

The Advanced Teachings of Mrs. Langerhorn: 13
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, and as such 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

The Second Building

We were back at the kitchen table, having determined to use that \$10,000 we took out of our first six units to buy another apartment building. We'd already decided to try to purchase directly from an owner. I was having my green tea and my husband was having his evening whiskey. He'd recently decided to try the ryes, and it certainly seemed like he was enjoying the introduction. Neither of us had spoken for a while, both just lost in our own thoughts, then he looked up at me and smiled. "What would you want in our next building?" he asked. As you can imagine, that started quite a conversation. We clearly wanted another building, but each of us sought different things from it. Mostly, I just didn't want him to continue spending his only day off doing repairs. He, on the other hand, had been giving this a lot of thought and had an entire wish list.

Most importantly, he wanted it within a 10 minute radius of our first building. That, of course, still covered a lot of area. Oddly, he didn't reference a distance from our home, and when I asked him "why" he said that we wouldn't live above the bakery forever. We had no idea where we would finally live, but whenever he had to go to our buildings, however many they eventually turned out to be, he wanted to be able to visit them all in just one trip, with a maximum of twenty minutes travel time between the furthest two. Moreover, he wanted to continue buying in non-rent control areas, and he wanted at least one parking space for each bedroom. Also, he wanted the new building to have all two-bedroom units, be stucco and independently metered.

I had visions of buying a really pretty building, but he didn't mention condition at all. I asked him about it and he said that he hoped that condition would be reflected in whatever price we negotiated.

One thing we both agreed on was that whatever building we bought, we'd try very hard to pay it off as quickly as possible. The thing is, we were beginning to visualize apartments as a type of bond or bond substitute, because our limited experience clearly showed that their income was a lot more stable than their market values. Clearly, properties could not always be relied upon to appreciate. Our understanding had evolved to the position that we were, in essence, simply buying a stream of income. It was a bond-like approach to property. A big reason we developed this "bond" mindset was almost certainly because we bought our first building at the tip-top of the market, just before the market proceeded to turn down. When that happens, all you can do is either drop the keys off at the bank or try to pay it off and eventually benefit from the cash flow. If you decide to pay it off, you kind of have to start looking at income properties from the standpoint of cash flow only. They then become a type of "bond" that, hopefully, generates ever increasing net income over the years. If we never bought another building, the income from our existing buildings (once paid off) would support us very well.

We eventually got to the point where we didn't buy a building at all unless the initial cash flow, right from close of escrow, would give us a yield on our down payment (before-tax cash flow divided by the sum of our down payment and closing costs) at least equal to the ten-year Treasury bond. Since all streams-of-income theoretically compete with all other streams-of-income, that is how we became comfortable that we were not overpaying for a building. It seemed

to work for us, at least in the good areas. In poor areas, we learned to require a lot higher yield on our down payment simply because the building would require more attention.

The other benefit of paying down the loans on our existing building(s) is that if we ever wanted to buy more property, we'd have to refinance our current holdings to get the necessary down payment. And if we'd had the loans paid down, a refinance would obviously generate more equity at the cash out. Of course, we'd have to refinance each time but in effect our existing buildings would provide the down payments for our future buildings. I think getting comfortable with this concept (*pay them off as quickly as you can. If you never buy another building, you'll have great cash flow. If you see a future building you want, the equity from your existing buildings can provide the down payment*) was one of the most important steps in accumulating the wealth we eventually acquired.

My husband began spending an hour or two on Saturday and an hour or two on Sunday just driving around the area where our first six units were located looking for likely prospects. To find a building's owner, my husband usually had to look for an old car or light truck parked differently than all the others. On weekend mornings, tenants didn't have to wake up early to go to work so every parking space the building had would be filled up. Street parking would obviously be filled up, too. The thing to do, my husband learned, was to look for an old car that seemed like it had no reserved parking space. Sometimes the car would be out back by the dumpster. The most encouraging situation, however, would be when an old light pickup was parked right there in the driveway. That almost always indicated the owner was on site.

Wearing the same old clothes he wore when he worked on our building, my husband would park his battered truck right behind the one in the driveway, get out, and scan for units with an open front door. He'd knock then enter when invited and ask the "workman" what kind of paint / tile / carpet / fixtures (pick the thing being installed) was being used. The reason he was asking, he'd say, was that he had six units in the neighborhood and was having trouble finding a good brand of paint / tile / carpet / fixtures. Well, that almost always got a conversation started and pretty soon my husband was talking one owner to another. He could soon work the subject around to the fact that he was looking for a small building to buy. "Do you know of anything that might be available?" he'd ask. Most of the time, the answer was "No". He would just leave his card and ask to be called if anything ever turned up.

One weekend, while on his rounds, my husband noticed an older, Spanish style building. It was kind of beat up, and the lot was overgrown, but he liked the location and the architectural "bones". A day or two later he took me to see it and I loved the little courtyards and the way the units kind of angled away from each other, but I didn't like how worn out it looked. All I could see was him still working every day off, but I held my tongue and told him that they were really cute. I had my arms crossed when I said it so he could tell that I wasn't excited.

He drove past those units many times over the next month or two, but never saw either a tenant or a likely owner. It seemed the units were vacant.

The bakery was slow one Wednesday afternoon and my husband began chatting with one of our customers who suggested that we hire a "skip-tracing" service to find the owner. Well, we'd certainly never thought of that!

After we closed the bakery and cleaned up, we were back at the kitchen table discussing what we should do. By this time we both liked those little Spanish units, but didn't know if we wanted to spend money just to find out who the owner was. Fortunately, however, we ultimately decided to at least see what the search would cost. The next day I used the yellow pages to look for someone to help us. I found a couple of likely people, and when I called them found out that the cost of something like that would be \$35. I know that sounds like so little now, but back then it was almost 19 dozen cinnamon buns.

After talking to my husband that night, I called one of the detectives back and agreed to send him a check. He said that he'd start work as soon as the check was cashed.

When I told my husband, he laughed and said, "He must be an apartment owner!" Now, I could probably just pay by credit card and, with the internet and all could expect an answer by the end of the day. Back then it took three weeks.

It turned out the owner lived in the clapboard house four doors down from the units. And learning that cost us \$35!

*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**.*