HOUSE HACKING

10 WAYS TO LIVE FOR FREE (EVEN IN A SINGLE-FAMILY HOME)

SparkRental

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INTRODUCTION

I live for free.

Before that, I only paid around 30% of my mortgage payment.

How? By finding ways to have other people pay my housing costs.

It's called house hacking, and there are many ways to achieve it. Not all of them require you to move, either. Here's everything you need to know about house hacking, so you can reduce your housing payment to an unpleasant memory.

WHY HOUSE HACK? BEYOND LIVING FOR FREE

Now that I've just finished talking up how awesome it is to live for free, it's time to put that little chestnut aside for a second, because house hacking is about more than just rent-free living.

First, house hacking lets you get started in real estate investing with very little money down. Because you're buying a home to live in yourself, you qualify for owner-occupied financing.

And owner-occupied financing means low interest rates and low down payments.

Later on, we'll review financing options for house hacking, but most of them involve down payments in the 3-5% range. Which is as close as you can get to investing in real estate with no money down.

With lower interest rates, your mortgage payments will be lower than your typical investment property loans. Which in turn means better cash flow for you as a landlord.

Circling back to the whole "live for free" thing, housing is most people's largest expense. People routinely spend 25-50% of their income on housing alone. By eliminating it, you instantly boost your savings rate by 25-50%.

Making it that much easier to buy your next property. And the next one, and the next one after that, to snowball your income with each new property.

MULTIFAMILY HOUSE HACKING OPTIONS

All right, now that you're on board with the *why*, let's dive into the *how*, shall we?

Multifamily properties are not the only option available for house hacking, but they are incredibly effective. Before jumping straight to how to house hack a single-family home, start by considering a small (2-4 unit) multifamily property. Here's how it works.

1. MULTIFAMILY HOUSE HACKING WITH LONG-TERM RENTERS

It's the classic model for house hacking: you buy a multifamily property, move into one of the units, and rent out the other(s). Your neighboring tenants pay you rent every month, and their rent covers your mortgage payment.

Properties with up to four units are classified as "residential" in the US, so you can take out a traditional mortgage to buy them.

For example, check out this case study of how one young man with no real estate experience house hacked a duplex. Not only do his tenants' rent cover his entire mortgage, there's even money left over each month to put towards repairs, vacancy rate, and other rental-related expenses (more on those later).

2. MULTIFAMILY HOUSE HACKING WITH VACATION RENTERS

In some markets, strong tourism can lead to high returns renting out units on Airbnb.

Instead of renting to long-term neighbors, you welcome short-term guests. You don't have to worry about personality conflicts, rent defaults, evictions, pets, poor maintenance and lawncare, or any of the other headaches that sometimes accompany long-term tenants.

Not that short-term rentals are without their risks. They can still cause damage, and vacancy rates can fluctuate by seasonal tourism. Then there's the extra work, especially in laundry, cleaning, and answering questions from guests who have apparently never seen a washing machine before.

You also need to pay for the utilities and furnish the property. Of course, no one says you have to buy all new furniture or decorations – just make sure your décor and furnishings are clean, doesn't show wear, and doesn't clash.

If you're new to vacation rentals, start with these 12 secrets to success for new Airbnb landlords. Then check out our free webinar with Airbnb expert Al Williamson, on how to double your revenue with Airbnb.

Just be careful to check your local vacation rental laws to make sure they don't restrict homeowners. Some cities effectively ban Airbnb – landlord beware.

SINGLE-FAMILY HOUSE HACKING OPTIONS

Not everyone wants to live in a multifamily property. Or, for that matter, to move out of their current home.

Here are four ideas for house hacking single-family homes, to cover some or all of your mortgage or rent payment.

3. HOUSEMATES

In my first home, my housemate paid nearly three-quarters of my mortgage payment.

While we didn't know each other initially, we grew to become close friends over time. Eventually, she and her boyfriend (now husband) met Katie and I in Italy for a week of romping around Genoa and Piedmont wine country.

Some called me "lucky" to have found such a great housemate. But the truth is I vetted Erika carefully, running tenant screening reports on her, asking dozens of questions about her personal habits and lifestyle. And she grilled me in return, to make sure we were a good fit to live together.

We asked each other questions like:

- When do you normally go to bed and wake up?
- How often do you think the house should be cleaned?
- Which chores do you hate? Which chores do you not mind?
- How often do you like to cook?
- Do you have a significant other? How often do they sleep over?
- Do you like having friends back to the house? Throwing parties? How often?

And so on.

One final perk of housemates: they split your utility bills with you too, so you slash those as well.

Housemates are a great way to cover your housing payment, just be prepared to compromise. It's not a free lunch – you give up some privacy and personal space. In return, you can supercharge your savings rate and put more money towards investments and financial independence.

4. RENT ROOMS ON AIRBNB

Hate the idea of sharing your home with a housemate?

You can alternatively rent out rooms in it short-term to guests.

It comes with its own set of tradeoffs, as outlined above. Less consistency, more cleaning, you pay the utility bills; you get the picture.

Still, it can be a great way to rake in some rent without the compromises inherent in living with a roommate. And you're not limited to just renting rooms either – why not rent out your entire home when you're not using it? For example, when you're traveling, or spending the weekend at your parents' house, or at your boyfriend's place.

My cousin listed her entire home as permanently available on Airbnb. Whenever someone booked it, she simply crashed with her boyfriend. It took about ten days a month being rented in order to cover her entire rent payment!

Check out these Airbnb marketing tips to drive more bookings and keep your vacancy rate low.

5. RENT OUT STORAGE SPACE

Before you get too excited, bear in mind that this tactic is the least lucrative on this list, and will almost certainly not cover the majority of your housing payment.

But it also requires the fewest headaches and sacrifices on your part.

My co-founder Deni did this, renting out most of her large, detached garage at her former home. Someone paid her $300 a month to store their stuff there, and Deni never saw them. They had a key to the garage (but not her home). and came and went as they pleased – which was almost never.

Another advantage to renting out storage space: if renters don't pay the rent, you can "evict" their stuff quickly and inexpensively. It's nothing like the long, drawn out eviction process for residential renters.

Check out SpareFoot.com as one option for renting out your spare storage space, and enjoy some stress-free income!

6. Foreign Exchange Students

When Deni first started this business with me, she was a bit cash-strapped after our startup costs. Her children had all moved out of her suburban home, leaving her with a large home with an equally large mortgage payment.

But she and her husband Jerry weren't ready to downsize just yet, and they love kids, so they got creative. After a little research, they discovered an exchange student placement program that pays a generous monthly stipend to hosts.

They soon welcomed Alex, a teenager from China on an exchange. While they only planned to host Alex for a single school year, they fell in love with him and offered to let him return the following year.

He's now going into his third school year living with Deni and Jerry. And all the while, the placement service pays over half of Deni and Jerry's mortgage!

If you're interested in the details, send us a quick message asking about it, and we'll connect you with the program.

ADD A SEPARATE UNIT TO A SINGLE-FAMILY HOME

There's a third option: convert your single-family into an effective multifamily.

No, you don't need to jump through legal hoops like rezoning the unit (unless you want the property legally convey as a multiunit when you go to sell). But you do need to make the unit self-contained, including:

- A kitchen or kitchenette (including a refrigerator, microwave, sink, and some means of cooking food)
- A full bathroom
- A separate entrance

Note that a mini-refrigerator, jumbo toaster oven, and hot plate could do the trick for a kitchenette. I've seen worse in New York City.

You're familiar with in-law suites. But I'm pretty sure you'd prefer to use them as income suites, for paying guests who you can kick out. Unlike your in-laws.

Here are a few ideas to get the creative juices flowing.

7. ADD A BASEMENT APARTMENT

You know what most people use their basements for? Storing Christmas decorations and boxes of old junk.

Which is about as useful as a screen door on a submarine.

Instead, convert your basement to an income suite. To be practical, the basement should already have its own separate entrance. You may need to add a full bathroom, and you'll almost certainly need to add a kitchen or kitchenette.

The basement should ideally have climate control, but if not don't sweat it. Most basements are inherently cooler than the rest of the house, and for the winter, you can always provide a space heater if need be.

Just make sure the local demand justifies the expense, before you go through the hassle of creating a separate basement apartment.

8. ADD A GARAGE APARTMENT

Alternatively, or additionally, consider converting your garage into an apartment.

Like basement apartments, some garages lend themselves better than others. Large, well-insulated garages work best. In some cases, you can build the apartment over the unfinished portion of the garage.

You know the drill: separate entrance, full bathroom, kitchen. Run the numbers of course (more on that shortly).

Keep in mind that your garage may not be insulated, and should ideally have some form of climate control. Space heaters or pellet stoves are an option for heat. But unlike basements, which remain cool both from being underground and being the lowest point in the house, garages may also need cooling. Window units are an option however, to avoid adding ductwork.

9. BUILD A CASITA/GUEST HOUSE

A casita or freestanding guest house is another option. You can even buy a tiny home cabin kit on Amazon for as little as $3,000, and build it yourself in eight hours!

Sort of. Those basic kits don't come with electricity, running water, kitchens, bathrooms, or climate control. So there's that to think about, too.

Still, you see the possibilities: if you could build a freestanding casita for $20,000 and rent it for $1,000 a month, the project could pay for itself in under two years. Which says nothing of the additional resale value.

You can also rent out guest houses on Airbnb listed as "entire home," if you didn't want to rent long-term to tenants. I've stayed in guest houses on Airbnb before, and for that matter in above-garage apartments. All positive experiences.

And, of course, if your aging parents ever need to come live with you, at least you can put them under a separate roof.

10. OR: GET A JOB THAT OFFERS FREE HOUSING

Last but not least, you could always get a job that provides housing. Katie and I do this currently: the school where she works pays for our furnished apartment.

It's standard practice in international education, where teachers and administrators live for free. But plenty of other jobs provide free housing as well, including:

- Groundskeeper/caretaker
- Live-in caregiver
- Au pair
- Travel nurse
- Park ranger
- After-hours security
- Property manager/superintendent
- Diplomat/Foreign Service officer

…and many others. While it's a type of house hacking largely outside the scope of this article, it's worth mentioning nonetheless.

FINANCING OPTIONS FOR HOUSE HACKING

As touched on above, you can use conventional mortgages to house hack.

While we cover this topic at length elsewhere, here are a few ideas to get you started on your house hacking mortgage search.

CONFORMING LOANS

When you think of a conventional mortgage, you're most likely thinking of conforming loans, which meet Fannie Mae and Freddie Mac guidelines.

These tend to be low-cost loans for high-quality borrowers. If you don't have great credit, read up on how to build credit fast to qualify for a cheap conforming loan.

You can compare today's interest rates and fees for different conforming loans on LendingTree. And while you're at it, read up on these new Fannie Mae and Freddie Mac loans with as little as 3% down.

FHA LOANS

FHA loans are specifically designed to help borrowers with lower credit buy a home.

The good news: they only require a 3.5% down payment, for borrowers with credit scores as low as 580. Interest rates also tend to be low, considering the flexibility of the loan requirements.

The bad news is they cost more than conforming loans, and borrowers can no longer remove the mortgage insurance premium (MIP) after the loan drops to 80% of the property value. It's due for the entire life of the loan. In the duplex house hacking case study above, Tim used an FHA loan.

You can also compare FHA loan terms on LendingTree, for quick loan quotes and terms.

FHA 203K LOANS

Considering a property that needs work? Hard money loans aren't your only option.

You can borrow an FHA 203K loan, that allows up to $35,000 for property repairs. It's a great way to finance a fixer-upper.

FANNIE MAE HOMESTYLE RENOVATION LOANS

As the conforming alternative to FHA 203K loans, borrowers with strong credit can buy with a Fannie Mae Homestyle Renovation loan.

They come with their own restrictions, so talk to a lender before making any offers.

VA LOANS

If you've served in the armed forces, you likely qualify for a Veterans Affairs (VA) loan.

These loans are extremely low-cost, and in some cases require no down payment at all. Once again, talk to a lender to explore your eligibility and loan terms.

ANALYZE HOUSE HACKS LIKE INVESTMENT PROPERTIES

Stop thinking like a homeowner already! Shift your mindset to think like an investor.

It starts with running the numbers. Use a rental income calculator to forecast your rental cash flow on the property, even though you'll be living there yourself.

Make sure you understand the fundamentals of forecasting cash flow. You need to know how to estimate expenses like vacancy rate, maintenance, repairs, property management costs, and so on.

HOUSE HACKING CALCULATOR

To make things even easier on you, try out this house hacking calculator to estimate your housing costs for any property:

Visit this link to access the calculator

DOWNSIDES TO HOUSE HACKING

While house hacking is indisputably awesome, it's now without its cons.

Before you buy a property to house hack, make sure you understand and accept the following downsides.

YOU HAVE TO BE BOTH LANDLORD AND NEIGHBOR/HOUSEMATE

It's not always easy to wear multiple hats.

When you rent to a housemate or a neighbor, you have two separate but entangled relationships. If they don't pay the rent, or cause damage, or otherwise violate the lease agreement, you need to charge late fees and file to start the eviction process.

But in your day-to-day interactions, your relationship is that of neighbors or housemates. Who cleans what, noise issues, who gets access to the bathroom when; these are all completely separate from your landlord-tenant relationship.

Be sure to collect detailed rental applications from all prospects, and run tenant screening reports including credit reports, criminal reports, and eviction reports. Verify their income and employment, talk to current and former landlords, and otherwise conduct a thorough tenant screening.

You can also insure against them defaulting on the rent and needing to be evicted. Insurance companies like Rent Rescue will pay you the rent if your tenants default!

Finally, have an additional set of questions at the ready to evaluate them as a housemate or neighbor. Just because they pay rent on time doesn't mean they won't drive you crazy with their dirty dishes or late-night movie marathons.

SPEED LIMIT: ONE PROPERTY PER YEAR

When you take out an owner-occupied mortgage, you agree to live there for at least a year before moving out.

That means you can only buy one property per year by house hacking.

CREDIT REPORTING LIMITS

Owner-occupied mortgages report to the credit bureaus, for your personal credit report.

If that doesn't sound like a problem to you, consider that most mortgage lenders put a limit on the number of mortgages you can have. And not a high one, either: the standard cap is four mortgages max.

Which makes house hacking a great way to get started in real estate investing, but not a scalable way to invest in real estate in the long term.

THE INCONVENIENCE OF MOVING

One final drawback: house hacking requires you to live in the property, which means that every time you buy a new property to house hack, you have to move.

And let me tell you: moving every year gets old. Fast.

It can also affect your children's school districting, your marriage, and your sanity.

All of which brings us back to the same point, that house hacking is great for getting started in real estate, but only for your first couple properties.

TYING IT TOGETHER

I love house hacking as a way to live for free and buy your first rental property or two with almost no money down.

But it's not scalable, and it can only take you so far. Use it to maximize your savings rate, and to start setting aside more cash for future rental properties.

Then use investment property loans to build your portfolio from there.

And no one says you have to live in a multifamily property if you don't want. Get creative with it, and house hack your single-family home if you like!

Happy house hacking, and here's to living rent-free forever.

What have your experiences been with house hacking? How are you planning to do it moving forward?

Connect with us on social!

ABOUT THE AUTHOR

G. Brian Davis is a landlord, real estate investor, and co-founder of SparkRental. His mission: to help 5,000 people reach financial independence by replacing their 9-5 jobs with rental income. If you want to be one of them, join Brian, Deni, and guest Scott Hoefler for a free masterclass on how Scott ditched his day job in under five years.