



JUSTIN
FERGUSON

HOW TO BUY YOUR FIRST MULTIFAMILY PROPERTY



Who Is This Guide For

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- Someone looking for a short and sweet introduction to Commercial Real Estate
- Someone who probably has a full time job, but wants to create passive income in Real Estate
- Someone who wants to create generational wealth for their family
- Someone who wants to receive checks in the mail, we call that “mailbox money”
- Someone who is looking for a career change to something that will always be valuable

If this sounds like you, then good. This was me 10 years ago when I decided to make the leap into real estate. It has been a slow and steady journey and I have learned a lot since my beginning days. I have also helped dozens of investors accomplish these same goals and live better & happier lives. Let’s jump right then!

What Is It About Multifamily Properties?

A Multifamily Property is simply defined as a residential property that consists of more than one unit. We typically describe the property as “how many doors under one roof” A Commercial Multifamily Property, has a minimum of 5 units which will require a commercial loan when obtaining financing to purchase. Many investors try to start small with single family homes and work their way up, which can be effective, but this strategy usually takes significantly longer and does not necessarily overlap in multifamily principles.





Why Does Everyone Want Multifamily?

RAPID GROWTH

True wealth is built by maximizing the number of doors you control. You can buy one house per year, with one tenant, who is paying for the mortgage of one property. Or, you can buy one property, with several tenants, who are all paying the mortgage and generating income to self-sustain the entire deal.

CASH FLOW

Apartments are built for cash flow & income streams. The more people who are paying down a mortgage will be able to provide you an income stream in addition to paying the operating costs. The money left over is your passive income.

LOWERED RISK

With a single family home, if the property is vacant, you (the owner) are required to come out of pocket to pay the bills until the property is occupied again. Generally speaking, as long as your apartment complex is ~70-75% occupied, the property will sustain itself.

APPRECIATION

Appreciation is the increase of the property's value over time. Multifamily has several ways of increasing value which also increases your cash flow and equity.

LEVERAGE

To buy \$2 Million worth of stocks, you need \$2 Million dollars. To buy a \$2 Million dollar property, you only need \$500,000. If you had \$2 million dollars of cash, you could leverage that into nearly \$8,000,000 of real estate. Using leverage is a quick way to rapid growth and expansion

TAX BENEFITS

Owning a commercial property has significant incentives with taxes. Between Depreciation (wear & tear) and mortgage interest deductions, you can reduce your overall tax burden, which will strengthen your cash position and your buying power for more real estate.

How Do You Find The Right Property?

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You truly need the right team to find the right property. Having a Commercial Investment Advisor, will give you access to the most deals and the current trends affecting the market. They are the true “boots on the ground” and are having daily conversations with Sellers and Buyers about where the market is trending and how investors can stay ahead of the change.

Additionally, there are numerous online marketing websites that Brokers put their listings on. There are commercial real estate specific websites such as Costar, Crexi, and Loopnet that target investors and provide direct access to financials and to learn more about the property.

Other Factors To Consider Are

LOCATION

SIZE

**CURRENT
CONDITION**

PRICING

**RETURN OF
INVESTMENT**

How To Underwrite and Find Your Returns

Underwriting is the term used for evaluating and analyzing a commercial property. There are many factors that go into this term, but it comes down to determining your Net Operating Income (NOI). This is the end cash flow projection of a property once all income has been collected and all the expenses have been paid, except for the mortgage.

Things To Consider When Underwriting

Investment Strategy	Sources of Revenue	Expenses	Physical Condition
<ul style="list-style-type: none">• Buy & Hold• Fix & Flip• Development	<ul style="list-style-type: none">• Tenants• Laundry• Storage• Parking• Utility Bill-Back• Amenities	<ul style="list-style-type: none">• Taxes• Insurance• Utilities• Maintenance• Reserves• Management	<ul style="list-style-type: none">• Capital needed to achieve targeted rents?• Plumbing, Roof, Electrical• Foundation, Parking Lot• Heating, Cooling, Windows

Important Underwriting Terms

Net Operating Income

All revenue from the property, minus all reasonably necessary operating expenses.

Capitalization Rate

Also called “Cap Rate” is the term used for the expected rate of return of an investment property. It also is used when discussing a property’s perceived risk.

Internal Rate of Return

A metric to determine the profitability of an investment that takes into the account the time value of money.

Cash on Cash Return

The cash income returned on the cash investment of the property. In other terms, how fast does an investor get back their down payment.

How Do I Actually Finance A Commercial Property?

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One of the hardest parts of getting to multifamily real estate is getting that first mortgage. A buyer must be able to show their own personal financial strength, the property's cash flow, and their vision with the deal as they own and operate it.

I suggest a buyer aligns themselves with a Mortgage Broker for their early deals. The Mortgage Broker's role is to organize all the available data on a Buyer's strength and the property's cash flow. Then they present this information to several commercial lenders and source the best possible loan terms available in today's market.

Depending on the deal, there can be several types of loan products available. This includes...

U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) LOANS

A government backed loan that is usually more favorable terms, but requires much more legwork for a buyer to obtain and maintain requirements.

HARD MONEY LOANS

Private firms or individual loans. Typically shorter term with higher interest rates for a Buyer to get into a deal then refinance into better debt terms within a few years.

PORTFOLIO LOANS

Smaller banks/institutions/credit unions that can be a middle ground of rate, terms, and flexibility.

CONVENTIONAL LOANS

The most common type. Many lenders do these types of loans that require between 20%-30% down payment. Usually each lender has their own requirements and evaluates their term & rate based on both the Buyer & deal differently depending on their risk tolerance.





I Found A Deal and A Lender, Now What?

I am a firm believer in putting your best foot forward when submitting an offer. Some investors play to win, while other investors play to not lose. Here are the things to consider...

PRICE

What final number have you arrived at to purchase the property? This number needs to be backed by data & lending requirements. It looks much better to start at a price you know you can perform at upfront instead of coming in low and looking to “negotiate” with an Owner.

DEPOSIT

In my submarket, 2% of the purchase price is the typical amount for the earnest money deposit. This amount is fully refundable unless explicitly expressed in a contract. Increasing this number can show a Seller that you are able to put more money at potential risk and more serious in getting a transaction done,

STUDY PERIOD OR DUE DILIGENCE PERIOD

This is the time a Buyer has to perform all necessary inspections and review all available data provided by the Seller. Understanding what your typical market requires is important to make your offer more competitive, but sticking to this time frame is also crucial to make all parties comfortable about a buyer’s ability to perform per the contract.

CLOSING PERIOD

This is the time needed to close the deal once the Buyer has given the official notice they approve of the physical condition & current state of the property. This time period is mostly influenced by the lending institution, but closing sooner than better is key.

CONTINGENCIES

Most deals have 3 contingencies. The physical contingency is the physical state of the property. The financial contingency is the Buyer’s ability to obtain the financing for the purchase. Lastly, the appraisal contingency is the 3rd party confirmation of the property’s value. These are 3 methods a Buyer can terminate a contract and still receive their deposit back. A Buyer can either remove the contingencies entirely or significantly reduce the timelines for their removal. Speed and probability of closing are crucial to making a Seller comfortable with accepting an offer.

I Purchased the Deal, How Do I Make Money?

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Depending on your original investment strategy, you may elect to self manage or hire a professional property manager. Both strategies have their pros and cons. I think it depends on what level of time investment you want as an owner and what are your short versus long term goals for the property.

In my area, property management costs between 7%-10% for deals 40 units and below. As an owner, you have to determine if saving that cost is worth your time and energy. Most people get into real estate for passive income & I believe that an owner should be very involved on their first investment to understand the nuances of ownership. The more involved you are with your early investments is crucial to fully learning and evaluating its performance. As you understand your property, the tenants, the laws, and trends of the area, you can expand your time and focus less on the day-to-day and more on the growth and leverage of your cash flow.

Who Is Justin Ferguson?

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I am a Multifamily Specialist in Marcus & Millichap's Southern Virginia Office. As an Investment Sales Associate, I exclusively represent Sellers and Buyers of investment properties throughout Virginia.

On a weekly basis, I meet with Corporate Professionals, Private Investors, REITS, Developers, and Syndicators to strategize on how to maximize their returns in order to grow their portfolios at a faster and more efficient rate. Depending on where an owner is in their investment cycle, I create a tailored approach to each owner's needs so they have the peace of mind knowing they have more control over their investments. I meet with each owner individually to better understand their current portfolio, their operations, and their goals. This analysis gives a clear strategy with specific metrics with each owner's targeted outcome in mind.

I have helped my clients satisfy their real estate goals and experience their full investment potential. My strategies have helped dozens of investors double their unit count and their cash flow using proven methods with measurable returns. I consistently share the trends that will have the most significant impact on commercial investors so they can make the best decisions for their families.



GET IN TOUCH

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