Once Upon a Time, There Were Seven Families Who Lived in a Tree…

Tips to get multifamily rental properties to deliver investment benefits that single-family homes can't offer

BY DONNA SHRYER

Apples or oranges? Peas or carrots? New York City's hustle and bustle or the peaceful fine white sand of Kapalua Bay Beach on Maui's remote northwestern tip? It's all about personal choice. The same can be said as to whether you want to invest in multifamily residential properties or single-family dwellings.

For some, it's difficult to fairly assess the benefits of investing in multifamily properties. America's obsession with HGTV's binge-worthy shows that tout the financial value of rehabbing, renting or flipping single-family homes has pushed multifamily properties into the shadows.

The obvious benefit of a multifamily versus single-family property investment is simple: more units equals increased opportunities for cash flow. However, with financial advantages come risks, including increased responsibilities, liabilities and need for capital reserves.

You can neutralize these risks if you understand the big picture, perform due diligence and prepare for challenges, says Clark Niblock, CRS, broker/owner of San Antonio-based Niblock Co. Inc. Realtors. “If you go into multifamily investment properties with your eyes wide open, it can be very lucrative—but it’s not easy money,” he says. “If you don’t pay attention, it’s going to be a bumpy ride.” It’s advice you can bank on, since Niblock owns and manages several multifamily properties in the San Antonio area.

Here are tips to successfully manage multifamily property investments, navigate the ins and outs, and turn potential risks into financial gains.

Study federal and state landlord/tenant laws.
It’s essential that you become familiar with the Fair Housing Act and the Fair Credit Reporting Act. These federal laws affect all landlords and property managers, regardless of whether you choose to invest in a single-family or multifamily property. There are also landlord-tenant laws specific to your state and city, which focus on discrimination, lease documents, disclosures, safety and maintenance, security deposit protocol, privacy, evictions and the list goes on. “If you don’t know the law, you’ll probably fail,” emphasizes Chuck Wilson, CRS, owner/broker of Real Estate of South Bay, located in Los Angeles. Wilson takes his own pearls of wisdom to heart, as he’s always on the lookout for wise property investments, and at this time has eight multifamily properties in his investment portfolio.

Document everything before a tenant moves in and out.
Niblock snaps detailed photographs of a unit before and after renting. It’s a “visual history” of the unit’s condition. This is particularly handy when renting multiple units, Niblock says, since remembering every gouge in every wall or floor becomes increasingly difficult when managing multiple units.

And be sure to protect your investment by vetting tenants. The time involved to vet tenants increases exponentially with the number of units you rent, but it’s time well spent says Neil Kugelman, CRS, REALTOR® with Philadelphia-based Elfant Wissahickon REALTORS®. “I run credit checks and make sure potential tenants have never been in landlord/tenant court,” he says, which keeps him busy as he currently manages two duplexes and four single-family homes. Nancy Philbrick, CRS, REALTOR® with Berkshire Hathaway HomeServices Verani Realty in New Hampshire, checks credit reports, although rather than pulling standard credit reports, she asks potential tenants to share their own Credit Karma report. “The reports are easier to understand and I’m not responsible for the reports,” she says. That, she adds, saves time and hassle, since she’s busy with her four condominiums and one duplex.

Living in one of the units yourself may qualify you for owner-occupied financing.
If you invest in a multifamily building and live in one unit yourself, you may qualify for owner-occupied financing. Benefits may include more favorable financing terms, such as less money down and lower interest rates.

When the owner occupies their investment property, renters may even cover your mortgage. In 1989, Philbrick purchased her first investment property—a duplex. “I rented one unit to a family and lived in the other,” she says. “After I collected rent, my monthly cost was $34. So I was able to pay the mortgage, live in a nice unit, save money and purchase a second property within three years.”

Closing the deal for a multifamily residential property requires less time.
In a nutshell: a fourplex equals one mortgage and one closing. Four single-family homes equals four mortgages and four closings. The math says it all.

Multifamily properties rarely have a zero cash flow.
Unlike a single-family home, issues with vacancies are reduced with a multifamily dwelling. Put simply, when a single-family property is vacant, there’s no incoming cash flow. However, it’s highly unlikely that every tenant will vacate a multifamily property at the same time. That gives you at least some income.

Research rental property tax write-offs.
Rental property owners are entitled to significant tax deductions, including property mortgage, insurance, maintenance repairs, travel expenses, legal and professional fees, as well as property taxes. This area is complex, so it’s best to hire an experienced accountant.

Rehabber and REALTOR® make for a tough balancing act
When Kugelman invested in his first property—a duplex—he rehabbed both units, then moved into one unit while renting the other—and at the same time, he pursued a career as a REALTOR®. In fact, he did that a few times and then put down his hammer. “My real estate earnings suffered,” he says. “Sometimes, while I was busy rehabbing, I had no income. So I learned the hard way that my time is better spent listing and selling property, and hiring skilled tradesmen to do the rehab work.”

Keep tenants happy so they want to stay.
Every landlord’s bane is turnover. Before welcoming a new tenant, the unit must be professionally cleaned and usually painted, and repairs of some sort often crowd the to-do list. Yes, that takes cash, but it also takes time. And if it takes 15 hours to prep one apartment for a new tenant, it takes 150 hours to prep 15 units. So the goal is to reduce tenant turnover. “Be as

attentive as humanly possible to your tenants needs," Kugleman says. "Your income relies on keeping your building filled to capacity. The name of the game is minimizing turnover."

Bottom line, Philbrick cautions, investing in property requires a certain type of person. "This is more than a business; you're dealing with people's homes," she says. "If you don't think you'll have time to quickly follow up on tenant needs, this isn't for you—or maybe you should consider investing in a single-family home with only one renter. On the other hand, if you take good care of your tenants and your properties, there's every reason to believe that a multifamily property will bring a top return on your investment."

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