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Why Invest in Multi-Family Apartments

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Never invest in anything with the idea it's ok to lose money.

The first rule of investing is 'Don't lose money.' Rule number two is 'Don't forget rule number one.'

- Warren Buffett

Warren Buffett’s Investment Strategy

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Contrary to popular belief, Warren Buffett is not an investor in stocks, he invests in companies that are:

1. Indestructible
2. Produce dependable cash flow and
3. Will increase (appreciate) in value over time due to their ability to produce cash flow

Warren Buffett uses a depreciating asset (cash) to buy appreciating companies that produce more cash.

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Let's compare apartments as an investment to Warren Buffett's investment strategy

Real Assets

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Apartments are real assets, they aren't paper, and they can't easily be replaced.

- Short of some worldwide devastation, an apartment will not suddenly disappear and is built to last hundreds of years
- Technology can't replace it
- An apartment's permanency (especially in a good location) allows for a stable investment

"Don't Lose Money" - Indestructible

Cash Flow

Like many of Buffett's holdings, apartments also produce positive cash flow every month in excess of the cost to manage.

- Cash flows can produce between 5-8% annually
- Increasing rents = increase of cash flow
- Apartments produce passive income with minimal effort
- Economies of scale protect monthly cash flow

"Don't Lose Money" - Dependable Cash Flow

Appreciation

Unlike the value of a single-family house, which is dependent on what similar houses in the same area are sold for, the value of commercial real estate depends on the income that property produces. The higher the income, the higher the value.

This means you, as the apartment investor, aren't dependent on the market, which you can't control. If you maximize rents and minimize expenses, you will increase the net operating income, and that will increase the value of the building.

"Don't Lose Money" - Increase of Value

Apartment investing passes the Warren Buffett test, but there are other positives to multi-family investing

Leverage

Every $1 in equity invested in an apartment allows you to own $4 of an asset. As an example, $1,000,000 in cash buys you a cash flow producing asset worth $4,000,000.

In order to earn 2x your money on exit, you only have to increase the value of that property to $5,000,000 doubling the initial investment without having to double the value of the property.

Easy to Finance and low risk

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Compared to any other business, commercial real estate is the easiest business to obtain financing. Banks like the security of real estate. People understand and trust real estate, so it is easier to raise money for real estate than any other business.

Apartment buildings are even easier to finance because they're less risky than a single-family rental property. This is because multiple units spread out the risk of unpaid rent.

"It is easier to get a loan for an apartment than your personal single family property because your family home doesn't produce cash flow."

- Grant Cardone

Tax Advantages

Investing in apartments can lower your taxable income by Investing in Passive Apartment Syndications that acquire stable (above 90% occupancy) and cash flow positive apartment buildings. This allows investors to make healthy returns while showing a loss at the end of every year.

There are 3 types of depreciation that allow investors to lower taxes:

- Standard or Straight-line Depreciation
- Accelerated Depreciation
- Bonus Depreciation

Appendix

Historically a Stable Investment

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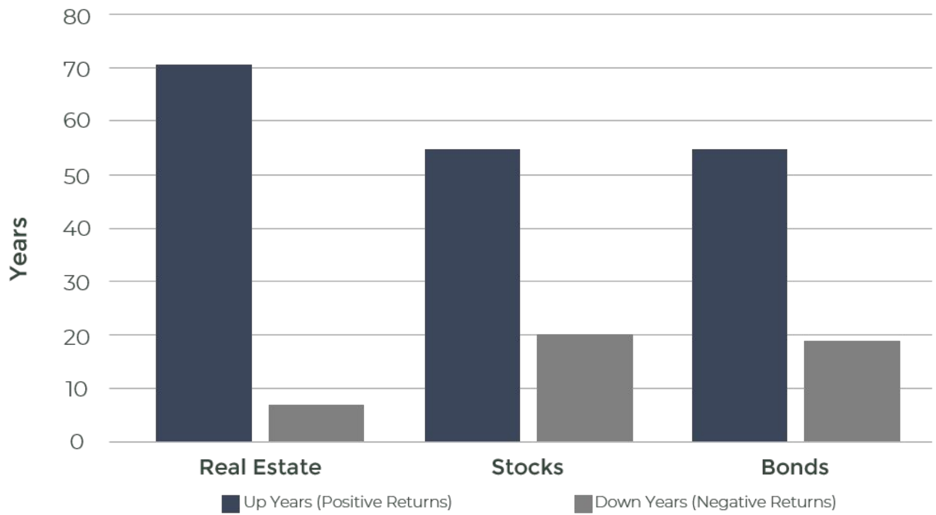
Throughout history, real estate has proven a viable investment vehicle and has been validated by some of the wealthiest families, even institutions, on the planet. Those that control real estate end up with wealth.



Source: NCREIF, Bloomberg, Barclays, Lehman, RCG

Capital Preservation

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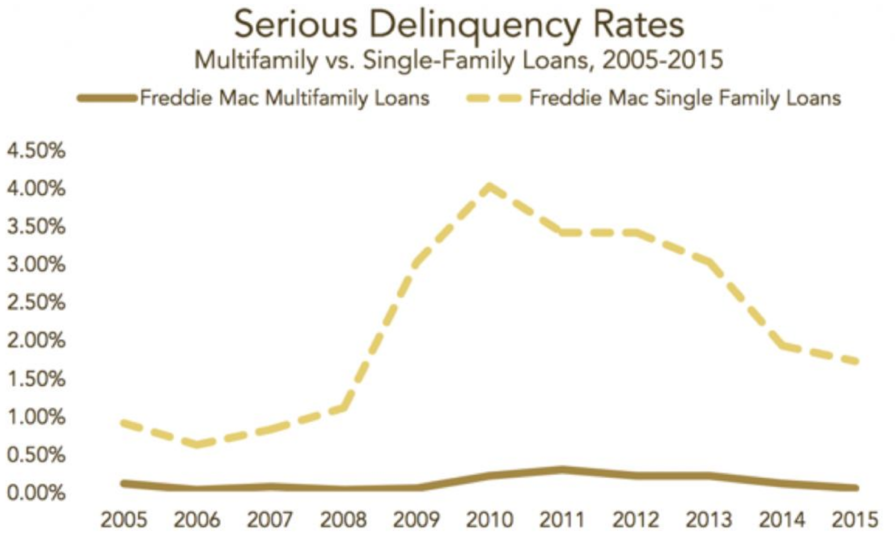
One of the major benefits of investing in stabilized (above 90% occupancy) multifamily assets, is the ability to use permanent, low-risk agency financing. Looking back at the crash in 2008, the single-family market had a 4.0% default rate versus the multifamily market only have a 0.4% default rate.

Passive investing in multifamily assets provides lower risk debt which allows for greater capital preservation.



Sources: Fannie Mae, Freddie Mac and Urban Institute.
Note: Multifamily serious delinquency rate is the unpaid balance of loans 60 days or more past due, divided by the total unpaid balance

Home Ownership is Dropping

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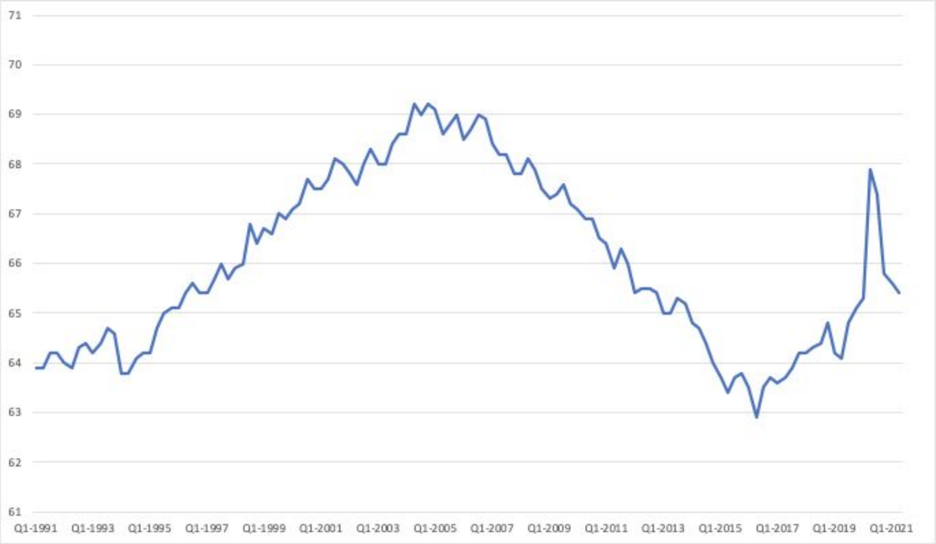
Since its peak in the mid-2000s, homeownership has been significantly dropping and it will continue to drop as millennials and the aging baby boomers want to stay mobile in the 21st century.



Population is Increasing

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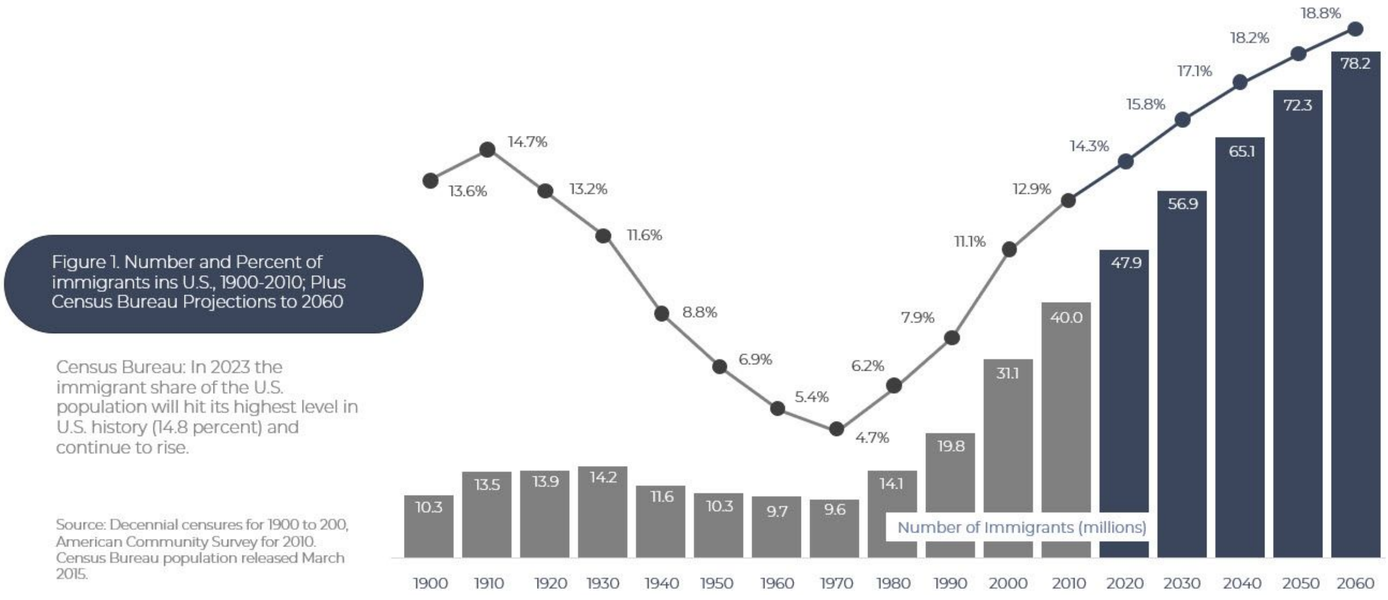
As homeownership is dropping, the population is continuing to increase which drives the demand for apartment living higher and higher.



A Nation of Renters is Continuing

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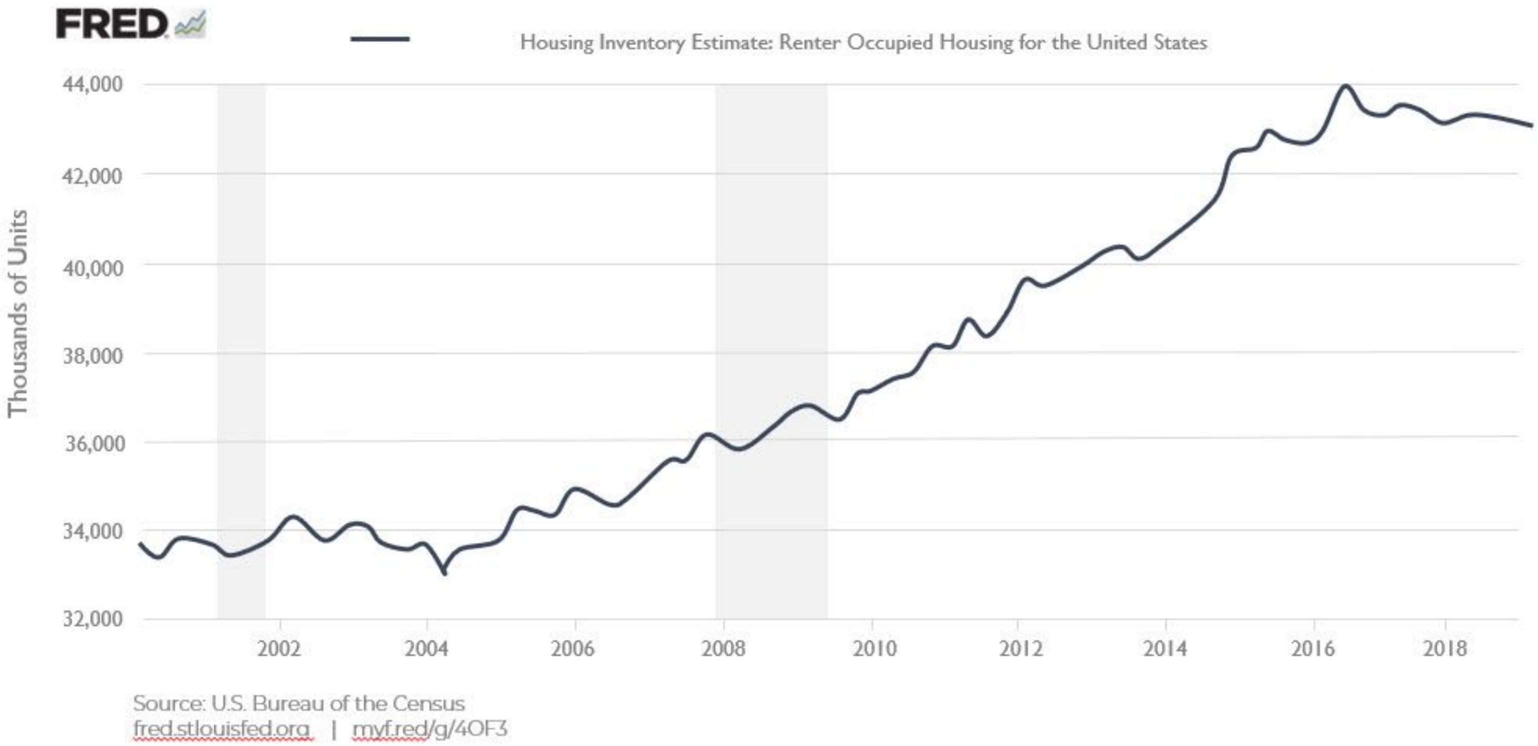

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