

**The Advanced Teachings of Mrs. Langerhorn: 11**  
**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. If desired, earlier articles are available on-line at (google: Klarise Yahya).***

**The First Six Units**

If a real estate cycle is recognizable by the change from "seller's" market to "buyer's" market, then I've seen four of them in my investment career. As a matter of fact, I first entered the field during a rabid seller's market back in the 1950's. My timing was faultless. I bought a small six unit building right at the very tip-top of the market, paying a little over \$4,000 a unit. They were all two bedroom apartments and rented for a little under \$50 a month, each. I remember how agonizing the investment decision was.

My late husband and I had been working at his parent's bakery for several years.

We lived rent-free in the apartment over the bakery – his parents owned the building – and we pretty much saved what our rent would have been plus a little bit more. And we'd kept the cash we got at our wedding (my culture gives cash instead of presents). Over time we'd accumulated \$7,000 and had begun talking about investing in something. We were so tired of working 16 hours a day in that bakery!

Do you remember how they used to have all those huge billboard signs along the highways? There were a couple of farms I would visit every week to buy fresh fruit for our tarts and filled pastries. That day I was on an errand for strawberries. The farmer that grew the very best ones, Eliseo, had a small farm just outside of town and he'd always laugh when I tried to call strawberries by their Spanish name, fresas. I always somehow pronounced a "c" at the beginning of the second syllable, so I was calling them by the name of a popular lemon-lime soda pop, "Fresca". Eliseo thought that was funny. He later sold his 160 acres to a couple of developers and became a Republican. Anyway, I was driving back and I noticed they'd changed the sign on one of the billboards. The new advertisement was from a real estate brokerage company. It read, "*One Good Investment Is Worth a Lifetime of Labor*". Well, that certainly got my attention and when I got back to the bakery I mentioned it to my husband. He liked the sound of it, too. It seemed like we could invest our \$7,000 and live comfortably the rest of our lives. Maybe, we hoped, it wouldn't even take the full seven thousand dollars. He called the real estate company. The woman who answered the phone offered to come right over and explain the process to us. We told her our next day off was the following Monday, and she immediately adjusted her schedule.

Ornata Bednego knocked on the door behind the bakery at exactly 9:00 am Monday morning wearing a blue skirt, white blouse, and red jacket. My husband thought she looked like a flag. I opened the door and just sort of stood there. She gave me one of her business cards as she kind of swept right up the stairs and straight into the kitchen. Real estate agents must have some sort of homing device, because she never deviated from the straight path directly to the kitchen table. My husband was there, his coffee cup at his lips. Ornata walked right up to him and thrust another of her cards at him. He never liked to be thrust at early in the morning, and I could see him try to control his temper. Ornata never noticed. I interrupted and asked her to sit down and then I reminded my husband that this was the lady who was going to explain how we could live the rest of our lives on our \$7,000. That made him a little more agreeable.

Ornata helped herself to a danish as I poured her a cup of coffee. “Well”, I said, “What do we have to do to make that investment that’s “worth a lifetime of labor”? I quoted part of the billboard to her just so she would know what I expected in exchange for our two-day old pastries. My in-laws only let us take what was too old to sell and too fresh to feed the pigs.

She told us about a fourplex she had listed. She was sure we could get it for our \$7,000 down. She would arrange a bank loan for the remainder of the purchase price. She could talk faster than a dog can trot, but all we heard was that the property’s income was \$300 a month. Well, we certainly could live on that! After that, we just kind of flowed with whatever she said to do, and six weeks later we owned our own investment property.

A little over a month later, we discovered that the entire \$300 didn’t go into our pockets. That was our first lesson in real world investing: all the gross income does not go into your pockets. There was the loan payment, impounds for taxes and insurance, bills for electrical and water, and gardening costs. As soon as we bought it, we had two tenants move out so we had to renovate their units and then it was a while until they were re-rented. Mostly, that was our fault because we asked \$85 for the new rents because we thought that was what we “needed”. Although a lot of folks walked through the units, nobody filled out an application. The units ultimately sat vacant for three months and we were getting pretty desperate when a little fourplex down the street had a vacancy. My husband checked it out. It was a two-bedroom unit just like ours, and they were asking \$55. We noticed that it rented the next weekend.

After a lot of soul-searching and a couple of adult beverages, we concluded that we had to adjust our expectations to match what the market would support. And the market just didn’t care what we thought we “needed”. That was our second lesson in real world investing. Over time, those two lessons helped to make us a lot of money. We never forgot that, first, the net income is a lot more important than the gross income. Secondly, you have to know the market before you invest.

We learned to pay very close attention to operating costs, both before purchase and during our holding period. Later, when we bought out of state and had the properties professionally managed, we compared the property manager’s invoices with the figures from a book we bought every year from the Institute of Real Estate Management, the *Income / Expense Analysis of Conventional Apartments*. If we found a significant difference, we required an explanation from the property manager. It is obvious that a high discrepancy should be investigated, but my husband also insisted on looking into low figures. His position was that things cost what they cost, and if the manager is not keeping the property properly maintained it will only hurt us in the long term.

Knowing the market essentially involves trend analysis. You’ll want data on income, vacancies, and operating expenses (including property taxes!). It can be really interesting to parse the seller’s Schedule E from his federal tax return for the past five years. You will be able to note rental and expense trends *specific to the building* you’re considering. Of course, the seller may not agree to give you copies of that page. Don’t take that personally. It may mean that you need to find another, more motivated, seller. It could also mean that you’re in the frothy part of a seller’s market and the market is about to peak and decline. Call him in a year. You’ll probably be able to get the property for less money, and he’ll be very happy to provide his Schedule E’s as far back as he can. He may even offer you a strawberry danish. Oh, and those first six units? I still have them.

*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**. To purchase her book, *Stairway to Wealth*, please visit [www.lulu.com](http://www.lulu.com).*