



What are multi-family homes?

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Multi-family homes can be a great way for novice real estate investors to get started buying properties that will generate passive income. However, these properties have some challenges that single-family homes don't have. If you're considering buying a multi-family home, here's what you need to know before jumping in.

What is a multi-family home?

A **multi-family home** is a single building that's set up to accommodate more than one family living separately. That can range from a duplex, which has two dwellings within a single building, to homes or small apartment buildings with up to four units. (Buildings with more than four units are considered commercial properties.)

The owner of a multi-family home can either live in one of the units and rent out the others, or live on another property and rent them all out. If you don't live in the property, you're considered an investor, and the [rules for getting a mortgage](#) are different.



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What's the difference between a single-family home and a multi-family home?

While you can rent out some or all of a single-family home, multi-family homes have some characteristics that you won't find in a traditional house. Each unit in a multi-family home has a different address, their own kitchens and bathrooms, and, typically, their own entrances.

"When you're looking at a single-family home, you're thinking about your own needs only," says Charlotte Winckowski, a sales associate with ReMax Central Group in Toledo, Ohio. "When you're looking at a multi-family home, you have to think of it more as a business. What will the needs of your tenants be? What kinds of income will it produce, and what will your expenses be?"

Some multi-family homes started out as large single-family homes that an owner or developer decided to divide into more than one property. Those living in multi-family homes may have less privacy than those living in single-family homes because of shared walls.

You may be able to use the projected rental income from the property to help you qualify for a mortgage, and you may also qualify for a higher loan amount if you're purchasing a multi-family home.

Pros and cons of living in a multi-family home

Pros

- The income the property earns from renters can help offset the cost of your mortgage and other housing expenses, providing you with an income stream. "For some owners, the rent is enough that they don't have a house payment at all," says Paul Wyman, managing broker of the Wyman Group in Kokomo, Indiana. "They're able to use income from other units to cover their mortgage, (property taxes and homeowners) insurance, and that frees them up to use their cash for other things."

- You'll be able to tackle repairs and maintenance more easily. If you live in or close to your rental property, it's less likely that you'll miss major issues and you'll be able to respond faster when problems arise.
- You can write off much of your home maintenance as a business expense and pro-rate part of your mortgage interest payments.
- This could be an ideal option for multi-generational families who want to be close but retain their privacy (or helps you keep the option open in the future).
- If you ultimately move out of the property and into your own home, you can still keep it as an income-producing investment, earning even more once you start renting out your own former unit.

Cons

- Since you're buying more than one dwelling unit, it may cost more upfront to purchase a multi-family home than it would to buy a single-family home.
- Being a landlord is a time commitment, and living in the immediate vicinity of your tenants means you may get knocks on your door at any time for questions about maintenance or repairs. You'll also need to make sure that you're comfortable negotiating lease terms and screening your tenants.
- If your units go vacant or a tenant is late with the rent, you're still responsible for paying your mortgage. You also have to cover the cost of (quickly) repairing problems like a leaky roof or clogged toilet. "Even if you don't have a housing payment every month, there is still financial risk in multi-family homes," Wyman says.
- You'll need a substantial emergency fund. The more units you have, the less impact an individual unit will have on your overall cash flow, but landlords should have an emergency fund set aside to cover unexpected repairs as well as rent on vacant units.
- It can be more complicated to sell a multi-family property that has tenants, since you'll need to coordinate showings and appraisals — and keep the tenants apprised of the process.
- You need to be able to deal with tenants in a business-like way when the rent is overdue, there are issues with noise or there's damage to the property, to name but a few of the problems that landlords face.

Maximizing returns on a multi-family home

In most cases, a multi-family home will also serve as an investment property for the owner. Real estate remains America's top choice for long-term investments.

In order to maximize your investment, it's important to understand the costs associated with the property, including not only your mortgage, property taxes and homeowners insurance, but also other expenses such as utilities, advertising (to attract tenants) and legal fees.

"An evaluation of the property should include an inspection by a licensed inspector and market research to include a market lease-rate analysis along with current market rental conditions," Wyman says.

Who are multi-family homes best for?

Multi-family homes are best for those who are interested in getting into real estate investing and are comfortable with the added responsibility and time commitment that comes with being a landlord. They can also be a smart choice for multi-generational families interested in buying a property together while having their own dedicated space.

Learn more:

- [15 best questions to ask when buying a home](#)
- [Best and worst cities for first-time homebuyers](#)
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