How to Start Investing in Multifamily Real Estate

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Investing in Multifamily Real Estate: An Introduction

Multifamily real estate has proven to be among the safest investments and most reliable investments you can make. Compared to other types, this class of investment is more protected against economic downturns and remains stable as the lifecycle of the investment matures.

Multifamily real estate investments are:

- **More likely to build long-term value** than most other types of investments
- **Less prone to market fluctuations** than the stock market
- **Less likely to lose value** than small-property investments
- **Far more profitable** than becoming a landlord or property manager
- **Far less time-intensive** when you opt for real estate syndication

In fact, here's something crucial you should know about investing in the current economic climate: Multifamily real estate could be your best investment in a new economy that has been rocked by the COVID-19 global pandemic.

During a time of job loss and strain on the economy, demand for affordable multifamily housing is outpacing the supply of both existing property renovations and new builds. More than 60% of affordably-priced multifamily rental units are rented to capacity within 3 months and it takes on average at least 24 months to complete a newly-constructed multifamily complex.

This means many low-income and middle-class families are struggling to find good housing at reasonable prices, which has led to a global affordable housing crisis. Here's the good news: Multifamily real estate investing contributes to a solution to this pressing problem.

Although no investment is 100% "recession-proof," multifamily projects tend to remain strong investments during tough economic times. Even during a recession or depression, this is a housing solution millions of people are actively seeking - which, in turn, makes multifamily real estate a reliable source of passive income for investors.

In the pages ahead, we'll explain more about investments in multifamily properties, show how the investment process works, and share some real-world examples. We'll also share tips that will help you make smart choices, even if you are a novice real estate investor.

FACT

More than 60% of affordably-priced multifamily rental units are rented to capacity within 3 months and it takes on average at least 24 months to complete a newly-constructed multifamily complex.

What is Multifamily Real Estate?

A multifamily property is any residential building that includes more than one housing unit. This type of property can accommodate dozens or hundreds of individual tenants, each having their own unit with one or more bedrooms, a kitchen, a living room, a bathroom, and so forth.

Apartment buildings are perhaps the most well-known type of multifamily property, but this class also includes townhouses, condo communities, duplex/triplex/quadruplex buildings, and mixed-use properties that combine residential and commercial spaces.

For those who live in them, multifamily properties are perennially popular due to their mix of convenience, affordability, lifestyle amenities, security, short-term contracts, and limited responsibility for the property. Multifamily housing is particularly attractive to people under age 30, who tend to change jobs and living situations frequently, and those beyond retirement age who may prefer smaller homes.

In the coming years, demand for multifamily real estate is expected to intensify due to Millennials' preference for group living situations, combined with aging Baby Boomers' desire to downsize. About 62% of millennials prefer living in shared-use communities, as opposed to detached family home communities. Baby Boomers are selling their large suburban homes in record numbers, often moving to apartments, condos, and retirement communities instead.

For an investor, multifamily real estate offers an opportunity to avoid the volatility of the stock market or a risky venture like flipping houses. Instead, a multifamily property investor chooses a path that is reliable, focuses on the long term, and serves as a form of passive income.

Benefits of Investing in Multifamily Real Estate

An investment in multifamily real estate comes with many benefits for the average investor. Do these benefits appeal to you? If so, you're a good candidate for multifamily property investing.

ACCESSIBILITY

This form of investing has relatively low barriers to entry. You don't need to have hundreds of thousands of dollars on hand. The minimum investment level is typically $50,000 and you will need to meet some basic financial criteria.

PASSIVE INCOME

You don't have to be hands-on with the investment and can use it as passive income, which means it requires minimal day-to-day supervision from you. To maintain your passive investment, you can participate in real estate syndication, which we'll discuss more in the next section.

STABILITY

Multifamily housing is less affected by economic changes because people always need good housing, no matter the economy. In fact, a slow economy can actually drive people toward multifamily properties.

SAFETY

Multifamily real estate has proven to be amongst the safest types of investment. Economists and other experts predict that multifamily real estate will remain a strong and safe investment even as other forms of investing become riskier during a recession.

DIVERSITY

Multifamily housing fills housing gaps and appeals to diverse groups of people, both in terms of those who live in the property and those who are investing in it. It's also a solid addition to a healthy, diverse portfolio due to its focus on strong long-term gains.

PLANNING FOR THE FUTURE

Here's a timeless reason to go this route: Rent keeps rising and rising, and is projected to continue doing so for decades to come. By uncovering devalued assets and turning them into desirable ones, you have a solid future plan for ROI.

A Smart Way to Start Investing in Multifamily Properties

For most investors, finding and investing in a large multifamily property would be a significant challenge. However, you don't need to have a real estate or financial background if you pursue real estate syndication.

Real estate syndication is an investment arrangement that brings together a group of investors who work through a sponsor/operator to make large investments. It's similar to crowdfunding, where people join together to invest in something that's bigger than what each individual could support alone.

Syndication operates as a transaction between a sponsor and a group of investors. The sponsor locates a real estate investment project and seeks investors to partner alongside them. The investor group evaluates the opportunity and chooses whether to move forward with the investment.

A multifamily property investment project usually involves an up-front influx of resources, followed by a period of building and/or rehabilitation. The property is improved in order to add value to the project.

Over time, the investor group sees returns from the project as a steady income. The sponsor delivers reports on a regular basis to keep the investors apprised of the project's progress and success. To learn more about the details of investing with a real estate syndicate, we invite you to read our other whitepaper, A Guide to Passively Investing in Commercial Real Estate.

A Guide to Passively Investing in Commercial Real Estate

2 Examples of Multifamily Property Investments

Now let's look at two real-world multifamily real estate investment projects to see how they are performing for their investors. While no particular return is ever guaranteed on any individual project, these success stories show how rewarding a multifamily investment project can be.

Stratus Apartment Homes

Located in Colorado's fastest-growing county, this apartment community was on the edge of a hot rental market in Colorado Springs. National publications have ranked Colorado Springs among the top 5 markets for rental growth.

The sponsor saw a huge opportunity to remarket this property, finding that nearby communities were charging $150 to $300 more per month for similar rentals. Although it was originally built in the 1970s, this property has spacious floor plans with high appeal for renters.

The total purchase price for this 200-unit-plus property was $29.6 million. Improvements to the property included roofing, renovating a pool and fitness center, painting, landscaping, and adding energy-efficient windows, cabinets, and siding.

The project has delivered solid returns. Excluding the sale proceeds, it has delivered an 8% preferred return (21.11% including sale proceeds).

Photos: Stratus Apt. Homes *Review the investment summary*

Lincoln Springs Apartments

This Colorado Springs apartment complex was in immediate need of a facelift, including a roof that was covered by an existing insurance claim. Interior upgrades and fresh landscaping were also part of the project.

The plan was to purchase the 180-unit complex for $19.5 million, conduct complex-wide improvements, and increase rent by about 7% to match the rest of the market. A property management company would handle day-to-day tenant needs.

The finished complex has an occupancy rate of more than 99% and speaks to the strength of the Colorado Springs market and the investment syndicate. The investor Year 1 annual rate of return was 8.81%, escalating to a huge 70.49% by Year 5.

Photos: Lincoln Springs Apts. *Review the investment summary*

3 Important Tips for Starting to Passively Invest in Multifamily Real Estate

Before you invest in multifamily real estate for the first time, it's important to educate yourself about the process and set realistic expectations. Here are three helpful tips for anyone who is new to real estate syndication as a method of multifamily property investment.

Tip 1: Know Your Sponsor

The sponsor who conducts business for your real estate syndicate is the lynchpin of the investment group. Remember you're investing in them more than the property itself.

Your sponsor should bring a wealth of intellectual resources to the project. They should know the market, economy, background, relevant conditions, plus the basics about real estate, financial planning, tax implications, and investing.

Ask to see their portfolio of past projects. Ask for references. A good sponsor welcomes the opportunity to get to know you and determine whether the two of you are a good match.

Tip 2: Ask Questions

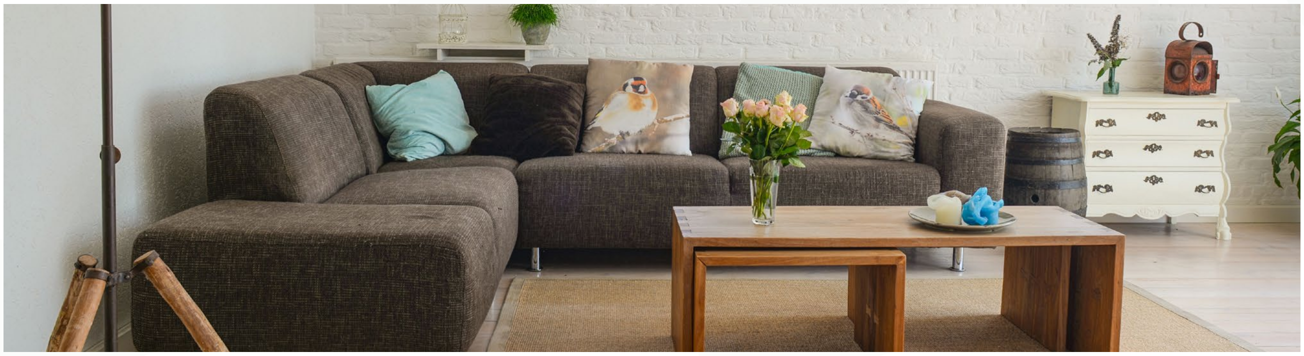
It's helpful to do some contingency planning with your sponsor and inform yourself about what could happen in certain circumstances. Ask questions like:

- What if you have to skip a payment?
- Are you personally investing in this project?
- What if things don't go as planned?

Tip 3: Diversify Your Investments

Depending on how much capital you have to invest, consider investing with at least two to three different operators that you trust. Every investment group is unique and every investment project is too.

This strategy allows you to diversify your investments into different markets, which provides some stability when there are geographic and economic fluctuations. You'll also learn a lot from each one and will gain valuable insights into investing again in the future.



For Additional Information

Today could be the first day of a new investment journey that leads to a better financial future. For more information about successfully investing in multifamily real estate, contact Life Bridge Capital. We're here to help you understand how to start investing in profitable projects and seize the power of real estate syndication.

You may also find these resources useful:

- Investment Strategy Insights
- More Real-world Investment Projects
- News and Interviews About Investing
- Podcast: The Real Estate Syndication Show
- Invest Now With Life Bridge Capital

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