sell them for a profit. You've been ogling an old log and frame dwelling that has seen over two centuries go by, the historic structure piquing your interest through a folksy legend of George Washington having spent a night on the premises. The asking price is $300,000.

Your first order of business is to determine the cost of repairs, followed by an analysis of your costs of holding onto the treasured possession. The major carrying costs are (1) closing expenses when you buy and sell, including a real estate commission (2) property taxes (3) interest on your mortgage and (4) insurance on the property. Of course, there will be utility bills, but we will not include minor charges in this analysis.

Next, you must have some idea of the amount of profit you are shooting for. Let's assume you are not greedy and would only like to double, maybe triple, your money in a year. You will be puttering around the place, ennobling it with "sweat equity," and your contractor tells you he will need fifty grand to make it new again. You run some numbers in your head and figure you could put it back on the market in less than a year at **$450,000**, *if you paid the asking price*.

To begin with, you deduct the estimated **$50,000** cost of repairs from your projected sales price, throwing in your "sweat equity" for the love of the game. The revised valuation figure in determining an offering price for this restoration project is subsequently decreased from $450,000 to **$400,000**. But this figure does not reflect the expenses of holding the property during the remodeling period. After totaling up closing costs, anticipated taxes, and insurance for the year, you come up with a round number of **$15,000**. You're now at **$385,000**, *if there are no cost overruns beyond the contractor's estimate.*

You know you can get a 95% variable interest rate loan at 5.95% APR to swing the deal.

Your investment equity (down payment) would be **$15,000** at the asking price; plus you would be paying out about **$17,000** in interest over the year ($285,000 X 5.95%). That raises your cash outlay to **$32,000.** You could have $32,000 invested in the place, plus $65,000 or more in remodeling and

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holding costs ($50,000 + $15,000) -- a 25% stake at the listed price. You have already deducted the remodeling and holding costs, so you are down to a valuation of **$353,000** ($385,000 minus $32,000). You worry about these financial termites eating into the deal.

If any more costs creep into the analysis, your proposed selling price may not hold up.

If your target selling price of $450,000 is about to crumble, at what figure will you sell this relic of the past that you would soon make new again? Before bolstering your potentially bearish price in the bullish real estate market, or scrapping the deal, you return to your revised starting point for determining property value of $353,000 and suddenly remember you will need to make a further deduction for a real estate commission when you sell.

Let's say you choose to stick with your original plan–to list these reconstructed ruins at an agency for $450,000, with a 6% Realtor's fee, and then your molded piece of antiquity finds its destiny on the National Register of Historic Places. Without considering the benefit of possible tax breaks for restoration, you may still be out a real estate commission of **$27,000**, this assuming you get full price. You then reach a price evaluation depth of **$326,000** ($353,000 minus $27,000). *Remember, you are trying to arrive at a price you can offer for the property–not what you will sell it for*. Some investment theorists will take the position that an analysis of your offering price should exclude your down payment, but, having a "no money down" mentality,

I always factor in any cash outlay as a cost of doing business. Total expenses amount to about **$124,000**. ($50,000+$15,000+$15,000+$17,000 +$27,000).

Your head is drowning with numbers, but you somehow recall that you're in the game to make a decent profit. You want to–at a minimum–double your money in a year. Your jumping off point for making an offer on the property is to find a *break-even price*. You surmise this figure must be the projected sales price of the property, less the aforementioned expenses ($450,000 - $124,000). **The break-even price, you figure, is therefore $326,000.**

If you paid the full price of $300,000, you would need to deduct your calculated expenses of $124,000 before adding a profit figure. Subtracting the $300,000 from your proposed selling price of $450,000 leaves you with a pie-in-the-sky $150,000 gross profit. Now deduct your expenses of $124,000. That leaves a crummy profit of $26,000. And that could be eaten up by some

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greedy speculator with a low-ball offer on your year's worth of hard work. Your expectation of big money has dwindled to a presumption that you could lose your shirt. There's no way you can offer full price for that eyesore, aka "treasured possession," property.

You return to the break-even price and check your numbers. You'll have $124,000 in a project that you expect to gross out at $450,000. You need to at least double your money.

So you proceed with your elementary math, deducting your expected gross profits ($150,000) from the projected sales price after restoration ($450,000). That's funny. After deducting the expenses of $124,000, you're back at the lean net profit of $26,000–a bone of contention that is red meat for some grizzly low-baller. You'll have to (1) scratch the deal (2) raise your selling price (3) cut expenses (4) steal the deal with a laughable offer, or (5) combine these tactics.

You figure you're on a roll–flipping properties, patching up run-down shacks in villages and naming your price, so you perform a quick down and dirty analysis, aiming at three times your money actually invested in the property; this before you incur any expenses ($15,000 down payment X 3 = $45,000. You deduct this figure from your break-even price to see how the result may influence your offering price ($326,000 - $45,000 = $281,000). The deal then takes on a more appetizing look.

You could upset the seller with a low-end slice of $275,000; however, if you were to pay more than, say, $285,000 for the property, you would have to cut costs or sell at a higher price to reach your profit objectives. Of course, profits could be dramatically increased through cost reductions, a fast turnover, and the co-broke on, or elimination of, a real estate commission, this through a sale of the property by an owner/agent or owner/developer.

MARKET VALUE before remodeling	$300,000
MARKET VALUE after remodeling	$450,000
Less cost for repairs and remodeling	$50,000
Preliminary valuation	$400,000
Less carrying costs and down payment	$47,000
Revised property evaluation price	$353,000
Less real estate commission	$27,000
Break-even price	$326,000
Less profit expectations	$45,000
Reasonable offering price	$281,000

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The projected selling price of $450,000 yields a proposed profit of $45,000, if the property can be purchased at $281,000. This profit figure is based on a ratio of three times money actually invested before expenses. An analysis of this transaction, without adding in the down payment would have resulted in a break-even price of $341,000 ($326,000 + $15,000) and a quadrupling of profit expectations, this assuming the property were purchased for $281,000. When flipping properties, and on fast turnarounds, where the cost of money may be of little consequence, your analysis could exclude the down payment as a factor when programing profit expectations into your proposed offering price. No two purchases of country properties are the same, and there can be wide fluxuations in projected profits due to the dynamics of the deal.

To validate your proposed offering price, you may wish to buy subject to having the property appraised (usually a buyer's expense). A review of the county's tax assessment value on the home and land would also be helpful, though these numbers may not reflect *fair market value.*

For example, there may be more demand for fixer-upper country homes than there are homes available on the market. This means you may have to pay the asking price if you desperately want the property. The county's tax assessment may be outdated. If the property has been on the market for a considerable length of time, this may or may not give you a bargaining edge.

Some sellers will hold out for the asking price until values reach their level of profit expectations; however *length of time of the market* is definitely a reason to offer a lower price, this providing there is no serious defect in the property that cannot be corrected or ameliorated.

For example, a home in the path of a proposed major interstate highway may cause buyers to steer clear of the deal because of the uncertainty of the home's very existence. On the other hand, the home may hold extremely high potential value in future negotiations for its sale to the state. A home may have been on the market for a long time because the surrounding soil has been contaminated by illegal dumping of waste from a local manufacturing plant. This factor may permanently plague the home as a potential investment.

With All Due Respect

I dislike dealing with customers who come armed with complaints about the deficiencies in what I have to sell, because I feel I have priced the property fairly for the buyer to make a sound and profitable investment. Of course,

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as a licensed real estate broker, I would normally be aware of any deficiencies and would ethically be required to readily disclose them to potential buyers.

Obviously, when I am buying property I do not anticipate that the seller will make these same disclosures, this unless he or she is represented by a Realtor, licensed agent, or a reputable broker or attorney. An exception to the disclosure practice is generally allowed when property is sold "as is," particularly at auction sales. Licensed agents, selling listed property "as is," are bound by a code of ethics to reveal all known deficiencies when asked about them by potential buyers.

When purchasing fixer-upper country homes I prefer to buy "as is," rather than to pay a higher price and have the seller make improvements. I feel I have better control over the outcome and can earn more profits at the front end through price negotiations. I make it a practice not to downgrade a seller's property as part of the negotiation process, this because sellers of country property are often proud of their homes and land and take offense at aggressive purchasing tactics. I feel they already know about their property's deficiences, even though they may not readily disclose this information. Usually you can get to the facts about a place through the process of politely asking questions without giving offense. Your offer does not have to be primarily based on what both buyer and seller know from honest discussion. And any needed safeguards can usually be inserted in the purchase contract, this if consumer protections are required beyond the standard provisions in the contract. *Remember–to be legally binding and enforceable, all real estate contracts must be in writing.*

When dealing directly with sellers, you can often work out better deals on your own than when a real estate agent is representing the seller. Some sellers are interested in quick cash-outs and will drop the price for a solid cash offer, this if few strings are attached; other sellers will be concerned about getting a better-than-bank-rate return on their money and will offer owner financing if you pay full price. You can run the numbers based on your financial situation and time-frame for home improvements to see which alternative could produce more profits.

A seller's real estate agent may negatively influence the amount of any cash discount that you can negotiate on your own, and the agent's involvement and need for a commission could interfere with a little or no-money-down, owner-financed deal.

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Country property auctions and foreclosure sales advertised in county newspapers are excellent sources for potential deals. Tax sales are usually less productive, due to the leniency of many state governments in allowing delinquent taxpayers generous time frames for reclaiming their property through restitution of past due taxes.

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