SUMMARY

CRUSHING IT IN APARTMENTS AND COMMERCIAL REAL ESTATE

BRIAN MURRAY

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Summary of “Crushing It in Apartments and Commercial Real Estate” by Brian Murray

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How to succeed as a landlord.

Introduction

When asked, “What’s your dream job?” most people don’t say, “Landlord!” And yet, when you consider the day-to-day practicalities of the job, it’s surprising that this career isn’t higher on everyone’s “dream job list.” Buying properties, renting them out, watching the money come in-- it all sounds so easy, doesn’t it? So, why aren’t more people rushing out to invest in commercial real estate? Brain Murray observes that the answer to that question lies in our perceptions. The average Joe doesn’t set out to become a landlord because he has a prescriptive (and restrictive!) idea of who a landlord is.

We think of people who can afford to make sizable, risky investments. We think of people who own so many properties, they can’t keep up with all of them. For most people, that idea puts them in both an income bracket and an identity they can’t even fathom. So, they assume the real estate industry isn’t for them. But Murray argues that nothing could be further from the truth! In fact, his own success story debunks these perceptions. And over the course of this summary, we’ll explore Brian’s journey to success and learn how you can emulate it.

Why You Should Invest in Commercial Real Estate

Okay, so we all agree that investing in commercial real estate would be an awesome idea. But how do you do it? And how can you be sure that you're making a smart investment? Well, for starters, you need a little bit of insider info, and fortunately, Murray's got you covered with a few financial basics you should know. The first tip, as you've probably guessed, is that all properties are not created equal; you can't just snatch up the housing equivalent of a cardboard box and expect it to make you rich. Instead, you'll need to evaluate your property and determine what kind of income it can generate for you.

To do that, you'll need to assess a couple of things: a property's net operating income (or NOI) and its cash-on-cash returns. The popular investment website Investopedia provides a simple summary of a property's NOI by explaining that, "Net operating income is a calculation used to analyze the profitability of income-generating real estate investments. NOI equals all revenue from the property, minus all reasonably necessary operating expenses. NOI is a before-tax figure, appearing on a property's income and cash flow statement, that excludes principal and interest payments on loans, capital expenditures, depreciation, and amortization." To calculate your NOI, Investopedia recommends using a simple formula:

Net operating income=RR−OE
where:
RR=real estate revenue
OE=operating expenses

So, now you know a little bit about how NOI works. But why is it so important to know a property's NOI so badly? How does it help? Well, Investopedia explains it this way: "NOI helps real estate investors determine the capitalization rate, which in turn helps them calculate a property's value, thus allowing them to compare different properties they may be considering buying or selling. For financed properties, NOI is also used in the debt coverage ratio (DCR), which tells lenders and investors whether a property's income covers its operating expenses and debt payments. NOI is also used to calculate the net income multiplier, cash return on investment, and total return on investment." To give us an example of how NOI would work in practice, Investopedia offers a hypothetical scenario:

"Let us assume that you own a property which annually pulls in $120,000 in revenues, and incurs $80,000 in operating expenses. In this circumstance, it will have a resulting NOI of $40,000 ($120,000 - $80,000). If the total is negative, where operating expenses are higher than revenues, the result is called a net operating loss (NOL). Creditors and commercial lenders heavily rely on NOI to determine the income generation potential of the property to be mortgaged, even more than they factor an investor's credit history into their decisions. Simply put: this metric helps lenders fundamentally assess the initial value of the property, by forecasting its cash flows. If a property is deemed profitable, the lenders also use this figure to determine the size of the loan they're willing to make. On the other hand, if the property shows a net operating loss, lenders are likely to reject the borrower's mortgage application, outright."

So, now that we know how an NOI works and why it's so important in relation to investments, let's take a look at how NOIs work in conjunction with our second topic for this chapter: cash-on-cash returns. Investopedia also provides a handy definition for cash-on-cash returns and the site explains it this way: a cash-on-cash return is a rate of return often used in real estate transactions that calculates the cash income earned on the cash invested in a property. Put simply, cash-on-cash return measures the annual return the investor made on the property in relation to the amount of mortgage paid during the same year. You can use a handy formula to calculate your cash-on-cash returns too.

Cash on Cash Return=
Annual Pre-Tax Cash Flow
Total Cash Invested

where:
APTCF = (GSR + OI) – (V + OE + AMP)
GSR = Gross scheduled rent
OI = Other income
V = Vacancy
OE = Operating expenses
AMP = Annual mortgage payments

Using this formula to calculate your cash-on-cash returns will help you decide whether or not to invest in a property. If the property yields a high cash-on-cash return, then you know you want to dive in! That's because you're guaranteed to turn a profit with that property. And in the real estate industry, the security of constant cash flow is your most valuable asset. So, choose wisely and aim for the high-return, low-risk properties!

Whatever You Do, Don't Spend Money!

In an investment industry, that might sound like the wackiest piece of advice imaginable! But the author has learned from firsthand experience that this advice can save your career as an investor. Here's why: let's imagine that becoming an investor is kind of like becoming a millionaire. (And, eventually, if you play your cards right, you could very well be both!) But imagine you won a million dollars overnight. What would you do? Would you instantly run out and spend your money on everything you've ever wanted? Would you buy a mansion? A fancy car? A private island? Many of us would because we would be so overcome by the excitement. We might also be tempted to rest in the illusion of security offered by our newfound wealth, assuming that there would always be more money around.

But the author observes that that's exactly where we get it wrong. Just like people who win the lottery, many first-time investors get carried away with their newfound wealth. They assume that their new investment property will generate endless income, enabling them to quit their job and bask in luxury. However, this logic is nothing short of foolhardy. Instead of flashing your cash, the author affirms that laying low is the best thing you can do. Don't make any big purchases. Don't try to live beyond your means. In fact, you should live as if you don't have this new source of income at all. That's because all of your spare cash should go towards increasing your real estate empire. Speaking from his own experience, Murray argues that it's only once you've built a successful foundation that you get to reap the benefits of your investments.

So, don't quit your day job and don't try to live large. Instead, be prepared to make a few sacrifices and channel your money into investments that you will nurture over time. You can't expect to live off your investments in the early days; if you try, you'll wind up broke and on the street. That's why the author continued to support himself through his "real job" for the first seven years of his real estate career! He understood that it might take a few years for his business to generate a real profit and he was prepared to wait it out. So, remember that you don’t want to take many risks with your investment properties or with your personal finances. Instead, get creative, grow what you have, and watch it blossom!

Your Investment Property is a Business, Not a Cash Cow

You might remember that, earlier in this book, we discussed the common perception of a landlord. We also discussed how entirely unrealistic that perception can be. If you're an aspiring investor, it might sound enticing to imagine yourself sitting back and watching the cash flow in. But as we've already seen, that's not entirely how it works. (At least not for awhile!) And in fact, the author argues that even once your investments begin to turn a profit, your perspective is crucial for determining your properties' success. For example, maybe you're already thinking of your properties as assets, similar to stocks. And, much like stocks, you might think that they require little in the way of active involvement from you. As is the case with your stocks, you can simply sit back and let your finance guy handle this, right? Wrong!

The author argues that you should actually view your properties as a business. That makes you the manager in the same way that you'd be the manager of your business. And that means you'll need to be heavily involved! It also means that-- emotionally or financially-- you can't afford to outsource and let somebody else do your job for you. After all, if you were trying to get a new startup off the ground, would you want to hire a bunch of outside contractors to do the work that you could do for yourself? Would you want to waste your money and risk being in the dark about your own business affairs? Probably not. And Murray asserts that it shouldn't be any different with your investment properties.

As you can see, this shift in perspective will change a lot about your attitude towards your investments and the way you manage them. If you think about your properties like a business, then you'll operate accordingly. You'll live as though the success of this startup is totally up to you. (Which it is!) You'll put your heart, soul, and effort into it, which will enhance the success of your business and increase your revenue. And the author recommends applying this mentality to every aspect of your business from the manual labor to the paperwork. After all, if you want to invest in these properties, then you need to truly invest in these properties. And that means getting out there and making the deals yourself, filing the paperwork yourself, and putting in the manual labor on the repairs and upkeep yourself. It might seem like a lot of work-- and indeed it is!-- but Murray argues that it's worth it to maintain the maximum control and profit over your investments.

He wisely observes that you can pay any contractor to come in and go through the motions of managing your properties, but you can't pay them to care about it. You certainly can't pay them to invest the same amount of pride, care, and concern that you would invest in your own properties. And if your investments are being managed by someone whose heart isn't in the work or by someone who simply puts in the hours, it will show. So, invest in yourself and invest in your properties by running your investment like a business. You'll thank yourself later.

Connecting With Your Tenants

Your relationship with your tenants is another thing that challenges the traditional perception of a landlord. According to our widely-held perception, a landlord is simply someone who's there to take your money. They may or may not care about their tenants. They may or may not keep up their end of the bargain or deliver what they promised. In fact, our typical view of a relationship between a tenant and a landlord can best be characterized as an "us/them" mentality. But the author argues that this also needs to change. After all, in most cases, you're not your tenant's only option. If they don't like the quality of life that comes from renting with you, they can go elsewhere. And in the end, that only damages your investment and your reputation. So, what can you do to prevent that from happening?

Well, for starters, Murray recommends that you seek out the right type of tenant. Many landlords see their tenants as little more than dollar signs and they cheerfully add new renters to a building without considering the compatibility of the building's inhabitants. But Murray ardently affirms that this is a mistake. If you make your tenants' living situation uncomfortable or simply incompatible with their needs, they're going to go elsewhere. So, that means it's worth a little time and effort to evaluate the compatibility of your prospective tenants.

For example, consider the current demographic in your property. Are they primarily students or senior citizens? Do they value peace and quiet above all? Or are they here for the easy access to some local amenities? Considering these factors will help you characterize the interests of the people in your building. And from there, you can determine who would and wouldn't be a good fit for your available apartment. For example, if your building is primarily comprised of single, studious, PhD students they probably value peace and quiet. They want their home to be a safe haven for study and concentration. So, it wouldn't be a good idea to add a family with three toddlers and a couple of loud dogs! Taking these factors into consideration requires only a small amount of effort from you but it could mean the world to your tenants. And if they're happy in their homes, then they'll want to cultivate a long-term, harmonious relationship with you! It's a win-win!

Final Summary

Investing in commercial real estate is a wonderful opportunity that can bring you a host of benefits. But it’s not an instant cash cow and it doesn’t mean that you should quit your day job as soon as you buy your first investment property. If you want to succeed in commercial real estate, Brian Murray affirms that you have to debunk some popular misconceptions that characterize our understanding of what it means to be a landlord. That also means replacing them with updated, positive modes of thinking.

For starters, you should run your investment properties like a business and cut out the middle-men so that you can run your business yourself. It’s also important to adjust your priorities, attitudes, and expectations and remember that, whatever you do, you don’t want to spend money until your business is established! And last-- but definitely not least!-- you should cultivate a strong relationship with tenants that will be the right fit for your building.