



Investors Guide to Building Wealth With Multifamily Real Estate



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Not All Real Estate Is Created Equal...

There are **tons of real estate sub niches** including medical buildings, office space, factories, single family homes, retail shopping centers and much more.

Many of these **sub niches are more volatile than they appear.**

For example, the start of the COVID-19 pandemic during 2020 resulted in sudden lockdowns, closed office buildings, and led to the rise of remote work. These factors devastated shopping centers and office spaces.

More than 2 years later, these sectors are still recovering from the damage of 2020. Many workers and employers prefer remote work and have gotten rid of their office spaces all together, resulting in a **20% drop in demand across the globe for office space.**

Therefore, real estate investors realized that shopping centers and office spaces weren't as secure as they once thought.

However, there is one unique, recession and pandemic proof real estate sub niche that is our personal favorite. This real estate sub niche has helped investors earn passive income, beat inflation, rise above tough economies, and create generational wealth.

One that has been around since the dawn of time, since everybody needs a place to live.

Multifamily real estate.

This ebook is for investors looking to invest successfully in multifamily real estate. Being able to access this investment class can be a segway into getting consistent yields and weathering any storm.

Be it record high inflation or steep interest rate hikes.

Currently, multifamily real estate is a relatively "recession-proof" investment since rates are high so not a lot of people are buying homes and even more are renting because they can't afford to buy.

In many markets throughout the U.S, even households with a \$150,000 annual income can't buy a home. Mortgage rates have more than doubled over the last year and prices are still high (\$500,000 or greater) in many major U.S markets. These higher prices and interest rates make it even harder to save for a down-payment of at least 20% of the asking price.

All of these factors have caused rents to significantly increase, making this real estate sub niche even more profitable for investors.

This ebook also covers crucial topics like: types of multifamily real estate, top benefits of multifamily real estate, common risk/reward profiles, how to get started, and how to invest in opportunity zone multifamily properties.



What Is Multifamily Real Estate?



As the name implies, multifamily real estate has multiple, often attached units, unlike a single family home that is one dwelling.

Some multifamily investors have lived on the property while they rent out the adjacent units, which is referred to as “owner occupied housing.” By living onsite, these investors have greater oversight with their tenants and are more available to fix any potential problems.

Typically, multifamily properties cost anywhere from \$80,000 - \$1,000,000+ depending on the amenities, building type and market. It can also take several weeks (or months), to buy and sell each property.

As a rule of thumb, it’s recommended to put down at least 20% of the purchase price on the home to avoid private mortgage insurance (PMI). There are programs like VA loans, meant for military members that can help investors put down less than 20% and avoid this extra fee.

Some other upfront fees include closing costs which are usually 2% to 5% of the sales price of the property. These can include lender fees, title insurance, property insurance, and property taxes, with higher priced homes having higher closing costs.

Multifamily real estate has many advantages, but it’s not the best choice for extremely risk averse investors. These same investors either need to manage the property themselves or hire an outside property manager for a fee.

A few multifamily property examples include:

- ▶ Duplexes: purchase price range, \$285,000 - \$537,000
- ▶ Townhomes: purchase price range, \$80,250 - \$335,500
- ▶ Apartment complexes (average sold price \$1,598,091, median price \$238,400)

The above figures are typical ranges, but can vary since there are many multifamily real estate markets throughout the entire U.S. Each one is vastly different with some communities catering to college students, power plant employees and even retirees.

However, many multifamily real estate markets, especially in the American sun belt, have become white hot.

For example, Phoenix, AZ, Orlando, FL and Jacksonville, FL have seen rents climb by over 27% since 2021. Many states in the sunbelt region like Florida and Texas have no state income tax, which has enticed high earners from other states to move, driving up the prices.

These same states, especially Florida, have attracted major employers like Spotify and Blackstone to move their headquarters there, which strengthens local job opportunities in those housing markets. Stronger job markets entice even more demand for those multifamily markets.

The 3 Classes of Multifamily Real Estate

There are three main risk/reward classes of multifamily properties: A, B, and C.



Class A

(Low Risk, Low Reward)

One example of a class A property is a higher end condo complex with top amenities like a laundry facility, fancy gyms, pools, and even movie theaters. Other luxury apartment complexes have 24/7 security, game rooms, and pet care facilities.

Most tenants of class A properties have higher paying jobs and steady income. They also have higher credit scores and are more likely to pay rent on time. Class A locations are located in safe neighborhoods with top schools, hospitals, and major employers. They're in the most attractive markets where most people want to live.



Class B

(Medium Risk, Medium Reward)

Class B properties are the middle ground between class A and class C. They offer a medium upside potential with medium risk. Generally, they're duplexes or condos located in decent neighborhoods. These properties might have some basic amenities, but not higher end ones that a class A property might have.

They also usually have higher maintenance costs than class A buildings. These can include needing to improve landscaping or common areas like shared laundry rooms.

Class B properties are likely to be located in good neighborhoods that could be on the fringe of class A ones. Regardless, most class B tenants have a stable history of renting and good credit scores. However, they generally don't earn as much as class A tenants.



Class C

(Highest Risk, Highest Reward)

Class C properties are the highest risk, highest reward type of multifamily real estate. These properties are usually decades old, need significant repairs, and are in less desirable locations.

Some of these properties might even need their entire electrical, HVAC, and plumbing systems to be completely revamped. These are usually a result of having an inadequate maintenance schedule.

Many class C neighborhoods are far from major schools, hospitals, transportation systems, and major employers. They can also have higher crime rates and poorer infrastructure.

Tenants are usually less financially stable and more likely to default on rents. Class C properties carry many risks, but investors who find the right ones and upgrade them could see much higher profits.

Upgrading these class C properties could attract higher quality tenants, improve the area and drive up rents. This process is known as gentrification, which is happening in poorer neighborhoods like Oakland, CA, where rents have increased by 10% since 2021.





4 Major Advantages Of Multifamily Real Estate

1 Tangible, Recession and Pandemic Proof

Multifamily real estate is tangible, meaning complexes are assets that investors can touch. Unlike cash or a stock share, they also can't be created into infinity as there's a limited supply of land.

As a result, real estate, especially multifamily real estate, has provided stable returns and yields, regardless of the economy.

For example, between the years 1992 and 2017, multifamily real estate had an average annual return of 9.75%, higher than the average annual returns of any other type of commercial real estate during this time period

Recession or pandemic, everybody needs a place to live. Investing in this class can help house more people and reduce homelessness.

3 Easier To Manage

Multifamily complexes have multiple units located in the same area, often attached to each other like apartment complexes and duplexes.

The investor or the property manager doesn't have to travel to various properties, saving time and money. Multifamily properties can have much lower costs per unit.

For example, a \$10,000,000 apartment complex could have 50 apartments in the building, resulting in a cost per unit of \$200,000, with multiple rents being paid. Conversely, a single family home costing \$2,000,000 would have a cost of unit per \$2,000,000 and one rent payment.

2 Values Rise With Increasing Rents and Often Beat Inflation

A typical bond could yield around 5%, which is easily being beaten by inflation (assuming an inflation rate of 8-10%).

However, rents have skyrocketed by up over 20% in some U.S. multifamily markets in just a year. These higher rents easily outpace inflation and can be used to improve the property.

For example, properties that have nicer amenities like pools, gyms and security can justify charging higher rent. Investors can use this higher rent to improve the property, raising its value and attracting even more quality tenants.

4 More Affordable Financing and Insurance

Since multifamily investments are relatively stable, it's much easier to get financing (i.e a mortgage) for them. Banks are more likely to pre-approve loans for multifamily properties compared to riskier ones like fix and flips.

Aside from financing, it's also easier to get insurance at more affordable rates. Insurance companies are more well versed with multi-family properties and understand they carry less risk than other real estate projects. However, writing policies could become more costly and complicated with a greater number of units and expensive amenities like gyms or high end pools.

How Multifamily Investing Works

There are two main options when it comes to investing in multifamily real estate, going at it alone or working with a partner like a managing broker dealer.

Go At It Alone

PROS

- ▶ **Get 100% of the profits.**
Investors that go solo are entitled to 100% of the profits from their properties, and don't have to share it with any partners. At the same time, this also opens them up to greater risks, including up to losing their entire investment.
- ▶ **More autonomy.**
This advantage is ideal for investors who are savvy with multifamily real estate and want more freedom when making decisions. They could have more control on topics like tax deductions, financing and more.

CONS

- ▶ **Limited network.**
Real estate is a relationship business. By going at it alone, it's more likely that investors will miss out on being able to access networks with key professionals like lawyers, real estate brokers, and attorneys.
- ▶ **Steeper learning curve.**
Solo investors also have to face a steeper learning curve. They have to learn the ins and outs of the market, property management, and other esoteric topics. Due to the steeper learning curve, this can increase potential risks, like investing in a property with hidden structural damage.

Work With A Managing Broker Dealer

PROS

- ▶ **Minimize risk.**
By working with a legitimate managing broker dealer, there is less risk since it's possible to pool funds with other investors.
Simply put, investors can buy properties in fractional amounts and receive returns in proportion to their role and investment into the project. General managers get higher percentages of the gains, since they play a greater role in managing day to day operations. This is referred to as a distribution waterfall.
- ▶ **Less upfront work.**
By relying on a managing broker dealer, investors won't have to worry about finding the property, hiring contractors, maintenance or other issues. This can also reduce expenses and minimum investments.

CONS

- ▶ **Unscrupulous broker dealers.**
It's generally less risky to work with a qualified broker dealer. However, some unethical firms have cheated their investors. One common way to scam investors is via a Ponzi scheme.
With a Ponzi scheme, the unethical firm publishes fake returns and original investors are simply paid off with the money put into by new investors. When the unethical firm can't find new investors, the Ponzi scheme dies.
- ▶ **High fees.**
A broker dealer's services aren't free and come with many fees. Asset management fees, carried interest, and other costs can really add up. Many dealers can charge management fees up to 2%.



How Much Money To Invest?

Real estate prices and expenses vary per market and property type. These can range from asking prices of \$80,000 to over \$1,000,000. However, lenders expect a 20% of the home price for a downpayment to avoid private mortgage insurance. There are a few work arounds to this, including a VA loan meant for military veterans that lets them purchase the property with 0% down and no PMI.

Expect to pay 3-5% of the purchase price as closing costs, which can include lender fees, title insurance, taxes and much more.

One key advantage of going with a managing broker dealer is that funds are pooled with other investors lowering costs. These costs, including the minimum investment, depend on each company, but typically range from \$1,000 to \$50,000.

Many companies also require that each investor is accredited, meaning that he or she has an annual income of \$200,000 (\$300,000 with a spouse) or a liquid net worth (excluding primary residence) of at least \$1,000,000.

How Long To Invest?

Multifamily real estate is a long term investment, with the average hold period being 5 years. The hold period is simply the time between purchasing and selling the property. Hold periods generally range from 3-10 years.

Often, broker dealers require that their investors stay invested for a certain amount of time, known as lock up periods before being able to fully cash out of their investments.

A sample lock up period might mean that the investor can't redeem their share after 1 year, but they'd get 80% of their investment in year 2, 90% in year 3, and 100% in year 4.

The main purpose behind lock up periods is to help the managers maintain stability and liquidity.

What Are The Exit Strategies?

Some common exit strategies include selling shares in the property to a new partner, selling the property itself, or providing seller financing. Investors that want to exit could sell their stake to a new partner, which gives them freedom from the responsibilities of the investment.

Selling the property itself is another typical way, usually used by solo investors. However, selling a property can take more time since it has to go through more steps including finding a new buyer and going through escrow.

When the seller acts as a financial institution for potential buyers, this is seller financing. Generally, the investor makes regular payments to the owner until the last payment is completed, transferring the title to the investor. This form of funding is usually simpler than going through a bank.

What Could Go Wrong?

A few standard risks of multifamily properties could be problems with the neighborhood (like crime), property structural issues, and competition.

While some investors might want to revamp poorer areas with high end buildings, they could have trouble attracting the right tenants if the area is unsafe.

It's also important to conduct significant property inspections to ensure there are no structural damages like faulty electricity or plumbing systems. These can destroy properties and lead to tens of thousands of dollars in expenses.

Competing with savvier investors that have the highest end buildings could mean being unable to attract enough tenants, resulting in losses.

PPM - Private Placement Memorandum

A PPM, or Private Placement Memorandum is a legal document given to all new investors prior to investing in real estate as an LLC or individuals. It provides a full disclosure on various topics like what's required from investors, fees and commissions earned by the manager, and a detailed description of the property.

This key document also includes the rules of investors and the manager. It can also cover accounting rules, management plan, rights of the group members, the ability to assign or transfer ownership, termination plan and potential pitfalls.



Investing For Yield Vs. Back End Gains

Real estate assets can mainly focus on providing income (i.e rents) known as yield properties or back end gains (i.e capital appreciation). One combination is a yield and back end property that is a hybrid of these two categories. It offers a mix of yield and capital gains.

Yield

Yield properties are generally more stable and focus on monthly cash flows via rent. Typical internal rates of return (IRR) for yield properties range from 8-10%. The IRR considers the time value of money, meaning that a dollar today is worth more than one in the future due to inflation.

Therefore, it's highly impacted by the speed of returns, which means that the sooner or more greater cash distributions are made to investors, the higher the IRR.

Many of these properties are well maintained, need little repairs and attract higher quality tenants. These properties are best suited for investors that want dependable, consistent monthly yields. An investor who might select a yield property could be a recently retired senior who wants to replace his or her working income with rents from the yield property.

Back End Gains

Back end properties are usually long term plays meant for investors that have a long time horizon and/or greater risk tolerance. Many back end properties offer little cash flow, with the majority of the profits being made via capital appreciation when the property is sold.

Often, these properties have significant maintenance and repair needs. Sometimes, these properties offer returns that barely break even or are even negative in the short term.

However, they can significantly appreciate over longer time spans due to increased investment in maintenance, repairs, and amenities. Back end properties can be very profitable for investors who can stomach the risk and have other sources of income (i.e a job).

Yield + Back End Gains

These properties offer a mix of yield + back end gains. They provide higher capital appreciation than yield properties, but offer greater cash flows than back end properties. These properties are the middle ground between risk and reward out of these 3 categories.

Often, yield and back end gains properties are located in areas that border yield properties. Many times, these are properties that are several years old and need moderate repairs. For example, some of these could include revamping common areas like laundry rooms, courtyards, and parking lots.

IRRs can vary from 10-13%.

Multifamily Real Estate In Opportunity Zones

The Tax Cuts and Jobs Act was launched in 2017 and included an Opportunity Zones program clause. Opportunity Zones are distressed, often low income communities that could benefit from higher quality housing. States nominate communities around the country for this designation, with the U.S. Department of the Treasury confirming them.

Providing higher quality housing, including building newer apartment complexes as well as revamping existing multifamily properties can lift these areas out of poverty. Opportunity Zones investors can feel proud, knowing that they're playing a positive role in reducing poverty.

A common way to invest in this sector is via a Qualified Opportunity Fund or QOF. This investment vehicle can be organized as a corporation or partnership, which holds at least 90% of its assets in qualified Opportunity Zone property.

By investing in these areas, investors can enjoy significant tax advantages, which include:

These tax advantages are meant to motivate investors and developers to improve low income and distressed areas.

- ▶ Being able to defer income taxes on capital gains and income in a QOF before its sold, exchanged, or until Dec. 31, 2026.
- ▶ Not having to pay any federal tax on selling QOF investments that have been held for 10 years or more.
- ▶ A step up basis increase for previously earned capital gains invested. Capital gains invested in QOFs for at least 5 years, get a step up in basis increase by 10%. If invested for at least 7 years, then this same step up in basis would rise by an additional 5%, for a total of 15% step up in basis.

Other Benefits Of Opportunity Zones

- ▶ **Acquiring high growth, undervalued property.**
Often, properties located in Opportunity Zones are class C and offer the greatest amount of risk with the highest upside potential. This can reveal underpriced opportunities that can grow with increasing development.
- ▶ **Greater rent and property value appreciation.**
Despite the risk, investing in Opportunity Zones can take old, dilapidated buildings and turn them into attractive class B or even class A properties. Converting a class C building into a class B one can attract higher quality tenants and raise rents and property values.

Typically, these properties fall under the back end category since most of the gains are made selling them for long term profits, compared to consistent monthly cash flow.

To find these properties which are based on these standards and zoning requirements, head over to [IRS.gov](https://www.irs.gov).

Successfully Invest In Multifamily Real Estate With Vistia Capital

Multifamily properties like duplexes, townhouses, and apartment complexes are tangible assets that provide diversification and inflation crushing returns. They're also more stable than other types of real estate like shopping centers or office buildings.

It's also easier to manage them with a lower cost per unit. Banks and insurance companies are more familiar with these properties, making it easier to get affordable loans and insurance policies.

There are also many ways to invest in this asset class, which each carry their own risks and rewards. Be sure to thoroughly research each opportunity and ensure that it's in line with your investment risk tolerance and time horizon.

It's also extremely important to work with the right partner while investing in multifamily real estate. Ensure that a potential partner has experienced personnel, conducts detailed due diligence, is ethical, and has positive customer service reviews.

Some other bonus points a partner could have include being Broker Dealer/ FINRA (sp) certified and staying true to ESG or Environmental, Sustainability, and Governance values.

Find The Best Multifamily Investments For Your Goals And Risk Profile

At Vistia Capital, we're a team of seasoned and trusted real estate investment experts. We provide investors with the most updated, highest quality real estate data and unique multifamily investing opportunities unlike any other.

All of which can help you grow and diversify your portfolio.

Schedule a free, no pressure conversation with one of our experienced real estate consultants today to learn exactly how we can help you build and protect wealth.



About Vistia Capital

Located in Castle Rock, Colorado, Vistia Capital focuses on the distribution of private placements that provide investors the opportunity to invest into alternative real estate programs (for cash flow, to relieve tax burdens from capital gains, and for conservation easements/impact).

Our team has multiple decades of collective experience helping investors find the best options in the alternative real estate investments market. Using that experience, we make it our goal to build lasting relationships with our clients while adding value to their portfolios.

Additional Facts about Vistia Capital

- ▶ Dedicated team of experts with proven track record, all on the payroll as W2 employees.
- ▶ Broker Dealer/ FINRA (sp) certified.
- ▶ Implement GREEN Focus- ESG values.
- ▶ Over 30 years in the real estate development market.
- ▶ Pride ourselves on white glove services that let each investor get unprecedented access to our team and the best information.
- ▶ Superior due diligence and transparency.
- ▶ No projects have failed since inception.



www.Vistia.com