

The 5-30 Unit Sweet Spot Strategy

The Advantages of 5-30 Unit Properties

Little Competition

Real Estate Investment Trusts (REIT), hedge funds, and other huge players buy 100+ unit apartment complexes or extensive single-family home portfolios. They don't bother with 5, 12, and 15-unit buildings or even 30 or 40 units.

So you're competing against other individual investors or small investment groups.

Example: A young couple in Houston bought a 32-unit apartment building. All they did to find it was mail 300 letters. They now have a net cash flow of \$10,000 a month for life!

Perfect Size

You won't find an overwhelming number of 5–30-unit properties in any given county. That makes it manageable to market to every one of them. On this smaller scale, you can build relationships with the owners. It's not overwhelming, and direct mail works well.

Same Work, More Profit

Duplexes, Triplexes, and Quads (2-4) unit buildings are considered residential. Their values are based on comparable sales, while the value of 5+ unit buildings is valued based on the NOI.

For each dollar of income, you increase the NOI by on a 5+ unit property, the value increases exponentially. It's exponential and doesn't depend on comps like the 4 unit and smaller properties.

As we covered in the course, there are many ways to improve the NOI by increasing income and decreasing expenses.

Seller Financing is Common

Seller financing on smaller 5–30-unit apartments is much more common than on larger complexes. If you target smaller complexes that have been owned for 20-plus years, they are often owned by elderly people. They are looking for retirement income, and seller financing can provide it to them and create a fantastic deal for you. Seller financing is a win-win for both of you.

Flexible Sellers

Mom and Pop, individual investors, and small groups own almost all small apartment complexes. These sellers don't need to have a board of directors' approval so that you can be very creative in deal structuring and financing.

Dealing on this more personal level allows you to bond with them and help each other.

Save Time

When dealing with 2–to 4-unit properties, you ideally need to see the property and comparable properties before you make an offer. But properties with more than 5 units are businesses. Because numbers

drive them, you only need to see the income and expense reports to start the offer process once you've done your market research and basic due diligence, all from your laptop.

Less Turn / Longer Term Tenants

It varies from property to property, but smaller complexes and buildings tend to have less turnover than larger complexes. Maybe the more "home" like feel encourages many to stay for decades. With turnover being one of your most significant expenses, tenant retention is a big advantage.

A Lot of Potential Buyers

I prefer holding forever, but it's not hard with smaller complexes if you want to sell. You have several pools of buyers:

- Single-family investors who want to move up
- Single-family investors who are burned out
- Multifamily investors
- Single-family investors will want to "move up" to a 6-10 unit but not a 60 unit

At REIAs, when everyone is pitching houses, you'll be surprised by how much interest you get with a few plexes or small apartments.

Easy Management

On complexes with 10 units and under, management is not as complicated as you may think. You can give one resident a discount on rent to show units, make units ready for new tenants, and be your “eyes and ears” at the property. You don’t need a large staff, which reduces expenses.

More Straightforward to Finance and Purchase

Local and smaller banks love to finance smaller apartments in the local area. It’s also easier to work with and build relationships with them. Closings on smaller properties are typically faster as well.

You Can Own It Yourself or with 1 or 2 Partners

Because you’ll need less equity to take down the deal, you can regularly be the sole owner or involve just one or two partners/investors. You won’t need to syndicate. With large apartments and syndications, you would have to give much more equity away.

Mentally Easier

The amount of work needed to take down a 30-unit property is similar to a 100-unit property. However, many are afraid and overwhelmed to take down a larger property. Mentally, it’s easier to grasp and take action on a 30-unit. It’s less overwhelming and intimidating.

Smaller complexes are an excellent place to start. I started small, too. There’s less fear, and any mistakes you might make will be smaller.

Higher COC Return & Cap Rate

Smaller properties regularly have higher cash-on-cash returns and higher cap rates.

More “Value Add” Opportunities

Mom-and-pop owners of small apartments are often afraid to raise rents, fearing tenants getting mad and moving out. They become more attached and don't treat their properties like businesses as you've been trained to do. This opens up a huge value-added opportunity in raising rents to market and making improvements that may have been neglected over the years.