This Is the Sweet Spot for Breaking Into Multifamily Investing

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There are a lot of people looking for the same type of deals—the value-add, the larger apartments that are going to make them a bunch of money. That said, I like to think that there’s a sweet spot in real estate, especially if you’re just trying to get into multifamily.

There are a lot of people out there looking for everything. But in general, there’s a lot of the single-family rental people out there that are buying houses, and the mom-and-pops are buying houses, and couples are buying a house. Then there are house hackers buying the duplex, triplex, fourplex.

The 5-30 range or 5-40 range is typically smaller than would attract the professionals. I don’t buy 30-unit mobile home parks. I don’t buy 30-unit apartment complexes. It’s too small to generate the acquisition fees and the overhead that I need for my business. And so I don’t look for that. So, you’re not competing on that level against me.

And eventually when you get good enough, then you can go compete with the people who have big teams, like me. And you can compete with us on the $50 million properties.

But there’s a sweet spot in that smaller 5-unit, 10-unit, 15-, 20-, 25-, 30-unit space. And you could build up some good financial freedom off just buying a few of those.

I would say they are more difficult than the bigger deals. They require more work than buying a 100-unit. The management isn’t baked into the numbers necessarily. They’re largely mom-and-pop managed (and oftentimes really poorly managed).

But you can find some incredible deals there.

The Idea In Action

I’ll give you a true story. I bought a 24-unit in Cincinnati two years ago. It lasted a year, and I finally gave up and sold it to the agent who brought it to me originally. I sold it for about what I bought it for.

I  just couldn’t make money on it. And it was in Cincinnati, and I was in Maui. Granted, I had a lot of other stuff going on, so I wasn’t focused at all on it. But by itself, it did not run. When I left it by itself, it did not make money.

If I really focused on it and put my laser beam on it, I could drive it to make money by really working my manager hard and making sure that they were paying attention to everything and following up continually. But I didn’t have the time for that.

But you know what? I sold it to the agent who ended up bringing it to me, and that agent has almost doubled the value of that property in the past year. He cleaned it up. He raised the rent dramatically. He kicked out a bunch of the riffraff that was there. And he has completely turned that thing around.

He’s going to make a ton of money—he’s already making a ton of cash flow off of it. Congratulations to him. And I don’t feel bad about that at all. It just illustrates the simple truth: That level of property requires a certain level of management that I was not willing to put in. And because of that, I failed at that investment (or at least broke even).

After I sold it, I ended up using the money and bought a triplex here in Maui. This is awesome, because here I can dedicate my time and I have systems and people in place to manage that property. Plus, it’s way smaller, so it’s easier to manage.

The bottom line is you can still make really good money in that range of 5-40 doors. It requires a different level of work, and so if you can become an expert at it, I think that’s a great way to break into the multifamily space.

Get a bunch of those! Get really good at that in a certain market. Then, you’ll have the knowledge, credibility, money, and experience to be able to take on those larger multifamilies that will be your golden ticket later on.