

D-FW Land Advisory ^{11th Year!}

Street Smarts For Cleaning Up In Real Estate

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"In the summer of 1947, Mr. Baruch rented the place next to ours in Sands Point, and so it came to pass that I was invited to his 77th birthday party. When this awesome and legendary Wall Street speculator asked me what I did, I replied, quite cockily, that I was an investment banker with Kuhn Loeb and Co... Oh, ' he said. I've always wanted to know what a good investment is. Is it a common stock, a government bond, real estate, diamonds, a gold brick? Tell me, young man, what do you think is a good investment?' I have never forgotten the good lesson I learned that day, and I shall ever be grateful to Mr. Baruch for expanding my universe of values."

— Arthur Gray Jr.

Managing Director of Cowen & Company
Investment Counselors, New York

*Homeowners!... How Good Do You Feel About The
Money You've Got Tied Up In That Personal Residence?
Ponder No Further: Thousands of D/FW Homebuyers Are Discovering You Can...*

Find The Ultimate Investment in Your Own Back Yard

After three straight years of record-breaking gains in the stock market, layered atop at least five for real estate, investors are wondering how much longer their winning streak can last. Sure, the economy is healthy now, but nothing is exempt from a case of financial flu. SO: Where can one consistently make money, come Hell or high water? Street-Smart investors are discovering that some of the highest ground may be right under their noses.

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From:
Las Colinas, Texas
Tuesday, 3:42 p.m.
July 14, 1998

Dear Fellow Speculator and Subscriber:

Is the D/FW housing market too hot?

Maybe. Maybe not. If you're like some investors I've talked to lately, it's beginning to take on a little too much of that mid-'80s look. That too-good-to-be-true look. Can't say as I blame them.

Not because this market is hot, mind you. It's because it's white hot. It's burning up previous records like an out-of-control Florida wildfire. Buyers are snapping up new and existing homes at sizzling rates. I won't

insult you with the statistics. However, I *will* share with you this one example.

You remember the condo market of the 80s, right? For most people, the concepts of Condo and Dallas go together as well as Casinos and New Orleans. Just didn't click. So explain how we got so fast from that... to this: a typical 2000-foot condo in the Upper Downtown Area now fetches \$440,000. This is a luxury high rise, by the way. Dallas' first major one (of over 100 units, that is) since '84. And the \$440,000, that's for a suite priced in the *mid*-range. The "low-rent district" (about the first five floors) goes for around \$250,000. Just make sure all the furnishings you bring with you will fit in 1,800 square feet.

At the other extreme are the penthouses on the top level. I counted three, and those start at \$1 Million. Or did. They're all gone now. You can check availability, pricing and even do a virtual tour of these condos by dialing up their web site, www.mayfairhomes.com, right from your desktop PC. Click on "Availability," and you'll see a graphic showing exactly which units are still available. My count showed this project somewhere around 70% sold, by the way. And those close to the deal tell me that it was right at half sold...

Even Before Construction Started!

NOW: without putting too fine a point on it, the average sale for one of these units registers around \$220 a square foot. Not worth knowing except for this: The cost of an upscale residence—even some of the most posh in Dallas—hardly ever forges beyond \$125 a foot. And this: The penthouses, remember? The average per foot sale price was \$300. And someone (who needed 5,000 feet) actually bought a penthouse-and-a-half. So now you know that one of these cubbyholes sold for a \$1 Million And A Half.

Lordy.

No wonder some speculators are worried sick. Nobody's memory is that short. Not when it comes to the D/FW condo experience. Let alone the D/FW real estate experience. Perhaps you've seen enough to also share in these concerns. That after seven years straight of a market this good, maybe the time has come to start thinking lifeboat drills.

Well, I have news for you.

And... especially *good* news if you happen to be a homeowner in the Dallas area.

Lemme ask you something. How much did your stock portfolio gain last year?

That's a question I hear a lot these days. Even among real estate types it's getting to be a topic hotter than Linda Tripp's testimony. If

you're like most, this market isn't sucking up just your attention, either. It's sucking up a fat wad of your hard-earned investment dollars as well.

It's no wonder. The numbers are stout. Last year, the S&P 500 Index jumped 33.4%. The average US diversified stock fund gained 24.5%. So a typical IRA or 401-K mutual fund account probably increased its value by one-fourth to as much as one-third just during '97.

Even scarier are the figures for '98. They could make last year end up looking so-so. Just in the first quarter, the S&P Index gained 13.9%.

But a 50% gain per quarter... that would be slick, would it not?

And, even more so... if... it was possible with less risk.

Listen carefully. If, during the first quarter of this year, your stock portfolio didn't appreciate by at least 50%, it's time to reevaluate. Seriously. Time to break out the HP 12C and do some number crunching. Because the ultimate investment you've been searching for may be sitting right under your nose.

Up against such loud talk about the stock market these days, what's happening in residential real estate values is barely a whisper. Never mind that homeowners in Dallas County had the value of their investment increase by better than 50%.

And *that*, I should add, in the first quarter of '98.

How so?

Well, it so happens that Dallas County median home prices jumped by 10.2% in the first quarter of this year. But unless you paid cash for your home, that 10.2% rise in *price* translates into a much larger increase in the value of your *investment*. And, in this case, a typical mortgage borrower realized a...

51% Gain On Equity!

Here's the math:

By borrowing money to buy a home, you actually *make* money by being mortgaged to the hilt. This is because mortgages magnify the power of your investment through leverage. Leverage is simply using borrowed money to purchase an asset that is likely to appreciate. Since a typical 20% down payment is only a fraction of the home's value, you get a degree of financial leverage that is hard to find anywhere else.

Pardon me but, when was the last time you bought stocks with 20% down?

OK, to finish the math: Say you purchased a home last year in Denton County for \$100,000. Actually, that would have been a bargain basement price, considering the \$118,500 median and \$141,500 average sales prices in Denton for '97. After making a down payment of \$20,000 (20% of the purchase) you float a loan for the remaining \$80,000. The 10.2% jump in price increases the value of your equity by \$10,200 (\$100,000 X 10.2%). Your gain calculates thusly:

$$\frac{\$10,200 \text{ (Gain)}}{\$20,000 \text{ (Initial Investment)}} = 51\% \text{ Gain On Equity}$$

So the first quarter of '98 finish line looks as so:

Gain From Your Home.....	51.0%
Gain From S&P 500 (If You're Lucky)	13.9%

I think you're hearing me now.

Now, on to probably THE most crucial factor in picking any investment. That is, how consistently will it continue to gain in value as the years go by.

It's no secret that real estate values are quicker to rise than fall. This cannot be said, however, about other investment alternatives. Everybody knows that stocks can fall faster than they can rise. A few hours trading can turn a substantial asset on your balance sheet into a big fat zero.

But history has proven that over time, real estate outperforms other investments. From '74 to '94 real estate values increased by nearly fifteen fold. Against racehorses like that, the other favorites stayed so far back in the pack...

**They Might As Well
Have Stayed In The Gate!**

Now, about this housing market. Before you chime in with those who blather on about it being on its way to petering out, I have a few points to lay out that may help correct such oversights. In fact, these are dead giveaways that the whole US of A is in for a housing superbloom, so get out that highlighter and pay attention...

Housing superbloom Sign #1.

**The Burnout Of The Late 80s
Created An Undersupplied Market.**

So you fear developers may once again be lapsing back into those blind leaps into new projects. This should help: Nationally, the number of new housing units built annually for the last four years sits at about 1.5

million. That, however, can't hold a candle to the pace of the '70s and '80s. We'd have to build another 500,000 houses annually just to pull even. It is precisely this situation that has created a shortage in the Metroplex... a shortage that is getting worse by the hour. The kind of shortage only a full blown suberboom can correct.

While we're at it, here's something else I can help you with, especially if you're among those with the willies over seeing a spec home going up. First, these homes aren't being built with 100% borrowed money. The funny money days of the savings and loans expired somewhere back around the turn of the decade, in case you hadn't noticed. No, a good part of the money that's building these homes comes right out of the builders' pockets. So if the sledding gets rough, the last thing a banker worries about is a builder skipping out.

And second, I don't have the exact statistic, but builders who've been around the block in this market can tell you that, compared to the number of purely spec homes being built back in the '70s and '80s, what you see going up today doesn't amount to a grain of sand in the desert.

Housing Superboom Sign #2.

Record-Low Mortgage Rates Are Opening The Floodgates For Waves Of New Homebuyers.

This I have on authority from Texas A&M's Real Estate Center. Their report claims low mortgage rates are the driving force behind high home prices and soaring sales volumes across Texas. Hourly wage earners who previously couldn't qualify for so much as an appointment to see a loan officer now see mortgage loans coming within their grasp, thanks to the Community Reinvestment Act.

Is there anybody left that can't get a house loan?

ALSO: Many new home owners are former renters. The ratio of American families buying homes instead of renting apartments increased by more than 1% last year. This means a shift of over...

One Million Renters Into Homebuyers!

Housing Superboom Sign #3.

Steadily Increasing Numbers Of Non-Traditional Households.

"More non-traditional households, including immigrants and single buyers, are entering the market, keeping demand high in various price categories," says R. Layne Morrill, president of the National Association of Realtors.

Housing Superboom Sign #4.

Increasing Frequency of Natural Disasters.

El Niño's rage across the US is hardly news anymore. Thousands of homes have been devastated this year. And, personally, I think God truly has it in for Florida. All it's going to take is about one more wild fire to send some of those folks to the dark side of the Psycho Moon. Added to the seasonally normal run of hurricanes, floods, and tornadoes, and you've got a bumper crop of displaced homeowners looking for replacements.

Also extracting a toll on the national inventory of unsold homes is the number of homes lost through condemnation or abandonment as jobless communities turn into ghost towns after residents pack up for greener pastures.

Any wonder why we're at a 26-year low?

Housing Superboom Sign #5.

Homeowners Now Get To Pocket Up To \$500,000 In Gains... TAX FREE.

Know this: few homebuyers approach investing in a new home with the idea of making money. Why this is so is no mystery to anyone who endured the '80s bust. Since then, buyers have been more motivated by other factors like pride of ownership and lifestyle. That is, until Uncle Sam decided to remodel the tax law. Which was just last year, I believe. Before then, the only way to avoid paying taxes on the profits from the sale of your home was to buy another at the same (or higher) price.

The new law cancels all of that out.

Well, almost. Now you can pocket a gain of up to \$500,000 on a home and not owe Uncle Sam a single red cent. This also applies even if you should go on to buy another home at a lower price. Even better, you can repeat this as frequently as every two years if you want.

All of this, mind you, comes layered atop the tax laws which *already* subsidize homeownership through deductions. A 28% tax bracket homeowner currently gets a \$280 tax deduction for every \$1,000 of interest and property taxes paid.

Lumped all together, this makes for the sweetest deal homeowners've seen in decades. Hands down. And, as more and more homebuyers begin to catch on, you're going to see any case for a housing market slow-down come apart like a cheap Piñata.

Housing Superboom Sign #6.

Three Consecutive Years Of Unprecedented Stock Market Wealth

"The wealth effect flowing from three years of stock market profits is now powering a comeback in demand for new and existing homes and condos in America. This fact has been known for some months. But until now, few outside the Real Estate Industry have realized just how strong this wealth effect has become."

**-Adrian Van Eck's
REAL ESTATE LETTER**

Money. Moola, moola, moola. It's flowing through more hands than ever before. Thanks to rising stocks, many investors are awash in it beyond their wildest dreams. Now they're moving up to bigger, costlier homes in elite neighborhoods. And, members of this Got-Rocks Crowd do not waist time quibbling over price. First hand proof of that exists right here in our very own Harbour View Estates on Eagle Mountain Lake. As you know, the first phase is completely committed to either builders or individual homebuyers. What you *don't* know says it all: even though this project began with a proforma sales price of \$34,000 per lot, the average actually turned out to be \$54,288, or...

**59.7% Higher
Than Projected!**

What's more, buyers in elite residential areas like Harbour View Estates often bid against *other* buyers to get what they want. Can you imagine homes going for over sticker?

A recent Doonesbury Strip hits the nail on the head: Guy gets a phone offer of \$100,000 for property he owns in the Colorado ski community of Aspen. He is about to say "Yes," thinking this is a good offer, when his son says "Don't take it , Pop. Aspen is HOT." The man repeats this to the caller, who then sighs "Okay then... \$5 MILLION."

This too: major brokerage firms now actually attempt to persuade shareholders to purchase new homes with Wall Street money.

Can this be?

So it is, my friend. Now they're running ads telling shareholders that the money for their new home can be had direct from the brokerage firm, simply by borrowing against their shares.

We're almost done, so keep your seat and try your best to comprehend this last one...

Housing Superboom Sign #7.

The Feds Are Counting On Real Estate Inflation To Weed Rich Americans Out Of The Social Security System

Here's the deal: The feds know the Social Security game is up. Unless, that is, a large number of taxpayers can be cut from the payroll. As usual, Rich Americans take the hit. You see, the feds are hoping New Real Estate Wealth from price gains and rental income will turn the trick like so: with the wealthiest top 20% of U.S. families replacing their Social Security with this New Real Estate Wealth, the Social Security Administration can then "means-test" their monthly payments. This saves money back for the other 80% of Americans who don't save and aren't prepared for retirement.

Isn't that dandy?

After 50 years of paying taxes, these Rich Americans will be out in the cold when it's time to cash in on Social Security benefits. Rich Americans like you. (But not me... I've never made enough in fees outta my deals to ever be mistaken for rich.) Schemes such as this are exactly why we remain unflappable in our rant about a housing superboom being eminent. Frankly, now that it has the blessings of the federal government, I'm beginning to wonder if...

There's Any Way In The World To Prevent It!

Now's a good time to be ending this issue, and I'm going to do so with a \$64,000 question: As an investment, where does your home rank among other investments when it comes to risk?

Listen: Anybody in stocks knows (or should) that a drop in the Japanese yen or another Asian Market crisis could blast a Grand Canyon sized hole in your portfolio. But not in that bulging bag of moola you raked in on your three-bedroom home in Dallas County. It may as well be in a bomb shelter. And now that Uncle Sam won't be sitting at the table with his hand out for part of your profits, you should be even more smug in the knowledge that the investment you've made in your home ranks up there among the best you'll ever make.

SO: Should you forget everything else you've read in this letter, just remember this: Companies rise. Companies fall. Stock prices swing up. They swing down. Herds thin, the weak die, and so on. But real estate, my friend, endures. Why? Because real estate is a core asset. A basic necessity of life. Since the beginning of recorded time, wars have been fought over it. Fortunes have been built with it. Most of the world's greatest, in fact. And there will be even more wars fought, and more fortunes made until...

**Mankind
No Longer Exists!**

Street-Smart Tip

Fortunes... for people like you.

The dollars you have (wisely) socked away in your personal residence are the first step toward this fortune. Just don't stop there. Now is the time to take advantage of the hottest real estate market in D/FW history, and the place to start is by revamping your allocation of assets. More of your dollars are going to need a safe haven when this Goldilocks Stock Market comes crashing to earth. And the D/FW real estate market is without question one of those safe havens. It's a sellers market second to none. Eager-beaver buyers are ready, waiting and lined up, money in hand, aching to buy. Compound that with a national inventory of unsold homes sitting at a 26-year low... this is the recipe for a no-joke bonanza in housing. It would require real effort NOT to make serious money in such a market.

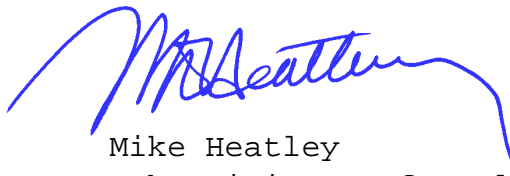
Here's a 24-hour voice mail number to call so your name will be among those who receive a sneak preview of our next project. If you know what's good for you, you'll take care of this before putting this letter aside.

Why risk millions?

Metro 214-220-9616

You'll be glad you called (and you can thank me later).

Sincerely,



Mike Heatley
"The Minister Of Moola"

P.S. You'd think after so much bellowing about the fortunes to be had in housing, I would at least have a residential development deal to bring out. Not happening, sorry. Not until we find something that comes at least close to Harbour View Estates. (In performance, that is.) There's still plenty of deals out there alright, and good ones, too. Just not good enough. The kind we're after are few and far between: the well's been dry since Harbour View debuted 12 months ago. Sooner or later, though, we're bound to hit on that certain one that says "These lots will sell in any kind of cycle, market, weather... whatever." The one that'll have buyers lined up from Dallas to Boston. All I can

