

Ten Tips For Investing In Multis

by Mark Monroe, Dayton, Ohio)

Multifamily investing is a very profitable business when done intelligently. The problem is that too many people go into these investments without truly understanding the economics of owning and maintaining apartments. Here are some common-sense tips that I think are very often overlooked by investors who purchase multifamilies.

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- 1. Look at ALL the expenses and income.** Too many buyers of multifamily buildings look only at the expenses on the MLS sheet or the seller's schedule "E". These do not reflect all of the expenses you might have in running the building. For instance, accounting costs, legal costs for maintaining your entities, the cost of your financing—none of these things will be reflected in the agent or owner's info...but they are all real expenses to you.
- 2. Don't believe everything you're told.** Some sellers have been known to over state their income and under state their expenses to the IRS on the last two tax returns before they intend to sell. Check every piece of information you are given.
- 3. Look at the current AND potential numbers.** Many buyers get too involved with the potential profit from a run-down property, forgetting that it could take several years to turn it around and get to those numbers. Conversely, if you look only at the current income on an under managed property, you could pass up a good deal that just needs better management.
- 4. Don't forget that some expenses will change as a result of your purchase.** This is especially true of real estate taxes: as soon as the new sale is picked up by the taxing authority, the value will be raised to your purchase price and the taxes raised accordingly. On a large property, this could mean thousands a year in extra taxes to you.
- 5. When calculating rate of return, don't forget to include ALL acquisition costs.** Return is usually calculated as income divided by downpayment. But inspections, closing costs, appraisals, and immediate repairs should also be included in this calculation to get a true idea of the return on your investment.
- 6. Replacement reserves cannot be overlooked.** The biggest overlooked expense in owning apartments is the replacement reserves. The reserves are a way of accounting for the fact that the mechanical components of your building are slowly depreciating and will eventually have to be replaced. By accounting for this annually, you get a much clearer idea of the true return on your property.
- 7. Lack of capital will sink you.** It's not enough to account for replacement reserves. You must also keep money in a reserve account to pay for the bad roof, broken boiler, and so on as the problems arise. Too many property owners get themselves into major trouble by being undercapitalized when repairs are needed.
- 8. Don't forget to take into account the effects of income taxes.** One of the big advantages of owning rental properties is that they often make money in reality but lose money on paper due to depreciation deductions. This translates to real money in your pocket.
- 9. There's more than one way to profit from multi-families.** Conventional wisdom says that buying and holding is the only way to make money in apartments. But I have successfully bought, fixed, rented up, and resold large buildings for huge profits on several occasions.
- 10. Run your business like a business.** There are many great management and bookkeeping programs available for landlords, and a number of excellent seminars and home study courses. Keeping good records and learning how to correctly manage your rentals will decrease your hassle enormously. As with all the other great real estate strategies, knowledge is profit in owning and running multi-families.

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