

7 REASONS WHY MULTIFAMILY INVESTING MAKES SENSE



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REASON #1 – CASHFLOW

Multifamily properties yield a strong and steady monthly income

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REASON #2 – DEMAND

For more than a decade there has been a heightened demand for apartments.

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REASON #3 - HEDGE AGAINST INFLATION

With inflation, rents go up and cash flow improves

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REASON #4 - TAX BENEFITS

It's not how much money you make on an investment but it's what you get to keep that counts!



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REASON #5 – APPRECIATION

Multifamily asset itself usually appreciates in value over time

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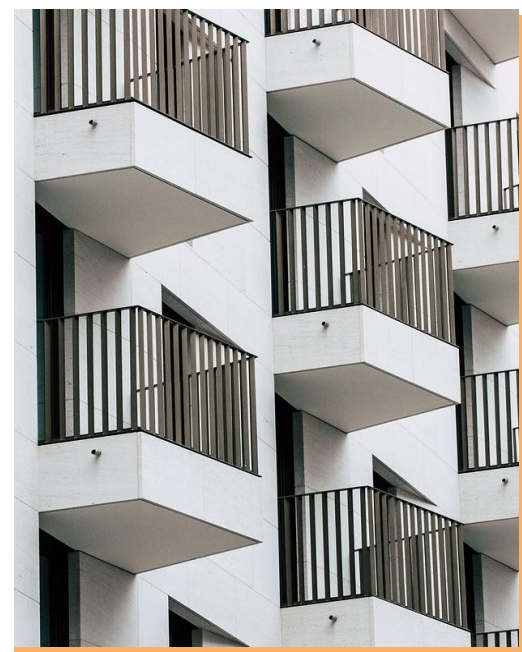
REASON #6 – LEVERAGE

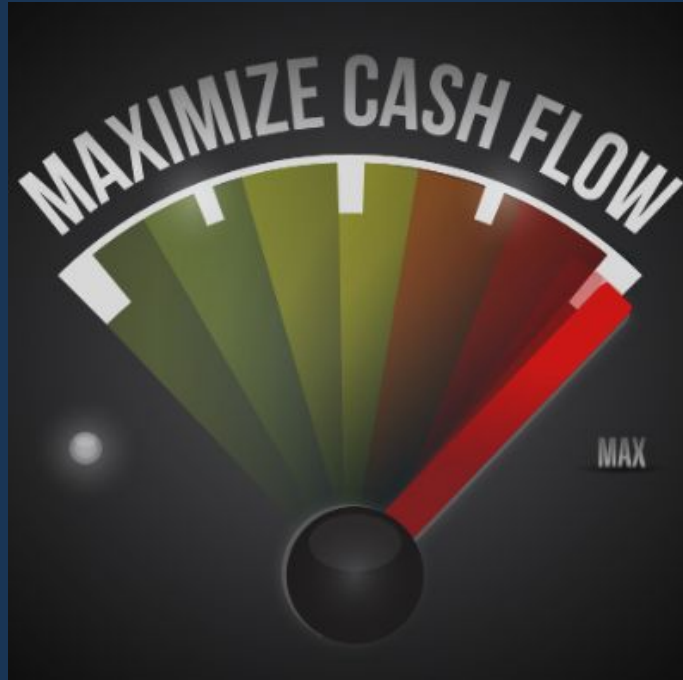
In essence, leverage is using a small amount of capital to purchase a larger property.

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REASON #7 - ECONOMIES OF SCALE

The basic meaning of the economic term, 'economy of scale' is that there is a fundamental cost-saving benefit to being bigger





Multifamily properties yield a strong and steady monthly income. As a passive investor you can expect to receive a percentage of the property's Net Operating Income (NOI).

The multifamily advantage over other property assets is that the individual leases are short term, (typically 6-12 months in duration). This means that the NOI can be easily manipulated by appropriate rental rate increases that continually adjust to market demand. The resulting consistent cash flow is distributed to investors on a regular basis.

Multifamily investors' cashflow yield is steady and reliable because it is generated mostly from the tenants' rental payments which are secured by leases. The terms of these leases are set by state and federal regulations.

REASON #1 – CASHFLOW

REASON #2 – DEMAND



For more than a decade there has been a heightened demand for apartments that was made larger by a significant undersupply.

Will that trend continue? In spite of current economic uncertainty, top U.S. multifamily brokerage CBRE has consistently predicted strong positive outlooks for commercial real estate for the last several years.

Demographic and lifestyle trends along with the rising cost of homeownership, means that demand for multifamily property continues to outpace supply.

Demand for multifamily rental units will be driven by young adults with growing levels of debt, a desire to remain flexible, a preference for urban core living, and unaffordable single-family homeownership options.

Everyone needs housing, and because of increasing demand for rental apartments, investments in the multifamily sector will continue to yield a consistent return with minimal risk.

Why do you not need to fear inflation as a passive investor in multifamily property?

With inflation, rents go up and cashflow improves.

How does that work exactly? As inflation goes up, so does the rent. That means that the revenue of the multifamily property that you have invested in also goes up.

At the same time the biggest expense for the investment company, the mortgage or loan, is at a fixed rate.

The income of the investment asset is increasing but the biggest expense stays the same.

If inflation happens then it is nothing to fear because it only works in the favor of the multifamily investor. The fact that multifamily investment works as a hedge against inflation is yet another reason why multifamily is a superior investment.

REASON #3 HEDGE AGAINST INFLATION



REASON #4 - TAX BENEFITS



It's not how much money you make on an investment but it's what you get to keep that counts! The multifamily syndication, and you personally as a passive investor, can reduce your tax bills in real terms.

So what are some of the tax strategies available to the syndication sponsor, that ultimately benefit you as a passive investor in that syndication? The 3 D's.



A nighttime photograph of a city street. On the left, a tall, light-colored building with many windows is illuminated. To its right, another building with a distinctive tower-like structure is visible. On the far right, a multi-story building with many windows and balconies is lit up. Streetlights are visible, casting a warm glow. A car is partially visible on the right side of the street.

—Deductions

The law allows for the deduction of expenses related to management, maintenance, and repair of the property.

With recent tax laws, there are some windfalls specific to real estate investment.

The biggest of all might be a new 20% deduction for all real estate income that comes through so-called pass-through entities. That includes entities like LLCs, sole proprietors, and S Corps.

—Passive Income Rate

The government taxes income from multifamily investment properties at what's known as a passive income rate. That means it's not subject to employment taxes and is, therefore, lower than regular income tax rates.

The fact that multifamily investment offers amazing tax benefits is one more big reason why multifamily is a superior investment.

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–Depreciation

You may be wondering how a property qualifies for a depreciation tax deduction while its value increases?

Simply because the IRS treats property like any other asset. Therefore, regardless of the fact that a multifamily property is making profits and increasing in value, investors can deduct a depreciation expense from their real estate income tax.

–Deferability

The term 1031 Exchange is defined under section 1031 of the IRS Code. To put it simply, this strategy allows an investor to “defer” paying capital gains taxes on an investment property when it is sold, as long as another “like-kind property” is purchased with the profit gained by the sale of the first property.

REASON #5 – APPRECIATION

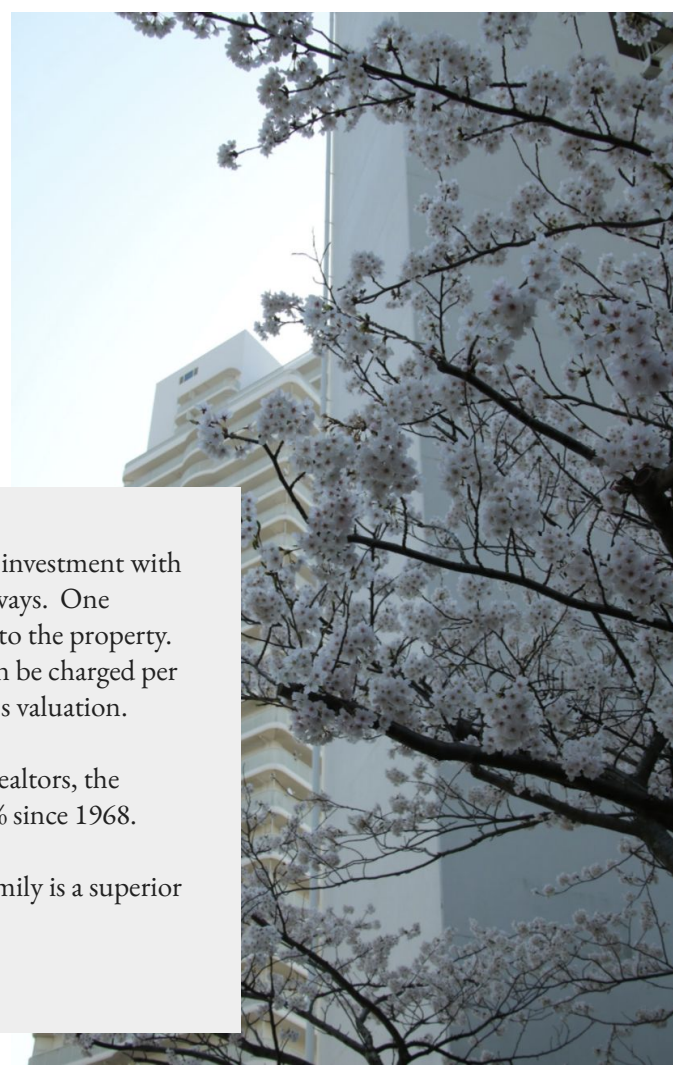
Although multifamily does not depend on appreciation but on regular cash flow returns, appreciation can be the icing on the cake. The multifamily asset itself is usually appreciating in value over time and can often be sold for a significant profit.

Rental income and property appreciation are the two main ways that you make money from real estate syndication. When the property is sold, you receive a portion of those profits.

The company that you choose to place your investment with can add value to a property in a number of ways. One example is by making capital improvements to the property. After improvements are made, more rent can be charged per unit. The higher rents increase the property's valuation.

According to the National Association of Realtors, the average annual appreciation rate has been 6% since 1968.

Appreciation is another reason why multifamily is a superior investment.





REASON #6 – LEVERAGE

How can you, as a passive investor in a multifamily property, use other people's money to work for you?

A lever is a simple tool used to lift a heavier weight, with minimal effort.

The way that you benefit from the principle of leverage as a passive investor in multifamily is that you can pool your investment funds along with other investors into a much bigger property with much higher rewards.

You are, in effect, leveraging your investment with other people's money.

Leverage benefits you because you not only get an exponential return but you also get to share the risk with the bank and other equity partners.

In essence, leverage is using a small amount of capital to purchase a larger property. You can get all the benefits of a higher-performing property without sacrificing all of your capital.



REASON #7 - ECONOMIES OF SCALE

There is a famous line in the world of boxing that goes something like, 'the great big man will beat the great little man every time.' When it comes to property investment there are definitely sound economic reasons for saying that bigger is better.

The basic meaning of the economic term, 'economy of scale' is that there is a fundamental cost-saving benefit to being bigger.

How does this apply to multifamily investing?

To give a simple example, if a multifamily owner has been collecting 10 rents for 12 months from a multifamily property and then the one big roof needs fixing, that's a much better scenario than collecting 1 rent for 12 months on a single-family property and then the one small roof on it needs fixing.

The bigger roof will cost more to fix but it certainly will not cost 10 times more. Or even if it's a really big roof on a 100 unit property...it will certainly not cost 100 times more, but in many cases the property owners will have received 100 times the amount in rent.

ECONOMIES OF SCALE

It also doesn't take a rocket scientist to figure out that raising the rent on a single-family rental property by \$20 a month is not going to help you much.

But doing the same thing on a 200-unit multifamily property gives you an increase of \$48,000 a year in positive cash-flow. And that \$48,000 a year in extra cash-flow could potentially raise the value of the property by hundreds of thousands of dollars.

The best real estate investments utilize economies of scale for financial growth and this is yet another reason why multifamily is a superior investment.



SO WHY SHOULD YOU BE INTERESTED IN INVESTING IN MULTIFAMILY?



We've outlined seven great reasons why investing in multifamily makes sense:

- **Cashflow**
- **Demand**
- **Hedge Against Inflation**
- **Tax Benefits**
- **Appreciation**
- **Economies of Scale**
- **Leverage**

The fact is that multifamily properties represent a sound focal point for your investment and wealth creation strategy because they are tangible assets and their value is based on more than just market confidence.

Historically, multifamily properties provide stable, steady and reliable cashflow.

It makes perfect sense to learn more about passive investing in multifamily real estate. We invite you to book a call with us for more information.