

TOP TEN MYTHS

ABOUT LAND INVESTMENT



THINGS ARE NOT ALWAYS AS THEY SEEM...

Sorting out fact from fantasy in land investing can be a daunting task, particularly if you've never bought land before. It is made even harder, because many people who offer advice have never bought land either.

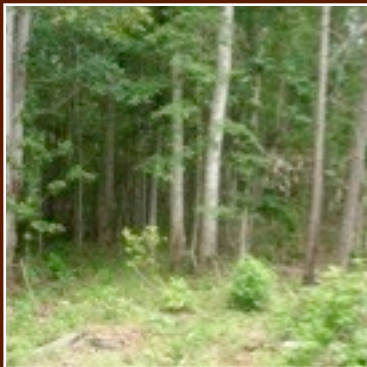
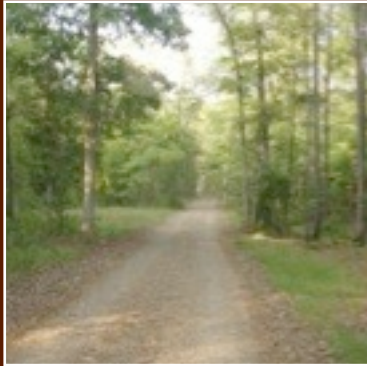
#1 It's Simple

You ask, how hard could it be? Yes, it can be easy but it is not a simple process. Land is inherently complicated and requires us to involve other professionals - we can't do it on our own. Land characteristics can be difficult to evaluate. Unlike buying a home where we know exactly what we are getting, it is not as simple to put our arms around the land. There are a lot of things you can tell about a house by looking at it (number of bedrooms, square footage, etc.) but by simply looking at a tract of land, you can't tell what percentage of it sits in a flood plain, or how much the timber is worth.



Simple to look at, not so simple to evaluate

MY LAND TEAM



*Assemble
a team of
professionals
that can
help you*

#2 A Real Estate Agent is the Only Professional Help I Need

Wrong. While real estate agents are an incredibly valuable resource to guide you through the process of locating, evaluating, and acquiring land, they are not a one stop shop for all things land related. Forestry, appraisals, soil and environmental testing, surveys, and zoning (the list is MUCH longer, but you get the idea) are all very important, AND completely outside the professional competency of a real estate agent. Buying land is a team sport, and while your agent may be the quarterback, he or she can't possibly play every position.





**FIND A GOOD
REAL ESTATE
AGENT**



#3 Real Estate Agents Are Worthless

I'm often amazed at how little value most people put on a real estate agent's role in helping them buy or sell land. Far from worthless, a good real estate agent is priceless in guiding you through the process (which for most people is a once in a lifetime event) of buying land. It is what they do every day, and most are very good at it. They know what to look for, what questions to ask, who you will need on your team, and where to find the resources you need for a successful outcome. They understand the financing alternatives, the closing process, and the "little things" that you, as a prospective land owner may not.

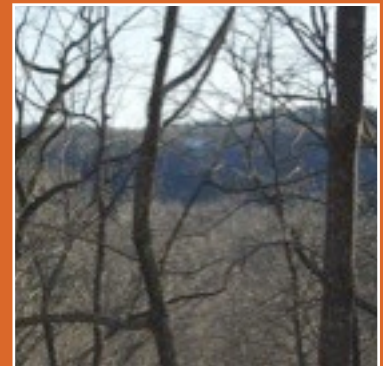
Is every agent a land expert? No. But, many are. Find them and use them.

#4 I Can Buy Land With No Money Down

You are going to need some money to buy land, in most cases. Notice, I said “some” money. While financing alternatives are in many cases more flexible for land than for residential real estate, the simple fact is that almost all lenders both institutional and private (even owners who finance) are going to want you to have some skin in the game. That doesn’t mean that your cash has to stay in the land (there are ways to pull your cash back out), but you are going to need some cash to close. It makes sense really. No lender wants to own real estate because of a loan default, but given the inherent illiquidity of raw land, lenders really don’t want to foreclose on it. So.....they want borrowers in a position where it hurts (in their wallet) if they default. There are exceptions, of course, but given the current state of banking, I would expect 100% financing deals to be rare.

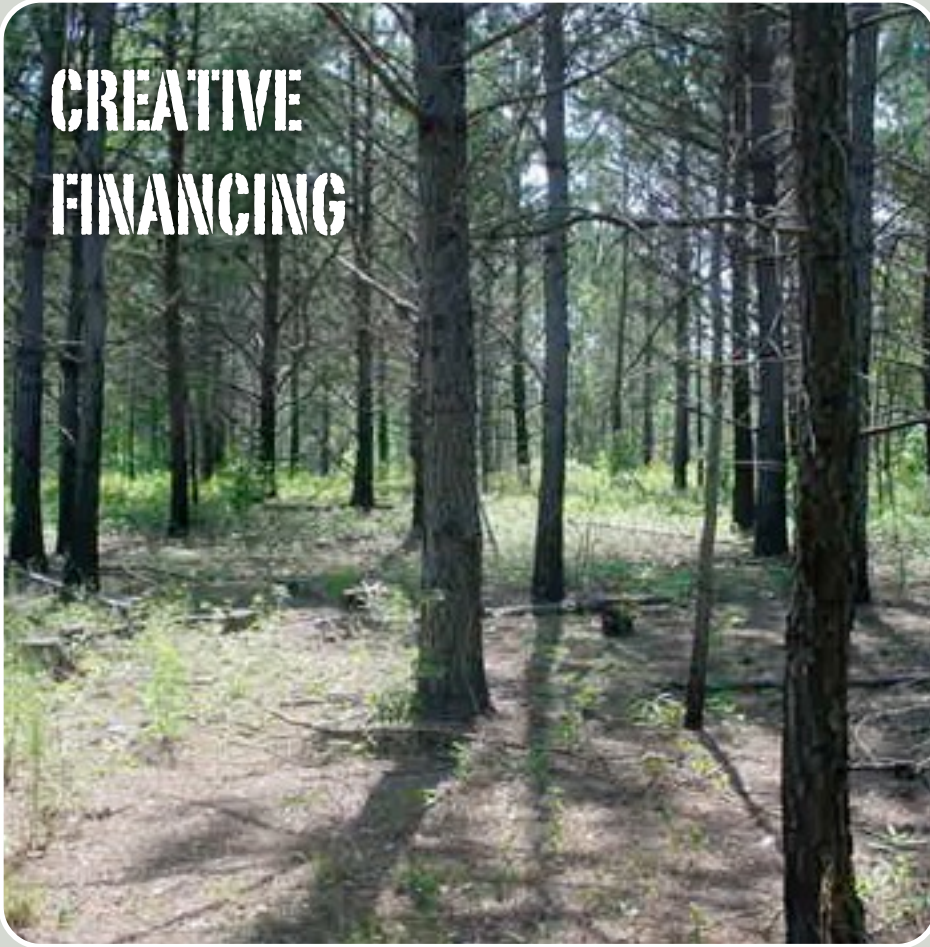


BE SMART



**DON'T FALL FOR
SCHEMES AND
GIMMICKS**

CREATIVE FINANCING



Don't be afraid to ask.....

Unlike residential real estate, land deals can be structured in a variety of ways to accommodate the financial needs of both buyers and sellers.

If you ask, sometimes the answer is no. If you don't ask, it ALWAYS is no.



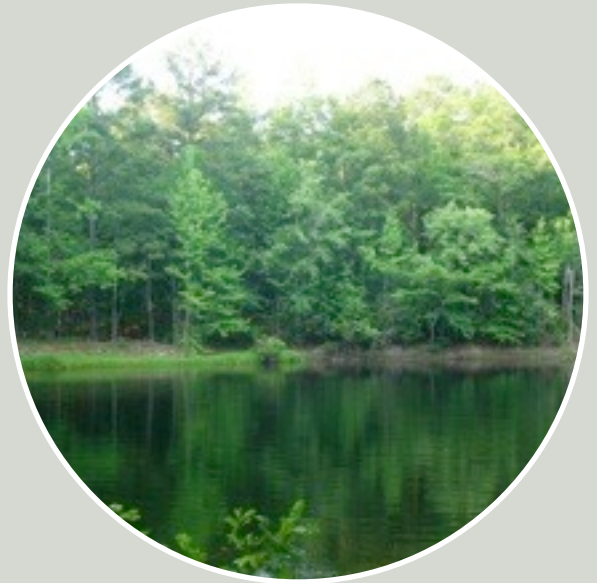
#5 I Have To Have Good Credit To Borrow On Land

You really don't. Banks may require it, but you may be surprised to know that banks aren't the only lenders for land. One of the best sources of financing for land is the person who is selling it to you. Many sellers actually prefer owner financing, because of the tax consequences of getting a big pile of cash at the closing table. There are obviously some strings attached to this type of loan that you might not see at the bank. Owners who finance may ask for a larger down payment, or higher interest rates, or accelerated payments, but they usually don't do credit checks, or report these loans to a credit reporting agency. Alternatively, some landowners might prefer a lease/purchase, or maybe even prefer a "contract for deed" arrangement, both of which convey title at a later time. In this type of arrangement, if you default... the seller gets to keep all of the money you paid PLUS they get to keep their land. That usually provides adequate security for them (and motivation for you), regardless of your credit.

MORE MYTHS.....

#6 Land Values Increase More Slowly Than Other Real Estate

Maybe. But, land is also not prone to the volatility and wild swings we see in residential real estate, commercial, and resort property - good or bad. If land values do move more slowly, that is more than offset by the fact that land appreciation is consistent and steady in most markets. In fact, Timberland, as an asset class, has outperformed the S&P 500 over the last 15 years, offering risk comparable to bonds, with an overall return exceeded only by private equity and venture capital. Land values are not flashy and don't make the news. It just quietly seems to make people wealthy.



#7 Assuming All Land is the Same

50 acres is 50 acres, right? Well.....no, because no two tracts of land have exactly the same combination of timber, topography, location, natural resources, dimensions, neighbors, road frontage, access, or any other characteristics you might consider. And, since these characteristics contribute to a tract's utility (and ultimately value), it is important to identify and evaluate the "fundamentals" of a tract of land. The comparison of two similar sized tracts is a difficult task, even for experienced appraisers, because the characteristics of land are often not intuitively obvious. There is more to land evaluation than simply size and price.

#8 You Must Be Wealthy to Invest in Land

You must be wealthy to invest in a lot of land, but you don't have to be wealthy to invest in a little. In fact, buying land in any quantity is a surefire way to increase your wealth. I don't believe you have to be wealthy to invest in land. I believe you have to invest in land to be wealthy! Don't wait to buy all you want.



You'll never get there. Buy what you can afford now. You can always buy more later. I know more people who have put off the land ownership experience until they could accumulate enough wealth to buy a big spread they always dreamed of. They spend their entire lives wanting and waiting to be in a position to satisfy ALL of their dreams, instead of having their dreams come true today, albeit in a smaller package.



REMEMBER.....



**CHEAPER
IS NOT
ALWAYS
BETTER**

#9 The Cheapest Land Has the Biggest Upside

Sometimes but not always. The upside in land has everything to do with a tract's potential, not its acquisition cost. Cheap land is that way for a reason....nobody wants it. And, land that nobody wants doesn't have any upside.

Land that has the most possible uses and desirable characteristics, located in a desirable area has the most upside, regardless of current market price. We all want to find a diamond in the rough, but for most it will never happen. Buy good land, at a fair price, in a good area. Buy as much as you can comfortably afford. If you need to, lower your acreage to meet your budget, but never lower your quality standards.



AND FINALLY.....

#10 If Everyone Else Is Doing It, It Must Be Good

My mother's voice is ringing in my ears. "If everyone else were to jump off a bridge, does that mean you should, too?" Probably not. There are plenty of good reasons to buy land, but "everybody's doing it," isn't one of them.



**Don Webb,
author and land
owner**

"Everybody" could be wrong. In the Southeastern U.S., lots of people are singing the blues today because they got caught up buying timberland that was being liquidated by some large institutional landowners. People bought low and sold a little higher. The people who bought a little higher, sold a little higher still, and so on. Everybody was doing it. The problem was....they were all "wholesalers" selling to each other and borrowing the money on short term loans. They felt good about it, because....well.... everybody was doing it. When the economy slowed down and credit policies tightened, they became unintentional victims of their own (equally unintentional) pyramid scheme. At the end of the day not "everybody" could find a retail buyer. The music stopped and not "everybody" had a chair.

Invest in land because you think it is a good idea, because you have done the analysis, because it fits your purpose and your needs.....not because everybody is doing it.



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