

The Advanced Teachings of Mrs. Langerhorn: 12
by Klarise Yahya, Commercial Loan Broker

Note to the Reader ... These are not the notes of our conversations that were published earlier under the title "Mitochondria Learns to Invest". These are the papers Mrs. Langerhorn left me after she passed away. These are her advanced teachings. They overlap and reinforce her earlier principles. I hope you gain as much from them as I did. The earlier lessons are incorporated in the book "Stairway to Wealth" available at LuLu.com

From "Seller's" Market to "Buyer's"

Like I said, I first got into apartments at the very peak of a seller's market. Then the market turned, and it seemed that those little six units I bought started to lose value almost before our first payment was due. I was convinced our investment was a disaster.

We'd spent nearly all of our savings on the down payment and closing costs. Then, after the first month or two of ownership, we discovered that significant costs (in addition to the mortgage payment) came out of the rental income before we could put anything into our pocket. Our net income was a lot smaller than we'd expected, and we only got what we did because my husband spent his one day off doing the endless repairs. And on top of all that, we couldn't sell the property for enough to even get our money back. Things looked very dark.

In retrospect, however, it meant that we had no option but to keep the building and that, it turned out, was the best thing that ever happened to us. It was the start of our financial independence.

My late husband had a mixed personality. While generally dour, under that façade he was a genuine optimist. He'd spent his day fixing things around the property, and that evening, after the dishes were done, asked me to join him at the kitchen table – it seems all our important discussions were done around the table – where he opened the conversation with an bleak analysis of how our "investment" had turned out thus far. Then he said something that surprised me. He'd been at the bank earlier that day and showed me their financial projection. It showed that if we could somehow pay just a little more each month, we could pay off the six units in less than 15 years. My husband agreed that it might be a difficult time for awhile, but that afterwards we'd have a comfortable living just from the net cash flows from a mortgage-free six units. I had to agree with him, because we had no choice. By that time, the market had dropped even more and if we sold we'd have had to come out of our pocket to make up the difference between what we could get for it and what we owed. It's amazing how a lack of alternatives seems to focus one's mind. We agreed, the two of us, to make a \$100 a month principal reduction payment. At that time, Mr. Finley, the bank president, would let you do that. The \$100 a month was more than my husband had in mind at first – it took all the net cash flow from the property plus some out of our pocket each month – but those long days at the bakery were getting to us and it seemed the only alternative we had was to pay off our six units as quickly as possible and then hope we could relax a little.

The market declined for, as I recall, the first two or three years we owned the property. But only a puppy's love lasts forever, and eventually the market started to change. After those difficult couple of years, values started to go kind of sideways to slightly up. We'd had the six units for about five years and values were back to about where they were when we bought the property. We were in the bank making our mortgage payment one day when Mr. Finley saw us and came over. He made some small talk, then steered the conversation towards what he really wanted. He said he'd driven past our units the other afternoon following lunch and noticed how nice they were. One thing led to another and finally, Mr. Finley got around to the reason he rose from behind his desk. He offered to refinance us and let us pull some money out. Now, by that time the

original \$18,000 mortgage was down to a little under \$9,000. They did an appraisal and it turned out our property was worth a touch over \$26,000, just beyond what we paid for it five years ago. After everything was settled, we walked away with a new \$19,000 mortgage and \$10,000 in cash. It was more money than we'd ever seen in our lives. We returned to the kitchen table.

We talked until oh-dark-thirty that night. Neither of us ever mentioned how scared we were when the market dropped just as the ink was drying on our purchase signatures and, on paper, wiped out our entire investment. We never talked about how difficult those first five years were. All we told each other, again and again, was what a great investment those six units were. In the final analysis, we told each other, we had the six units for free. We'd put down \$7,000 and five years later it turned into \$10,000. We got all our down payment back and some more besides (we conveniently forgot about those extra \$100 a month principal reduction payments). And better still, the tenants were actually buying the building for us. He both had a Jack Daniel's that night. I had a hot green tea, with two bags. Yes, life was good.

The next morning, after the cinnamon buns came out of the oven, we started wondering what we should do with the money. Neither of us had any idea. We could put it in the bank, like Mr. Finley suggested, but wouldn't get much of a return on it. We could buy stocks, but neither of us knew anything about them and some of our family members had lost a lot of money that way. You can see that we were deleting the only reasonable investment alternatives. By the time the cheese rolls were ready we had both, in our own minds, concluded that the only thing to do was to start looking for another apartment building.

Later, in reflecting on what happened, we realized that we made the right decisions, but only accidentally. We learned to pay off our "best" property as quickly as we could. If we never got another building, we'd at least have a nice income from the one that's paid off. Then we'd concentrate on paying off the second best. But if the cycle changed to a "buyer's" market, we would refinance and buy one or more other properties at favorable prices. And that's how we've played the market cycle every since.

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.