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From the WSJ Real Estate Archives

A Savvy Investor Juggles Multiple Rental Properties

By JANE HODGES
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The property: A circa-1910, wood-shingled building in Boston's Dorchester section. It's a triplex -- what investors in the Boston area call a "triple-decker" -- containing three, 1,100-square-foot units. Each unit has three bedrooms, a living room, a kitchen with pantry and at least one bathroom. The building has a backyard and a driveway with parking for two cars.

The investor: Matthew Martinez, 34, became a landlord several years ago when he bought a duplex in South Boston and rented out the half he didn't live in. At the time, he was working at a technology firm, but when he saw the gentrification taking place in neighborhoods and towns south of downtown Boston, he began thinking about investing in additional properties. One by one, he acquired a portfolio of four triplexes in Boston plus a single-family property in Wellesley, Mass., which he planned to renovate and sell.

By April 2004, Mr. Martinez's real-estate income started to outpace his salaried income. He was also working 16-hour days, rising at 7 a.m. to deal with renters' issues before work, dashing out during lunch to show vacant units, handling property issues on weekends and staying up late to work on financial and administrative matters related to the properties. He says he knew then that he could quit his day job and work full time on his real-estate investments.

"By then I felt comfortable with the income I was bringing in," Mr. Martinez says. "I couldn't manage my rental properties and do this gut rehab and also take care of my full-time job. But I always advise anyone [starting out in real estate investing] to stay with your day job."

Strategy: Mr. Martinez is interested in using multifamily real estate as both a long- and short-term investment. With properties he plans to hold long-term, he pays himself a salary out of rental income and also taps the equity in his properties for lines of credit to fund new real-estate purchases. When it makes financial sense, he periodically sells a multifamily building, he says. Because many buyers in the Dorchester area want condominiums, it's possible to profit from the sale of multifamily housing there that can be converted to condos. Within the past six months, three conversions have taken place on a block where he owns a building, he says.

Because he left the technology industry to become a full-time real-estate investor, Mr. Martinez wants to grow and diversify his portfolio. Mr. Martinez says he sold the 1910 triplex because it was the only one of his four Dorchester properties not clustered in the same area and a buyer was willing to pay a premium for a building that could be converted into condominiums.

Because he's had success investing in multifamily buildings, Mr. Martinez is also learning how to work with other types of properties. Last year he paid \$382,000 for an 1873 home in Wellesley, Mass. The home had a solid structure and charm, but needed a \$125,000 gut rehab -- 15 tons of material were removed from the site. He had originally planned to sell it in September, then decided to move there for a few years and rent out his primary home -- a tactic that will allow the Wellesley house to appreciate and also reduce capital-gains taxes on the eventual sale. As he works to diversify his real-estate holdings and build experience, he is considering establishing a small real-estate investing group so he and like-minded investors can pool their assets in shared real-estate deals.

Purchase price: \$415,000 in February 2003.

Sale price: \$510,000 in August 2004.

Profits: Mr. Martinez's total net profit on the building was about \$96,500. He made \$64,500 on the sale of the property (\$89,500 minus a \$25,000 or 5% commission to the listing agent). The remainder (\$32,000) of profit came from rental income, which averaged \$2,000 per month for about a year and \$1,600 for about five months.

Amount invested: Mr. Martinez spent \$5,500 on sprucing up property. He had the exterior of the building painted, converting the building from a dark brown to a warm beige (\$3,600); he also re-sodded the lawn and hired contractors to pour a concrete driveway. With full occupancy and happy tenants, he didn't feel a pressing need to do interior renovations.

Unexpected costs: Mr. Martinez says that all three units in the triplex had Section 8 tenants, which means tenants pay a set proportion of their income for rent and receive a government subsidy from the Department of Housing and Urban Development for the remainder. However, about four or five months before Mr. Martinez sold the building, the government lowered its subsidy. Because tenants' contributions to their rent are fixed, Mr. Martinez could not ask them to make up the difference. His total profit from monthly rental income dropped to \$1,600 from \$2,000, a decrease he says was unavoidable and



Matt Martinez's Boston triplex.

illustrates the risks of leasing to government-subsidized renters. Still, Mr. Martinez says this situation was unusual: HUD doesn't often decrease its subsidy unless it finds that rents in a particular market are dramatically inflated.

Advice from the investor:

1. Analyze the numbers until you've got the right returns and reserves.

Mr. Martinez says that one reason he was able to immediately realize a profit on this property was he made a 20% down payment on it. Whenever he buys, he compares the returns he could earn on a 0%, 5%, 10% and 20% down payment. While making a large down payment can tie up cash reserves that might be needed for maintenance and repairs and to cover expenses during a vacancy, it can also generate profits sooner because it means smaller monthly mortgage-loan payments. On the other hand, a low down payment keeps cash available for emergencies or investing elsewhere.

While he'd much rather own a fourplex or fiveplex, he's found that the profit he'd make wouldn't justify a large down payment because he'd need to sacrifice the security of a cash reserve fund. For now, he said, triplexes suit the degree of risk he's comfortable taking.

Mr. Martinez said he thinks it's risky for investors to buy properties that don't immediately generate enough income to cover the mortgage and expenses. "I think it's a mistake to count on appreciation [for eventual profits]," he says.

2. Build your social networks.

Mr. Martinez said it's hard to underestimate the value of personal connections for investors who decide to make a living -- or substantial income -- from real estate. He founded the Boston Landlord Investors Group, a networking organization that meets monthly and has more than 60 members, most of whom are under 40 years old. Meetings take place at members' properties, and landlords swap information about how they handle various challenges.

Mr. Martinez says the connections are valuable for exchanging ideas about property-management issues and also for learning about potential deals. He found the Dorchester triplex that he sold in August through a group contact.

"I bought the building from a friend, so I got a little discount," he says. "He said, 'Before I go to a broker, do you want to see it?'"

Mr. Martinez and the seller were able to agree on a below-market price for the building because neither had to pay agents for facilitating the transaction. Mr. Martinez estimates he saved \$20,000 to \$30,000 on the purchase price.

3. If you plan to manage multiple properties or hold them long-term, make sure they're close together.

Mr. Martinez says that, now that he has sold this property, his portfolio contains three triplexes located within three miles of his home. He said he'd advise any investor considering working with real estate to avoid properties that are more than half an hour away.

"It's been wonderful. I can do multiple showings in a day or deal with things as they come up," he says.

-- Ms. Hodges is a free-lance writer in Seattle.

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