

LEAN HOUSE HACKING CATALOG

the project for

LEAN
URBANISM
MAKING SMALL POSSIBLE

leanurbanism.org

LEAN HOUSE HACKING CATALOG

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the project for
LEAN
URBANISM

Images courtesy of
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Introduction

Lean Urbanism

A primary goal of the Project for Lean Urbanism is to enable more people to participate in building their homes, businesses, and communities. We focus on the following approaches:

- Community-building that requires fewer resources
- Economic development that recognizes the value of small-scale projects and businesses
- Redevelopment that enables local residents and businesspeople to take part in and benefit from a neighborhood's revitalization
- Municipal governance that reduces the regulatory and bureaucratic barriers faced by small-scale projects and entrepreneurs.

And we're developing tools and daylighting techniques to make this happen. That's how we're Making Small Possible.

The importance of housing

Housing is a critical component of community-building. It's the biggest expense for most households, and for most people who own their home, it's their biggest asset. Housing can create wealth for existing and new residents. It can also create opportunities for growing, improving, or preserving a neighborhood.

But housing has become less and less affordable in recent years. Red tape, in the form of regulatory and bureaucratic barriers, has made it increasingly difficult to find or own suitable housing. (More info: www.leanurbanism.org/publications/regulatory-barriers-to-home-construction-and-rehab.) The Project for Lean Urbanism is providing tools and technical assistance to municipalities that want to reduce those barriers. We're helping cities create Pink Zones — areas where the red tape is lightened — to remove barriers in their zoning and building codes and streamline their processes to reduce the burdens that small-scale projects encounter.

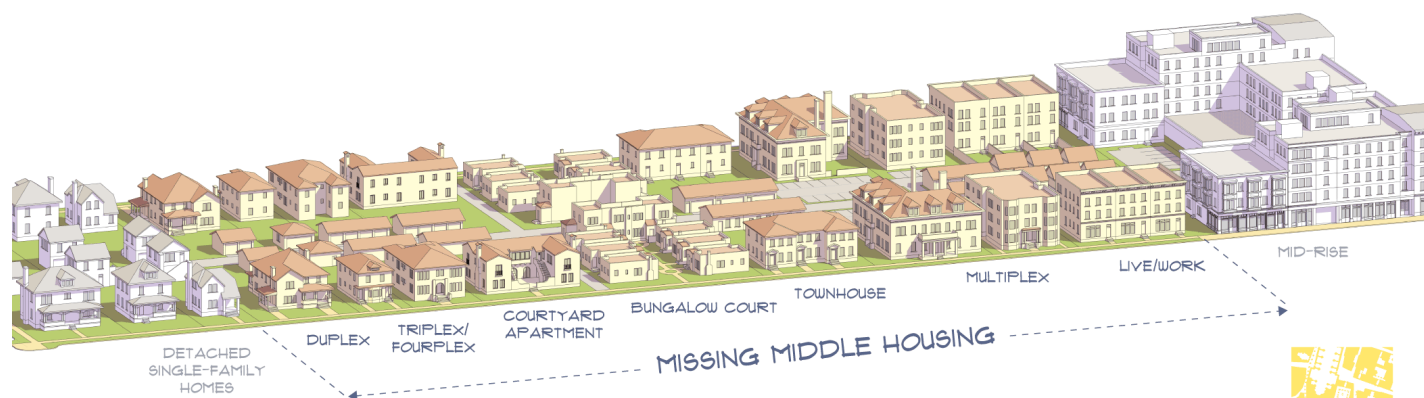
House hacking

We're also providing tools for people to use in their communities. House hacking fits in perfectly with all of our key focus areas. It's a powerful tool for Lean Urbanism. It helps overcome the barriers to entry, and accomplishes individual and community goals. We created this House Hacking Catalog to show how it's possible and to provide inspiration, information and ideas to make it happen.

Missing Middle Housing

Missing Middle Housing is a term that refers to the types of residential buildings — those in the “middle” between single-family detached homes and large apartment buildings — that once were built in cities and towns across the country but are mostly outlawed today. They are typically excluded from many zoning districts, so they're “missing” from the housing supply.

The types of buildings include those in the drawing below. Most if not all of them could be used for house hacking, but this catalog focuses on those that provide one to four dwelling units. Zoning codes often prohibit Missing Middle Housing from being built today, but most cities have neighborhoods where they still exist and are allowed. Existing Missing Middle Housing provides great potential for house hacking because they are often in walkable locations and because so many people — singles, young couples, teachers, professional women, and baby boomers among them — are looking to live without the cost of cars and the maintenance of a single-family home.



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What is House Hacking?

IN THIS CHAPTER:

Overview



Overview

House hacking, put simply, means finding a way to create income with a home to offset the costs of the mortgage. The most common methods of house hacking have historically been renting out extra rooms, renting an apartment above a garage, or living in a duplex or triplex. This manual aims to document a variety of types of house hacking, for both existing buildings and new construction opportunities. It's not a complete instruction manual, but rather is meant to share ideas, stories and to inspire.

What are the benefits?

The most obvious benefit from house hacking is to reduce expenses. Housing is the #1 expense for most people, and house hacking can significantly reduce that cost. In some cases, it can eliminate it entirely, or even turn it into a small profit. And when the house hack is in a walkable location, as discussed later, you might also be able to reduce or eliminate most people's #2 cost, transportation.

House hacking can be especially useful for people in careers or lines of work with



less-predictable, irregular income. For example, artists, architects and people in creative fields that have routine up and down cycles benefit tremendously from a vastly reduced cost of housing that is owned.

In addition, house hacking is an excellent method for trying out real estate as a personal or professional investment. It allows an owner to learn all of the skills he/she will need in owning rental property, with a low entry cost and while living on-site. For young people especially, it's a great way to get started in real estate and small-scale development.

Even for those not looking strictly to make money, house hacking can provide flexibility for their lifestyles and their families. An extra unit or room on your

property can be rented to a family member, for example. An aging parent or grandparent can live on-site. A nanny or caregiver can do so as well. Any of these can save money for the whole family unit, while not necessarily providing direct cash income to the owner. They all can be examples of “aging in place.” The possibilities are too numerous to list, which is why this was a traditional housing approach for many generations (and still is in many parts of the world).

What are the challenges?

Of course, nothing truly beneficial ever comes without some challenges. House hacking means sharing your physical space with other people, either directly or with adjoining floors and walls. It means learning the skills necessary to maintain a property, so that basic maintenance and repairs can be dealt with effectively. It may even mean challenges with lenders and local government regulations, which will be described later. Finally, you might live in a market where housing is so expensive it's difficult or impossible to find a good opportunity. This manual will address several options for you to consider, but it's certainly true that house hacking as described may not work in all markets.

RUNNING THE NUMBERS

The numbers will vary widely market by market and building by building. But here's one sample. In the US, a median existing single-family home sells for about 280K as of this writing. A 30-year mortgage for that median home, at a 4% interest rate, will cost approximately \$1,700 per month.

Imagine you wanted to own a home, but could afford only half of that, about \$850 per month. What could you purchase? A typical single-family home might not be an option with that budget, but you could purchase a duplex for \$280,000, rent out half of it for \$850 per month and end up spending only \$850 per month yourself for the entire property. The numbers might even work better for you depending on the rental market. For example, if one half could be rented for \$1,000, your own mortgage payment would drop to \$700 per month. This path offers great opportunity for those who wish to own property instead of renting.

CASE STUDY: Kevin Klinkenberg #1

My first house hack was a triplex. It was originally built as a large, single-family house in a prosperous neighborhood, but like many such houses of its era, it was converted to three apartments during the Depression and WWII. When I purchased it in 1996, it needed quite a bit of work, as maintenance had been neglected for many years. Everything was dated — electrical systems, plumbing, the roof, you name it. But those factors all worked in my favor. As a triplex, it was outside the norm of what most buyers were seeking. Knowing it needed work also deterred some buyers. All of that combined to keep the price down and affordable for someone like me who was looking for a non-typical arrangement. House hacking is still a minuscule part of the overall buying market today, so it creates opportunity for those willing to see it. If you start looking for a house hack, also bear in mind that you can purchase up to a four-unit building with a conventional mortgage.

I lived in one unit in the triplex, rented out the other two, and gradually improved the house over about a ten-year period. The rent from the other two units paid the entire mortgage, plus a little extra, and I lived rent-free in a comfortable, two-

bedroom apartment. It wasn't as large or nice a place as some of my peers, that's true. But having no housing expense made it far easier for me to take the risk at 30 years old to work as a self-employed architect. In fact, that first year was very risky. I barely made enough money to buy groceries. If I'd had rent or a typical mortgage to pay, I would have been forced to give up the dream and go find employment with someone else. Instead, I was able to scrimp and get by until enough clients came along. After a year, the clients came, and I owe it all to the decision to purchase that particular triplex. It allowed me to be patient and pursue what I really wanted. Whatever your own dream or field of work is, house hacking can give you more flexibility than either renting or owning a typical single-family house.



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A Catalog of House Hack Types

IN THIS CHAPTER:

Building Types
Rental Types
Construction Types



Building Types

House hacking comes in a wide variety of shapes and colors. There is no one-size-fits-all approach, and it's impossible to document every method, so this catalog includes the most common physical types. The terms for each type will vary from place to place, as will the style and form, but this catalog will give you an idea of what is possible.

Important: Anything up to and including four units on a property can be house hacked. (Toward the end, we'll discuss an additional type that mixes residential and commercial uses.)



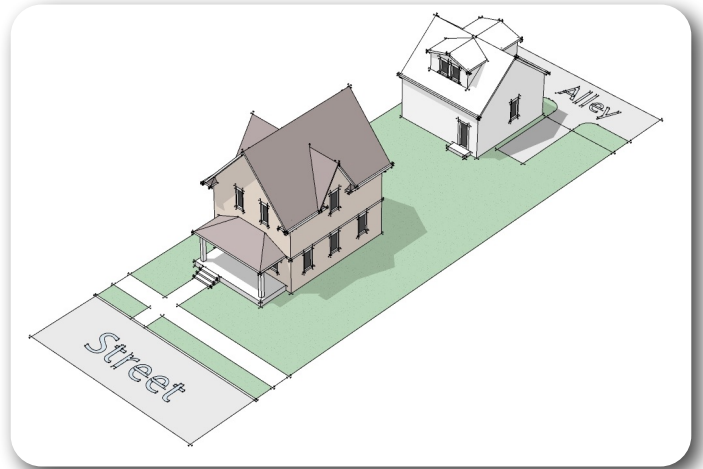
Photo courtesy Sightline Institute Modest Middle Homes Library



Photo courtesy Sightline Institute Modest Middle Homes Library

Type 1: A house, condo, or apartment

The simplest house hack is to buy a single residence and rent extra bedrooms to help pay your mortgage. This can be done in a typical single-family detached house, a townhouse, a condo, an apartment, or any form of home.



Type 2: A house plus an Accessory Dwelling Unit (ADU)

Accessory dwelling units are also known as granny flats, garage apartments, carriage houses, or mother-in-law quarters. An ADU is a separate structure, typically detached from the main house, though it might be linked to the main house with a breezeway or hallway. The ADU can be a garage with an apartment above it, a single-story cottage, or other variations. The idea is to live in the main house and rent out the ADU, but the reverse arrangement might be better for some situations such as empty-nesters ready to downsize.

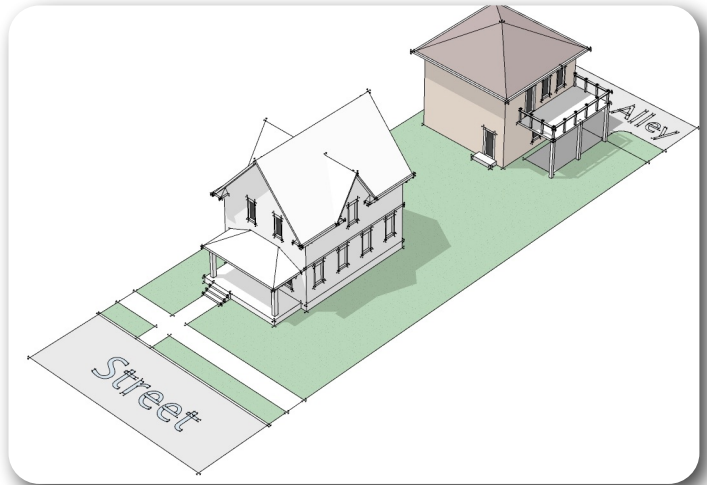


Photo courtesy Sightline Institute Modest Middle Homes Library

CASE STUDY: Kevin Klinkenberg #2

House hack #2 for me happened while living in #1. After about eight years of living in the triplex, I decided I wanted to find an empty lot in a nearby neighborhood and build a new house from scratch. It's a classic architect's dream, or unhealthy delusion, depending on your point of view. At first, I intended to build and sell the house as my first development project. Eventually, I decided to sell house #1 and buy house #2.

The section on Construction Types has more discussion on building a new building versus working with an existing building.

The new house had three bedrooms, two-and-a-half baths, and a spacious one-bedroom apartment above a three-car garage. The truth is that this was not my smartest financial decision. First, I over-paid by quite a bit for the new home. This was right around 2005, when housing was so hot that almost any decision seemed like it would work out just fine, and I fell into that trap. Second, I didn't pay close enough attention to the details. I chose too large of a house for the block and market. But the fact that it had an income-producing apartment allowed me some breathing room and options when I



purchased it. The garage apartment rented very easily, and it helped offset my otherwise foolish choices.

For my fellow architects, there's no better way to design and build your own house, and come out in good financial shape. In fact, experience tells me it's the only way, since we are all inclined to over-design and over-spend on our own projects.

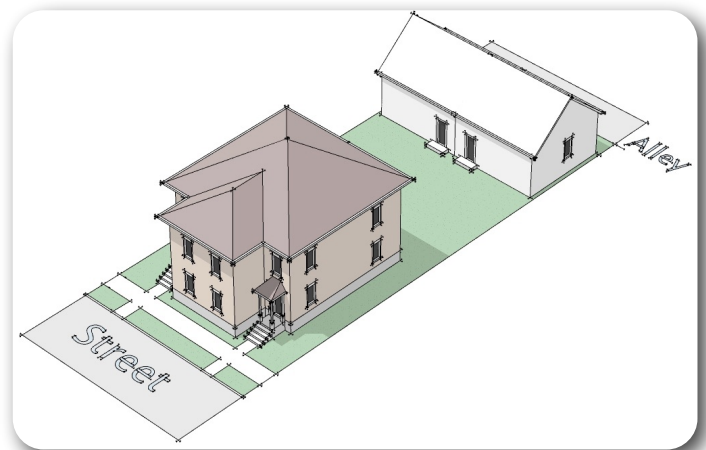
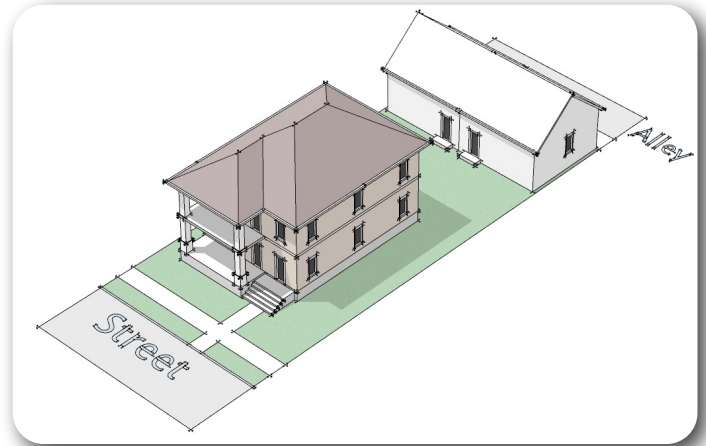
Today, that same house is valued at around \$350,000. That's a mortgage somewhere in the ballpark of \$2,000 with 10% down, today's interest rates, insurance and taxes. The apartment rents for about \$1,000. Simple math says that someone can own and live in that comfortable three-bedroom house for \$1,000 per month. The house is a five-minute walk from the heart of the neighborhood, which includes a couple dozen restaurants, bars and shops. It's a ten-minute bike ride from a supermarket, drug store, and dozens and dozens more eating and drinking options. All of that means an easy car-lite lifestyle, which helps dramatically with transportation costs.

A similarly priced single-family house in the suburbs would not provide the rental income because those areas almost never allow ADUs. And because there's likely nothing to walk to, a couple or family would need an additional car. Together that could add \$1,500 or more per month to the expenses.

With a house hack like this, just the rental income of \$1,000 per month comes to \$120,000 over a ten-year period, not considering rent increases or expenses. Removing \$500 per month for an extra car saves \$60,000 over the same time. If you are able and disciplined enough to invest that combined \$1,500 per month, and it sees an average 7% return over ten years, you've added \$259,500 to your net worth. In ten years. Cut out all the lattes you want, but you'll never touch those numbers. Or another way to look at it is, it dramatically raises the bar on what someone can afford on one modest salary.

Type 3: Duplex

A duplex is simply two dwelling units attached to each other, sharing a common lot. The units could be flat over flat, where they share a ceiling/floor, or they could be two paired townhomes, sharing a common wall. The duplex is purchased as a single property, and the owner occupies one unit while renting the second. It's also possible in some cases to add an ADU to the rear of the property, making three units on one lot. It is also possible to take an existing single-family home, and turn it into a duplex by subdividing the space or building a second unit that is attached.



CASE STUDY: David Kim and family

In 2016, my wife and I, with two young kids, decided to move out of Manhattan to the Village of Tarrytown, a historic river town along the eastern shore of the Hudson that has walkable neighborhoods and a Main Street. The factors that influenced our location choice included a relatively easy commute to Manhattan and what I define as “normal” schools that don’t subject children to placement tests at every level.

We purposefully looked for and found a two-family home in a pre-WWII neighborhood. The house was grandfathered as legal in 1962 when the local zoning ordinance outlawed that type of building. We wanted an income stream to cover part of the housing expenses and room, if needed in the future, to accommodate aging parents.

Our two-family dwelling is equivalent to a single-family house with an attached or embedded ADU rather than two mirrored, equal-sized units. The ground floor originally accommodated a one-story dental office on one side and the living spaces of the larger residence on the other, with four bedrooms above. The dental office was later reconfigured into a

one-bedroom apartment with an accessible bathroom for an aging parent.

We initially rented out our embedded ADU as a long-term rental, but found out rather quickly that a mid-career, single professional who expects relative quiet below two young kids was not a good fit. The vacancy gave us time to make half the changes we wanted in preparation for my aging parents to make the cross-country move from Northern California.

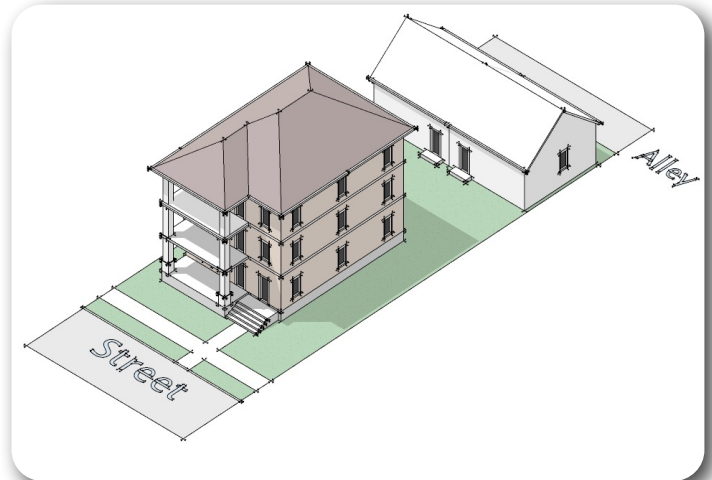
Fortunately, my wife is a saint, and young and old are now together under one roof to benefit from each other’s presence.



Photo courtesy David Kim

Type 4: Triplex

A triplex has three units combined into one structure. The most typical arrangement is for three flats in a three-story building. However, variations are possible with two units on one floor and one on another. In any case, it's purchased as a single property, and the owner occupies one unit while renting the other two. Like the duplex, it's also possible in some cases to add an ADU to the rear of the property, making four units on one lot.



CASE STUDY: Ivy Vann

Our first house hack was a not-great duplex in a pretty okay neighborhood in a small New Hampshire town. We didn't have tenants when we bought it, so the first thing we did was work on the unit we weren't living in. By investing around \$5,000 and hours of scraping wallpaper, we were able to raise the rental value to the point that the income paid for about half of the mortgage. The bottom fell out of the housing market about the time we got ready to sell, which meant that being able to rent both units kept us mostly above water until we were able to sell the building.

For the second iteration we bought a not-great bed and breakfast with an attic apartment. We removed all the terrible corner bathrooms and restored the main two floors to something approaching what they had been in 1895, and we just ignored the attic apartment until someone came along who was desperate for housing. Part of the issue with the attic apartment was that the access was through the house — no separate entrance. This isn't necessarily a deal-breaker for income property: you just have to figure out who you're willing to rent to that you don't mind seeing in the halls



Photo courtesy Ivy Vann

occasionally. We rented to people we already knew who needed a little help — it was our way of contributing to our community. We charged below-market rent, but enough to keep my pony in shoes and oats.

I have always rented to people who came to me through word of mouth and who I trusted to be good tenants. That worked until it didn't. Two tenants ago I rented to a friend's daughter, who turned out to be a hoarder with serious mental health issues. Nowadays I ask for a reference from a previous landlord before renting, no matter who it is. The attic apartment, which has three bedrooms and one bath, most recently rented for \$1,200 a month.

After more than 30 years of dabbling with previously existing accessory units, we

have decided to get serious about using our house to make real money: we're going to create a third apartment in our ridiculous three-story Victorian. This is going to involve spending some serious money to create a stair tower to provide access to the existing attic apartment and a new apartment to be created on the second floor. This will mean constructing the new access, adding a kitchen to the second floor, and doing some third-floor upgrades to get a higher rent.

We will spend about \$100,000 to create a third apartment; in our market we can expect to get about \$1,850 a month for each apartment, for a net income of \$3,500. Mortgage and taxes on the house come to approximately \$4,200, which means we'll have a four-bedroom, three-bathroom house with two parlors, a breakfast room, a dining room, and two screened porches for about \$700 a month.

Using the back-of-the-envelope developer's math of \$1 for every \$100 you spend to create rental property, a return of \$1,000 a month would justify the outlay, and we'll do better than that.

It's not for the intensely private, but for the most part we've never been sorry to have tenants.

Type 5: Four-plex

A four-plex typically has four units combined in a single structure. The arrangements again vary, but most often this has two units per floor, with two floors. The owner can live in one unit and rent the other three. A new four-plex will be required to have a handicapped-accessible unit on the first floor.

One variation on the four-plex is a four-unit cottage court. If built on a single parcel, up to four separate homes can be built and financed as if it were a single building.

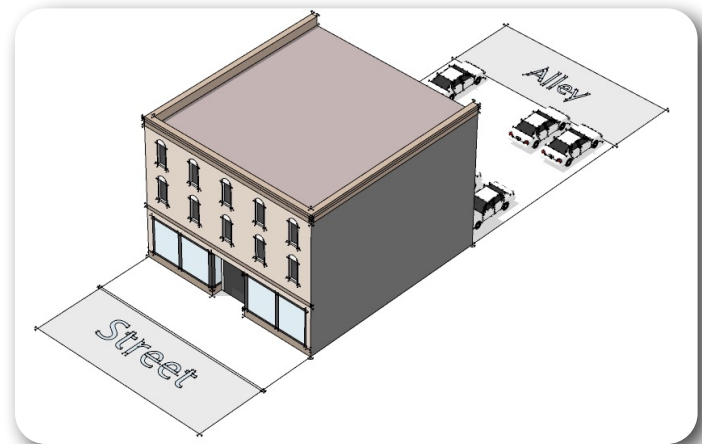
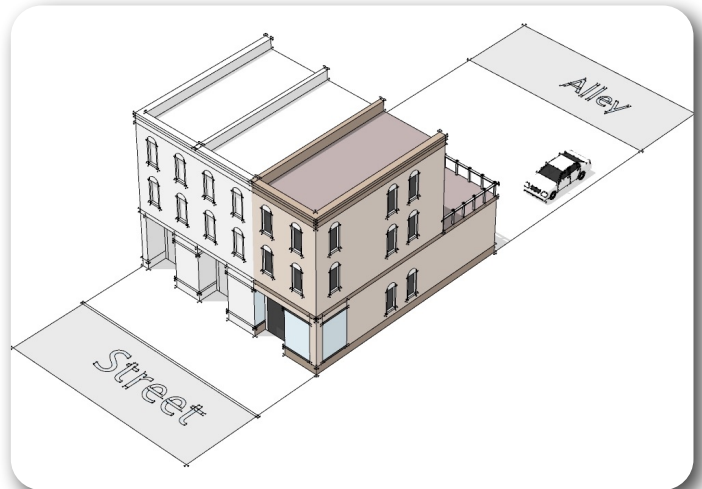
Important: Adding an ADU would push this to five units, disqualifying it from being financed with standard residential mortgages.



Type 6: Small mixed-use building

It's also possible to house hack a building that has a mixture of residential and commercial space. These are generally four residences or fewer, with a ground-floor commercial space. Most often, this is what is called a “main street” type of building, with living space above commercial space. Sometimes this is referred to as live/work, where a single unit is above a workspace. But it need not be just this type alone. In fact, the permutations on this idea are endless. The combinations are only limited by your imagination.

More information on mixed-use buildings is included in the section on financing.



Rental Types

In addition to the variety of building types that can be house hacked, there are also a variety of methods for renting rooms or units. Each of these comes with advantages and trade-offs, and each vary quite a bit by local market. The key is to determine what meets your own specific needs, and balance that with what is viable in the marketplace.

Important: Research landlord and tenant laws and short-term rental laws in your state and city before renting to anyone.

Long-term rentals

The most common method is to simply rent to people for “long-term” rentals. Generally this means a lease of one year or more. This is the largest rental market, so it involves the least amount of work from a leasing standpoint, but it typically generates lower rental income than the other options.

Short-term rentals

This type of rental often carries with it a designation by state law and local zoning, so research this carefully before embarking. In many cases, “short-term” simply refers to anything approximately 30 days or fewer. It may also be noted as vacation rentals, VRBO and more. Today, the most common method for doing short-term rentals is via the Airbnb platform. Airbnb rentals can be quite lucrative in some markets, but also carry with them a great deal of work in terms of leasing, management and cleaning.

Monthly rentals

Rentals that fall in between short- and long-term are sometimes called “monthly” rentals or “month-to-month” rentals. These are leases that may run anywhere from one to 12 months. One- to three-month rentals are the most common. These may be people traveling for work, vacationing for a longer stay, or even in-between homes. Monthly rentals are more work than long-term, but far less than short-term. Likewise, they tend to be more

lucrative than long-term, but not as lucrative as short-term. And you may find it more difficult to consistently keep a room or unit rented.

Family and friends

Of course, you might not be interested in renting to strangers at all. One of the great benefits of a house hack is the flexibility to have extra, dedicated space for family and friends. Perhaps you have an aging parent that you'd like to keep near yourself.

Perhaps you have a family member or friend in a transition stage and they need a place to stay. Having a place to live on your property, but under a separate roof, is a great way to accommodate family and friends while still having private space.

Commercial rentals

Renting commercial space can be very different than residential. Commercial tenants often lease with five-year lease terms. Depending on your building and market, they may also rent "triple net," which means the tenant pays for all utilities, taxes and insurance. It's advised to research your local market extensively before renting to commercial tenants, and potentially work with a commercial real estate broker.

Construction Types

Existing building or new construction?

Often the best way to house hack is to find an existing property, and make it work for you immediately. It's certainly the easiest route, if you can find one. Doing so generally removes any issues with zoning, with building codes, with neighbors and the like. But it's also possible to construct a house hack from the ground-up, with new construction. New construction is generally more expensive than remodeling, but there are advantages that we'll review as well.

First, there's no question buying an existing property and renting it immediately is ideal. For one, it means immediate cash flow to help with the mortgage. If this is your first attempt at house hacking, it's almost always preferable to find an existing property. Even a property that needs some rehabilitation work is still a good option. Anything that shortens your timeline and reduces your risk is positive.

For some existing properties, it might be possible to make some fairly minor

modifications to add even more value and create more income.

Important: Always research and comply with local building and zoning codes. Not only might you put people at risk if you don't, but you could also put your insurance coverage and the money you borrow at risk.

Existing building modification: Add a room or apartment to a basement

It's possible in many locations to finish a basement and make it a completely separate unit or rental room. If your basement isn't already set up for this, be sure to comply with all exiting and fire-safety requirements. For example, modern building codes require the ability to safely exit a basement bedroom through a window. If you can comply with the codes, this is often a great way to use under-utilized space.



Existing building modification: Divide up a home to add another apartment

Again, depending on the construction type and location, you might run into severe limitations due to fire-safety codes. Once you substantially modify an existing building, it's common to have to come into compliance in ways that can be expensive. But if the situation permits and it's affordable, sometimes it's not too difficult to create separate, small apartments out of larger homes. Common major expenses to consider will be exiting (via separate stairs, doors, etc) and fire separation between units.

PRO HACK: What is a kitchen?

Most zoning ordinances have specific definitions of dwelling units (residences) and kitchens. In some cases, a kitchen may be defined as having a hot plate, or in others it might mean a full kitchen with a stove/oven. *Be sure to check your local ordinances.* If you have flexibility, you might be able to modify an existing building rather inexpensively by having a space for a small refrigerator, a small sink, a microwave oven, and a hot plate. This can be sufficient for many tenants. If you're legally able to do so, this is a smart way to create more rentable space to help reduce your mortgage expense.

Below is a typical zoning ordinance definition of a “dwelling unit”:

“One or more rooms arranged, designed or used as independent living quarters for a single household. Buildings with more than one kitchen or more than one set of cooking facilities are deemed to contain multiple dwelling units unless the additional cooking facilities are clearly accessory and not intended to serve additional households.”



Photo credit [Mobilspazio](#)



New construction: Build an ADU

A great way to house hack is to create an ADU on an existing property. ADUs are often relatively inexpensive to build, and as separate structures are desirable for both landlord and tenant. If you are looking to add more parking to your lot, an ADU that is over a garage is also a win-win (though more expensive than a one-story cottage or addition). Again, it's critical here to check your local zoning ordinances and determine what is allowed before proceeding.

PRO HACK: Extension or Breezeway

If your codes don't allow for a separate ADU on the property, you might work around the requirement by connecting the ADU to the main house with a breezeway.

If that won't work, look into building an extension or addition to the house itself. This could be a simple one-story addition with its own entry.

As above, review how a kitchen is defined. If you're not allowed by code to add a second kitchen in the addition, consider doing a small sink, space for a refrigerator and potentially a hot plate. This allows some kitchen functionality for a tenant, and may work around zoning issues.

New construction: Build a new building

The most expensive and time-consuming route to take is to find a lot to build a new structure on. This might be an existing vacant lot, or a lot with a dilapidated building that needs to be torn down. While doing this has the disadvantages noted, it also comes with some clear advantages. New construction generally requires less maintenance. New buildings are usually more energy-efficient, which means lower utility costs, and they are typically easier to insure. Purpose-built house hacks can also allow you to design and tailor exactly how you'll live on site with other households. All of these affect your bottom line and quality of life as the owner, and are worthy of consideration when looking at a potential house hack or project.

CASE STUDY: Kevin Klinkenberg #3

My third house hack was our home in Savannah, Georgia. My wife and I purchased a townhouse (or rowhouse, depending on your lexicon) with two bedrooms, two-and-a-half baths, and a small courtyard in back. This was a newly-built structure from 2008. The property is about 100 feet deep, and came with a two-car garage with a small, but very livable one-bedroom apartment above it.

With this particular garage apartment, we had the option of typical long-term rentals or vacation rentals. For us, the vacation rental idea, while lucrative in Savannah, seemed like more daily work than we

PRO HACK: Everything is for sale

We knew we wanted something like this arrangement, so we sought out a property that interested us, and made an offer for it when it was not on the market. With the help of a realtor acting as our agent, we were able to purchase it this way at a discount to other listed properties in the area. Aside from the house hack itself, this is a good technique for finding something you want. Don't assume a property isn't for sale just because it doesn't have a sign hanging out front or isn't listed on the MLS.

wanted. And, we preferred a more consistent tenant presence since it was our home. (Your mileage may vary. Different strokes for different folks, as they say.) We ultimately landed on a variation on typical rentals that catered to monthly tenants, with a nicely furnished unit. Over the course of the four years we lived there, the rent covered anywhere from 75-100% of our mortgage.

The upside: beyond just the money, having such a low housing payment gave us much more flexibility when our kids came along. It enabled us to more easily and comfortably choose to have one of us as a stay-at-home parent. Having that option, and being able to act on it, has been beyond wonderful for our family. If you have kids, you know what I'm talking about. It makes everything in life with small children more manageable.



3

Issues to Understand

IN THIS CHAPTER:

Financing
Finding a House Hack
Get Started!



Financing

This catalog is not intended to provide instructions for buying, leasing and managing real estate. But there are several issues and topics, in addition to the actual building and rental type options, that you should be aware of before you begin house hacking.

Financing a House Hack

There's no one-size-fits-all approach to financing any home purchase, let alone a house hack. Most loan programs allow anywhere from one to four units to be financed with the most common products. Talk with lenders about your market and their specific products to learn what your options are. As with any home purchase, it's ideal to get pre-approved before going under contract for a property.

Some typical loan programs include conforming mortgages (the most common loan, with 5-10% downpayment required for purchase) and FHA loans, including the 203b and 203k. The 203k is a combination renovation/purchase loan, but comes with a great deal more complexity and regulatory compliance issues. It can work



well for some circumstances, but expect a longer, more involved loan and construction process. Fannie Mae has Homestyle loan programs that are similar to FHA. Discuss each of these with a lender if it looks like those might fit your needs, if you're looking for a lower down payment, or if you are looking to package renovation and purchase together.

VA loans are another option if you're eligible. Finally, for new construction or substantial renovation, you might also consider options for a construction loan or private lending. Each approach comes with its own trade-offs, so be sure to do your homework first.

If you already own a property and are looking to make substantial changes, look

into Fannie Mae Homestyle, FHA 203k, HELOC and construction loan options. All of those may be options depending on your particular situation.

Mixed-use properties

As noted earlier, it's possible to house hack using a combination of residential and commercial uses within a single building or on a single property. Loan programs such as the FHA 203(b) allow up to 49% of the building floor area to be non-residential. If you own a business that needs space, there are even more options available through SBA or with banks. Talk with your lender about your options.

Evaluating a property

Once you have an idea of your pre-qualification limitations and your desired approach, you can better evaluate particular properties. A couple items you'll need to understand and be mindful of as you get to this level include the 1% rule and Net Operating Income, or NOI.

A common rule of thumb for owning rental property is that properties should be able to rent for 1% of your total cost. So if you are looking at a property that costs \$100,000, the 1% rule suggests it needs to

rent for about \$1,000 to make the most financial sense. This may not work in every market or every situation, but it's a good place to start when looking at properties. If you moved out of your house hack, what would be your costs and the likely rents for the entire property?

Owning a house hack is more like owning a small business than owning a home. That means it's good to be aware of simple accounting techniques common to rental property ownership. This certainly isn't required, but it's good knowledge to have. NOI is the sum of your rental income minus all of your expenses. Expenses include taxes, insurance, maintenance, repairs, marketing, utilities and an estimated percentage loss for vacancy.

Gross Rental Income
– Vacancy Loss
– Property Taxes
– Property Insurance
– Maintenance / Repairs
– Utility Expenses
– Other expenses (marketing, licenses)
= Net Operating Income

NOI is another good tool to compare properties and to understand the financial situation while you live in the property, as well as what happens if you move out but continue to own it.

Serial House Hacking

House hacking is also a good way to begin building a portfolio of rental properties. To do this, you could house hack a property, live in it for a year or two, then move into another house hack. Both houses can be financed with residential mortgages, which require much lower down payments than typical investment properties. You could buy the first home with a 5% down payment, and with the help of the rental income, save for the downpayment on another house hack. After satisfying the first mortgage's requirement to live in the house for a time, you could buy and live in the second, repeating the process. Compare this with the 25% down payment often required for commercial loans, and you can see how much easier it could be to create a portfolio.

PRO HACK: Living “Car-lite”

House hacking already reduces the #1 expense for most households. Choosing the right location can also radically cut the #2 expense: transportation.

AAA reported in 2018 that the average cost to own and operate a new vehicle was \$8,849 per year, or \$737.42 per month. There are roughly two cars per household in the country. For many households, especially in the lower incomes, transportation equals or exceeds the cost of housing.

Those expenses are often unavoidable when you live far from work, school, shopping and recreation. But some locations are “car-lite,” allowing you to walk, bike, or take public transportation to do some or all of those things. A single person might be able to live without a car, or a family might be able to live with just one.

The combined effect of reducing or eliminating both the cost of housing and transportation is remarkably powerful. It can supercharge your savings and investment strategies!

Insurance

Most insurers deal with typical single-family or commercial properties, and often don't know how to properly insure a multiple-unit residence. Work through this carefully, and be sure you are adequately covered for any circumstances that might cause damage or total destruction to your investment. Understand your coverages well, because you may even need to educate your insurer about your property.

Taxes

Owning a multiple-unit property will also have tax implications. Property tax law varies widely by state, so do some research on your situation. Make sure to budget appropriately for property taxes while running your numbers.

If your house hack produces income, you might need to file a Schedule E on your federal income tax forms. Consult an accountant to fully understand your obligations and how to best utilize the income and expenses to your advantage. Similarly, when it comes time to sell a house hack property, be sure you understand any implications for capital gains tax.

Maintenance and repairs

As the landlord, you are also responsible for all upkeep and repair issues. Most of these are quite easy, and you can take care of many of them by yourself. But it does help to have a team of people, such as a plumber, an electrician, a handyman, and a heating and cooling technician, at your disposal for more serious issues. It's also wise to consider the possibility that you may eventually move out, keep the property, and hire someone to manage it. Be sure to run those numbers as you do your calculations to see their effect on NOI.

Finding a House Hack

Finding cities and neighborhoods with “Naturally Occurring” House Hacks

As you begin your house hacking journey, it's simplest and easiest to find locations where certain types already exist, or are “naturally occurring.” If you can find neighborhoods that already contain duplexes, for example, you'll be less likely to have issues with zoning and other restrictions, or resistance from neighborhood associations. A few tips for finding the right places:

1. Look for neighborhoods with an abundance of housing built before WWII. House hacking was very common in American life before the post-WWII suburban era, and many neighborhoods are rich with examples. In most regions of the country, there are at least a few such neighborhoods. In some places, there are dozens.
2. Look in neighborhoods that are not considered the most desirable today. House hacking is still relatively new as a phenomenon, and most buyers stick to typical single-family detached houses



and neighborhoods. This creates opportunity for those looking for something else.

3. Anything up to four units on a property can be purchased and financed with a conventional residential mortgage, so don't limit yourself to duplexes or even triplexes.
4. Look in the same types of neighborhoods even if you're looking to construct a new building, because they're likely to have the most flexible zoning and ordinances.
5. Encourage your friends and family to join you, house hacking in the same neighborhood. Working together, you can change the conditions of the block or the neighborhood faster, and increase the value of your properties.

Zoning / Codes / Licenses

As discussed earlier, it's important to have at least a minimal understanding of your city's zoning code in order to effectively house hack. Many neighborhoods simply won't allow it, so you'll have to choose carefully. Also, be aware of certain building code issues noted earlier as pertains to dividing up a property into multiple units. Fire-safety issues are very serious, and must be followed or you could face serious consequences. Finally, be aware of possible city licenses you'll need to be a landlord or rent out property. This is especially true for short-term rental options, which tend to have much stricter city licensing requirements than long-term rentals.

CASE STUDY: Dean Klinkenberg and John Mullarkey

In 1996, my husband and I bought our dream home, a 3,000-square-foot Victorian in an old St. Louis neighborhood. Eight years later, we realized we had far too much house for two people and sold it. We traded it in for a two-family flat, which is St. Louis parlance for a duplex with one unit downstairs and one unit up. We haven't looked back.

We live upstairs and rent out the downstairs unit. Sure, we still have the maintenance that comes with a big building, but we only have to clean half of it. A major benefit is that we gained a reliable downstairs neighbor who looks after the property when we're not around (which is often) and, in exchange for lower rent, takes care of some yard maintenance and occasionally pet sits.

The primary disadvantage is that there are still those building maintenance issues we are responsible for, some of which have to be dealt with right away, like a broken water heater or a leaky water pipe. Besides that, renting a unit comes with

some risk. If you don't choose wisely or if you're unlucky, you could end up with an unpleasant neighbor. We either have good judgment or good luck (or both), as our experience has been nothing but positive.



Photo courtesy Dean Klinkenberg

Get Started!

If you're considering house hacking, here are some simple steps to take.

1. Get pre-approved with lenders and understand the financing.
2. Research your market and find a great property.
3. Run the numbers.
4. Understand the insurance and tax implications.
5. Buy it, move in, get tenants — and tell the world about it!

Additional resources:

<https://www.coachcarson.com/house-hacking-guide/>

<https://affordanything.com/how-i-earned-an-extra-40800-in-two-years/>

<https://www.biggerpockets.com/blog/2013-11-02-hack-housing-get-paid-live-free>

<https://www.youtube.com/watch?v=VsQabHWZqng>

<https://thecollegeinvestor.com/21741/house-hacking/>

<https://millennialmoney.com/how-to-house-hack/>

<https://www.choosefi.com/what-is-house-hacking/>

<https://www.incrementaldevelopment.org/>