HARBOUR GROUP CAPITAL

PRIVATE LENDER FOR REAL ESTATE INVESTORS

EVERYTHING YOU NEED TO KNOW

FOR SUCCESSFUL SHORT TERM BRIDGE LOANS & LONG TERM RENTAL MULTI-FAMILY INVESTMENTS

Multi-family investing refers to the practice of buying multi-family properties, such as townhouses and apartment buildings in which the units can be rented out individually.

Multifamily investing is a popular way to increase revenue streams, reduce vacancy rates and boost your net-operating income.

This guide will give you an overview of multi-family investing, where to start and general tips for success.

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Everything You Need to Know About Multi-Family Investing

Purchasing an entire townhouse or apartment building for the purpose of renting creates multiple income streams and an appreciation in value. Multi-family homes come with an added responsibility for maintaining them, but this can still be a great investment opportunity for first time investors.

Not every multi-family investment has to be an entire building with a 12+ units. Beginners can start with a simple multi-family townhouse and expand from there. Keep in mind that there may be a time lag until your property starts generating income, so be prepared.

Conventional vs Private Lending

When investing in real estate you have the option to pursue a loan from a conventional bank or a private lender. With conventional lending, there are typically longer terms available for loans (15-to-30-year notes) whereas private lenders usually offer shorter terms.

Conventional lending is usually capped at 5-10 loans which can be federally backed and guaranteed, but this creates a cap on your portfolio. Plus, this type of loan usually takes much longer to close than with private lending.

Private lenders can expedite the lending process and this advantage of speed, allows you to jump on opportunities that you may potentially miss with conventional lending.

The Top 10 Markets For Multifamily Real Estate Investing

1. New York City, NY
2. Raleigh/Durham, NC
3. Nashville, TN
4. Charlotte, NC
5. West Palm Beach, FL
6. Florida Northern Area
7. Charleston, SC
8. San Diego, CA
9. Boston, MA
10. South Carolina

A GOOD RETURN ON INVESTMENT (ROI) FOR MULTIFAMILY INVESTMENT IS BETWEEN 14% AND 18%.

6 THINGS TO CONSIDER BEFORE INVESTING IN A MULTIFAMILY PROPERTY

1) Look for specific factors during the property search

As with every property investment, the key thing to look at is its location. Look for areas that are developing for the best investments. This will be an area where there is a lot of new construction, rising property prices, and plenty of neighborhood amenities and conveniences.

Another key factor to consider will be the size and layout of the property. Look past your perspective; think about what prospective tenants may want and need. For instance, laundry rooms and extra storage spaces tend to be high on the list for city renters. Also, unless your budget will allow a full renovation, stay clear of properties that have been previously and heavily custom designed to a certain style as these may not appeal to many renters.

Next, gather as much data as you can on the neighborhood's rental market so you can more accurately measure your **expected cap rate**. Get help from **industry experts** that know the area such as real estate agents, contractors, architects, and other experienced sources.

2. Watch out for red flags

Creating cause for concern will be any structural damage that even investors with the deepest pockets should think twice about.

Always start by getting a general home inspection to detect any possible issues. If needed, bring in a specialist for a closer look.

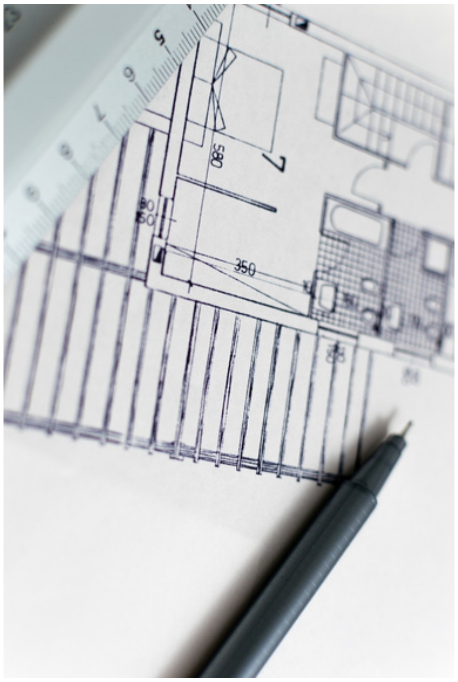
Know the potential costs of fixing your investment **before** you buy it. Make sure any renovation budget you build has plenty of contingency dollars built into it.

MAJOR RED FLAGS

- Asbestos
- Foundation issues
- Roof problems
- Excessive noise pollution
- A troubled ownership history with rapid turnover
- Missing/open permits
- Violations
- Being in a flood zone

3. Consider the Floor Area Ratio

Another major consideration will be the **floor area ratio (FAR)** when viewing different properties. This is the relationship between the total amount of usable floor area that a building has or has been permitted to have and the total area of the lot on which the building stands. This is a valuable metric for determining how much space you have to work with when extending or adding to the building.



You can calculate the FAR by dividing the total or gross floor area of the building by the gross area of the lot. It is important to note that the gross floor area only consists of the livable areas of the building.

Areas such as the basement, parking garages, stairs, and elevator shafts are excluded from them. Properties with low FAR limits are generally less attractive to investors. Those with high FAR limits allow for more opportunities to extend or build upon, leading to an increased valuation and lower per-project expenditures.

If a building exceeds its FAR limits but was built before such limitations were imposed, the building's owner does not have to take any steps to conform to it. However, they cannot develop the building any further. Those properties that exceeded their FAR limits and were built after those limits were set must take steps to rectify them.

FAR remains a worthwhile consideration for investors, even if you aren't planning to make any extensions. That's because it can have either a positive or negative effect on the land's value.

4. Choose the Right Loan

Whether a property turns out to be a good investment depends significantly on your ability to secure private money lending. When looking for this kind of funding, it is important to understand your **DSCR** or **Debt Service Coverage Ratio** also known as a **No-Income Mortgage Loan**.

Designed for real estate investors, a DSCR loan is a a type of non-qualified mortgage loan. Lenders use this ratio as a way to determine the borrower's ability to repay without verifying income. This type of loan enables investors to expand their portfolios and take advantage of time sensitive opportunities.

The DSCR Loan works by allowing investors to more easily qualify for funding. Other benefits for investors include:

- **Potentially quicker closing times**
- **No limit on the number of properties**
- **Unlimited cash out**
- **Credit scores as low as 660**
- **Interest-only loan option available**
- **DSCR LLC loans: Close in the LLC name**
- **No income or job history verification required**
- **Loan amounts up to $5,000,000**
- **As little as 20% on down payments**
- **Cashout Refinance up to 75% LTV**
- **Suited for new & seasoned real estate investors**

What Is the Debt Service Coverage Ratio (DSCR)? It is a ratio of a property's annual gross rental income and its annual mortgage debt, including principal, interest, taxes, insurance, and HOA (if applicable). When analyzed, private money lenders can use the DSCR to determine how much of a loan can be supported by the income coming from the property as well as to determine how much income coverage there will be at a specific loan amount. The DSCR does not take into account management, maintenance, utility expense or things like vacancy rates and repairs.

The Right Ratio - Lenders want to make sure that a borrow will be able to pay back the loan, and traditionally lenders look for a DSCR of 1.25 DSCR to qualify for a DSCR mortgage loan.
For more about the DSCR Ratio speak to your Harbour Group Capital loan consultant.

5. Make an offer

Working closely with your buyer’s agent will help you choose the right property and determine the best offer. Your agent will then meet with the seller’s agent to negotiate and get you an accepted offer.

Expect a few counteroffers and back and forth before you get there: it’s all part of the game. Once you have an accepted offer, it’s now time to move through the due diligence process and mortgage application. The average time to close can be anywhere from 2 to 3 weeks.

6. For Short Term Bridge Loans - Renovate and get ready for tenants to move in

Once you have closed on the property, it’s time to start renovating (if necessary) and preparing for marketing to new tenants.

At the very least, you’ll want to make sure everything is up to code. Beyond some cosmetic upgrades, a few significant reno-projects in key areas of the property can be well worth the expense, provided your budget allows for it.

The best areas to focus on are the kitchens and bathrooms, boosting the property’s value.

You will also want to have a maintenance fund to ensure the property stays in good condition.

The final step before finding tenants will be drawing up a day-to-day management plan for the individual rental units. Being a landlord requires a time commitment, and you’ll need to decide how to divide that time effectively between your other duties.

When you're ready to move in tenants and have a Long-Term Rental Loan, you can hire a property manager if you don’t have the time to oversee day-to-day management. Of course, you’ll want to consider that the cost of this will affect your bottom line. Property managers typically charge from 4-5 of the gross monthly rent in management fees.

How Can Rising Rates Impact Your Multi-Family Investment?

While rising interest rates and increased inflation may affect other financial assets, real estate investments actually thrive during this period. In a volatile market, privately owned high-quality real estate with stable income streams is a great investment to weather the inflation storm and build value.

As the demand for rental properties grows nationally the multi family sector continues to be an intriguing investment opportunity. Smart real estate investing can help protect you from inflation effects, preserving your purchasing power during periods of high inflation.

Benefits of Multifamily Investing During Inflation

- Property values keep pace with inflation so appreciation is visible
- Demand for existing properties increases
- Rent prices increase with inflation, generating higher revenues and increased property value
- Mortgage payments on fixed rate investments don't change over time. Payments remain constant while equity grows.
- Inflation reduces the value of money owed in the future
- Stable cash flow and tax benefits

- **STARTING Create a Budget:** Identify potential problems and plan for capital improvements.
- **Start Small:** if you are new to multi-family investing consider starting with a small residential property like a duplex.
- **Build a Team:** Make sure to work with property managers ,brokers and other real estate professionals that are qualified and trustworthy.
- **Determine the Best Lease Agreement Fee**: if you charge too little you leave money on the table, overcharge and you risk not finding enough tenants.
- **Plan For Unexpected Expenses:** Plan to use 10% of expected rents to cover such incidences and unexpected maintenance repairs.
- **Make Improvements:** Make sure your property stays appealing and desirable for renters. Prioritize repairs and maintenance and continue making upgrades.

Figure Out the Value of Your Investment

Find Your 50%- Determine how much a specific multifamily property can make you. Calculate the difference between expected income and expenses. You can use the 50% rule by taking your expected income and halve it. This is your estimated expense number. Your net operating income NOI then becomes the difference between your estimated monthly income and estimated monthly expense.

Cash Flow- Figure out how much money you'll be taking home by subtracting the monthly mortgage from the property NOI. this becomes your cash flow estimate and determine whether its a wise investment or not.

Cap Rate- Determine the capitalization rate to figure out how quickly you will get a return on investment. Consider property value increases, monthly NOI boosts and tax breaks. Take your monthly NOI and multiply it by 12 to get an annual number. Then divide this by the properties current market value. Higher cap rate means higher risk and higher returns. Shoot for a cap rate in the 5-10% range.

Benefits of Multifamily Investments

Bigger Cash Flow: One investment in a multi-family property generates multiple income streams and a higher overall value for the property

More Tenants, Less Risk: Numerous renters means the risk for economic loss when a renter leaves is lessened.

Scalability: By purchasing a multi-family property you can grow your real estate investment portfolio and take your business to a new level.

Property Management Options: Multi-family property usually generates enough income to allow you to hire a property lease signings, maintenance, and other daily operations.

Tax Benefits: Take advantage of depreciation to offset your rental income collected on the property each year.

Insurance Made Easier: Insurance policies for multi-family properties may be easier to negotiate and secure. More options are usually available and you can group anything you need under one policy (in most cases).

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Take the first step

GET FINANCED TODAY

Multi-Family Properties are a highly competitive market, and finding a good investment will take a lot of time, patience, and skill. Sometimes, the only thing that separates a successful investor from a failed one is the ability to see the value in a property that someone else misses. Expanding your portfolio with multi-family property investing can be the gateway to achieving financial independence.

The reason is simple: Investing in multifamily properties lets you boost your income while reducing vacancy rates. Reach out today for loan options!

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