

## **Mitochondria Learns to Invest #18**

by Klarise Yahya, Apartment Loan Broker

*Continued from last month ...*

I asked Mrs. Langerhorn how I could judge whether I was buying at the top of the market or at the bottom or someplace in between. She said that the approach she used was to ask the agent to provide market data from the MLS. She then compared current Days-on-Market to the same month last year, using similar property types if she could. I asked her why the same month last year, and she said that real estate sales had a touch of seasonality to them, so it was best to compare the same months, but one year apart. She said that if marketing times were going down, then the market was going up. And if marketing times were lengthening, then the market was going down. If marketing times were similar, then the market was relatively stable. It wasn't a perfect system, she said, but she knew of no better.

Well, the Days-on-Market analysis indicated that the market was stable to slightly down when I purchased a fourplex in Saradama Hill. The area wasn't as nice as the University area, but the building came closer to breakeven. I was 29 years old and it was the first real estate I'd ever bought.

Looking back, it's all kind of a blur. I remember the real estate agent nursed me through the purchase, so it went pretty smoothly except when I was writing the offer and insisted on a thorough building inspection. The agent said that the seller wouldn't pay for any repairs, but Mrs. Langerhorn made me write in that the offer was subject to a satisfactory building inspection. She said that I had to know what I was buying.

After I insisted, the agent reluctantly recommended a building inspector. I didn't have any qualms about taking the agent's suggestion because the inspector was Certified by one of the professional associations. Additionally, he had his own E & O insurance. At Mrs. Langerhorn's insistence, I got a copy of the front page of his E & O policy for my records.

It took most of the morning for him to do his inspection, and he found a bunch of deficiencies. When I became excited, he made me look at things more realistically. I was, after all, purchasing a building that was older than I was. He said that I could expect some things would be wrong. Then he divided his findings into two sections. One section had what he said were normal things that he had to report but were not serious. The items in the other section were health and safety issues and really should be corrected, he said. I showed Mrs. Langerhorn the lists and she agreed with the building inspector.

I took the inspection to the real estate agent and showed him all the things that the inspector found. Once again, he said that the seller would pay for no repairs. I reminded him that I wrote the offer contingent upon, among other things, a satisfactory property inspection and if the things the inspector found were not corrected then I would not buy the property and he could just give me a "cancellation" document and I'd sign it right now! I said all that in one breath so he would realize that I was serious. The agent looked grumpy, but said he'd see what he could do.

The next day the agent came back and said that the seller would give me credit in escrow for up to \$1,000 in repairs. I compromised a little and said that only the health & safety deficiencies had to be done, but it must all be done at the seller's expense before close of

escrow, and if it wasn't then the deal was off. Mrs. Langerhorn told me to remind the agent that the inspector for the next buyer would probably find the same things wrong. Well, the agent came back and said that the seller agreed to fix the health and safety items.

Other than that little imbroglio, the purchase went pretty smoothly. I was scared, of course, but Mrs. Langerhorn tried to put things into perspective. She said that what I was feeling was so common there was even a name for it. It was called *Buyer's Remorse*. She said that as soon as the seller accepts your offer to purchase, it was normal to be frightened. I told her that my purchase was different, that the seller knew the property better than anybody and if it was any good he wouldn't be selling it. And how am I ever going to make those mortgage payments? And what if the tenants don't like me and move out?

Mrs. Langerhorn just smiled through all this. She said she went through the same feelings when she and Mr. Langerhorn bought their first property years ago. She said that I would experience these anxieties when I bought or sold my first three properties. The first time would be the worst. Almost as bad would be the first time I sold a property, but then it would be called *Seller's Remorse*. I would convince myself that this was the best property in the world and that I'd never get another nearly as good and I was selling it far too cheaply, as evidenced by the fact that someone actually offered to pay the price I wanted!

She said that I'd have Buyer's / Seller's Remorse again the second time when I bought and sold my next property, but it wouldn't be nearly as bad. And the last time I'd experience it would be when I was selling my third property when, she said, I'd be looking out the window and see Remorse trot by. Somebody would say, "What was that?" and I'd respond, "That was Seller's Remorse, but it was only a flicker. Don't worry, it's gone now." She actually thought it was rather funny to see me in such straits. She said it reminded her of her early years.

I'm not going to tell you that owning a rental property was easy. First of all, I lived in one of the units, so anytime something went awry the tenant knew exactly which door to knock. And sometimes the tenants would go out of their way to be extra-friendly, so when it came time to raise their rents they would try to make you feel guilty. The courses I took from the Apartment Owner's Association helped a lot, but the big change came when Mrs. Langerhorn said to me, "*Don't think of yourself as a landlord. You are an investment manager.*" She said that looking at it from that perspective would help, and it certainly did.

Mrs. Langerhorn pushed me to pay off the fourplex as quickly as I could. She reminded me how I got out of consumer debt, back when she just started helping me, and she urged me to apply the same principals to paying off my little building.

Even though I got 100% financing (it was an 80% first mortgage and a 20% "piggy-back"), it still cost me a little money to close escrow. For example, there was my share of the closing costs, and I made some minor improvements to the unit I moved into.

After paying the expenses, my S & P Index Fund was down to \$15,000. I didn't dip into it any further because Mrs. Langerhorn always said an investor should have some liquid funds available, and I knew she was right.

I paid myself "rent" for the unit I lived in, plus I had the income from the three tenant-occupied units. Do you remember that \$1,000 a month I'd been saving? I started to apply

it towards paying down the balance on my mortgage. The next year I raised the rents 5% across the board, and I got a nice salary increase at work. I added these sums towards retiring the mortgage.

I continued paying myself for the unit I occupied, raising the rents each year to full market value, and applying any raises or bonuses I got at work towards my mortgage. The result is that my little fourplex was paid off in eight years. The month after the mortgage was paid off I quit work. I could now live rent free in my unit. And those little 5% raises I'd given the tenants had compounded over the eight years to generate a rent of \$1,500 per unit. I was 37 years old and I had independent income – after my own housing expenses – of \$4,500 a month. My S&P 500 Index Fund had increased to \$32,000. I kept in touch with Mrs. Langerhorn. She didn't have the energy she used to have and no longer wanted to leave home very often. In the beginning, Mrs. Langerhorn used to tell me that I had to "make my own successes". Now she began advising me to "repeat success".

Mrs. Langerhorn explained that some of her friends would work very hard to become financially comfortable, and once they made it they stopped doing what caused them to be successful. For example, after one of her friends grew his hamburger restaurant to three locations he stopped making new restaurants and began underwriting touring costs for unknown teenage bands. Mrs. Langerhorn said he lost heavily.

Another acquaintance she told me about made lots of money in stocks then started speculating in the currency market. ForEX, he called it. She said that he, also, lost heavily.

The point Mrs. Langerhorn tried to make was that once a person learned how to create wealth, she should continue to "repeat success".

A couple of months after my fourplex was paid off I had the chance to buy another small building. I wasn't working anymore and my clothes had started to feel a little snug. I commenced a walking program. I began with just 10 minutes – five minutes up, and five minutes back – but eventually got up to 40 minutes. Well, one day I noticed that the cutest little fourplex had a "For Sale" sign in front. The property needed some work, but I really liked the architecture and I knew the area was good.

I called the agent listed on the sign and made an appointment to see the unit the owner lived in. The agent wouldn't let me see the tenant occupied units until I'd made an offer acceptable to the owner, and I didn't blame him. I wouldn't want strangers annoying my tenants, either.

I just loved the owner's unit – it was bigger than mine and had a separate dining room and a fireplace in the living room – and made an offer very close to the listed price. It was much easier to make an offer this time because managing my little building forced me to know the local rental market. I followed the same procedures that Mrs. Langerhorn walked me through with my first fourplex, and 45 days later the building was mine. I bought it with nothing down because I intended to move into it. I found myself becoming very grateful to the banks that offered 100% loans for owner-occupied small units!

Keeping Mrs. Langerhorn's dictum *repeat success* in mind, I used as much of the net income as I could from my first fourplex (remember, I was living off that building) to pay down the mortgage on the new property, plus whatever I could net from the new building. And I continued keeping rents fully up to market and applying the increases

towards the mortgage. The result was that I had the second fourplex paid off by the time I was 46.

Using the extra income from the first and second buildings, I had my third fourplex paid off the month Mrs. Langerhorn died. She must have been close to 90 and had been ailing for the last twenty years. I was not quite 54 and had been financially independent for seventeen years, thanks to her.

It rained the day of her funeral. Even so, I was surprised that except for me and the officiating clergyman, there was only one other person there. All the people she knew, all the people she'd helped, and that old man and I were the only mourners. It really made me realize that appreciation has a short half-life.

I noticed the old man glanced at me several times during the service. Afterwards, as I was walking back to my car, he called my name. I stopped and waited as he approached.

"Mrs. Langerhorn", he began, "asked me to give this to you if you showed up. She was sure you would". He withdrew a plastic bag full of legal tablets from under his raincoat. They were the notes on buying larger apartment buildings – (I guess they would be her advanced teachings) - that she referred to back when I was trying to acquire my first building. Nobody could see me cry in the rain. **END**

*Klarise Yahya is a Commercial Loan Broker. If you are thinking of refinancing or purchasing five units or more anywhere in the U.S.A., Klarise Yahya can help. Find out how much you can borrow! For a complimentary mortgage analysis, please call her at (818) 500-9966.*