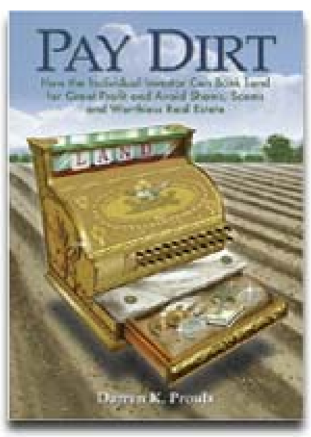
Excerpts from

Pay Dirt

How the Individual Can Bank Land and

Avoid Shams, Scams and Worthless Real Estate



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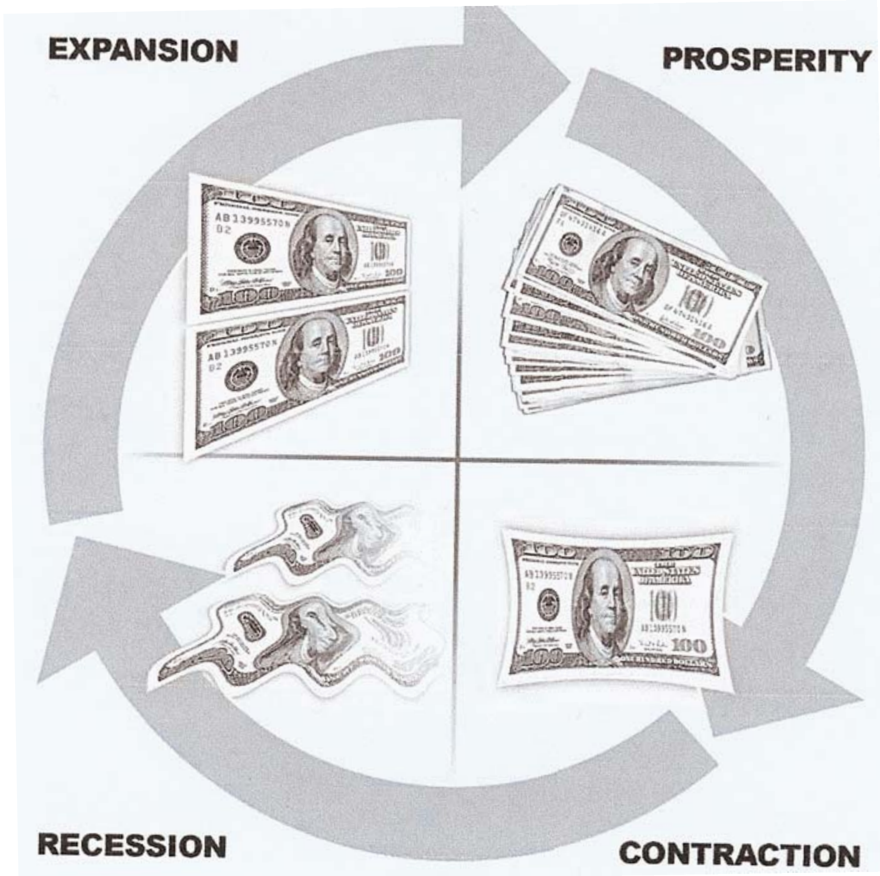

SO HOW DO YOU determine the *right time* to buy a particular property to landbank?

Timing is even more important than *location.* This is because if the time is wrong, you cannot sell a parcel of dirt in even the most choice of locations. But if the time is right, you can even sell a parcel in a less-than-desirable location.

Timing boils down to the *economic cycle.* An economic cycle (also called a "business cycle") *is* the pattern of business activity, undulating like waves between the two extremes of boom and bust - of prosperity and recession. The traditional pattern is for an economy to hit four phases in this order: expansion, prosperity, contraction and recession (or depression). Then the cycle starts over again (with a "recovery"). In the pattern, there will be:

1) *Expansion* in the number of jobs and in industrial productivity while interest rates remain low or fall, meaning loans are not hard to come by and there *is* heavy consumer spending. In the real estate market, there will be plenty of construction activity of houses and buildings.
2) *Prosperity,* with plenty of money floating around, but prices rising (inflation) because demand outstrips the product supply, and interest rates rising. (The Federal Reserve Board raises rates to control inflation in an attempt to keep the economic cycle from

swinging too quickly.) The real estate market *is* booming. Homes, retail centers and office complexes can't be built fast enough.

3) *Contraction* of the economy as consumers decide prices are too high which results in a drop in purchases, less profits for businesses, a decline in productivity, and job layoffs. This is the vicious part of the cycle. In the real estate market, construction slows, a seller's market becomes a buyer's market, new homes take longer to sell, and retail and office complexes experience rising vacancy rates.
4) *Recession,* with a poor job market, high unemployment and sharp declines in business activity and prices. Interest rates eventually begin to fall. In real estate, this *is* the darkness before the dawn.

How does an economic cycle relate to landbanking?

It should be clear that the optimal times to buy land are during a downturn (optimally at the bottom of a recession) or the beginning of an upturn (the expansion) of the economy. But the landbanker then has to be prepared to hold onto the land until the cycle reaches its peak (the prosperity phase).

Let me say that we're mostly concerned with a *regional* economy, not the national economy. This is because regional economies can be booming even while the overall national economy is lagging. Of course, if interest rates are in the high double digits (meaning it's difficult to borrow money) or if there is a national recession, then regions everywhere are affected. But typically, some parts of the nation enjoy boom times while others are in a bust phase. As a landbanker, you must be concerned not only with the national economy, but with the economy of the area in which you intend to buy land. For example, after the dot com bubble burst in the San Francisco Bay area in 2000 and 2001, northern California's economy took a downturn. But at the same time, Southern California's economy was in an upturn after an extended downturn due in part to closure of military bases.

The trick is to buy in a market where the economy is set to recover and enter the expansion phase. For if you buy in an overly depressed area, chances are the economy may never recover sufficiently to turn your landbanked acreage into pay dirt, or may take a great long time before its economy expands. (Think of a mill town, in which the mill shuts down. Or think of a mining town where the mine plays out or the price of the mineral being excavated falls on the world market, rendering the mine unprofitable.)

Therefore, the best bet seems to be buying in a real estate market that is due to expand imminently, or is beginning to expand already. This gets back to my point earlier in the chapter about zeroing in on a medium size community with an increasing population, within commuting distance to a major city, with buildable land, a secure and proven water supply and a local government that encourages growth.

To repeat a point from earlier in the chapter: You want to buy land when urban sprawl is destined to reach the location within three to 10 years.