HOW TO JUMP-START YOUR WAY TO REAL ESTATE WEALTH

ROBERT BARBERA

Introduction

The world of real estate investment and apartment management has been very good to me.

I've worked my whole life in jobs ranging from shoeshine boy to window dresser, IRS auditor, credit union exec, restaurant manager, and half a dozen other careers in between and on the side. Married with a family, I always made enough for us to live a secure life. But investing in real estate—and I don't just mean investing money, I mean investing time and energy and focus—was the decision that ultimately built a multimillion-dollar revenue stream. It was real estate ownership and management that created our family's wealth.

I don't come from money. My parents arrived in this country from Italy with a determination to work hard to make a better life for their children. My brother and I started working at a very young age. I was a shoeshine boy at the age of six; for ten cents, I would give you a twenty-minute shoeshine that was a work of art, and I had fun doing it, too. In a couple of years, I had moved on to delivering newspapers. And one day, as I was delivering papers, another newsboy pointed out a man across the street. "That man is rich," the kid told me. "He owns all the apartment buildings on this street." For me, that was all it took. If being rich meant that you owned apartment buildings, someday I was going to own one myself. It's funny how the things we encounter as children set the stage for how we view the world. The money that was in my bank account never made me feel as wealthy as mowing the lawn for my own apartment building did.

But my greatest role model was my mother. Even as I was looking at that man across the street, wealth was being developed right there in my own backyard. My mother had always been interested in real estate. She spent a lifetime parlaying one property into an even bigger one, from a vacant lot all the way up to a sixty-unit apartment complex in Brooklyn. This is particularly impressive because she only had a third-grade education and English was not her first language. From the time I was a kid, she'd have me read the contracts out loud to her and she would memorize the key points. My mother was good with numbers and, boy, she was a tough negotiator. I didn't even realize all the skills I was learning from her; it was an ongoing process, everything from reading those contracts to absorbing how she evaluated, upgraded, and marketed properties. But the most important thing she ever taught me was how much it mattered to have a vision for your future, to always be working toward a dream. Property ownership was always my dream.

Not that I jumped right into real estate. I worked a lot of jobs, eventually realizing I needed a college diploma to get ahead. I spent a couple of years studying on the side before I went to college full-time. In my last year of college, my mother moved out to California and moved in with us. It should go without saying that she bought an apartment house out here (which I'll talk more about later) and that first year, newly graduated from college, I did her taxes. Imagine my surprise when I realized she'd made twice what I'd made in my new job with the IRS. To put it another way, with a college education and a steady salary, I'd made half of what my mother had earned, and she'd only been educated as far as the third grade.

I thought, wow, I am clearly in the wrong business! Right then and there, I started looking into how I could make money from real estate.

You may have had a wake-up call of your own, a moment when you also realized that your daily grind primarily created wealth for other people, and you wanted something better for yourself and for your family. Or maybe you're just starting out and looking to get into real estate on the ground floor (if you'll pardon the pun). Or maybe retirement is on the horizon and you want an investment that will appreciate in value while also keeping you engaged in the world. No matter what stage of life you're in, real estate is worth looking into.

That's what this book is for: helping you figure out where to start.

We'll go over everything—how to evaluate an investment, where to find the money, how to structure deals, and how to look realistically at the problems you may face. While my money was primarily made in residential real estate, there are other ways to invest in real estate. We'll look at the whole picture, pros and cons. With any luck, you may even learn from my mistakes.

I've written some books on finance and building wealth where I suggest you bounce around and read the chapters that are most pertinent to your life. This is not that kind of book. I want you to read it all, read it more than once, think it through, and make a plan about what you'll do when—not if—everything goes wrong (more on that later, but fair warning now that, yes, sometimes the best plans go awry). Positives, such as a steady stream of income and appreciating property values, are balanced by responsibilities: mortgage payments, taxes, finding and retaining good tenants, maintaining clean and attractive properties.

Real estate investment is not for everyone, and that's okay. That's one of the reasons I want to show you the personal side of negotiations and apartment management and all the things that investing in places where people live and work can entail. I want you to see the full picture so you'll have the information you need to decide whether or not real estate investing and management is a good fit for you.

Also, reading this book is no guarantee that you'll have the same success I had. Your mileage may vary. Heck, my mileage varied—not only because of mistakes I made along the way, but because real estate prices go up and down, regulations change, neighborhoods shift. There are a lot of variables you can't control. All the material in this book is predicated on the experiences of the author. Cycles in the real estate economy are unavoidable, and past analysis must always be updated by you doing your own due diligence. Some of the information presented must be understood in its time and context, including the hot and often volatile Southern California real estate market. I will make quite a few disclaimers as we go, but the big one is here: I waive all responsibility for your results. There are too many variables, they are changing constantly, and you have your own tolerance for risk and definition of success. The best I can do with this book—and what I hope I have done—is provide you with a sound understanding of the basic elements needed for success and a look at many of the pitfalls you may encounter with an eye toward helping you to learn from my own mistakes.

I have prospered for fifty years by focusing on real estate and property management, but most of all I have prospered by understanding myself and my own strengths, continually learning by doing, failing, and trying again. If there was any gamble to be made, I always bet on myself, and that, I believe, is the key to my success.

Which brings me to my last point: there is knowing what to do, and then there is actually doing it. I want to help there as well. This isn't going to be just a paint-by-numbers approach; I'm going to show you how important mind-set is to any kind of success, and that includes real estate. I developed a plan for each property that included a backup plan to make sure that if everything went haywire, my family would still be taken care of. That gave me the mental freedom to be able to take needed risks, devote truly insane hours to building my business, and even, when necessary, cut my losses and move on. Furthermore, I guarantee that if you look at being a landlord, say, as a terrible chore or some kind of "How much can I get away with?" game, you will not have the same financial success or—even more important to me—the same joy in life that you will have by taking great care of your tenants and your property. They, not square footage, are your investment in a secure future.

I hope this book helps you along that path.

—Robert Barbera

Part One
The Property

Chapter One

What Do We Mean by Real Estate Investment?

The Different Types of Real Estate Investments, Pros and Cons

First, let me give you a quick overview of the different types of real estate investments:

You can buy raw land.
You can buy and lease industrial/commercial property.
You can buy and lease residential apartment houses.

I'm going to leave off the table the purchase of single-family homes. You may have one of those, the house you live in, and if so, that's great. For one thing, it's a source of equity you may be able to parlay into an investment property. But buying single-family homes is not, in and of itself, the best investment property you can find.

I figured out early on that the more units you have in a property, the safer your income stream. With a single-family home, if you can't find a tenant for it, your income from the property is zero. That can be a frightening place to be for any length of time, because your expenses don't lessen when there's no one home: you still have to maintain the property, keep up with the mortgage, and pay property taxes. But if that same property were, for instance, a duplex, you would still have some cash coming in from one tenant while you looked for another. The costs for upkeep are roughly the same—it's the same footprint—but that second apartment provides some insurance. Two apartments can also increase your revenue: if, instead of one four-bedroom house, your building offered two two-bedroom apartments, you could rent each apartment for a little over half what you could for the house.

When I started investing in real estate after graduating from college, here's what I was looking at:

- Hard as it is to believe, a two- or three-bedroom house was selling from $12,000 to $15,000 (with an average sticker price of $13,000). The entire house could be rented out at something between $100/month and $150/month. The average was $125/month, which translated to an annual rent of $1,500. The sales price rule of thumb at the time for an income property's value was ten times the annual rent, and that was more or less what I was seeing.

- Apartment houses with two-bedroom units were selling from $9,000 to $10,000 per unit. The average was $8,000/unit, giving a total price for a duplex something around $16,000. The rent ranged from $75/month to $95/month (averaging $85/month), which meant the average annual rent from a (two-unit) duplex was $85 x 12 months x 2 units, or $2,040/year. This was close to a sales price of eight times the annual gross rent.

What I realized was that the down payment and mortgage payments would have been roughly the same for both properties. If I lived in one unit of the apartment house, the tenant of the other unit would pay rent, which in turn would cover a lot of the expenses. Furthermore, the overall maintenance on the property would be the same whether I owned a residential house or two two-bedroom units.

Owning a second unit with a tenant is a great way to cut expenses and, at the same time, start accumulating equity and savings that can then be parlayed into bigger and better properties. But by the same logic, owning an apartment complex with three or four units (or more) would be even better. The analysis looked so great, I couldn't resist it. I kept looking until I found an eight-unit apartment house and I went for it, using negotiation and leverage to make a deal that was a stretch for us at the time, but became the foundation of our financial future.

Inflation has distorted these figures from my past, but the relative costs and opportunities between a residential house and an apartment house purchase remain roughly the same. The numbers look absurd to us now, but $15,000 was a fortune back then; I remember trying to raise the rent from $72.50/month to $75 and facing some extremely angry tenants. These days, that's not even your water bill! The important point is that, relatively speaking, everything has moved in tandem. Do the analysis for yourself with the numbers in front of you and see what makes the most sense for your financial future.

One caveat about the "more units is better" idea: this is also the philosophy that leads to cramming as many human beings into each square foot as possible, and that is a lousy way to do business. I'll talk more about that when I discuss appraising apartment houses a little later on. So don't go crazy trying to carve out units from walk-in closets. Rather, it's useful for you to think about how you can invest in a property that maximizes your investment while minimizing risk, *and* one that provides an excellent living space for your residents. While single-family homes may do the latter (and they don't always—I'm sure we've all viewed some single-family properties that were dark, poorly built, and barely maintained), I don't think single-family homes are an ideal investment. Take it with a grain of salt if you like, but I can only give you my best advice.

Raw Land

Buying raw land constitutes the least amount of work for the owner. Other than the purchase price and ensuing mortgage, there is little to no expense for upkeep beyond the property taxes, which tend to be small for unimproved land. As a long-term investment, owning raw land can be very rewarding if the location pops. That's the upside. The downside is that the location may never pop. It may still appreciate over time; I would expect it to at least keep up with inflation. But raw land is not an income-producing investment. It's more like hanging onto a painting in the attic with the hopes that someday enough other people will start liking the artist; in other words, it's a bit of a gamble. Now, I suggest that real estate is still preferable to a painting in the attic because, while artistic taste is fickle, people will always need land to build on. But you must take into account that some areas may not be ripe for development for a long, long time.

Industrial/Commercial Property

The good news is that industrial and commercial properties typically have very long leases, and major corporations pay their rent on time. In addition, there's something called "triple net leases," which translate to no maintenance on your end, making your life much easier. You're also a businessperson dealing with another business; it's all the language of contracts, so there isn't as much room for interpersonal conflict. Also, you know the old real estate adage that the three most important things are "location, location, location"? With industrial property, sometimes locations that are less desirable for residential areas are exactly what they're looking for.

Commercial properties, mind you, need an excellent location even more than residential apartments—although their definition of "excellent" may vary. While apartment residents might want quiet, commercial tenants want a lot of traffic, ideally foot traffic. Again, long leases give your cash flow stability. The downsides to both commercial and industrial properties, however, are the same: they generally require large down payments and they can be slow to re-rent. You should look at how long any of the properties have remained without a commercial or industrial tenant and then try to figure out why. That can provide you with good information. Some things may be within your control to improve or prevent, but other things, including an inaccessible or otherwise difficult location, might be insurmountable.

Residential Apartment House

The advantages to owning a residential apartment are many. In fact, this entire book is about how you can make money by investing in and managing apartment houses. Here are some of the pros.

First, the down payment requirements are limited compared to that of commercial/retail/industrial properties. Second, people will always need a place to live. Given the right property, your apartment units will always be in demand. Apartments are typically easier to rent, and you have more of them. This is important. Multiple apartments can provide quicker cash flow from multiple tenants; even if you lose a resident, you still have income from other apartment units to tide you over until you can re-rent. None of that is necessarily true with commercial, retail, or industrial properties.

Residential apartments do, however, come with some disadvantages: they require ongoing upkeep and developing good relationships with your residents. Good management is the secret sauce to making money in residential properties. A failure to recognize that this is not a one-time or purely monetary purchase, but instead one that requires ongoing investment of both time and money, can prove fatal.

Making Your Decision

There is no one right answer in real estate investment. The only wrong answer is to kid yourself about your own capabilities and (even more important) your willingness to become involved in one investment or the other. If you are ever going to be brutally honest with yourself, the time to do it is now—before you invest your heart and soul, not to mention your life's savings, into real estate. If you don't like people, owning and managing an apartment complex is probably not the right move for you. Raw land requires far less work on an ongoing basis, but while the land will likely appreciate over the long term, it may never "pop," and your money would have appreciated more in some other vehicle, such as stocks or a business venture. There are always both risks and an opportunity cost to consider.

In fact, let's consider that now. You have a certain amount of money to invest, and you are perhaps wondering if you should put it in a stock portfolio or put it in real estate. That is a great thing to think about! And I can't tell you the right answer. At the moment you read this, stocks may be in a correction, and perhaps more attractive (remember, you want to buy low and sell high—although that's the only stock advice I feel comfortable giving you!). Or the stock market might be wildly overvalued, or worse, there might be a bubble about to burst. The same can be true in real estate.

Here's the difference: the stock market is reported on hour by hour; some people may even be glued to it minute by minute during particularly volatile times. The media constantly reports and/or speculates on market valuations. With real estate, that doesn't happen. Real estate values are reported sporadically, they vary wildly depending on location, and you certainly won't see ups and downs in the news on a daily (much less hourly) basis. And yet, real estate infrastructure is enormous, a giant owned by millions of people, and its total worth is believed to far outweigh stock values. For many people, their greatest single asset is their home. And while there have been corrections in the real estate market, the trajectory tilts upward in most areas.

In addition to worrying about returns, however, many people are concerned about liquidity. Yes, stocks are generally more liquid than real estate in that you can always sell them—but it doesn't mean you can always sell them at a profit. A market dip at the wrong time and selling can wipe out years' worth of investment. I don't even want to talk about margin accounts! With real estate, if you find yourself needing liquidity, equity loans are often available. You are not liquidating your asset with a loan the way you do when you sell stock, although you are borrowing against it. Consider your own tolerance for risk and ability to rebound after a setback.

For me, the thing I've always liked about real estate is that it is tangible. Although I do now have a stock portfolio, for a long time I didn't. I had dabbled in the market as a very young man. It was tremendously exciting and volatile, and ultimately I got burned. I no longer "play" the market; instead, I use it to invest in companies I believe in. I think the stock market is a great way to own a piece of American business, and I'm not going to discourage you from looking into it. But for me, well, I just can't fall in love with a stock certificate the way I fall in love with an apartment house. It's real; it's something I can improve upon and directly help to make it thrive.

Diversity in your investments is always going to be the right answer. Take advantage of what each investment can do for you. The purpose of this book is not to debate whether or not you should put your money in the stock market, in real estate, or in your mattress. My goal here is to give you the inside scoop of what it's like to invest in and manage apartment houses.

Let's get to it.

Chapter Two

Purchasing and Managing Apartment Houses

The Apartment House Business

The business of renting and managing apartment houses is considered by the Internal Revenue Service as a passive activity—although, as you will see, there is little about it that is truly passive. According to the National Apartment Association, 39 million Americans—almost 1 in 8—currently live in apartments. The U.S. Department of Housing and Urban Development said in 2017 that there would be a need for 4.6 million new apartment homes by 2030 to meet increased demand; we're five years in as I write these words and I doubt if we're close to meeting that mark.

Many things are driving the desire for apartments, but one is older people, who may want a downsized lifestyle without the need to maintain their own home (or do yard work; even I don't do that anymore, and I used to take care of my properties as well as my own house). Another factor is young people who are getting married and starting families later, and so they're renting longer. A growing population also means a greater need for housing, and a growing urban population means a lot of that housing is going to have to be apartments, where you can build up, not just out. Whatever the circumstances that are influencing this growth, you will start to recognize a refrain running through this book, which is that people will always need a place to live, and apartment house ownership is one way for you to be part of that solution.

There are tremendous challenges for providing land for development and quality construction; development requires huge investments of both money and time, which can put you in a bind. You need to make sure you have sufficient resources to withstand the time it takes to get permits, complete construction, and attract tenants. Delays in any of these steps can put an incredible strain on your cash flow, as you will continue to have money going out in terms of mortgage payments and construction costs, without any cash flow coming in from leasing the units. If this is the route you want to go, you may need partners and you will definitely need a business plan that includes a buffer for every possible obstacle. You would also be well served by finding mentors who have done this, ideally ones who have both succeeded and failed. It is imperative to learn from other people's mistakes and not just their stories of glory. Those may be fun to hear and even more fun to tell, but the lessons that will keep you from losing your shirt are learned from listening to the obstacles they faced and how they handled them, for better and for worse.

The purchase of an existing complex provides its own set of challenges. In Southern California, for instance, complexes built before current earthquake codes needed to be retrofitted for safety, often at tremendous cost. Perhaps more subtly, some existing complexes were built for greed rather than for creating a space people would want to live in. Over one hundred years ago, New York City enacted a law requiring windows in every apartment, but developers often got around the law by including "interior" windows—in other words, from one room to another—or even worse, slits that looked out (as much as you could look out through a slit in the wall) on a central air shaft. While those days are behind us, it's still critical for each apartment to provide sufficient light and air to the tenant. The one thing you never want is to be someone's last resort; that will not attract the kind of tenants who will anchor your financial stability.

Apartment housing ownership requires developing good relationships, a theme I will return to again and again. You don't just need relationships with contractors you trust, and with bankers who trust you; you also need to develop a sense of mutual respect with government regulators, real estate agents, maintenance staff and other employees, and most of all, with your tenants. The days of pitting the greedy landlord against the penniless widow are long behind us, and I hope that particular stereotype is quickly lost to history. On the contrary, I believe that individual owners are the key to quality housing because they alone have a personal stake in each property and really each individual unit. With government housing, for instance, there's no individual owner who is themselves directly impacted by a complex falling into ruin. Without individual responsibility and connection, even the best of intentions can't keep pace with the reality of upkeep, shifting neighborhoods, managing employees and contract maintenance workers, and the thousand other little details that make a difference between a place that houses people and a place that merely warehouses them.

This is true for individuals as well as for governments; you never want to have so many units that you can no longer visit them all. I stopped at just over five hundred units. This was a plan I had put into place when I was at roughly one hundred units. I did the math and figured out that five hundred units would keep everyone in the organization (gardeners, management, painters, bookkeepers) fully employed, providing maximum bang for the buck, if you will. Over the years, I was constantly "upgrading" my properties, not just to have more and better units, but also so that they would be closer to each other. I got rid of outliers that required half a day to go visit. I wanted things to be easy and efficient, and at the same time, personal. Devolving into a faceless corporation is not the end goal. Like government housing, that, too, can lead to a weakening of the relationships that make a difference in people's lives and ultimately in your success.

In other words, I believe that both renters and owners are best served by private apartment complex ownership. Fitting people into dark cubicles without personal responsibility (on your side or on theirs) ignores their humanity, to everyone's detriment. Apartment houses succeed when an invested owner and a resident both have a stake in their relationship. They can both take pride in their involvement. Our society is elevated from feudal lords and serfs to a legal-minded people who are interdependent by choice. There is an awareness to our relationships, a mutual benefit. Rather than defined as the rich and the poor, the lord and the serf, we are instead both equal human beings, one who has shelter to provide and the other with a need for that shelter. As with any product, if you provide substandard service, you will lose good tenants to people who provide a better service. Notice I don't say a "cheaper" service. More on that later, but no, I don't believe that a race to the bottom serves anyone. Ownership of apartment houses is not a get-rich-quick scheme by any means. Rather, it takes years of paying down debt, maintaining care, and investing time, sweat, and tears before you see the rewards. It is meant to be a fair exchange of value: the owner is building equity while the resident finds an apartment to be the most practical way to budget their housing.

Ultimately, the owner must persevere, creating value to attract tenants while at the same time building relationships, working with quality vendors, dealing with government oversight, and maintaining upkeep on the property inside and out. It is not a short-term plan, and it is definitely not for the faint of heart. But people will always need a place to live, and the rewards for doing so are both tangible and ineffably heart-warming.

The Fundamentals

Mind-set

Before we talk about acquiring a property, let me tell you about an even more fundamental step, and that is adjusting your mind-set. You may know intellectually that acquiring property—whether it be land for development or units to lease, either commercial or residential—is going to tie up a lot of your resources, but I guarantee you have not sat down and adequately thought through what that is going to mean for your life for the next several years. So let us take a moment for some honest talk.

Buying property is a major, life-altering choice. It will demand financial resources beyond what you imagine, it will devour your time, and it will likely alter many of your relationships. Let's take each in turn.

First, financial resources. In other words, your money. I expect that you will put together a business plan before you make an offer, but it's likely that the first plan will be a little too rosy. That's a good place to start—you want to believe it's possible, after all, or you wouldn't even try—but you should also make a second plan, one for your eyes only. I want you to assume that everything goes wrong. For instance, new owners are responsible for any code violations, even if those violations occurred under the previous owner. I bought a building once, and no inspection reports were included in the deal. Were they hidden from me on purpose or simply out of negligence? Who can say? But I ended up having to pay for half a dozen minor code violations that I didn't know were there. Another time, I was arrested—actually arrested and thrown in jail overnight—to make sure I would appear in court the following day for a code violation that existed before I bought the property and for which I had not received any written communication; the notices had all gone to the previous owner, who had not passed them along.

I'm not saying you should plan to end up in jail, but you do want to set aside funds to fix whatever may be broken. Prepare for the worst—and I mean the absolute worst. What if you die? How is your family protected? Obviously, I don't wish that on you, but I do wish you would buy sufficient insurance to cover the possibility. You don't want your family to lose their house, for instance, if you die and suddenly all this debt you acquired along with the property is now on their doorstep.

Talk to people who have already purchased property and learn from their stories as I hope you'll learn from mine. Talk to insurance agents (and don't just assume they're angling for a commission). Talk to your lawyer, to your bank. Learn as much as you can about all the possibilities, not just the sunshine and flowers of success stories. Gobble up information and try to get it from as many sources as possible. Ask people who have done it what they wish they'd known early in their career. Brainstorm with a friend or a partner all the things that could go wrong, including but not limited to fraud, natural disasters, a burst pipe, or a sudden change in regulations or interest rates.

Imagine that your entire stake is lost; what would you do? There is tremendous value in imagining the worst, not to wallow in it, but to see that, yes, there is always a way out. With my first eight-unit apartment building, I knew that if everything went to hell, I could always sell our house and have our family move into one of the units. Was this my first choice? No. Was it nonetheless a way to make sure my family had a roof over their heads while we got back on our financial feet? Yes. Having a backup plan for when things go wrong is what gives you the necessary courage to take the risk, and then of course you work your butt off to make sure you don't need to default to Plan B.

One nonnegotiable is to budget for the insurance policies. If everything goes smoothly, that doesn't mean insurance was a mistake, it just means you were lucky this time, and I'm happy for you. Insurance is the one expense you hope you never make back. You should also include some padding to cover the unexpected. Things will happen that you can't specifically have predicted or prevented, but you can predict that *something* will go wrong. It is your responsibility to make sure the entire project doesn't go belly-up for want of a nail. That is what stepping into ownership means.

This is what I want you to get your head around. You are not gambling—you are making the best possible choices for the long-term success of your project. It is a different headspace than you're probably used to, especially if you've been someone else's employee up until now. You have to be willing to see the bad news and make the hard choices with everyone's well-being in mind. Once you've taken that on, you've really taken your first step toward success.

So that's money. Next is time. I know you realize that property ownership and management is an investment, but just as it's going to take more money than you expect, it's also going to take more time. A lot more time.

I bought our first apartment building while I still worked for the IRS. In other words, I had a day job. Weekends were spent going over to the building and maintaining the property. I mowed the lawn myself. The family was involved in cleaning and painting empty units to make them attractive to new tenants. My wife kept the books in the evenings, after dinner. We lived and breathed that building, and the next one, and the next, until finally it became more than we could do as a family, and I had enough of a cash flow to start hiring help to do the maintenance. It was important to me to create my own management company so that everything was ultimately our responsibility; again, no faceless corporation managing things. Each of my kids, upon coming of age, had to manage one of the properties—to learn the ropes and to learn to care. I want you to recognize that it's not just something where you commit the funds and sign the papers and collect the checks. Property management is a full-time second job for the next five to twenty years.

Are you willing to make that commitment? If the answer is no, it's best to figure that out before you've poured your life's savings into a property, not after. I've had a lot of friends who tried their hand at buying a rental property only to discover it was much harder than they thought it would be. Maybe they came into it a little too naive. Maybe they thought, "Hey, if Robert can do it, so can I!" Which, actually, I believe to be true—if I can do it, so can you. That's why I'm writing this book! But don't kid yourself that I didn't work very, very hard, and that you won't have to work hard as well.

Finally, let's talk about relationships. I've already mentioned how buying property is going to have an impact on your wallet and your free time. Do you really think those things won't also have an impact on your relationships? This is one of the reasons it's critical to have that Plan B in place. Fighting over money is really fighting over feelings of safety, and it can be fatal to your marriage. Your significant other and your children have to be protected by insurance if something happens to you, and by having a solid Plan B if something happens to everything except you. Your ambitions are noble, but you can't reach them at the expense of your kids living out of your car. Being brutally pessimistic in your expectations will serve you well, because it will force you to make sure you have a way to take care of those you love even if things go wrong. This, in turn, will allow them to relax and allow you to show up as the best possible version of yourself with them, because no one—not you, not them—is in panic or survival mode.

Once that's taken care of, however, you still have extended family and friends to handle. I'm not going to lie; not all of your relationships will survive this new you. For one thing, you're not going to have disposable cash and time to hang out with people or take large family vacations the way you may have in the past. You're going to be working two jobs (more on not giving up your day job later), you're going to be obsessed with this new investment and making it all work out, and you're going to be tired. Some of your friends will fall away naturally when you don't have time for them, and that's okay. Others will become jealous of what you're building or turn into naysayers out of fear or envy, and that, my friend, is much more difficult to navigate.

When I say you need to be willing to listen to the worst that can happen, I mean from people who have gone through it and survived, not from the bozo on the next barstool. You have to recognize that your success might be intimidating to some people and simply not listen to them. You are making difficult decisions from a place of (I sincerely hope) knowledge and forethought. If your best friend suddenly calls you selfish for skipping happy hour to catch up on the books or some much-needed rest, it might be time to take a break from that relationship. This probably isn't something you planned for in your profit and loss projections, but it's your life, and if you want to put the hard work into property ownership, then I, for one, believe that you will be amply rewarded.

The Owner-Tenant Relationship

The apartment house industry is constantly changing. Let me give you an example. A friend of mine had a resident who had been leasing a condominium from him for almost forty-five years. Back then, when you rented a condo, the condition was virtually bare. The new tenant would expect to paint the place, put up their own drapes, lay down their own rugs, and make the condominium their long-term residence. My friend's agreement with his tenant (a widow with two children) was typical for the day: there was no credit report, and their agreement was verbal. He was not a hands-on landlord and she or someone in her family fixed anything that might be broken. As needed, he hired experts to do such things as upgrade the plumbing or replace a water-damaged wall. She settled in and made the condominium her home; in fact, when my friend's health was failing and he was settling his affairs, he decided to sell the condominium to her. As far as I know, she lives there still.

Very little of this would play out the same way today. First of all, written rental agreements are critical, and I don't advocate you ever doing business without one—even if you're renting to a family member. In fact, especially then! It's important that legal agreements are in writing so that everyone has the same understanding of your agreement. Security deposits are now required, and in exchange, the resident has an expectation of such things as freshly painted walls, clean apartments, window and floor coverings, appliances, lighting fixtures, air-conditioning . . . the list goes on. When things go wrong, the tenant just picks up the phone and it is the owner's responsibility to provide what's missing or fix what's broken. Adequate parking, play areas, well-lit entryways, and other amenities outside the apartment itself are also important. Government regulations are constantly changing to incorporate safety upgrades, lighting, zoning, size of units, parking requirements, potential discrimination, control of rental rates, required notices of hazards such as asbestos, water quality, eviction, and the handling of problems with undesirable renters.

People also have a lot of different reasons for renting as well. They may rent because it's more affordable than home ownership, or because they have no time or interest to maintain a home themselves. They may be busy professionals or they may travel a lot, or they may be college students wanting to live near, but not on, campus. Apartment rental is the right choice for some people based on affordability, living style, family makeup, professional obligations, a more transient moment of their lives (such as college), or simply that they don't want the responsibility of owning their own home.

Just as there is no particular common background or classification for residents, so, too, are owners more and more varied. They can range from a blue-collar worker trying to create supplemental income or save for retirement all the way to a professional investor using property as a means of long-term investment, and everything in between. The concept of landlord-and-tenant is an old one, and the nomenclature is rarely used today except in legal documents, to keep it consistent with existing laws and precedents. Today the relationship is thought of as owner-and-resident instead. One provides a commodity that the other needs. The apartment house owner is a business owner—that's really the mind-set you need. You are not dabbling or "renting out a room"; you are building a business. You maximize your bottom line by understanding what you provide to the resident: peace and quiet, adequate living facilities, a sense of home. Remember that the resident's rent check represents a significant proportion of their budget, and they have every right to expect value for the cost. Just as you won't get far selling pens that don't write, you won't build a business by offering apartments that don't meet a resident's needs.

Times change, vocabulary changes, but one thing I want to point out that existed way back between my friend and his tenant still remains true today: the benefits of a mutually respectful relationship. Each of them, owner and resident, respected the other's position. Both took pride in the unit; one the pride of ownership, the other the pride of caring for their home. It was this relationship that benefited both of them for almost half a century, and it will benefit you as well.

Timing the Market

Let me tell you why I think apartment houses will remain a good investment. First of all, demand exceeds supply. As our population increases, more people need places to live. Certain communities, especially in or near urban areas, are seeing an even greater uptick as more people choose to live there. Remember those 4.6 million new apartment units that the U.S. is going to need by 2030? New York, Dallas-Fort Worth, and Houston alone will need about a quarter of a million units each. Real estate values are going up, construction costs are rising, and the value of home ownership has, in the last few years, gone through the roof. (Note that these are often cyclical, but they are true at the time I write this.) All of these things mean that if you own an apartment building, you are in a position to see your rent income increase as well as the equity in your property, giving you more resale value (not to mention equity to leverage) down the line.

If you do not yet own an apartment complex, however, these same circumstances may make it look as if you've missed the boat.

I won't deny that there are overpriced properties on the market, but there are also still opportunities to be had. I know so many investors who waited on the sidelines to purchase an apartment house only to regret their inaction later.

I believe one of the biggest mistakes you can make is waiting for the "right time" to buy and never actually doing it. Why? Because this is not a short-term game. You are not trying to "flip" an apartment complex. You are in this for the long haul. And over the long term, property values have traditionally increased beyond inflation. If you miss the bottom or pay "too much" in the moment, it doesn't really matter in the long run. The apartment house, unlike your own home, generates income as you go along. Part of that income is invested back into the complex, part of it goes toward paying the mortgage, and part of it goes to you, ideally for you to parlay into yet more property. By the time you're ready to sell it, if that day ever comes, the price you paid for it will be largely irrelevant.