

# WHITE PAPER

## Investing in Multi-Unit Residential Real Estate

Commercial Real Estate Agent, TC Bunevich, shares how investing in residential real estate through multi-unit properties provides attractive opportunities for income and wealth growth.

**BURGAN FRIEDKIN**  
COMMERCIAL GROUP



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TC Bunevich



## BACKGROUND

Over the 25-year period from 1992 through 2017, multi-family real estate has provided the highest annual average total rate of return (9.75%) of any commercial real estate sector, according to research from CBRE\*, the world's largest commercial real estate investment firm. It outperforms every other property type, including hotels (9.61%), industrial (9.57%), retail (9.44%), and office (8.38%).

In addition, investing in residential real estate does not have as high of a barrier to enter nor the level of complexity of other property types, which make it an attractive starting point for investing in real estate.

When getting started with investing in residential real estate, many people logically gravitate towards multi-unit properties because it's a property type readily understood by most. After all, many adults have, at some point, lived in a dorm, rented an apartment or home, or bought a residential single-family home for one's personal, residential use.

Although investing in a residential property can also begin with buying a single family home, a fix-and-flip property or a fix-and-rent, the focus of this overview is on multi-unit residential investments. Nonetheless, many of the concepts and principles mentioned apply across multiple types of residential investment.

(\*Source: CBRE research for NCREIF, 2017)



## HOMEOWNERSHIP VS RENTING

Homeownership in America is a worthwhile and important goal and for many. The ideal of homeownership has been rightfully championed as part of the “American Dream” for decades. Homeownership is vital to the strength of our country, our systems of government, and a robust economy. One need look no further than the NATIONAL ASSOCIATION OF REALTORS® Code of Ethics’ very first sentence: “Under all is the land.” Adequate housing is the first, most basic use of land, and homeownership is a major component.

But guess what? “Adequate housing” means more than just homeownership. It means the economy needs tenants and investors too!

## WHY PEOPLE RENT

For many people, renting makes better sense to fulfill their housing needs. There are almost as many reasons to rent as there are people. Some of these include:



- Flexibility
- Getting started/leaving the nest
- Job relocation
- Change of life circumstances
- Downsizing
- Market prices to buy
- Borrowing costs
- Costs/responsibility of ownership
- Creditworthiness
- Temporary work location/assignment
- Technology
- Environmental concerns
- Unknowns (like a pandemic)

Obviously, the list could go on, but the point is that there will always be demand for alternatives to homeownership, and thus, built-in, stable demand, which is attractive from an investment standpoint.

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## TWO-TO-FOUR UNIT PROPERTIES VS COMMERCIAL MULTI-UNIT PROPERTIES

Two-to-four unit residential properties are typically financed by lenders similarly as single-family homes, making this category a good launching pad to investing in residential real estate. This enables many new homeowners to essentially become instant “investors” by occupying one of the units as his/her primary residence, and renting out the other units. In this way, an owner’s tenants pay for most, if not all, of the owner’s mortgage on the property. This experience can also lay the groundwork for an investor’s appetite to expand to larger properties.

On the other hand, properties that encompass five or more units are considered “commercial”, multi-unit properties. There are many different financing structures, operational regulations and tax implications for these properties, as well as numerous other considerations inherent in the scope and magnitude of this type of investment. Growing from two-to-four unit properties and scaling up to commercial residential properties is a natural progression for many investors, and presents desirable opportunities to leverage both experience and OPM (“Other People’s Money”) towards building wealth.

## ADDITIONAL ADVANTAGES

Some additional benefits of investing in multi-family properties today include:



- Low cost of money. Mortgage money, as well as commercial loan rates are at or near historic lows.



- Advantageous economies of scale. Certain fixed costs can be spread across multiple units and/or properties.



- Ease of financing. Easier to get financing for one building of six units, (one loan), versus six individual single family homes (six loans).



- Positive cashflow. Generally predictable wealth growth as tenants usually pay the rent first before other obligations.



- Passive income. The day-to-day responsibilities of larger properties can be handled by professional property management, of course at a cost. However, this expense becomes less significant when amortized over more units.



- Tax advantages. Improvements can often be depreciated even as properties appreciate in value. IRS policies such as a 1031 exchange could enable reducing taxable gains by investing proceeds into other properties. Consult your tax expert regarding tax implications of any investment.



- Diluting the risk of negative factors. Losing one tenant in a single-family home creates 100% vacancy for that property, whereas losing one tenant in a 10-unit building, results in only 10% vacancy for that property.

## DISADVANTAGES

Like any investment, there are risks and disadvantages to be aware of, some of which include:



- Competitive environment. Multiple investors are vying for properties, as well as for tenants.



- Non-liquidity. Real estate (regardless of category) is a relatively non-liquid investment, i.e., not easily or quickly converted to cash without suffering loss of value.



- Requires operating costs. Operational expenses costs cannot be taken lightly. Tenants expect repairs and maintenance issues to be resolved immediately. Costs of attracting, screening, and unfortunately, sometimes evicting tenants, can consume time and financial resources.



- Regulatory issues. Increasingly stringent governmental and municipal restrictions are being passed in some markets.



- Housing regulatory protections tend to be skewed to the favor of tenants.



- External factors. A nearby factory relocating or an area generally falling out of favor can have an adverse effect on demand and desirability for a particular property.



## INDIRECT INVESTMENT PRODUCTS

There are numerous ways to invest indirectly in real estate and multi-unit properties, such as Real Estate Investment Trust products, or REITs. A REIT is a company that owns, operates or finances income-producing real estate across numerous categories such as commercial residential, offices, retail, medical, etc. This and other types of residential and other investment products are outside the scope of this brief overview and will be addressed in another release.

## CONCLUSION

Investing in residential real estate through multi-unit properties provides attractive opportunities for income and wealth growth plus tax advantages and should be considered integral in most savvy investment portfolios. Needless to say, it is rarely advisable to “go at it alone.” Seek out expertise and advice from your investment advisor, lawyer, real estate agent, tax accountant, and other professionals.





## ABOUT THE AUTHOR

TC Bunevich has 30 years of commercial and industrial sales experience. In 2019, he was the recipient of the President's Club Award from the Youngstown Columbiana Association of REALTORS®. Bunevich was a top-performing real estate agent with Burgan Real Estate before transitioning to the commercial side with Burgan Friedkin Commercial Group in June 2020. He is an alumnus of Kent State University.

## ABOUT BURGAN FRIEDKIN

In March 2020, two of the Mahoning Valley's most trusted names in real estate announced a partnership forming a new company, Burgan Friedkin Commercial Group, becoming the premier commercial property group in the area. With offices located on Belmont Avenue in Youngstown, Burgan Friedkin Commercial Group brings over 80 years of combined real estate experience to one location.

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## CONTACT TC BUNEVICH



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