

WHY BUY LAND?

Cash flow is great, but the land beneath an investment property will always be more valuable than whatever sits on top of it. So, asks **Joe Varing**, why not start there?

Real estate: smart investment strategy or outdated portfolio piece? This question has been on my mind because even though buying a house and renting it out can create cash flow, there is a bigger picture to consider. And when I say 'bigger picture,' I'm talking about land.

Investing in real estate has been a lucrative endeavour for many investors, but as cash flow decreases in most prime markets, investing in land has become an increasingly popular strategy. For more than 10 years, I've been hyper-focused on land. It's not for everyone, as it carries higher risks, but it has also been proven to offer the highest returns.

The caveat

The most common concern among would-be land buyers is a lack of income to pay carrying costs. This is a very real, valid concern and one of the main reasons why investing in land is not for the faint of heart. There is no instant gratification of collecting rent, and there's a definite need for steady finances to service mortgage obligations and other expenses. Investing in land is about strategy – the long game – and requires more patience and money than most first-time investors possess. It requires skill, extensive research and a desire to consume up-to-date information to maximize your potential profit.

You've probably seen the ads for 'fix and flip conferences' or books detailing how to buy real estate without your own money. When it comes to investing in land, there is no crash course you can take for three easy payments or a webinar that will teach you everything you need to know in three hours. Though the learning curve can be steep, the

strategies can take various shapes. A straightforward land investment play would look much like this: An investor buys a one-acre property that is zoned for future development at a density of eight units per acre. By subdividing the property into an eight-lot subdivision, the investor can then sell four lots, which would pay all financial

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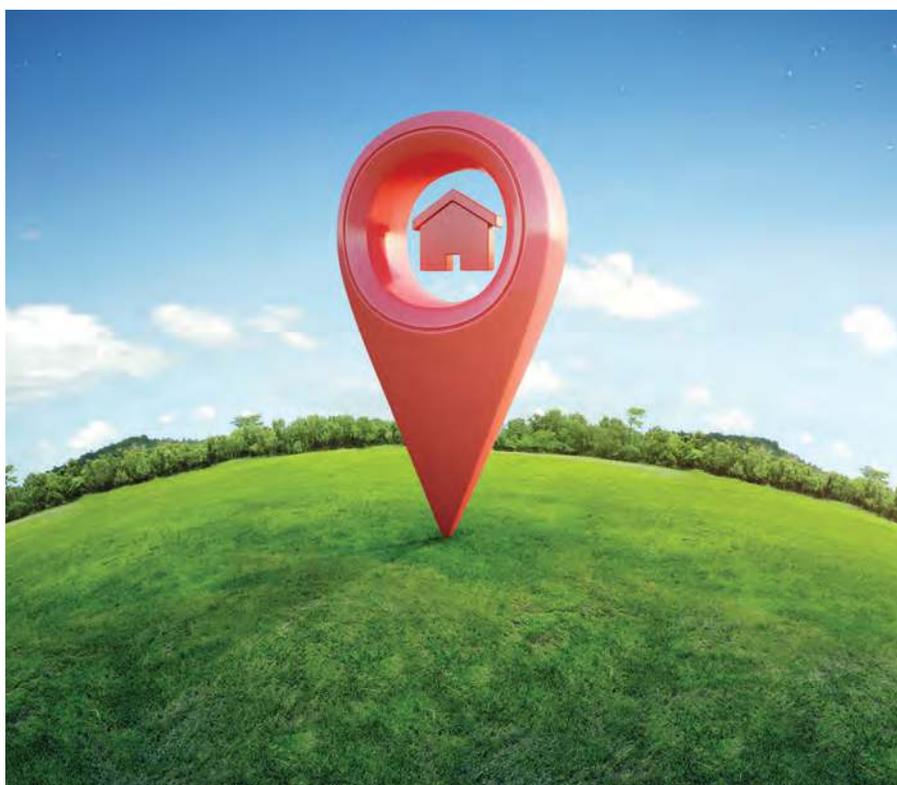
benefits speak for themselves. Investing in land can be an extremely valuable alternative or diversification strategy for savvy real estate investors.

The strategy in action

Another benefit of land is that investment

obligations and return any invested capital. The remaining four lots can then be sold over an extended period of time, which not only maximizes profit but also allows the investor to plan a tax strategy based on other income to minimize capital gains.

Another benefit is that more often than



LAND VERSUS RENTAL PROPERTIES: THE ADVANTAGES

- No ongoing maintenance
- Land continues to appreciate; buildings depreciate without further investment
- Higher-density municipal planning adds additional value to land
- No tenants to manage
- No infestations, unpaid rent, damaged suites or leaky plumbing
- No costs for renovation or ongoing improvements
- No management fees
- Lower property taxes
- Numerous exit strategies
- Value is only limited by permitted land uses, not by income or cap rates
- No government intervention – i.e. rental increase limits
- Completely hands-off
- Smaller pool of buyers, which leads to more opportunities

not, cities often up-zone properties, which provides a massive leap in total yield and, ultimately, profits.

Often, when you purchase land in the path of development, you will find yourself with a finite asset that many others want to get their hands on. If you purchase land with the intent of holding the right property for the long term, it has the potential to far surpass other investment vehicles in both profitability and time invested. Land is a tangible asset that doesn't wear out, won't depreciate, and won't be vandalized, disrespected or destroyed – giving you peace of mind as your property's value continues to rise.

I believe that buying land is the best, most strategic investment you can make – when done correctly. You need to do your research by seeking out information and experts who will teach you, but you must also learn to trust your gut. If you're thinking of investing in land, you'll need to combine knowledge with instinct. Sometimes a hunch is all it takes to see unrealized value in a development property. This allows you to capitalize on something others might have overlooked.

But to ensure success in land investing, proper due diligence is the most important factor. To guarantee your land is in the path of development and is likely to be supported at City Hall, you'll need to speak with city planners, study land use plans and assess the potential constraints of the property. It may sound daunting, but if you don't need a steady stream of rental income to carry an investment, purchasing the right parcel of land is worth the extra legwork. ■

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