

Top Five Reasons to Invest in Apartment Buildings

By Steve Steadele

When most people hear about the millions of dollars investors make buying and selling real estate, the majority of them think about homes and duplexes. That's because nearly everyone starts in the single family market.

But they don't have to. The main reason investors start out buying homes is because they've heard all the stories or watched an infomercial where some guru is pitching the latest and greatest "no money down" technique. Buyers think they can purchase homes with no cash using a variety of methods including foreclosure, rehab, fix and flip, subject to, lease option, partnerships, wholesaling and more. And they're right—you can buy homes that way. But you can do the same thing with apartment buildings.

The benefits of investing in multifamily properties are out of this world. I haven't found a single reason *not* to invest in apartment buildings. Let's review five of the top reasons apartments simply make more sense.

Apartments Almost Always Provide a More Affordable Housing Option

I can't get into all the economics explaining why apartments provide a more affordable housing option in this article because it would turn into a book. So let's try to simplify it. The difference between the amount of rental and mortgage payments consumers spend each month is what I call the "gap". Picture a bar graph where the average rent is \$600 per month and the average mortgage is \$1,000. The difference is the gap. As the gap increases fewer people can afford to purchase a home. There are only two ways the gap can get bigger. First, the mortgage payment increases or second, rental rates decrease. Most of the time rents do not decline, at least not significantly.

Mortgages, on the other hand, usually increase. If enough homes exist in the market, to meet demand, builders stop building. When demand catches up, they start developing again, because it becomes profitable. That means prices increase, and with them, mortgages. As mortgages increase the gap gets bigger and we experience greater demand for apartment rentals and that pushes rent higher. Rent growth always follows mortgage growth. This is one of the best reasons to buy an apartment building.

Somebody Else Manages the Property

One of the biggest advantages of buying apartment buildings is leverage. All real estate investors understand the term leverage, but most relate the term to money. There are lots of ways to leverage; money is just one of several. When you buy apartments, you leverage off the work and effort of other people because you can afford it. A lot of investors don't want to be property managers—I'm one of them. Others don't trust them and with good reason. But if you take the necessary steps, you'll enjoy the benefits of apartment building ownership (cash flow, appreciation, tax advantages, or principal reduction or a combination of them) for many, many years to come. The best part? Somebody else does all the work.

The Numbers Make More Sense

When you buy single family homes and two to four unit properties, your expenses usually consist of taxes and insurance. If you're lucky, you might find one other line item such as management or utilities. But that doesn't mean other expenses don't exist. We all know there will be turnover, resident issues and the like. When you buy apartment buildings, expenses include taxes, insurance, utilities, maintenance, management, advertising and much more. Not only that, but you get to spread out the cost of maintaining the property across more units. The economies of scale are far superior to homes and two to four unit properties. For example, if you have a total of 20 houses, you have 20 different roofs. You also have 20 different utility bills, tax statements, mortgage payments and who knows how much time you'll spend traveling from property to property. The numbers just make more sense with apartments.

Increase Income (And Property Value) and Spend Very Little Doing It

I have personally bought and sold many apartments where I didn't spend a penny improving the property, yet I increased the value hundreds of thousands of dollars. While doing it, I also improved cash flow. "Forcing appreciation" on an apartment building can be as simple as increasing income and decreasing operating expenses. To increase value with most real estate, you have to spend money improving the look of it. But that's not necessarily the case with apartments. You might not have to spend anything at all.

Less Competition

Most investors limit their potential by selecting properties that require conventional financing. Then they shop based on the amount of money they have. When you look for a car, one of the first questions the salesperson will ask you is, "What price range?" Then they try to fit a car into that range. It's true that the number of opportunities increases in relation to the amount of money you have available, but that's the worst way to shop. There are lots of ways to buy apartments with no money, and because most buyers are looking for homes, you eliminate a majority of the competition when you invest in apartments.

Again, these are not all of the benefits to owning apartments, but it is a good start. I encourage you to check out *The Successful Real Estate Investor*, which is the first course many investors take to build a foundation for their overall investment plan. Once you do that, you'll understand *how and why* investing in apartment buildings can make all your dreams come true.

*Steve is the author of the book *Multifamily Millionaire, a successful Real Estate Investor, Broker, Entrepreneur and self-made millionaire. He is a featured speaker at Real Estate Investment Associations across the country where he shares his wealth of knowledge, experience and enthusiasm for the real estate industry. Today Steve specializes in the acquisition and disposition of investment real estate throughout the United States. To learn more about his products and services, visit his Web site at www.SteveSteadele.com.**