

Is It Better to Invest in Single Family Rentals or Apartment Buildings?



[Editor's Note: This is a republished post written by [Passive Income MD \(PIMD\)](#), a member of [The White Coat Investor Network](#). Remember that [good investing is boring investing](#) and alternative investments like real estate are not necessary to achieve financial independence. [Here's how we invest in real estate](#). The original post ran [here](#), but if you missed it the first time, it's new to you! Enjoy!]

One question I get asked a lot is, "Is it better as a doctor to invest in single-family rentals or multi-family properties?"

The truth is that there's no perfect answer and so that's why I invest in **both**, but for different reasons.



Here are some Pros and Cons:

Single Family Residences or SFRs

Pros

More Affordable

It's usually easier to purchase a single family vs an apartment building because less capital is needed initially. For example, I was able to buy my first out-of-state single-family rental property for ~\$35,000. The downpayment for the [apartment building I bought](#) was nearly 10x that amount.

Good for Slow Steady Growth

You could possibly [buy one a year](#) and in 10-15 years, have an amazing cash-flowing portfolio.

Liquid in Pieces

If needed, you could sell off a single home for the cash and not lose your entire portfolio. I know some people who bought a few single family homes, kept them as investments throughout their children's' lives and sold them off to pay for college – interesting concept which I should explore later.

Easier to Diversify

If you want to diversify, you can buy SFRs in different parts of the country, with different market characteristics. Some areas are better for [cash flow](#), some for appreciation, and in some you're able to capture both. See how [I bought one property \(over 2000 miles away from my call room\)](#).

Cons

Slower Ability to Scale



With multi-family properties, you can buy a good number of units under one roof at once. With SFRs, it's one house at a time.

Liquidity in Full

It's harder to sell all your assets quickly if needed. You'd have to either sell one by one, or as a portfolio which is harder to unload.

Market-Dependent Values

Value is tied to real estate market in general and is led by comparables vs. what the property is generating in income.

Mortgage Limit

If you're using financing to purchase these homes, Fannie Mae has capped the maximum number of properties financed under one person at 10 properties. After that, you're going to have to utilize commercial loans.

Multi-Family Properties (Apartment

Buildings, Two Units & Above, MF)

Pros

Easier to Scale

You can buy multiple units under one roof in one transaction. The same transaction can net you 5, 10, or 100 units. The process might be a little bit more involved due to the number of units, however, in basically the same amount of time, you can acquire so many more units.

Economies of Scale



If the roof needs fixing, you only need to fix one roof. You only need one insurance policy, and so on... Whether you own a single-family vs. multifamily property, you're still managing one property manager.

Easier Financing

A building that has five or more units is eligible for a commercial loan. These loans are much easier to obtain than residential loans because they're based more on the investment (the building) than all of your own personal assets and liabilities. For those of you who have gone through the residential loan process in the last 10 years, you know how

much paperwork is involved. For the multifamily building I purchased, it felt like a 10th of the paperwork of a single-family home was necessary.

More Control Over Value

Value is usually tied to the performance of the building and revenue generated through rental income. Therefore, intelligent and savvy repositioning of buildings can result in large gains quickly.

It's essential to have a good control of the [numbers](#) whether you own a SFR or MF property but because of the number of units with MF properties, you're able to have more significant control over the financial production of the property.

Cons

More Expensive

More units typically result in a higher price point. May be harder to purchase one on your own. I had to find a partner to purchase my first MF property.

More Management Intensive

Typically there are more issues in dealing with tenants. They are typically more transitional in apartments (equals higher turnover) and there's always the issue of inter-tenant squabbling.



Conclusion

So there are pros and cons to both which is why I like having both of them in my portfolio of investments.

I've known real estate professionals who invest heavily in one or the other. Those raising money through [syndications or funds](#) tend to lean towards multi-family properties for their ability to scale.

However, physicians usually have a different goal – they want to simply find consistent sources of [passive income](#) to supplement or replace their current income without taking up too much time.

Again, the answer isn't clear-cut, but what I do know is that you can accomplish these goals by investing in either one or both. At the end of the day, I'm also looking for [multiple streams of passive income](#) and investing in both SFRs and Multi-family properties is my way of diversifying within the real estate sector.

Anyone have a strong opinion one way or another?