

## Letters to Mycroft #47: Why Not Pay It Off?

by Klarise Yahya

To My Dear Nephew, Mycroft:

In the beginning, Mitochondria said, you will probably want to refinance your building and buy another. Then, after a bit, you refinance the two and buy a third. Then you repeat the process and buy a fourth.

Eventually, however, your interests will change from growth to security. You will probably stop acquiring assets and begin to acquire cash-flow. You will one day start to pay off your buildings. But why wait until you're 70?

We don't have to analyze an entire portfolio to see how it works. Let's take just one building and see how paying it off might benefit us.

Assume you have just closed escrow on a 10 unit building you purchased for \$1,200,000. This was a 10 GIM transaction and you put \$500,000 down and got a loan for \$700,000 at 7% fixed, amortized over 30 years. Your payments are \$4,750 a month.

We're going to hypothesize that both rents and expenses increase 5% annually. Additionally, we're going to stipulate that you put the entire Net Operating Income (the building's total income minus expenses) towards paying off the loan.

*You never put any money from your salary towards the loan payments*, but neither do you take any cash out of the building until the loan is paid off. How long will that take?

Your 30 year loan will be paid off in a little over 12 years. At that time the building will begin to generate over \$100,000 a year "spendable income". This is money to use any way you wish. Essentially, if you bought a 10 unit building today, paying full market price, and *let the tenants pay it off* you would be retired in twelve years.

If you have multiple buildings, dedicate your best 2 or 3 trophy buildings towards your retirement and let the tenants pay them off. If you are 50 and have no investment property, refinance your house and buy a nice apartment building and let the tenants pay it off.

If you are 22 and just out of college, approach your grandparents for money. You may not be able to buy ten units, but maybe you could purchase a nice fourplex. Investing is like dating in high school -- while you gotta start somewhere, you just hope you can finish a little higher on the food chain.

Here is how the numbers might work -- remember, these figures are rounded. In any event, they are illustrative only and will almost certainly be different in any specific application.

End Of Year	Income	Expenses	Net Operating Income	Debt Service	Additional Principal Payments	EOY Principal Balance	Cash Flow
01	120,000	52,000	68,000	56,000	12,000	680,000	-0-
02	126,000	55,000	71,000	56,000	15,000	656,000	-0-
03	132,000	57,000	74,000	56,000	17,000	629,000	-0-
04	139,000	60,000	79,000	56,000	23,000	594,000	-0-
05	146,000	63,000	83,000	56,000	27,000	551,000	-0-
06	153,000	66,000	87,000	56,000	31,000	501,000	-0-
07	161,000	70,000	91,000	56,000	35,000	444,000	-0-
08	169,000	73,000	96,000	56,000	40,000	377,000	-0-
09	177,000	77,000	100,000	56,000	44,000	301,000	-0-
10	186,000	81,000	105,000	56,000	49,000	214,000	-0-
11	195,000	85,000	110,000	56,000	54,000	116,000	-0-
12	205,000	89,000	116,000	56,000	60,000	5,000	111,000
13	215,000	94,000	121,000	5,000	-0-	-0-	121,000
14	226,000	98,000	128,000	-0-	-0-	-0-	128,000
15	237,000	103,000	134,000	-0-	-0-	-0-	134,000
16	249,000	108,000	141,000	-0-	-0-	-0-	141,000

17	261,000	114,000	147,000	-0-	-0-	-0-	147,000
18	274,000	119,000	155,000	-0-	-0-	-0-	155,000
19	288,000	125,000	163,000	-0-	-0-	-0-	163,000
20	302,000	131,000	171,000	-0-	-0-	-0-	171,000

Cordially,

Aunt Klarise

**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**.