

# MULTIVS SINGLE FAMILY INVESTMENTS

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90% of All Millionaires Become So Through Owning Real Estate.

**Andrew Carnegie** 



I am constantly being asked "Which is the better buy for an investor: single family homes (SFH) or multi-family homes (MFH)?"

Let's consider either investment (SFH or MFH) to be a standard long-term buy and hold rental property (that means, not a redo, not a flip, not a Lease to Own, not wholesaling, not short-selling, not day-trading, or any other real estate strategy out there!).

A SFH is defined as a property (can be a detached house, condo, townhouse, etc.) that has only 1 unit and thus only 1 family living in it. A MFH, is defined as any property that has more than 1 unit/family living in it. Thus, it could be a duplex (2 units), a triplex (3 units), etc.



Depending on the city/area, SFH typically appreciate faster than MFH. There is generally a broader range of potential buyers (when it's time to sell). Often worth more on a per unit basis (but this can be a disadvantage too as you pay more for it). More liquid – SFH can often sell quicker, even in a down market again due to a broader range of potential buyers Only have to "deal" with 1 tenant, not many. Tenants don't argue with other tenants because they are the only ones living there! There will be no issues around which tenant gets to use the BBQ or front patio or even who puts out the garbage. Easier to get the tenants to pay for all of the utility bills again because they are the only ones using them Some argue that you get a better "quality" of tenant in a SFH than in a multi-family. Financing your investment property is often simpler and easier to get.



## Disadvantages of Investing in Single Family Homes

The biggest disadvantage as an Investor is SFH rarely cash flow as well as a MFH. They can be "riskier" as there is only 1 tenant to pay the rent. If they vacate (and you can't immediately place a new tenant), who pays the mortgage, bills, utilities, etc.? You do! The MFH has more than 1 tenant so they at least continue to collect some rent to offset their costs.

Tend to have a smaller pool of renters because SFH tend to have higher rents than homes with multi-units. Thus, it may be more difficult to place a good tenant in a SFH because they tend to be more expensive.

No economies of scale with a SFH. If you or your PM are managing it, there is just the 1 house/unit/tenant. Most Property Managers (PM) will offer discounts on a per unit basis if it's a MFH, these discounts won't apply on SFH. The same goes for doing repairs and maintenance; you may get a cheaper per unit rate if you are replacing all the windows or locks on a MFH than on, for example 3 SFH.

SFH are often slightly less conveniently located than MFH, which again may hurt your chances to find tenants. Thus, SFH are usually slightly further away from main roads and public transportation, retail shops, offices, and other places that your tenant may want to be close to. This is because MFH are generally built in higher density areas. Higher density areas are built around shopping, stores, offices, etc.

Real estate cannot be lost or stolen, nor can it be carried away. Purchased with common sense, paid for in full, and managed with reasonable care, it is about the safest investment in the world.

Franklin D. Roosevelt



Potential to cash flow better because there are many more units purchased for a slightly lower price per unit – typically. More than 1 rent to help cover your operating costs – if one unit is vacant there are other units bringing in revenue that will help you out.

Often a broader range of possible tenants to choose from as the per unit rental cost is usually less than a SFH.vv If 1 unit becomes vacant, you can work on it (paint, put in new floors, etc.) but still be collecting rent from your other units/tenants Economies of scale: for instance, your PM will likely charge you less (as a percentage of the rent) on a 2 or 3 or more MFH than he/she will on a SFH. Furthermore, your utility costs will likely not be 3 times the amount (if it's a 3 unit MFH) even though there are 3 tenants living there. On a per unit basis are less expensive than SFH Generally, your rent to price ratio is higher on MFH than on SFH (this can often equate to more cash flow)



Maintenance tends to be higher as there often is more wear and tear because there can be more people living in the building, more appliances to service/replace, and often more tenant turnover. Tenant placement costs tend to be higher as MFH's often have more turnover than SFH. This is just my personal experience... I don't have stats on this other than our own personal experience. Tend to appreciate slightly slower than SFH More limited buyer pool when it's time to sell May take a lot longer to sell because of the limited buyer pool Two words: Tenant squabbles! Financing can be more onerous.

From the advantages and disadvantages you can see there are plenty of reasons for and against both types so let's give you a real life example of SFH vs. MFH and you can decide which is the better buy! For this example, we are using 2 Single Family Homes purchased and compare them to 1 MFH (a side by side duplex). The reason we are comparing 2 SFH with 1 MFH is based on purchasing power. Basically, if you have X number of dollars to spend, you want to be able to compare based on that amount – rather than looking at for example \$400,000 for a MFH vs. \$300,000 for a SFH.



#### Bought 2 SFH Properties

1 - \$74,500, rent was \$720 per month

2 - \$72,500, rent was \$500 per month

Total cost: \$147,000, total rent was \$1,220 per month

Total expenses on these two was \$1,200 per month

Net cash flow of an exciting \$20 per month!!

Today's value: Total of \$330,000

Total rent today: Total of \$1,348

Total expenses: Total of \$1,400 per month, currently a net loss of \$52 per month

#### Bought 2 SFH Properties

1 - \$152,900, rent was \$1,600 per month

Total expenses were \$1,300 per month

Net cash flow of \$300 per month!!!

Today's value: \$350,000

Today's rent: \$2,450

Total expenses: \$1,900 (after refinancing)

Net cash flow of \$550 per month!!

Which one do you think is the better investment? Well, in most cases I would think MFH property is the better investment. And, for some of you it would be. There are a few reasons why I am not so sure the MFH is the clear winner. Let me explain why...



## Reasons The Single Family Investment Might Be Better

1.

The 2 SFH's are in a prime development area, thus the LAND value continues to go up and up and up! So, the opportunity for good appreciation is stronger in that area than where the MFH is located.

2.

The 2 SFH's are on freehold land vs. the MFH is in a strata community. Thus, there tend to be more restrictions on what you can and can't do in a strata community than when you own the land on freehold title.

3.

We have had a total of 4 different tenants across BOTH SFH's in over 5 years! 1 of our tenants has not changed since we bought it and the other property has had 3 different families over 5 years. Meanwhile our MFH, while a pretty nice duplex, has had over 8 turnovers in the same timeframe. Higher turnover means higher placement costs, higher maintenance costs, and more stress!

So, the reason I share this example with you is to give you a taste that there often is NO CLEAR WINNER between SFH and MFH's when it comes to real estate investing.

It's Not Which One Is A Better Investment,
It's Whichone Is A BETTER Investment For Your
TIME, ENERGY & RESOURCES.



Before Deciding Multi-Family Homes Are The Better Investment Because They Have The Potential For Better Cash Flow, First Ask Yourself:
1. Who Will Be Responding To Any Potential Tenant Issues And Squabbles?
(a Professional Property Manager or myself)
2. Does The Mfh Have Legal Or Illegal Units?
If they're illegal (which many are), just prepare yourself that if a noisy neighbor complains, that you
may have to work with the City to either legalize the unit (can be costly) or decommission it. Either
way, this may eat up a chunk of your time, energy, and money. So, be sure you don't mind doing this.
3. Who Is Going To Be Paying For The Heating, Water, And Electricity Bills?
If each unit isn't metered, you'll want to determine if you can get your tenants to pay their portion or
you'll have to include it in the rent.



### Before Deciding if Investing In Single Family Homes is The Way To Go. Ask Yourself:

1. Can I Carry The Costs When There Are Vacancies?
(mortgage, electricity, taxes, insurance, etc.)
2. Do I want to pay a Property Manager to manage 1 tenant or can I handle the late night repair phone
calls and some minor maintenance issues?
3. Do I Strive For More Liquidity In My Investments? (Ability To Sell Faster)
4. Do I Want The Potential For Greater Appreciation Or Just Monthly Cash Flow?
By digging into what type of property suits you best is usually the best strategy you can have rather

than listening to all the "talkers" out there about which is the better investment. And yes, that even includes yours truly! So get out there and decide for yourself which is best....

In all likelihood, whichever one you think fits your skills, personality, and aptitude, the better investment it will be for you. But, you'll never know until you get started ... SO GO AHEAD AND GET STARTED!

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