

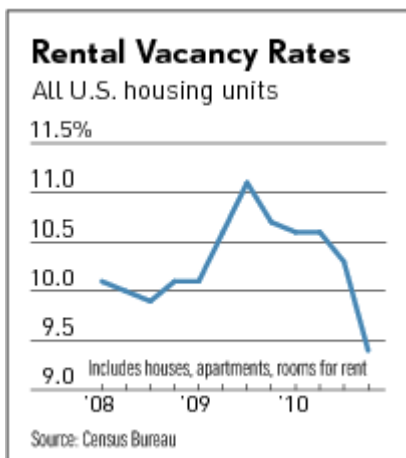
March 31, 2011
UVM: 403,895

Are Small Apartment Buildings A Smart Investment?

By [Kathleen Doler](#), for Investor's Business Daily

Recovering rents, rising occupancy rates and low sales prices are enticing investors to become landlords. The sweet spot for smaller investors is multiunit buildings with up to four units, according to market followers.

This size of apartment property can qualify for conventional financing backed by **Fannie Mae (FNMA)** and **Freddie Mac (FMCC)** with 20% to 25% down. When a landlord lives in one of the units, financing insured by the Federal Housing Administration may be available with as little as 3.5% down.



"I'm seeing rents go up in the markets where employment is strong: New York City, Seattle, Washington, D.C.," said Lesley Deutch, vice president of John Burns Real Estate Consulting, in Lake Worth, Fla. "All markets will be on the positive side this year."

How much rent growth just depends on where you are, Deutch says.

"Financing is starting to free up for more creditworthy investors," said Peggy Abkemeier-Alford, president of Rent.com in Santa Monica, Calif. "So small investors are scooping up multiunits." In 2003, homeownership was 69% says Abkemeier-Alford. Now it's 66.5%, and "every 1% decline in homeownership equals 1 million new rental households."

Competition Big And Small

One caveat for investors is that smaller rental properties must compete with the many vacant homes now being rented out.

Slammed by a credit crisis and the recession, commercial real estate isn't out of the woods yet. But the apartment sector, which is part of it, is flashing encouraging signs for both big and small investors. In February sales of apartment portfolios priced \$2.5 million and up rose 50% from a year ago to more than \$2 billion, according to Real Capital Analytics. But it's still just a fraction of the activity seen a few years ago, and distressed properties accounted for 41% of February's sales.

Abkemeier-Alford predicts rents in top markets will rise 5% to 6% this year, and in bottom markets she expects 2% growth.

The national rental vacancy rate climbed to more than 10% on average over the past couple of years. But "in the most recovered markets in 2011 it will be around 5%, a big decrease," Abkemeier-Alford said.

Real Capital's analysis of large apartment deals found investor demand outstripping offerings around Washington, D.C.; Boston; Southern California's Orange County; San Francisco; Raleigh, N.C., and a number of Florida markets.

"In our area, sales of multiunit properties are very brisk," said Al Ricci, a broker at Ricci Realty in the Southern California city of Orange.

Ricci works in an area called Old Town, near Chapman University. He says some parents are now buying multiunit properties to house their students plus other tenants. Rising rents, low vacancy rates, high on-campus student housing costs and low sales prices are bringing parents into the market as investors, according to Ricci.

He says triplexes that sold for \$750,000 and up in 2007 are now priced at \$600,000. But in his area, due to demand, "rents haven't changed." Ricci is the listing agent on three multiunit properties and expects to move all of them in 60 to 90 days.



In Seattle, new hiring by **Amazon.com (AMZN)** should reduce rental vacancies and potentially drive rent increases, says Glenn Roberts, managing broker of Lake and Company Real Estate. "Amazon has leased 1.7 million square feet right next to downtown — they're really expanding," Roberts said. "And a lot of their employees won't be homebuyers yet, so they'll need to rent."

Roberts believes multiunit properties near downtown are an investment opportunity. "In the last 30 days, 13

multiunits have sold and closed, but there are 50 pending right now," he said. The availability of low-down FHA loans for multiunits is often overlooked.

"People have been a little out of touch with FHA financing," said Rebekah Radice, a mortgage planner with Benchmark Mortgage in Colorado Springs, Colo. And some folks think FHA only offers small loans. But it raised the lending limits in high-cost areas, and then extended those raised high-cost loan limits to Sept. 30, 2011, Radice says.

FHA loans require mortgage insurance, paid in monthly premiums. After an April hike, the cost will range from an annual 0.25% to 1.15% of the loan amount atop a 1% upfront fee.

Michael Simpson, a multiplex property investor in Sacramento, Calif., advises new landlords to screen tenants, keep an eye on their properties and keep detailed books.

Simpson also says that potential landlords should research how their city or town treats multiunit properties. In Sacramento, any property with more than three units requires more extensive permits for remodels than a single-family building, he notes.