

Single Family Home Vs. Multi Family

Time and time again I have seen realtors pushing buyers around, mainly the property buyers who purchase multi-family investments. For some reason, many realtors seem to think that those investments are much more significant regarding a Single Family Home. Obviously it depends on the price, but in general, the costs of multi-family properties have been increasing so much that the numbers just don't make sense anymore.

As a general rule of thumb, I am firmly convinced that an SFH (single family home) is a much better investment than a multifamily. The only exception to this rule is if the multi-family is bought at such an "interesting" price, and with a much higher cap rate than the SFH.

Let's analyze this:

1. Duplexes have a higher vacancy rate

- The vacancy is one of the most critical concepts of real estate investing. If you are not aware of the right vacancy, you will end up entirely out-of-pocket and go into a real estate investment blind.
- All salesmen will try to pitch you a great investment and will probably try to challenge your ability to interpret the vacancy rate.
- When you're dealing with a duplex, you are taking a higher risk, because the risk of an empty house is higher, at least double when compared to the single family home. Indeed, you will be dealing with two tenants and not only one.
- You have another added risk; Assuming that you're buying property below market value, you will most

likely be dealing with a lower income tenant than the SFH.

- Usually, the rent of a duplex unit is 25/30% lower than the SFH of a similar size. This means you are dealing with a more complicated tenant, your risk of not collecting the rent is higher.
 - So, you not only have double vacancy risk, but you also have a lower income tenant to deal with.
 - If you calculate a vacancy of 10% as a standard vacancy, a duplex in the same area should be at least 25/30%, considering double the risk and adding the extra percentage of risk dealing with a more troubled type of tenant.
- As you can see already, you need to have an amazing gross amount to still stand up with a reasonable cap rate after such a deduction.

2. Unfortunately, the above is not finished!

In the column of your maintenance cost, you will have to consider that now you have two kitchen's, two A/C's, two bathrooms, etc., etc. This means that you will have twice the chance that something may break and need to be repaired, and you will need to fix it.

Also, it's worth it to note that you will need more money when rehabbing the house; A/C is an essential part of the property and is usually a necessity in the summertime, especially in states like Florida, Texas, California and more...it breaks easily and always needs to be cared for. This will again increase your cost

Obviously, when it comes to a triplex or a four-plex, you need to apply the same criteria.

If you have units with a window A/C unit, you may get a lower rent, and therefore lower income tenants, but probably better in the long run, at least when it comes to any maintenance

issues.

3. The exit strategy is much more complicated than the SFH.

You see, in SFH you will most likely be able to sell the house to a first time home buyer. If you have a lovely house in a decent location with a decent school, you will always find first home buyers that are willing to buy it.

People are slowly but surely fixing their credit and/or recovering their bad credit that they incurred during the financial crisis. Obviously, if you have a good cap you bought at a good price, there is a chance that the rent will cost more than the actual 30 years mortgage, at least if the interest rate stays below 6%, which is reasonable in the next 2/3 years.

It's even happening right now...tenants are becoming the "client" by calling the landlord and asking to buy the house that they are renting. With multi-family units, it is more complicated. You can still find first time home buyers for duplexes, but I can't lie...that is rare when compared to that of an SFH.

A family usually needs a bigger house, garden, etc.

It does happen for a duplex to have a first time home buyer that can rely on the other unit to help pay the mortgage but it's more difficult, and it's usually people with lower income, which means an increase of risk.

Now if an investor is leveraging, or even if they are not, why would they buy a unit with a lower cap rate than you in an environment where the interest rates are higher?

If you need to make a profit from the unit, the cap rate will be lower for the investor than the one that you have. And if you are selling in few years, we all assume the interest rate will be higher. So, leveraging will be more expensive, and it

will make less sense investing to gain a spread.

Of course, a few things might have changed due to a rent increase and area improvement.

This can usually happen mainly IF THE INCOME OF THE PEOPLE IS INCREASING and inflation is high, the unemployment rate lowers, so basically everything that will have an impact on the shifting of the demand curve. And therefore only, in that case, you may make some money, but you will still need to consider that a buyer leveraging will be impacted but at a higher cost of borrowing.

So then why is it that multi-family and bigger units have a lower cap rate than single-family homes???

This is the catch, I think the market does not appreciate enough, and the multi-family is more attractive to investors for the following reasons:

1. Bigger size, so it's easier to place 1,2,3 million in one deal only

When realtors or asset allocation managers move money, they need to be concerned with how easy the deal can be achieved, and the need to allocate money. Usually, size is an issue. Any investor would prefer to deal with one building worth 5 million than with 40 single family homes.

2. Leveraging is easier on a building because a mortgage lender will work more on a loan of \$1/2/3 million than on a \$50,000 loan, small loans sometimes are a headache for the lenders and brokers because it is the same amount of work for a very small fee.

All of the above have a serious impact on multi-family prices. In Dade and Broward County you will see multi-family selling at a way overpriced amount.

This is a risky business because the vacancy considered is usually way underestimated, mainly in buildings that have many units and the cap rates are very low.

Multi-family prices are often times the effect of a realtor or asset manager that is desperate to allocate or find a good sized deal, but they don't represent a great investment overall, nor in income or appreciation.

Nowadays, at least in the Miami area market, it is essential to keep your bearings with you, be aware and do your numbers before entering into any deal!

Until Next Time,

Antonio Velardo

Real Estate Investing: 101

I find it quite amusing that the Real Estate Market is one of the only areas of investment that you can find information on how to become rich quick. Or on how to buy a course that will teach you all of the tricks and "unrevealed secrets" that will make such a difference in people's lives.

I have been in the industry for 15 years, and I have been tremendously successful, making millions of dollars, and I guess most of it was a combination of luck and knowledge. I wholeheartedly agree that the leverage you can get from specific knowledge will give you an edge over the others. But I think most of the Real Estate courses are focusing on the wrong subjects, and they try to make the job sound much easier than it really is. That, unfortunately, will bring a lot of discouragement, money lost and time wasted.

I have been a multimillionaire since 2007, and when I made my real estate fortune, I was not aware of courses and real estate “schemes.” I need to admit that the main reason why I made my real estate fortune was due to my dedication, hard work, and common sense.

I would like to clarify the word “common sense,” which is quite ambiguous if left like this in a conversation.

I guess for common sense I mean that sense of awareness of the investor’s point of view. If you know what the investor likes and their alternatives, then you can most easily understand if your Real Estate deal makes sense or not.

Comparing the Real Estate deal with other deals available is essential, not only in the same industry but also in other sectors will make a huge difference, because, at the end of the day, the person who invests money is not obliged to invest in only real estate.

I always compare my options to the bond market, the equity market, the commodity market, etc. Some Real Estate investor’s fail to compare the deal, and they get a bad result from the investment. Firstly, comparing the market alternative will give you a feeling of how good the deal is at the moment, and whether you should put your resources, effort, and money in real estate.

I made quite a bit of money in the last 3 years acquiring distressed assets, fixing them, flipping them or making them perform as a positive cash flow asset, but I was not listening to the “news” on television or in the paper on how good that investment was at that moment.

I always do my own math. And as an investor, I was applying my “investors commons sense, ” and the rules learned. I knew that my money, or at least a good portion of it, was better in the Real Estate market rather than in low-yield bonds, high-risk yield bonds or anywhere where the ratio risk/return was

not remunerative.

What I would do is apply the same knowledge and same criteria, ignoring the “news” of the papers, where all these guru’s that don’t have a clue and would predict the market without a proper understanding of the subject.

I want to create a small space where people can learn from my experiences. And mostly that they can learn the criteria that I use and apply to each deal: how I became successful and it will be interesting to brainstorm with other people and investors, so to create a new way to analyze Real Estate deals in such a precise methodology that every deal will be a success.

In the last 3 years, I bought 250 houses, and I made money from practically all them. I tripled my money, and I guess we can say that it was easy to make money in the last 3 years, but to be honest, I saw experienced realtor’s laughing at me because of a deal that I was buying. I sold that house 3 months later for double the money, even though I had friends and investors that bought houses 3 years ago that they still cannot sell.

So while I need to admit that finding deals were quite simple 3 years ago, I can tell you that not many people knew what they were doing.

I think anybody who masters Real Estate investments can make huge money when things go bad or when they go good, and the opposite, you can lose a lot even when things go well for everybody.

In the Real Estate business, there is a distinctiveness that does not apply to other fields, “everybody thinks they can become an investor, and it’s easy.” However, people will not apply the same simplicity when it comes to commodity trading, the stock market or any other field.

Most people have no clue, no knowledge and they feel that they are competent and intelligent when it comes to the Real Estate market. It's utterly ridiculous, and I find that in real estate there is the highest number of charlatans and idiots that I have ever met in my whole life.

In other fields, you don't really meet so many incompetent people as you do in real estate. I think 95% of all of the realtors have absolutely no clue about the rules that drive the prices up and down and will be mostly useless to help you to make money because they don't understand the big pictures themselves.

I want to finish like this: Most of the courses and seminars from the "gurus" that I see online and that I participated in are extremely funny, because they teach you something obvious, that if you find a deal below the market value, you can resell making money, hahaha! Hello...we already know this!

So if you find a house worth \$100,000 at \$65,000, you can make cash. Even if you do not have a penny or even if you have just enough money for the deposit, you can still make the deal a success!

I guess it's the truth and it's quite apparent, but what they don't tell you is that the chances for you to get those deals are quite rare because you have millionaires like me that have a team of people always looking for deals. I have employees paid to spend all of their days, every day, searching for deals and making low ball offers to every single house that they come across...

I have cash on hand to buy, and like me, millions of investors always have an extra bonus for a friendly listing agent, so the chances for a random guy with no money to snap up deals from under me are rare. It does happen, but not so often that it's time to leave your job and become an overnight Real Estate multi-millionaire.

It's not easy to buy below market value, or at least the current market value. I think it's easier to predict the market movements with care so that you can get a deal wherein few months you will gain fantastic equity and good cash flow.

It's much more realistic to find a good deal for a house at half price, as opposed to limping in and needing much more money to make the deal a success.

If you want to follow my advice, I will very honestly tell you what I do and what principle I apply...and more importantly, where I apply them. I will not sell courses...I make my money in the field (in the real estate market), so I don't need to sell dreams. I do however want to be a part of the success of other people's dreams.

I will not tell and sell you BS...if you have no money and want to put a deposit on a property using a credit card with an APR of 15%, I will simply tell you the truth, *"you are crazy, and you very well may lose all of your money!"*

So, welcome to my blog, where a random unknown millionaire is willing to share the knowledge of the Real Estate market and how to identify and separate a good deal from a bad deal.

I hope you enjoy!

Ciao

Antonio Velardo