WHITE COAT Realty
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House Hack Your Way to Financial Freedom

Change Your Finances. Change Your Future.

What is house hacking?

House hacking refers to an owner living in one portion of a property and renting out the others.

Transform your financial life with a little creativity and the willingness to think outside the box!

Home ownership seems impossible for many people right now due to budget constraints or the desire for flexibility. What if you could purchase a home, pay very little (or nothing!) every month, and have the freedom to move and still make money on your home as your life circumstances change?

Why consider house hacking?

The **financial benefits** of house hacking are pretty significant. Most people consider their home an asset, but the truth is that real estate is only an asset if it puts money in your pocket each month. House hacking does exactly that. It allows you to grow your wealth in equity and monthly cashflow.

Additionally, there is a **level of flexibility** unique to this strategy. House hacking works in most properties with multiple living spaces, meaning you can consider the following options:

- Live in one unit of a multifamily property like a duplex, triplex or quadruplex (this could be one building with attached units, or multiple buildings on one lot)
- Rent out individual rooms in your single family home
- Purchase a property with an Additional Dwelling Unit (ADU) like a mother-in-law suite or garage apartment

With so many different options, there is flexibility to fit your budget, your cashflow needs, and your lifestyle.

- Looking to gain max cashflow or save as much money as possible? Live in the smallest unit, or one that still needs to be updated, and collect rents on the more expensive units that are larger or nicely renovated.
- Expecting to move in a couple of years? Live in your home until you move, and then rent out your unit and continue earning income from your investment property.

- Do you want to live in an expensive area but desire supplemental income to drop your cost of living? Live in the unit or room you prefer, and earn monthly income from your tenant's rental payment.

Finally, it can be easier to **qualify for a mortgage** (and possible to qualify for a larger mortgage) when purchasing a multi-family property compared to a single family home. This is great news! Home ownership becomes available to folks who:

- Have a ton of debt that makes it hard to qualify for a mortgage (student loans, anyone?)
- Want to own property in a pricy city but need tenants to offset costs
- Need more income to qualify for a home in their area.

Your lender can use up to 75% of the property's current rental income to help you qualify for a mortgage! When determining your debt-to-income ratio, lenders compare your income (including a percentage of the property's income) against your total debt obligations (including debt you'll have with your new mortgage). Including the rental income in this calculation is often a huge benefit in reaching the required debt-to-income ratio.

What are the benefits of house hacking?

For many owners, house hacking is a financial catapult toward a higher savings rate, the opportunity to invest in other properties, and even preparation for a steady source of retirement income. The income from the rented units offsets the owner's mortgage payment and other property expenses such as:

- ✓ Utilities
- ✓ Insurance
- ✓ Taxes
- ✓ Repairs and Maintenance

Collecting rental income every month enables the owner to significantly reduce- or even eliminate- their own living costs. How much of an impact does this really have?

As it turns out, house hacking provides a significant amount of savings for very little (or no) additional down payment. Take a look at the following scenarios comparing the purchase of a Single Family Home (SFH) to different house hack properties and financing types.

1 SFH vs SFH + Additional Dwelling Unit (ADU)

Conventional Mortgage

	SFH	SFH + ADU
Purchase Price	$300,000	$400,000
5% Down Payment (Conventional Mortgage)	$15,000	$20,000
Est Mortgage Payment (@ 4% Interest)	$1,881 Total *$1,360 (Principal & Interest)* *$312 (Taxes & Insurance)* *$208 (Mortgage Insurance)*	$2,508 Total *$1,814 (Principal & Interest)* *$417 (Taxes & Insurance)* *$277 (Mortgage Insurance)*
Gross Rental Income from Rented Units	$0	$1,500
Remaining Mortgage Payment	**$1,881**	**$1,008**
Estimated Annual Savings	---	**$10,472**

**This is an example only. Your results may vary depending on area, market conditions and other factors.*

2 SFH vs Multifamily Property (eg, 4 plex)

VA Loan

	SFH	4 Plex
Purchase Price	$300,000	$640,000
0% Down Payment (VA Loan)	$0	$0
Est Mortgage Payment (@ 4% Interest)	$1,769 Total *$1,457 (Principal & Interest)* *$312 (Taxes & Insurance)* *$0 (Mortgage Insurance)*	$3,776 Total *$3,109 (Principal & Interest)* *$667 (Taxes & Insurance)* *$0 (Mortgage Insurance)*
Gross Rental Income from Rented Units	$0	$3,750
Remaining Mortgage Payment	**$1,769**	**$26**
Estimated Annual Savings	---	**$20,916**

**This is an example only. Your results may vary depending on area, market conditions and other factors.*

3 SFH vs Duplex
FHA Financing

	SFH	Duplex
Purchase Price	$300,000	$400,000
5% Down Payment (FHA Financing)	$15,000	$20,000
Est Mortgage Payment (@ 4% Interest)	$1,887 Total *$1,385 (Principal & Interest)* *$312 (Taxes & Insurance)* *$190 (Mortgage Insurance)*	$2,516 Total *$1,846 (Principal & Interest)* *$417 (Taxes & Insurance)* *$253 (Mortgage Insurance)*
Gross Rental Income from Rented Units	$0	$1,300
Remaining Mortgage Payment	**$1,887**	**$1,216**
Estimated Annual Savings	---	**$8,052**

**This is an example only. Your results may vary depending on area, market conditions and other factors.*

House hacking, in comparison to renting or purchasing a single family home, generates revenue that can provide extra cash, a savings cushion, or funds to re-invest. By spending minimal extra time, you can make significant financial gains. If time is money, then house hacking can generate a great return on your investment!

For those building a real estate portfolio, house hacking is indeed an efficient and potentially **cheaper method of acquiring more rental units**. Loans for non-owner occupied investment properties typically have higher interest rates and require a larger down payment, but by living in your investment property, you can **gain favorable financing terms** and access to financing options specifically reserved for home buyers.

Financing your house hack

Once you've decided you want to house hack, the next step is to get pre-approved for a mortgage. Most buyers use a mortgage to purchase their new home. In addition to conventional mortgages, FHA and VA financing are also popular options. Each has its own benefits and drawbacks.

	Conventional Mortgage	FHA Loan	VA Loan
Down Payment	3%- Single family home 15%- Duplex 20%- 3+ units	3.5%	0%
Mortgage Insurance	Required if less than 20% down; can be dropped after you reach 20% equity	Up front payment of 1.75%, plus an annual percentage until you reach 20% equity	None
Credit Score	620+	580+	620+

Check with your lender for updated terms and regulations. This is an example of what options may be available.

Find the best deal on your loan

Choose a mortgage broker or lender who is knowledgeable and experienced with the loan type that works for you. There are many options for financing your house hack, from "buying down points" to paying off the mortgage insurance up front. Your lender should review your goals and point you toward the most advantageous strategy for your situation.

How to evaluate a property

Before running out to look at properties, take some time to define your goals for your house hack so that you recognize a good prospect when you see it. Decide how much you will spend on a property and what kind of return on investment you expect. Outline your preferred neighborhoods and unit mix so that you are only looking at properties that actually work for you. Then, analyze the numbers to pinpoint properties that have true house hack potential.

Will the property support your financial goals while you are living there?

1. Calculate your rental income. Add the rent amount you will collect from the units you are NOT occupying. Subtract a percentage that you will save to cover periods of vacancy (typically 4-10% of the total gross potential rent, depending on your market).

2. Calculate total monthly expenses. Add insurance, property taxes, utilities, pest control, HOA dues, and any other known expenses. Include a budget for maintenance and repairs.

3. Estimate your mortgage payment. Use a quick calculator like bankrate.com to find out how much you can expect to pay for the principal and interest on your loan.

4 Use this formula to calculate your Net Operating Income (NOI):

Total Income - Total Expenses = NOI

The NOI shows whether you will collect enough revenue to cover the standard costs of running the property.

5 Determine if the property will cashflow by factoring in the principal and interest (P&I) payment for your mortgage along with a savings budget for Capital Expenses (CapEx) like the roof and appliances.

NOI - P&I - CapEx = Cashflow (+) or Cost of Living (-)

If there is additional revenue generated after paying for expenses, mortgage, and CapEx savings, the property has a positive cashflow. Not only are all your living expenses covered, but you also will receive extra revenue every month.

If the revenue does not cover all those categories, owning the property comes with a cost of living. That may not sound ideal, but compare that to your current rent or mortgage for a better idea of how much less your cost of living will actually be... you likely come out *way* ahead!

Plus, you get additional value from equity growth, the tax advantages of owning real estate, and several other benefits that you can explore here.

If the property's cashflow/cost of living meets your house hack expectations, continue your analysis to ensure it will meet your needs should circumstances change in the future.

Would this be profitable as a rental property?

A great house hack is profitable even as circumstances change. What if you receive an offer for your dream job in another city? You want the flexibility to move without taking a loss on operating the property.

Calculate your cashflow using new assumptions. Estimate the potential rental income that the property would generate when all units are rented (including the one you would vacate). Add property management to the expenses (typically 8-10% of rents) and re-run the Cashflow equation. If the property generates revenue as a rental property, it is worth considering further.

Is there potential for improvement?

The best investment properties have room to grow the income or value of the property. What extra opportunities are present? Some ways to raise the value include:

- Finding ways to add additional rooms or rental units
- Raising rents to market rates
- Renovating units to command higher monthly rents and increase the value of the property. You may even be able to renovate and refinance the property through the BRRRR process (coined by Brandon Turner of Bigger Pockets), which allows you to purchase additional investment properties more quickly.

Double check your work

Determining rental amounts, estimated maintenance and a reasonable budget for capital expenditures can be tricky. Build your network of real estate professionals to help you determine what is realistic in your area.

A real estate agent who specializes in multi-family properties is your best ally in understanding the local market. They can provide guidance on rental projections, property values, and maintenance or renovation costs. They can also connect you with reliable, cost-effective service providers.

You bought a property... Now what?

Purchasing the right property is just the beginning of your house hack journey. The way you manage your new investment is crucial in the success of your strategy.

Craft a plan for tenant management

Whether you are inheriting tenants or need to find someone to rent a vacant unit, you need a plan for keeping your units rented, communicating with your tenants, and taking care of your property. How will you, as the landlord, introduce yourself to your new neighbors/ renters? What system will you use to collect rent or have tenants submit maintenance requests? Do you know how to handle security deposits?

A great resource is your local landlord association, where you can gain guidance on your state's landlord/tenant laws, understand any local requirements, and potentially find leases and other forms that have already been vetted by the experts.

Run it like a business

Set yourself up for success. Running your property like a business will allow you to act professionally and follow the law.

- Establish separate bank accounts for your real estate pursuit. You need separate accounts to hold security deposits, accumulate savings for CAPEX, and collect rents each month.

- Check your county and local licensing requirements. Apply for the proper business and rental licenses if needed.
- Familiarize yourself with Landlord/Tenant laws in your state, as well as national Fair Housing regulations.
- Know who you will call when a toilet backs up or the heater stops working. Develop good relationships with your preferred service providers.

Manage your investment

There is a lot to keep track of! Plan ahead and set yourself reminders so you can proactively manage your business.

- Maintenance: Develop quarterly and annual maintenance plans, including property inspections. Respond quickly to maintenance requests.
- Leases: Keep track of lease expirations so you can proactively renew leases or prepare for finding a new tenant.
- Finding tenants: Create a plan for finding and screening new tenants, whether you will do it yourself or hire someone to help.

Change your finances. Change your future.

House hacking is powerful, no doubt about it!

Financial freedom. Savings. A place to call your own.

What do YOU need to get started today?
Check out these other resources for more ideas:

www.whitecoatre.com
www.biggerpockets.com

Let me help you get started!

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