

**Heatley-Moist's**

# D/FW Land Advisory

*Street-Smarts For Cleaning Up In Real Estate*

(972) 550-0700

2108 Hurd, Suite 200

Irving, TX 75038

FAX (972) 580-1989

*Are REITs ruining it for us all?*

## How to Compete with REITs

*Times have changed: Once the stillborns of the 70s, REITs (real estate investment trusts) are now the bullies busting up the block. After all, they've rocketed from just \$13 billion six years ago to around \$117 billion today, and the new tax law incentives stand to send them on an even bigger tear—a monster come home to roost the industry buzz goes. Someone... PLEASE... step forward and tell us how in the name of Sam Zell that the little guys (like us) are supposed to compete with THAT.*

From:  
Las Colinas, Texas  
Monday, 11:26 a.m.  
January 26, 1998

**Inside This Issue...**

- FOR PRIVATE ENTREPRENEURS: Five tips for knocking cash-rich REITs out of your way. (Pages 2 & 3)
- What is Colleyville Square? It's the site for an event you don't want to miss. (Page 4)
- Why REITs may turn out to be our best buddies. (Page 3)
- Anxious for an update on your JV property? Go immediately to the first P.S. on Page 4.

Dear Venturer and Subscriber:

I don't mean to drop a grenade in your granola, but the more I read, the more I'm convinced Sam Zell is taking over the world. Unless I missed something, not a single square foot of investment grade real estate exists that won't soon be converted into a mutual fund.

At least in Sam's mind, there isn't.

SO: Does this mean the party's over for investors like you and me-- the ones who aren't amassing billions from the seat of a Harley via a cell phone and a Palm Pilot? Who don't have billions in public money to throw at projects?

Don't fall for it for a minute.

As you are about to see, the runup in REITs (rhymes with feet) may not be such a bad thing. May even be a good thing, in fact. And, luckily, there are advantages private entrepreneurs have over these giant REITs which allow you and I to stay and play, somewhat like Southwest

Airlines did right here in D/FW. Before it's over, who knows?... maybe we'll become one of the REIT industry's biggest fans. Just why I'll get to shortly, but right now let's get into the Heatley-Moist arsenal for knocking REITs off the ladder:

### REIT EQUALIZER #1

#### **Jack be Nimble, Jack be Quick.**

Not a phrase you would ever use in describing a REIT. The proverbial battleship that takes forever to change course is more like it, and for good reason: To get a decision out of a REIT takes a consensus of opinion of, well, everybody. Which means months, maybe years to get a deal through the mill. Enter Heatley-Moist Capital. Our signature is speed. Closing deals sooner than expected. If it takes quick decisions and fast closes, REITs aren't there, and that leaves the door wide open for you and I.

### REIT EQUALIZER #2

#### **Not Aliens. But Close.**

OK, maybe not even close, but let's face it: to most of us, REITs are outsiders. Committees. Bureaucracies. Conglomerates. Mostly unknowns. Certainly not locals, like you or me. After all, how many REITs do you know on a first-name basis? And you know as well as I, sellers typically trade with people they know over those they don't. (Why argue with human nature?)

### REIT EQUALIZER #3

#### **Size Matters... in a Big Way.**

And smaller is better.

There's a dollar point at which the economies of scale just don't work for REITs. Everyone I talk to has a different idea of what that point is, but around \$5 million up is close enough. Below that is where you'll find us, flying just under the radar. And for a market the size of D/FW, believe this: there's enough airspace at that altitude for everybody who wants to play.

### REIT EQUALIZER #4

#### **If It Takes Elbow Grease, You're On The Right Track.**

Here's where the little guys can knock REITs off faster than the Dallas Stars can kill a penalty: buy fixer-uppers. Anything requiring more than one phone call to an engineer is on the outskirts of the impossible for a REIT. (Brokers are better off talking to dial tones.) That's where we come in. No better

proof needed than this:

**At FM 1709 and Davis Boulevard in Southlake, you'll find 4.5 acres that, when we first got it, had more problems than a centipede with fallen arches. So we raised an extra \$145,000 up front to redecorate the landscape, and now an emergency vet clinic is only days away from breaking ground on one of the pad sites. Real estate types refer to this initiative as "added value." Whatever. That's the push it took to make this fly, and it's also the very reason REITs won't come near a deal like this.**

### REIT EQUALIZER #5

#### **Do for Brokers What REITs Can't (or Won't).**

For private investment firms well-connected to the brokerage community, REITs should be no match. Winning brokers, however, is no small matter. Heatley-Moist built its "house list" of brokers with a direct mail campaign. That took years, though, not months. It also takes more than just patience to make your business truly transparent to the broker elite. This excerpt from our most recent letter should give you a sliver of insight:

Further, if you read the original materials sent to you, you also know that out of the bizillion buyers out there you can take deals to, you can probably count on a tuning fork the number who give brokers something worth coming back for again and again. Herewith I offer a tiny sampling of the business policies that earned us membership in the Brotherhood of Exemplary Buyers:

1. **Acquisition Fees.** If I have to say this one more time, I'll scream. I would no sooner ask a broker to split a fee than ask a heart surgeon to do the same. Bad form of any kind isn't tolerated here, and tapping brokers fees is bad form.
2. **"Maybe" Not Spoken Here.** It's a "yes" or "no", and most of the time right on the spot.
3. **Is It A Real Deal... Or Not?** As fast as we pedal, you can forget about being on hold month after month just to find out if a payday is imminent. Fact is, we've built an entire business around our ability to close faster than the next guy. Should I also mention that some of our mail even comes addressed to Quick Close Heatley? It does. (Maybe someday I'll get around to framing the one that came from Publisher's Clearing House.)
4. **"Can You Bring A Million?"** Before answering such affronts, I do a gut-check to make sure I can walk the talk. As a broker (my past life), I quickly learned to scratch buyers off my list who were "all hat and no cattle" as Texans speak. My answer to the question, by the way, is "Yes." Only now it's two million.

Have I said enough? Hope so. At least enough to open your eyes to what I will buy, when, and how much, along with sufficient reason why the first three words to penetrate your consciousness when deciding who *first* to call should be these three:

Quick Close Heatley

So much for the advantages us little guys have over REITs. Almost unfair ones, the more I think about it. All in all, though, I'm glad to

have them around. Not just because we can run circles around them, mind you...

... there is also this:

Since issuing stock and taking on corporate debt are both less expensive ways of raising money than the interest rates most private investors must pay to raise capital, REITs can afford to accept lower returns on properties. Which in turn means they can afford to pay *more* for a project than, well, anyone. Why should this matter to you and me? Well, because what I'm talking about is... the very same guys...

**YOU AND I  
WILL BE SELLING TO!!**

And the unvulture-like price Sam Zell recently paid for Beacon is proof enough of how rich such deals can be: a premium 30% above market.

It's true.

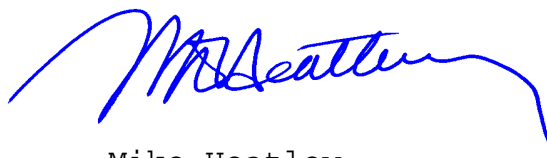
That's it for this issue.

Oh!... one final item: For the ones who have money in Colleyville Square, Park Glen Market Place, or Southlake/Stone Bridge Park.

And, for those who haven't.

Go now, please, to P.S. #2.

Sincerely,



Mike Heatley  
(Gunslinger  
for the Little Guy)

P.S. **NEXT OUT**. Join me in the Hall of Gratuitous Praise. Lemme see now: Two JV properties cashed out, four more under contract, \$1,059,442 disbursed, three tenants signed, three grand openings scheduled, two new properties acquired, and the first phase of our very first residential development is sold out. Do you detect a common thread here? You're right. Every one of these was my fault. (And that's just since our last issue.) SO: may as well prepare yourself for another of those annoying self-aggrandizing Limbaugh-like letters wherein I update you on all of this in excruciating detail. (Mid-April I hope)

**P.S. #2 ROOM FOR ONLY 4,000. . . SO DON'T BE LATE.**  
4-7 p.m. Tuesday, February 24, 6225 Colleyville Boulevard,  
Colleyville, Texas. Might be advisable to have that person in whom  
you entrust mail handling to make dead solid certain that the of-  
ficial invitation to this Not-Just-Another Grand Opening doesn't  
escape notice upon delivery. Due in your mailbox any day now.