

Mitochondria Learns to Invest #14
Klarise Yahya, Apartment Loan Broker

Continued from last month ...

Excitement has a short half-life. It was gone and I was scared. It showed. “What should I do?” I was shrill. I did not recognize my own voice. “I’ve never shopped for an apartment building before!”

Mrs. Langerhorn nudged my teacup towards me. “Take a sip dear. It’ll help settle you.”

She nibbled another shortbread cookie. She certainly liked those things. After a moment she began to speak. “The purpose of buying a building is to give you a stream of net income. A building is composed of many characteristics, only some of which affect lease rates. For example, the color of its roof is not important to us because it doesn’t impact the building’s income. But the number of bedrooms each unit has obviously affects the amount of rent we can expect. So some building features don’t affect the stream of income, and some do. Clearly, you will wish to acquire a building with most of the features that contribute to net income. Doesn’t that make sense?”

I admitted that it seemed to. I think I was having a mild anxiety attack. I started to hyperventilate, so I breathed through my cupped hands like Rebecca’s boyfriend, the veterinarian, made her do on one of my daytime soaps. Mrs. Langerhorn ignored my little drama. She went on, almost as though speaking to herself.

“Well, what are the things that contribute most to value? Clearly, they are the things that are most difficult to change. And what is the most difficult thing to change? *Location*. Oh, I know you could cut a building into parts and truck the bits down the road to be rebuilt elsewhere. We’ve all seen that. But, still, location is the hardest thing to change. So the first thing you go shopping for is a neighborhood that you think will contribute to value.

“After location, what is the next most difficult thing to change? *Architectural appeal*. You could hire a good designer to rework the entire property, if you wished. You could even add or subtract whole sections of the building. You could say, ‘*Alduous, now that the kids are grown and out of the house, I have to tell you something. I never really liked either of them, and I don’t even want a vestige of their presence to remain. Take away their rooms! Build me a lanai!*’

“But, no matter what, architectural appeal is the second most difficult thing to change. It was there in the plans before the first stick was put in the ground. So once you find the neighborhood you think is best for you, remember to look for buildings with good bones.

“The first steps, then, are to isolate several potentially attractive properties in appealing neighborhoods. Of course, a property must be structurally sound, but you’ll hire a building inspector to verify condition before you buy it.

“Most people are retail buyers. They overpay for good cosmetics. As an investor, you want to avoid that. A building’s cosmetic condition (*this is different from built-in architectural appeal*) is pretty easy to improve.”

I felt a tiny bit reassured, but I was still really apprehensive. “You know I don’t know every neighborhood in the city. I really only know this area and how to get to work and how to get to the mall. How would I know where to start looking?”

“Let’s get a map, dear, and see if we can puzzle it out”.

I went to my junk drawer and pulled out a map of the entire city and its suburbs. She cleared the dishes off the table so I could spread the map out.

“What we want to do is see if the map can tell us if a neighborhood promises to be appealing. Appealing neighborhoods, by definition, have a draw. That means there is a reason people like to be there”. She studied the map.

“Do you have a highlighter pen? Good. Now just make a circle around every four-year college you see. Colleges are destination points, and we can feed off that just like small stores feed off being next to Nordstrom’s.

“Now look for bodies of water. Water is a destination point, as well. Folks like to be near rivers, lakes, or oceans. Highlight the entire area up to three or four blocks inland.

“Ok, we’ve got colleges and water. Now, let’s look for properties with a view. You will find them in the hilly parts of town. Hilly parts are indicated on road maps by curvy streets. Some people like to live in those areas, with a little view of the city.”

I asked, “Are these in order of importance? Is it more important to be near a college than near water?”

I expected a clear answer, but she said “Generally, being near water will often prove best over the long term. But what we’re looking for is a number of appealing communities. Then we will survey the available buildings in the chosen neighborhoods. Finally, we will analyze the selected buildings to find one or two or three that might be best for us. Once we get to that level, any building we select will probably work out just fine. Personally, I’ve never bought a building near the water simply because I’ve always found financially superior opportunities further inland.”

“I’m not so sure about buying around colleges”, I said. “When I was in school, I don’t remember that anybody had any money.”

“Individually, students are often pretty poor. For one student to pay (for example) \$1,000 a month for rent would be unusual. But what happens is they often share units. Four girls might rent that same two bedroom unit and pay only \$250 each. That makes it much more affordable for them.”

“What do I do after I’ve highlighted the promising areas?”

Mrs. Langerhorn sat down. “That’s what they make cars for, dear. Pick an area and drive up and down the major streets. You may have to drive down one street and up the other side just to make sure that you’ve seen as much of that street as you can. You’re looking for evidence of gentrification, of wealthier people displacing poorer residents. That indicates that values (and rents) are increasing.

“Sometimes it’s hard to estimate a person’s disposable income by the way they dress. For a variety of reasons, people often dress below their means. But it’s hard to conceal the shops that cater to them, isn’t it?”

“Look at the commercial mix. It’s a good sign if you see freshly remodeled stores busily selling fashionable things next to tired shops with a slovenly look. They don’t have to be recently opened, but they do have to sell common items at rare prices.

“And examine the parking situation. Is it difficult to find parking? But the sidewalks are still crowded? I usually interpret that to mean that the people you see are more interested in self-image than convenience. As a budding landlord, you may like to see that!

“If you are comfortable with what you see, begin to drive the side streets. Be certain to do a thorough job of it! You’re still looking for evidence of gentrification. Examples might be the presence of expensive cars in driveways. (If the car is parked at the curb, it may belong to a visitor. If it is in the garage, you’ll never see it.) Another example might be old houses that have been expensively restored.

“But do more than just look for an upgrading neighborhood. You are also looking at the buildings. You will obviously want to see more houses than apartments in the area. And you might wish to see new condos being built, which indicates that there is a greater demand for housing than the current supply can answer.

“And, of course, look for ‘Sale’ signs in front of nice fourplexes. I would rather see brokerage signs than ‘For Sale by Owner’. When folks begin to think they can do as well selling one or two houses in their lifetime as a real estate professional who sells several houses a month, it is a strong sign that either the particular market you’re looking at is overheated or that individual property is overpriced and even a real estate agent won’t touch it.

“All these things I’ve mentioned are just clues. Another one that I’ve sometimes used is whether or not the local chain grocery store has been recently remodeled. You will, as you turn your mind to it, find your own indicators. What you’re doing is a balancing act. You are trying to find promising neighborhoods in early stages of gentrification, and you will weigh the positive signs against the negative.”

“Will you come with me and tell me which area is best?” I asked.

“No, I shall not. First, as I’ve told you before, you must make your own successes. I am not doing this to turn you into an economic cripple. Secondly, it is patently immoral if I were to specify which investments you were to make when I don’t have to suffer the consequences.”

“But what if I make a mistake?” I was back to whining.

“You might, of course. But think about how you are going about the process. You’re going to narrow down the available properties to a mere handful. You will be effectively choosing from among the top three finishers in a horse race. Whether you win, place, or show you are still ‘in the money’. Whatever you chose, you will likely be better off than you are now.

“You know what I think?” She didn’t wait for my answer. “I think you should stop looking for problems and start looking for solutions. Just get out there and drive the streets!”

Continued next month ...

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.