

It always seems that with an abundance of good times comes the abundance of good scams - new and improved ways to rip off the naïve and totally innocent general public. Here we are in the middle of one of the largest building booms in the history of the earth and we have builders not able to pay their bills, unable to make payroll, filing for bankruptcy, unfinished houses sitting for months and suppliers issuing liens against property holders.

How could this be? Most of the trouble looks like it is radiating from a growing number of investment groups operating within our industry. So we (CRBA) felt it time to take a closer look to see what is really going on with these investment groups. WOW! The tangled web we found is really unbelievable! I'm going to try my best to give you the details on some of the more problematic groups and how they operate so that both builders and consumers can be aware. These types of scams always seem to start with the man in the middle and this one is without exception. In order to title this middle man properly I will need to borrow a term used by one of the great builder / developer icons of our area, Bud Finkenoir, and that term is Suede Shoes. I could think of a lot of terms to use for this chap but I'm trying to be nice so we'll just stick with Suede Shoes.

What Suede Shoes does first is find a developer willing to sell or an option to sell a large number of lots at large discounts for speculative investment packages. Then Suede Shoes is off to find his next business partner (victim) - a qualified (desperate) builder (hereby known as Mr. Builder) - who is willing to build a large number of Spec. homes at an impossibly low price per sq. ft. In one case I heard the figure \$65.00/sq. ft. house and lot being used as the target price for Mr. Builder to hit. Now it is time for Suede Shoes to apply the icing on the cake. The final partner in the deal is our eager (ignorant) investor. The investors that Suede Shoes seeks out are individuals who know little to nothing about our real estate market or the building industry. (hmmmmmmmmmmmmmmmm what can we call this guy  
hmmmmmmmmmmmmmmmmmm how about Mr. Individual yea! dat-a-work.)

Through some creative loan applications and inventive credit reports, Suede Shoes can now qualify Mr. Individual (annual income of \$30,000.00) for a construction credit line of \$700,000.00. At this point Suede Shoes explains to Mr. Individual how Mr. Builder can deliver a 2500 sq. ft. house and lot for \$162,500.00 but will yield a finish sales price of \$250,000.00, if it is placed on the right lot. In order to accommodate Mr. Individual on his new venture, Suede Shoes sells Mr. Individual one of his premium lots priced well above market value thus making his cut up front.

Due to the fact that there is no way that Mr. Builder can deliver the above- mentioned house and lot for \$65.00/sq. ft., the project is severely under funded which starts the beginning of the end of our little story. Mr. Builder has his name on a contract that he can not perform; Mr. Individual has an over priced lot with a half-built house that he can not sell. Mr. Banker is left holding an upside-down loan, Mr. Developer has a neighborhood full of unfinished projects while Suede Shoes is dancing in the moonlight. It appears that out of all of our caricatures the only one who knows what he is doing is Suede Shoes. The rest are just victims of their own greed. Both builders and consumers need to be careful when approached with these convoluted promises of profit. The old saying, "if it sounds too good to be true, it probably is," must be the hardest one for us to learn. The real moral of today's story is that I really just don't like Suede Shoes. Oh-well, I got to go now and build some more houses.

C-YA,

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