Multi-Family Units vs. Single Family Real Estate Investments

By David Leighton

While most real estate investors concentrate on purchasing single family homes, others have made a fortune in commercial, multi-unit homes and apartments. Although buying a single family home or a duplex is probably the most common way for investors to begin a real estate investment portfolio, it's not necessarily the only or the most profitable way to invest.

In today's market, with many homeowners in default, unable to qualify for contemporary loans and families turning to shared, multi-generational housing, one of the safest and most lucrative options to consider as a real estate investor is multi-family units (apartment complexes).

When compared to single-family homes, multi-family units and apartment complexes offer opportunity for reliable profits while, at the same time, requiring less managerial work and use of personal cash reserves. The tenants in a building pool their money to pay down the investor's mortgage and maintenance expenses on a property. And with more money coming in, the investor has a better chance of turning a consistent profit.

5 Reasons to Consider Purchasing Multi-Family Units Over Single Family Homes

1. Appraisals and Loans Based on Key Figures

Real estate investors love multi-family dwellings because they are valued and purchased based on the same parameters as commercial property— according to how much income the property produces as a cash-flowing business, not based on arbitrary emotions of an agent, home buyer or a residential appraiser. An investor can base his offering price strictly on real numbers and key financial figures just as your banker will evaluate a loan based on those numbers and not on the creditworthiness of the investor. In the case of multi-family unit properties, the bank is investing in a real estate business, not a person.

2. Less Risk of Lost Tenants or Cash Flow

With many families facing foreclosure, the demand for multi-family units and apartment rentals has increased, making it easier to fill units, and keep them occupied with people who want to stay long term. With a single-family home investment property, there is only one rental income coming in. And if the tenant suddenly cannot pay or has to move out, the investor is left with no income, therefore investing in single-family units is far riskier.

The more units you have under one roof, the less risk you have. If you had a five unit apartment and loose one tenant, you still have four rent checks coming in to pay your expenses. Thus a multi-family unit has a more reliable monthly cash flow ensuring you have a steady income.

3. Simplified Management

Managing a number of single-family homes spread out over a large area makes for a lot to think about and to stay on top of. With multi-family units, all your rentals are on the same property, which means easier management and reduced costs. What costs there are can be covered by existing tenants.

Using incoming rent, an investor can factor in all those costs that on a single-family home he might be responsible for regardless of income: insurance, maintenance, and taxes. And with bigger cash flows, you can afford to hire management companies to find, finance and manage your tenants, as well as take care of all maintenance issues, freeing time up to focus on other, more important things – like investing in more property.

4. Less Market Competition

Many first-time investors think of multi-family units as too expensive to begin with, and instead set their sights on single-family homes. This kind of thinking is fairly common among first-time investors, which results in far less competition for multi-family units.

Investors who know how to properly process the financials on an apartment building and present cash flow, income projections and equity shares to their capital sources will be working in a much more open playing field. And because foreclosures of multi-family units are on the rise due to speculation and poor management, this means there are plenty of opportunities to pick one up for well below market value.

5. Profitable Exit Strategies

Because multi-family units and apartment complexes cost more than single-family homes, they appreciate better, generating a larger pay out when the investor does decide to sell. Forcing appreciation through updates and remodeling, sub-metering utilities, 1031 exchanges to save on taxes, and by separating buildings or single tax parcels with more than one building into more than one tax parcel, are all ways to leverage profits on multi-family complexes. This allows investors to exit their investment without taking a substantial financial hit.

Consider Multi-Family Units as Part of a Diversified Real Estate Investment Portfolio

All the techniques commonly used to reap greater returns on single-family homes and duplexes—lease options, rehabs, pre-foreclosures, subject-to, retail and wholesale—are equally possible with multi-family units and apartments. Smart investors diversify their real estate investment portfolio by purchasing multi-family units along with single family houses.

For educated investors looking to expand their real estate investment, or who want to diversify their portfolios, multi-family units represent a solid strategy for creating predictable returns in an increasingly volatile housing market.

You may know a number of real estate investors who have amassed wealth by flipping single family homes, however, many of the people you know who have become extremely wealthy through real estate did it through owning multi-family units, apartments and other commercial properties.

Investing in real estate can be a real challenge. Start out by investing in multifamily houses which will allow you to own a property with a residential mortgage and take advantage of the low interest rates. You will find that there are many advantages to start investing in multi-family units but the main reason might be because these properties tend to be less risky than investing in several single family homes.