

INVESTOR EDUCATION SERIES

The Basics of Multifamily Investing

A 24-page primer covering structures, returns, risk, and what to look for in a sponsor.

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This guide is for educational purposes only and does not constitute an offer to sell securities or investment advice. Past performance is not indicative of future results. All investing involves risk, including possible loss of principal.

INTRODUCTION

Why Multifamily?

Real estate has long been one of the most reliable paths to building generational wealth in America. Within real estate, **multifamily** — apartment buildings ranging from small duplexes to large complexes — occupies a uniquely compelling position. It combines the income stability of residential housing with the scale benefits of commercial investment.

At Level 7 Investors, we have spent over three decades helping individuals — from first-time passive investors to seasoned professionals — access institutional-quality multifamily deals previously reserved for Wall Street insiders. This guide demystifies the world of multifamily investing: the terminology, the mechanics, the risks, and above all, what separates a great sponsor from a mediocre one.

Whether you are just beginning to explore passive income streams or evaluating your third syndication investment, the pages that follow provide a grounded, practical framework for making informed decisions.

What You Will Learn

- The different types of multifamily assets and why size and class matter
- How passive investors access deals through syndications and funds
- The key return metrics every investor should understand before writing a check
- How to identify, measure, and manage the risks inherent in multifamily
- A rigorous framework for evaluating sponsors
- Practical first steps for getting started with passive multifamily investing

Real estate investing rewards patience, diligence, and the discipline to partner with operators who share your values. Let's begin.

CHAPTER 1

What Is Multifamily Real Estate?

Multifamily real estate refers to any residential property with two or more housing units under one roof or on one parcel — from a duplex to a 500-unit high-rise. Understanding the spectrum is the first step in evaluating any investment opportunity.

Property Types by Unit Count

Type	Unit Count	Typical Investor Profile
Duplex / Triplex / Fourplex	2–4 units	Individual owner-operators; residential financing
Small Multifamily	5–20 units	Local investors; commercial financing begins
Mid-Size Multifamily	21–99 units	Syndicators; strong cash-flow focus
Large Multifamily	100–499 units	Institutional syndicators; economies of scale
Institutional / High-Rise	500+ units	REITs; major-market institutional funds

Level 7 Investors focuses on the **12–100 unit range** — large enough to benefit from professional management and economies of scale, yet small enough to find pricing inefficiencies that larger institutional buyers overlook.

Asset Classes: A, B, C, and D

- **Class A:** Built within the last 10–15 years. Modern amenities, premium finishes, high-income tenants. Low risk, lower yield.
- **Class B:** Built 15–30 years ago. Functional but dated. Middle-income tenants. Value-add potential. The sweet spot for many investors.
- **Class C:** Built 30–50 years ago. Older systems, basic finishes, workforce housing. Higher risk and return potential; management-intensive.
- **Class D:** Distressed properties. Very high risk. Generally avoided by passive investors.

Geographic Market Selection

Market selection is as important as property selection. Strong multifamily markets share common traits: population growth, job diversification, landlord-friendly regulations, and rising homeownership costs that sustain rental demand. Level 7 Investors operates across six states — Indiana, Arkansas, Ohio, Kentucky, Tennessee, and Florida.

Why Multifamily Outperforms

Multifamily benefits from a structural supply-demand imbalance. The U.S. has chronically underbuilt housing for decades, while demographic trends — delayed homeownership, urbanization, and household formation among millennials and Gen Z — continue to drive rental demand. Even in economic downturns, people need housing.



Multifamily vs. Other Asset Classes

Asset Class	Income Stability	Liquidity	Inflation Hedge	Passive Access
Multifamily	Excellent	Low	Excellent	Strong
Single-Family	Good	Moderate	Good	Limited
Office / Retail	Moderate	Low	Moderate	Moderate
Public REITs	Good	Daily	Moderate	Excellent
Stocks / Bonds	Variable	Daily	Limited	Excellent

The Multifamily Investment Cycle

Like all real estate, multifamily moves through cycles. Experienced operators time acquisitions to buy at favorable cap rates, execute a value-add business plan, and sell into strength.

- **Recovery:** Occupancy rises from cycle lows; rents recover; little new supply. Best acquisition window.
- **Expansion:** Strong rent growth; rising occupancies; developers break ground.
- **Hyper-Supply:** New supply outpaces demand; rent growth slows. Acquisition discipline is paramount.
- **Recession:** Rising vacancies; rent concessions; distressed sellers emerge. Well-capitalized operators win.

Understanding where a market sits in the cycle — and how your sponsor reads that cycle — is one of the most important questions to ask before investing.

CHAPTER 2

Investment Structures

There is more than one way to invest in multifamily. Your choice of structure determines your level of involvement, legal rights, tax treatment, and ultimately your returns.

1. Direct Ownership

You purchase a property outright, manage it yourself or hire a property manager, and keep all income and appreciation. Works well for small portfolios but demands significant time, capital, and expertise.

2. Real Estate Syndications

A syndication pools capital from multiple passive investors (limited partners, or LPs) under a general partner (GP) — the sponsor — who sources the deal, arranges financing, executes the business plan, and manages the asset. LPs contribute capital and receive proportional returns without day-to-day involvement.

How a Syndication Is Structured

- **Acquisition Fee:** 1–3% of purchase price, paid at close for sourcing and structuring
- **Asset Management Fee:** 1–2% of collected rents, paid monthly for ongoing oversight
- **Disposition Fee:** 1–2% of sale price, paid upon exit
- **Equity Split:** Remaining profits split between GP and LPs — often 70/30 or 80/20 favoring LPs
- **Preferred Return:** LPs receive a preferred return (e.g., 7–8%) before the GP participates in profits

3. Real Estate Funds

A fund pools capital across multiple acquisitions over time, providing instant diversification across markets, asset classes, and deal cycles. Tradeoffs include less transparency into individual assets and fees layered at the fund level.

4. Public REITs

Publicly traded companies that own real estate portfolios. They offer daily liquidity and low minimums but trade like stocks, correlating with equity market volatility. Most tax depreciation benefits do not pass through to investors.

Structure Comparison

Structure	Min. Capital	Liquidity	Involvement	Tax Benefits
Direct Ownership	\$100K–\$1M+	Low	High	Full
Syndication	\$50K–\$100K	None (locked)	Passive	Full
Fund	\$50K–\$250K	Very Low	Passive	Partial
Public REIT	\$500+	Daily	None	Limited

Tax Advantages of Passive Real Estate

Passive investors in real estate syndications often receive K-1 tax forms showing paper losses that shelter distributions from income tax.

- **Depreciation:** The IRS allows deducting a property's value over 27.5 years — a non-cash deduction that shelters cash income.
- **Cost Segregation:** Accelerates depreciation on certain components, front-loading tax benefits.
- **Bonus Depreciation:** Allowed 100% bonus depreciation on qualifying assets in year of acquisition (phasing down through 2026).
- **1031 Exchange:** Upon sale, gains can be deferred by reinvesting into a new property.

Always consult a qualified CPA before making decisions based on tax strategy.

Understanding Accreditation

Many private real estate syndications are offered only to **accredited investors** under SEC Regulation D. You qualify if you meet at least one of the following:

- Annual income exceeding \$200,000 (or \$300,000 combined with a spouse) for each of the past two years
- Net worth exceeding \$1,000,000, excluding your primary residence
- Series 7, 65, or 82 securities license in good standing

Level 7 Investors accepts both accredited and non-accredited investors in qualifying offerings structured under Regulation A+ or Regulation CF frameworks.

CHAPTER 3

Understanding Returns

Return metrics are the language of real estate investing. Before committing capital to any deal, be fluent in the five core metrics below. Each tells a different part of the story — and no single metric tells the whole story.

1. Cash-on-Cash Return (CoC)

Measures annual pre-tax cash distributions as a percentage of invested equity. Answers: *how much cash am I getting back each year relative to what I put in?*

- **Formula:** $\text{Annual Cash Distributions} \div \text{Total Equity Invested} \times 100$
- **Example:** \$8,000 distributions on \$100,000 invested = 8% CoC
- **Target:** 6–10% for stabilized assets; lower in Year 1 of value-add deals

2. Internal Rate of Return (IRR)

The annualized rate of return accounting for the time value of money — factoring in both ongoing distributions and equity returned at sale. The most comprehensive single measure of total return.

- **Target:** 15–20%+ IRR for value-add multifamily over a 5-year hold
- **Caution:** IRR is highly sensitive to exit timing. A deal that sells one year early can show dramatically higher IRR on paper

3. Equity Multiple

Tells you how many times your original investment you receive back in total. Directly answers: *will I double my money?*

- **Formula:** $\text{Total Distributions} + \text{Sale Proceeds} \div \text{Total Equity Invested}$
- **Example:** \$180,000 returned on \$100,000 invested = 1.8x equity multiple
- **Target:** 1.7x–2.2x over a 5-year value-add hold

4. Capitalization Rate (Cap Rate)

The ratio of Net Operating Income (NOI) to purchase price. The primary metric used to value multifamily and compare pricing across markets. Cap rates move *inversely* with property values — a falling cap rate means prices are rising.

- **Formula:** $\text{Net Operating Income} \div \text{Property Value} \times 100$

5. The Preferred Return and Waterfall

Most syndications include a **preferred return** — a minimum annual return (typically 6–8%) that LPs receive before the GP participates in profits. After the preferred return is met, profits flow through a **waterfall**:

- LPs receive the preferred return (e.g., 8% per annum)
- LP capital is returned in full
- Remaining profits split 70/30 (LP/GP) up to a hurdle rate (e.g., 15% IRR)
- Profits split 50/50 above the hurdle — the 'promote'

Reading a Deal Proforma

A proforma models expected income, expenses, debt service, and distributions over the hold period. Here is what to scrutinize:

Line Item	Conservative Range	Red Flag
Revenue Growth	2–4% annual rent increases	> 5% without market data
Vacancy Rate	5–10% economic vacancy	< 3% — too optimistic
Expense Ratio	35–50% of gross revenue	< 30% — likely understated
CapEx Reserve	\$200–\$400/unit/year (older assets)	Zero CapEx reserve
Exit Cap Rate	0.25–0.50% above entry cap	Below entry cap
Debt Terms	Fixed rate, 5+ year term	Short-term floating rate

CHAPTER 4

Assessing Risk

All investing involves risk. In multifamily, the risks are real, knowable, and — when properly underwritten — manageable. The goal is not to eliminate risk but to ensure you are adequately compensated for the risks you accept.

Market Risk

The risk that the overall market or submarket deteriorates due to job losses, population outflows, or overbuilding.

Mitigation: Invest in diversified, growing markets.

Operational Risk

The risk that the property underperforms its proforma due to management failures, unexpected CapEx, or lease-up delays. **Mitigation:** Choose sponsors with a proven track record.

Financing / Interest Rate Risk

Rising rates increase debt service costs and compress values. The 2022–2024 rate cycle stressed many floating-rate deals. **Mitigation:** Prefer fixed-rate, long-term financing.

Concentration Risk

Too much capital in a single asset, market, or sponsor. **Mitigation:** Diversify across multiple deals, geographies, and operators.

Liquidity Risk

Capital is typically locked for 3–7 years. **Mitigation:** Only invest capital you will not need during the hold period.

Regulatory Risk

Changes in rent control, eviction laws, or tax policy can impair returns. **Mitigation:** Favor landlord-friendly markets and monitor legislative trends.

Stress Testing a Deal

Scenario	Assumption Change	Acceptable Outcome
Base Case	Proforma as presented	Target IRR / EM achieved
Conservative	5% lower rents, 3% higher vacancy	Preferred return still met
Downside	10% lower rents, loan payoff at maturity	Capital preservation (1.0x EM)
Catastrophic	30% rent decline, forced refinance	No capital loss

Debt Service Coverage Ratio (DSCR)

Measures whether the property's income is sufficient to cover its loan payments. Lenders typically require a minimum DSCR of 1.20–1.25x. A DSCR below 1.0x means the property cannot service its debt from operations.

- **Formula:** Net Operating Income ÷ Annual Debt Service
- Always ask for the DSCR at acquisition and at modeled stabilization

Macro Risk Factors to Monitor

- **Interest Rate Environment:** Higher rates mean higher financing costs, lower property values, and compressed spreads.
- **Insurance Costs:** In storm-prone markets, insurance premiums have surged, compressing NOI.
- **New Supply Pipeline:** High supply can dampen rent growth for 12–24 months.
- **Local Employment Base:** Single-employer markets carry outsized risk.
- **Property Tax Assessments:** Post-sale reassessments can materially erode projected NOI.

The Bottom Line on Risk: Risk cannot be eliminated — it can only be identified, measured, and priced. The best operators are obsessive about risk management. They build conservative underwriting, hold adequate reserves, use fixed-rate debt, and communicate transparently with investors when reality diverges from projections.

CHAPTER 5

Due Diligence Fundamentals

Due diligence is the systematic verification of everything a seller claims. For passive investors, you are trusting your sponsor to conduct this process rigorously. Understanding what thorough due diligence looks like helps you evaluate whether a sponsor is doing the job right.

Market Analysis

A disciplined sponsor analyzes the market before analyzing a specific property: population growth, employment data, new permit activity, submarket vacancy rates, and rent comps within 1–3 miles.

Financial Document Review

- **Trailing 12-Month (T-12) P&L:** Actual income and expense history. Compare to the seller's proforma — discrepancies are a red flag.
- **Rent Roll:** Snapshot of every unit, its current rent, lease expiration, and payment history.
- **Rent Collection Report:** Percentage of scheduled rent actually collected.
- **Service Contracts:** Existing vendor agreements that may survive the sale.
- **CapEx History:** What has been spent on major systems in the past 5–10 years?

Physical Inspection

A third-party property condition assessment (PCA) should inspect all major building systems: roof, HVAC, plumbing, electrical, foundation, parking, and common areas. The PCA generates an immediate-needs list and a 10-year capital reserve schedule.

Environmental and Legal Review

- **Phase I Environmental:** Identifies recognized environmental conditions (RECs) — contamination that could impair value or create liability.
- **Phase II Environmental:** Ordered only if Phase I reveals RECs. Involves physical soil and groundwater sampling.
- **Title Review:** Confirms clear ownership; identifies liens, easements, and encumbrances.
- **Zoning Verification:** Confirms legal use and identifies any nonconforming conditions.

Due Diligence Checklist

Category	Item	Status
Market	Submarket rent and vacancy comps	Ask sponsor
Market	Supply pipeline (permits, deliveries)	Ask sponsor
Financial	T-12 P&L reviewed vs. proforma	Ask sponsor
Financial	Rent roll analyzed	Ask sponsor
Financial	Proforma stress-tested	Ask sponsor
Physical	Third-party PCA completed	Ask sponsor
Physical	Unit walk-through (sample units)	Ask sponsor
Legal	Phase I Environmental completed	Ask sponsor
Legal	Title review completed	Ask sponsor
Insurance	Insurance quotes received pre-close	Ask sponsor
Financing	Lender appraisal reviewed	Ask sponsor

CHAPTER 6

What to Look for in a Sponsor

If there is one lesson that three decades of multifamily investing has taught us, it is this: **the sponsor is the investment**. A great property in the hands of a mediocre operator will underperform. A good property with an exceptional operator will outperform. Choose sponsors with the same rigor you apply to the deals themselves.

1. Track Record

- How many deals have they completed — not just acquired?
- What were the *actual realized* returns vs. projected on exited deals?
- Have they operated through a full market cycle, including a downturn?
- What happened to their deals during the 2020 pandemic or the 2022–2024 rate spike?

Red Flag: Sponsors who show only projected IRR, not realized returns on closed dispositions. Ask specifically for exit data.

2. Team Depth and Expertise

Look for teams with dedicated expertise across acquisitions, asset management, property management, and investor relations. Understand who is actually doing the work.

3. Alignment of Interests

- How much of their own money is the GP co-investing in this deal?
- Is the GP's compensation primarily performance-tied or front-end fees?
- Does the fee structure include a performance hurdle before the GP promotes?

4. Communication and Transparency

- Do they send regular, detailed investor updates (monthly or quarterly)?
- Do they proactively disclose when a deal is missing projections?
- Are distributions paid on the schedule represented in the PPM?

Request a sample quarterly report from a prior deal before investing. A polished, data-rich update is a strong signal of operational discipline.

12 Questions to Ask Any Sponsor

Category	Question to Ask
Track Record	Can you share realized IRR and equity multiple on your last 5 exits?
Track Record	Have you managed assets through a down cycle? What happened?
Deal	Walk me through your underwriting assumptions for this deal.
Deal	What is your downside scenario, and what happens to investor capital?
Team	Who is responsible for day-to-day asset management on this property?
Team	Do you self-manage or use third-party property management?
Alignment	How much of your own capital are you co-investing?
Alignment	What happens to the promote if the preferred return is not met?
Comms	How often do investors receive updates, and in what format?
Comms	Can I speak with 3 investors from a prior deal as references?
Finance	Is the debt fixed or floating? What is the maturity date?
Finance	What is the DSCR at acquisition and at stabilization?

CHAPTER 7

Getting Started as a Passive Investor

The path from interest to first investment is shorter than most people expect — but it requires deliberate preparation.

Step 1 — Define Your Investment Goals

- Am I seeking current income (cash flow) or long-term wealth accumulation?
- What is my investment horizon? Can I commit capital for 5–7 years?
- Am I accredited? This determines which offerings I can access.
- How much of my net worth should be in illiquid real estate (typically 10–25% maximum)?

Step 2 — Build Your Sponsor Network

- Attend local and national real estate investing meetups and conferences
- Get on the investor lists of 3–5 sponsors whose track records you respect
- Request introductory calls to build relationships before capital is needed

Step 3 — Conduct Your Own Due Diligence

Resist artificial scarcity ('this closes Friday'). A quality sponsor gives adequate time to review the PPM, underwriting, and supporting documents.

Step 4 — Start Small and Diversify

Your first deal should be a learning experience as much as a financial one. Invest near the minimum while evaluating the sponsor's communication and discipline in real time. Over time, build a portfolio of 3–5 deals across multiple sponsors and markets.

Step 5 — Assemble Your Advisory Team

- **CPA (Real Estate Specialist):** Optimize tax strategy, review K-1s, advise on depreciation
- **Securities Attorney:** Review PPMs and advise on your rights as an LP
- **Financial Planner:** Ensure real estate fits your broader asset allocation

Typical Investment Timeline

Phase	Timing	What Happens
Capital Call	At closing	Funds wired to the LLC; deal closes
Stabilization	Months 1–18	Renovations, lease-up; distributions may be light
Hold Period	Year 2–4	Stabilized operations; regular cash distributions
Refinance/Sale	Year 3–7	Capital event; return of principal + profit
Exit	Upon sale	Final K-1 issued; capital fully returned

Investing in private multifamily real estate is a long-term commitment that rewards patience, diligence, and the right partners. The rewards — consistent income, tax efficiency, and inflation protection — are available to those who approach the asset class with discipline.

READY TO INVEST?

Let's build something together.

Level 7 Investors offers accredited and non-accredited investors access to institutional-quality multifamily opportunities across six high-growth U.S. markets.

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