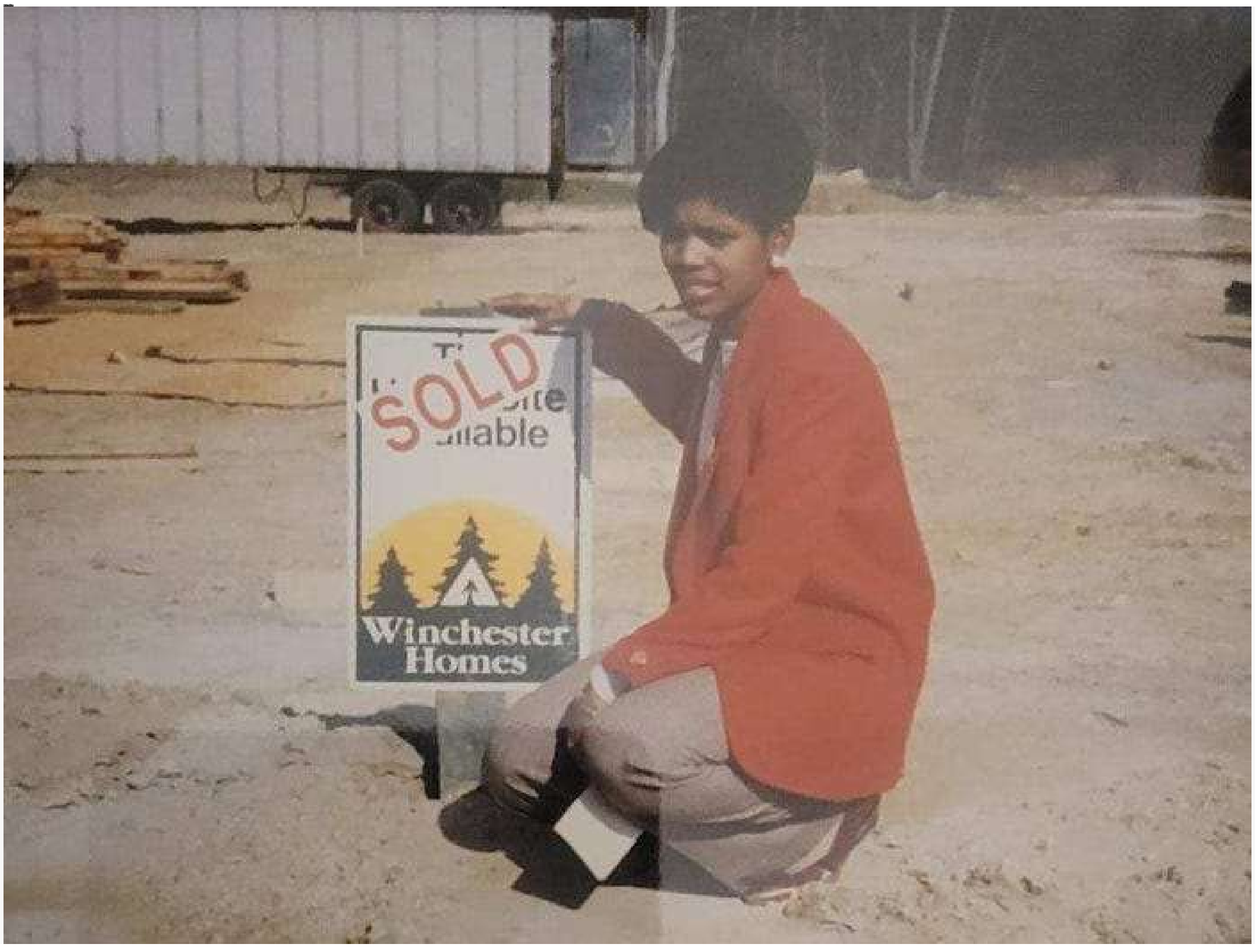
Canada News Media – July 13, 2023

Veteran Real Estate Investor: Don't Worry About Interest Rate Hikes

Harry Miller || July 13, 2023



Stroud bought her first home in her early 20s. She was the first member of her family to become a homeowner. Courtesy of Brenda Stroud

Real estate investor Brenda Stroud isn't one to sit on the sidelines during a high-interest rate environment.

She's already done four real estate deals in 2023 and has two more under contract.

“You can’t have a doomsday mindset or attitude about things you cannot control,” the 55-year-old told Insider. “This is part of the business. Real estate is a risky business.”

Stroud bought her first home in the early 1990s. She was working as a police officer in Maryland at the time and raising her son on her own.

“I wanted to have him in an environment where he had his own yard and went to a decent school,” recalled Stroud, who worked overtime to save $10,000 to put down on the townhouse she purchased.

Since that first home purchase more than three decades ago, she’s done a little bit of everything in the real estate space, from setting up short- and long-term rentals to flipping properties. She’s based in Georgia, where she moved after retiring early in 2007 for medical reasons, but primarily invests in Tuskegee, Alabama. Currently, she owns 13 properties, which Insider verified by looking at her settlement statements.

Stroud’s advice to investors who are hesitant to jump in because of mortgage rates — which have been in the 6% to 7% range this year, roughly double the sub-3% record lows seen post-COVID — is to not let one factor impact your decision whether to invest or not.

“Okay, the interest rate is high now; get the property, hold onto it, and refinance when the rate drops,” she advised. “You’re not paying for it anyway. Your tenant should be paying it.”

She’s pointing out that, if you find a great deal on a property, fill it with a tenant, and are able to charge enough rent to cover your mortgage payment and other monthly expenses, the interest rate doesn’t matter. Of course, it’s harder to make the numbers work in a high-rate environment (higher interest rates mean higher monthly payments, which impacts your bottom line as an investor), but it’s still possible. It might just mean you have to lower your budget in terms of purchase price or spend more time analyzing deals in your market until you find the right one.

“Have a clear understanding of how real estate works,” added Stroud. “It’s not, ‘when the interest rate is low that’s when I buy.'”

Successful investors agree that the perfect time to buy does not exist, so rather than trying to time the market, look for deals that make sense for you, regardless of the economic climate or what’s going on in the housing market.

A financing strategy Stroud likes to use is getting an adjustable-rate mortgage, or an ARM, which keeps your rate the same for a certain period of time. When the fixed period is up, your rate changes periodically (usually once per year) and can increase or decrease depending on the economy.

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Stroud prefers a five-year ARM, she said: "At the end of five years, it automatically resets. If the rates are lower, it's going to reset lower and you don't have to pay for refinance." (If you go with a fixed-rate mortgage and decide you want to refinance down the line, that process costs money. In 2021 the average refinance closing costs in the US were $2,375 without taxes.)

However, while your rate might go down with an ARM, you should also be prepared for it to increase.

"There's a cap, so it's only going to go up so far," noted Stroud, meaning you'll know the absolute highest the rate could reach and can prepare for that scenario. But the prospect of an increased rate doesn't bother her: "Even if it goes up, eventually it is going to come back down. It may take a little longer, but your tenants are paying for it. Sure, you'd like to put more money in your pocket, but you're in it for the long haul."

In general, rather than focusing on average rates, focus on finding great deals that will produce positive cash flow. "You can always restructure that deal later on. And, if it's a buy-and-hold you can adjust what you're collecting," said Stroud, referring to rent if you're setting up a rental unit.

"You have a lot of different ways of looking at things," she added. "I'm not one that subscribes to this whole doomsday thinking around economic recessions. Because it's all a cycle. It's the normal progression of what happens with markets: It goes up, it goes down."

Lessons from the 2007 crash: Learning to think long term

Stroud lived through the 2007 housing market crash, after all, which taught her the importance of thinking long-term and being mindful of pulling equity out of her properties.

"If there is a shift in the economy, that's where you can sink or swim as a result of whether or not you pulled all the equity out of the property," said Stroud, who watched the value of her primary residence drop during the crash but decided to hold onto it. "We just sat on it until the market came back up — and it did."

She ended up selling that house in 2019 and turning a six-figure profit.

"Know when to sell and know when to buy," she said. "I don't necessarily see what happened in 2007 as anything that's not going to happen again. You just need to know what to do when it does happen and not let it scare you."

Stroud isn't not the only successful real estate investor Insider has spoken with who is encouraging investors to think beyond interest rates.

According to Massachusetts-based real estate investor and consultant Dana Bull, who owns 22 rental units and considers herself financially independent, one of the biggest mistakes investors can make is letting market conditions dictate whether or not they should buy a property. Instead, figure out how you can achieve your investing goals amidst whatever the current economic situation is.

"Don't base your goals on the climate of the market," she told Insider. "Do it in reverse: Establish your goals and where you want to be. Put yourself in the center of the equation."

It's still important to be aware of what's going on in the market, Bull noted: "You don't want to go into things blindly, but you also don't want to be paralyzed based on what could or may not happen."

Another New England-based investor, Matt — who goes by "The Lumberjack Landlord" for privacy reasons — has been building his rental portfolio since the early 2000s. After two decades of following his buy-and-hold real-estate investing strategy, his 137-unit portfolio now grosses over six figures in rental income each month.

He believes that, "at the end of the day, time *in* the market will always beat timing the market." He doesn't necessarily mind the rising mortgage rates, as long as his return on capital — the profit he could potentially earn from his real-estate holdings after factoring in expenses — is what he considers to be "great," he told Insider.

"To understand what a great deal is, you have to understand what every other deal is," he explained. If properties in his market are returning an average of 7% annually, for example, he's looking for deals that will earn him at least 10%. "It doesn't matter if the mortgage rate is 6% or 16%. All that matters is my return on that cash."

In late 2022, he financed a property with a 7.25% interest rate, he noted: "I've closed on some high-rate deals. They just have to produce great returns."