

**Success Spotlight**  
**Meet Larry Rubenstein**  
*by Todd Viani*

*AOA recently had the opportunity to speak with Larry Rubenstein, President of LRA Property Management, regarding his experiences in the multi-family housing industry. For additional questions, please call Mr. Rubenstein at (310) 642-0700 or visit his web site at [www.lrapm.com](http://www.lrapm.com).*

**AOA: When did you get started in the real estate?**

**Larry:** I have always worked, so I saved up money through high school and college and as soon as I finished college in 1971 my father-in-law and I, working as equal partners, put 15% down on a \$250,000 24-unit apartment building in Inglewood. At that time, you could get in for a low down payment, so I purchased the building and when it appreciated, I borrowed against it to buy another apartment in Inglewood. I then sold the second property and bought an office building in Texas, which I sold just before the market crashed in the early 80's and from there I purchased more back here in Los Angeles.

**AOA: How did you save money while you were in school?**

**Larry:** I'm a saver. I've always been a saver. I don't tend to spend a lot; I don't like to do that. I got my first paper route when I was nine years old and saved that money and invested it in bonds. I worked as a bus boy and dishwasher in high school at my parent's restaurant and saved that money as well.

**AOA: How did you learn good stewardship with your money?**

**Larry:** I have no idea (smiling). I don't know where that came from. Maybe from my parents as we never had a lot of money growing up in Cleveland. They owned a little quick snack deli and then we moved to California when I was 15.

**AOA: How far did you go in college?**

**Larry:** I attended UCLA and received an undergraduate degree in math and then an MBA. I then obtained my Masters and PHD in public health. After I graduated, I went to work for Kaiser Permanente.

**AOA: Tell us more about the road you took to owning multiple properties.**

**Larry:** In the late 1970's rates were skyrocketing, which lead to Proposition 13 in 1978. At that time, I bought my second building which was 49 units. In 1984, I left Kaiser with the thought of just purchasing properties and the intention of putting together partnerships ...or syndications as they were called. We also incorporated LRA Management to manage our acquired properties. By then I had about six buildings.

In 1988, I was looking at thousands of buildings and I finally concluded that there was something really wrong with the market. The rents were not increasing, people were buying into a negative cash flow and there was no place for upside. The market just made no sense, so I turned it all around. I said to myself that if I can't buy anything and the buildings are losing money and after looking at my return on equity on my buildings, I determined that it was senseless to own apartments. At that point I sold all but two of my buildings. Looking back I wish I had sold every one of them, but I kept the two and managed them.

In the early 1990's I started getting calls from broker friends asking if I would manage bank owned buildings for them because they couldn't sell the property. The buildings were being poorly managed by another management company. I had nothing to do at the time and was bored to tears. Because I had acquired some wealth from the sales of the other properties, I was spending all my time on the golf course. (I must say, it was a lot of fun and my handicap kept going down all the way to a six, but it just didn't feel right and I felt unproductive.) So, when the brokers began to call, it was nice because I had something to do. I started with that one and one building led to another; the banks kept calling so I hired some additional people to help.

We built up a pretty good sized portfolio of REO and receivership properties and ended up managing several thousand units for banks and handled over 300 receiverships. It was a tough time for those owners and a great time for us as business boomed. The hard part was turnover. We would get a building from the bank and their total objective was to sell the property. We were trying to get it into saleable condition so that it could be sold. It was quite remarkable actually. When you go into a bank and open a checking account you are required to give all sorts of personal information. But, when the banks foreclosed on these buildings they had no information on the buildings – nothing. They didn't know how many units, they didn't know the names of the tenants, they didn't have information about the owner; they knew nothing. It was stunning. We'd go in there cold turkey and serve notices to the tenants saying that we were taking over the building. We would get them to sign new lease agreements and start paying us rent and within three to six months the buildings were turned over for sale. And we were billing like crazy. Those were very hectic times where 16 hour days were common place.

As a state, California was hit with a combination of circumstances that created a perilous situation for many apartment owners. We had exit migration, overbuilding of the late 1980's, an earthquake, the riots and the rest of the country was coming out of a recession, so the Fed raised interest rates. This created many losing scenarios; but ... with every losing side there is a winning side. I was lucky enough to be in the right place at the right time and my business prospered and I was able to acquire more properties.

We bought some of the properties that we managed from the banks and looking back I should have purchased them all, but who knew? Part of me was concerned about another shoe dropping on the community. It was so bad, but there was always the potential that it could get even worse.

**AOA: Describe your buy and sell strategies.**

**Larry:** I have been very lucky with my timing so far. I bought a 100 unit building in the early 1980's and sold it in 1983. The person who bought it from me was foreclosed on. In Texas, I bought a 50 thousand square foot office building and sold it in the early 1980's when I saw cranes going up all over the place and I said there is something wrong with this picture. The owner who bought from me was also foreclosed on. I saw the same thing in the late 1980's here in California. It doesn't take a genius to see the signs, all you had to do was just look around.

**AOA: So when you see cranes, you see potential over development?**

**Larry:** Correct.

**AOA: What has happened in the last eight to ten years?**

**Larry:** Throughout the 1990's, we were continually occupied with the bank and court receivership work, but at the same time people were starting to buy. As they bought the properties from us, as the receiver, it was natural for us to continue to manage the building and so our private fee portfolios starting growing. It was through pure happenstance, I think, we were able to make the transition from the bank REO receiverships to pure private fee management. I couldn't have

planned it out any better and the irony is that it wasn't planned, it just happened. On so many of these things, I don't know if I did anything special, it just happened.

**AOA: It seems that a lot of it happened because you were watching the market closely. Do you agree?**

**Larry:** Well, you keep your eyes open. I don't think it takes a genius, just paying attention and taking action. I think that is the key with anything. To have any level of success you have to take action and then your level of success is measured by the level of action you take. We have one client who we've seen grow from a 5 to 10 millionaire to well over a 100 millionaire through extremely aggressive action. And I was sitting here watching this saying to myself, "My goodness, if this economy falters he is going to be in trouble." But guess what? The economy didn't falter and now he is bulletproof. I look back and say, "Shoot, I should have done that too (smiling)." I did continue to buy property during that time, but not anywhere near the pace at which he did. He was willing to put it all out there and sometimes that is what it takes.

**AOA: What is your forecast for the near future of California real estate?**

**Larry:** I stopped buying property about a year ago and it wasn't that I intended to stop buying, I just ran into that situation where, for me, it just didn't make any sense to keep buying. I look at the prices and they don't make any sense to me. I don't see any upside value, because we are currently in the best of everything. We have the lowest vacancy rates, the lowest interest rates, good rents, and the best economy. Everything is perfect so it seems that there is only one way things can go and that is to the negative. However, you can buy buildings now at today's prices and still make a profit. It is very different than the late 1980's. Back then, you would buy a building in the negative hoping that something was going to work out right and if it didn't, what are you going to do, keep feeding your building? You're eventually going to lose it. In this market, what is probably going to happen is that if things go bad, (and something is going to have to go bad because everything is perfect), you will probably be okay, because we don't have the scenarios we had in the late 1980's.

It is a very tough time to buy. Basically, purchases should have been made a year ago or even two to four years ago. It was very clear in 1999-2000 that the timing was right to buy. You could look at a building and evaluate the kind of return you were going to get. You almost couldn't lose. Because I'm in the property management business, I knew that rents were way under market all over the place. It was easy for us to identify, because we do market surveys all the time and we test the market by asking a high rent. If you get it, you know it's there. If you don't get it, you start backing off of that number. You don't rely on only the guy next door who is still asking under market rents. You really keep trying to be aggressive to see what's happening. So everyone else as well as myself could easily identify buildings that had under market rents and you could determine upside potential on that property.

By the way, it is not that we are gouging tenants at all. I don't believe that in the least, because I have done some analysis on this and actually wrote an article on it in the California Real Estate Journal. I looked at the building that I owned, and looked at what the rents were in 1985 and where they went to after all these huge increases in rent that took place in 2000 and determined that the rents haven't gone up as much as inflation. They also haven't gone up as much as expenses. So, when we were identifying these buildings in early 2000 and how much the potential rent increases could be versus how much we increased them, one might conclude that we're gouging tenants. That wasn't the case at all. All we are doing is playing a little bit of catch-up and we're still not caught up. Tenants may think rents are high now, but I don't believe they are, not relative to history anyway. We are closer now to realistic rent prices than we were three years ago, and there is still room to grow.

Getting back to the reason why we could see that it was a good time to buy in 2000. With expansive room upward for rents one could look at the numbers and pay a pretty high gross rent

multiplier, because once the rents were adjusted upward the potential return on investment became obvious. The basic process was to buy the building, raise the rents and incur a lot of turnover. That also incurred a lot of expenses the first six months, but after that the building made money. The other factor that made most of the deals even sweeter was that interest rates began to decline which only added to the profits.

**AOA: What should a new investor do in today's market?**

**Larry:** Look very hard. In some cases you may have to look at some of the transitional areas that are starting to come back. It may be an area that in the 1990's was considered undesirable, but because of new development, it has begun an economic turn around. These areas are less expensive, but can offer greater upside as their community improves. Of course, you are going to gamble a little bit, but there is always risk. Everybody gets into trouble at some point with real estate. On the couple of buildings that I kept, I had a difficult stretch. Even the gentleman that we talked about earlier who is now bulletproof went through hard times in the 1990's. There is no question that real estate is cyclical.

**AOA: Do you have any memories of the one that got away?**

**Larry:** Many (laughing)! I always try to reflect on those that got away that didn't turn out well and try and console myself but it doesn't work (laughing). The ones that got away shouldn't have gotten away. For various reasons, I got a little too tough on the negotiations and lost it or I didn't move fast enough. There have been a lot of buildings like that. There is no question in my mind that I was too conservative evaluating buildings in the mid 1990's. I kept evaluating them at very high interest rates and at current rents just in case the market went bad again or turned like it did in the late 1980's. It's just a matter of how much risk one is willing to take when buying real estate. There is risk involved and a lot of work.

If you are going to manage it yourself, there's a tremendous amount of work. You can always turn it over to a management company, which I always advise. I think, that in the long run, you will make more money from your building if you have a good capable management company. However, if the owner is really good at maintenance and very aggressive on rents, then he can probably do well on his own.

Most probably they are going to have a relationship with the tenants that will hinder them from charging the most that they can. Property management has gotten so complicated now that it is hard for the part-time owner to find the time to understand all of the laws. Government intervention has gotten so out of control. My suggestion would be to turn it over to a management company and spend your free time looking for more properties. In fact, as an owner of a property management company, I spent so much time hiring new people and building this business that I lost out on many opportunities. I should have been spending my time looking for more buildings. Another way to look at it would be to compare managing the building to fixing up a building in need of repair. If you are doing the handyman work on the building instead of hiring it out to look for more apartments, then you are paying yourself handyman wages.

**AOA: What are your biggest concerns with apartment ownership in Southern California?**

**Larry:** The current system in Los Angeles is crazy. We are being inspected on all of our buildings for the same thing by two different government task forces. It's insane, it is just insane. Government has lost their perspective on what's going on. I called L.A. County and spoke to someone and asked them about the duplicity with regard to inspections and they said that there is not duplicity. I said, "Oh really, why don't you tell me what it is that you do?" Well, he starts going through a list and when he finished I pointed out that he was doing everything that the Systematic Code Enforcement was doing. He then said that that couldn't be, but of course, it is exactly what is going on. It is just unbelievable that the city of Los Angeles is duplicating their programs, especially when it is a poor program to begin with. If we have a good relationship with our

tenants, why would any government agency come and inspect the unit. The tenant is happy and we're happy. We have a mutually beneficial relationship and we don't need the inspector there in the first place. But now, we have two agencies doing the exact same thing and bothering tenants on top of it.

Lawsuits are also totally out of control. We have all the standard slip-and-fall nonsense, which we now challenge every one of them. I guess that is what you have to do now. We don't let them get away with any of that. If they have a really valid case, (which I don't know that we ever come across,) we will settle with them because it's the right thing to do. If we did something wrong and we owe them money, then we should pay them money. But we are going to fight the other people who are just trying to take advantage of the system.

I wish I could be managing property all the time, but we are constantly being diverted by these needless distractions to the point where it is not an enjoyable occupation anymore. I am spending full time on these distractions and my staff now spends around 25% of their time.

**AOA: In your opinion, where is the real estate market headed in Southern California?**

**Larry:** If the rates stay reasonable and the construction pace continues to lag, then I would imagine that the rents will increase. I think that the gross rent multipliers will come down if the interest rates go up. That is a pretty simple exchange.

**AOA: Do you have any final thoughts on how to become successful in real estate?**

**Larry:** Work hard with integrity and take action. For those of you out there who have bought a home or an apartment building in the last few years, you are to be congratulated. Without taking action one cannot expect to get ahead.

**AOA: Thank you for your time and sharing your experiences with our readers.**

**Larry:** My pleasure and I wish you and your readers good success in all of their real estate ventures.

*Todd Viani has been with the Apartment Owners Association since 1989 and may be reached by calling (818) 988-9200.*