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House Hacking 101: How to Live for Free (or Cheap) in 2024



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House hacking means you live in one unit of house (often a duplex, triplex, or quadriplex) and rent out the remaining units. Basically, you're signing up to be a live-in landlord.

House hacking is an accessible form of real estate investing. It gives you the benefit of earning passive income on your home while paying off your mortgage faster — without the weight of owning an entire multi-unit apartment building.

But it's a lot of responsibility, and you risk having higher costs than you can afford if you can't find a tenant. If you don't have the bandwidth to take on landlord duties, house hacking is probably not for you.

The housing market will be the biggest factor in how you approach house hacking — but the good news is that you can scale it up or down to match what you can even afford.

What is house hacking?

How house hacking works

1. **Find an empty 2- to 4-unit house.** Traditionally, house hacking involves living in one unit of a duplex, triplex, or quadriplex (although it may also work with a single-family home). But you can also hack a guest house, converted garage, or mother-in-law suite.

   If you want to start even smaller, buy a single-family home and rent the extra bedrooms. Just make sure you have enough bathrooms — and that you're okay sharing your space with strangers!

Many lenders won't underwrite a house with more than four units, and it may be more than you can handle without taking on full-time responsibilities or hiring a property manager.

2. **Finance your purchase.** Buying with the intent to house hack isn't too different from a traditional home purchase since you'll live in it. However, if you're counting on having a low down payment, know that most government-backed loans restrict rental properties and how long you live there.

   Tell your lender about your plans to have tenants as they may offer you loan options with a lower down payment or a favorable interest rate.

3. **Find tenants.** After you close on the house, you can start looking for renters. A good rule of thumb is to charge 1% of the home's value as rent, and for tenants to earn three times the rent. This is referred to as the 1% rule in real estate.[1]

   So, for a $225,000 house, you might charge a monthly rent of $2,250 (1%) per unit. In that case, your ideal tenant may earn a gross monthly income of about $6,750.

Read a real-life house hacking breakdown from Clever's co-founder.

House hacking in 2024: Is it worth it?

Despite a tight housing market, house hacking is definitely still possible — even for first-time buyers. Higher housing prices and mortgage rates are squeezing margins, but the savings can make it a smart strategy.

Let's say you buy a large five-bedroom house for $625,000, put 20% down on the loan, and rent out four rooms at $800 each. Here's how it can work:

Expense	Annual cost	Monthly cost
Mortgage (at 7% APR)	$39,924	$3,327
Property taxes	$3,000	$250
Insurance	$1,000	$83

Expense	Annual cost	Monthly cost
Repairs and maintenance	$1,500	$125
Vacancy rate (5%)	$1,933	$160
Total expense	**-$47,357**	**-$3,945**
Rent from tenants	+$38,400	+$3,200
Out-of-pocket costs	**-$8,957**	**-$745**

The rental income from the four rooms would cover ~87% of your mortgage, leaving you to pay just $745 monthly for everything else. Compare that to paying the full monthly mortgage plus taxes, insurance, and other expenses if you lived there alone.

MORE: 5 Best Ways to Invest $10k in Real Estate

Is house hacking right for you?

House hacking could work for:

- Those who work from home, are handy, or can afford contractors
- Singles or couples who don't need a ton of exclusive space
- Families that want to rent out units to family members (kids, siblings, in-laws) at discounted rates

It's not for you if you:

- Live in an expensive market — if you can't afford a house for yourself, you likely won't be able to finance a rental property
- Don't have the bandwidth to be a landlord
- Need more space than a single apartment unit to yourself, especially if you have a large family (most apartments have 1–3 bedrooms)

Top real estate investing markets

Our state guides provide detailed insights into the top real estate investing markets across all 50 states. We analyze and rank the top 5 markets in each state based on key metrics such as property values, population trends, economic indicators, and more.

AL | AK | AR | AR | CA | CO | CT | DE | FL | GA | HI | ID | IL | IN | IA | KS | KY | LA | ME | MD | MA | MI | MN | MS | MO | MT | NE | NV | NH | NJ | NM | NY | NC | ND | OH | OK | OR | PA | RI | SC | SD | TN | TX | UT | VT | VA | WA | WV | WI | WY

If you already own a big house or building but don't want to be a landlord because it doesn't fit your long-term goals, you have a couple of alternative options for making the most of your space.

- **Rent-to-own:** You can offer your tenants a rent-to-own contract — they'll eventually buy out the unit.
- **Vacation rentals:** You can host short-term guests. Private spaces are more popular than shared spaces. But you'll need to pay a fee to a hosting platform, such as Airbnb or Vrbo, and keep the rental space in hotel-level quality.

If you're just starting to invest in real estate, consider a rehab loan instead of house hacking. It'll allow you to buy a fixer-upper for cheap, rehab it, and live in it for 3 to 5 years. You can pay less for it and then sell it for more.

House hacking pros and cons

Pros	Cons
✓ Smaller mortgage payments	✗ Extra responsibilities
✓ Faster mortgage payoff	✗ Extra carrying costs
✓ Easy wealth-building	✗ Extra taxable income
✓ Flexibility	

One of the key benefits of house hacking concerns is that it pays for itself. Depending on how high you set the rent, you can take advantage of smaller out-of-

pocket mortgage payments. You can also use that extra cash to pay off your mortgage faster (and gain equity) or other expenses, like insurance.

With house hacking generating passive income — earning money with relatively little effort or input — a few months of high occupancy can start netting you some profit. That can offer you flexibility to continue investing, expand your portfolio, or even scale back a full-time job if you're doing well.

Since you're setting the rent, you also have the flexibility to charge rents that could help you pay the bills or be competitive enough to attract and retain tenants. You can even allow family members to live with you at reasonable rates.

But there's always risk and responsibility to house hacking, as with all forms of investing. As a landlord, you'll have to:

- Find and vet renters
- Ensure you're following local landlord and tenant ordinances
- Be available for repairs and emergencies (or have reliable contractors)
- Pay carrying costs when you can't rent out other units — this is called the "vacancy rate"

If you decide that house hacking isn't for you anymore, you may have a hard time selling the property. Multi-family homes are less popular than single-family, and coordinating around tenants introduces its own complexities — for example, transferring leases.[2]

Your best bet would be to sell to another investor. Free services like Clever Offers and Sundae help you find and compare cash offers for homes with renters.

Get competing cash offers — no strings attached

Compare multiple offers from trusted cash buyers in your area against the sale price you'd get with an agent. Clever Offers is free, and there's no obligation to accept an offer from our investors. Simply tell us about your property, and we'll do everything we can to get you the best possible price for your home.

Get Cash Offers

Plus, any additional income is taxable; see the IRS guidelines on Rental Real Estate Income.

House hacking real-life example from Clever +

Finding a property to house hack +

How to finance a house hack

Buying a house for yourself or to house hack is essentially the same. For the most part, if you're using a government-backed loan, you only need for the home to be your primary residence.

Loan type	Down payment	Minimum credit score	Other fees
Conventional	5–20%	620	PMI
HomeReady	3%	680	PMI
Home Possible	3–5%	660	PMI
FHA loans	3.5–10%	580	PMI
VA loan	$0	580	1.25–2.4%
USDA loan	$0	Varies	1%

Conventional loans

A traditional loan from a bank or mortgage lender works best for home buyers with an average credit history, who can afford the same interest rate for the entire loan

duration. Most lenders require a 20% down payment but will accept less if you pay private mortgage insurance.

If you're planning on investing in real estate, conventional loans could give you the flexibility to start with one house and then expand to other properties.

HomeReady (Fannie Mae)

HomeReady loans are designed for low-income households to start house hacking. Some of the lowest down payment requirements on the market make HomeReady perfect for getting into homeownership. You still need average credit, though.

Some additional perks:

- Flexible down payment sources, including from other grants and projected rental income
- Extra $2,500 for very low-income borrowers toward down payment or closing costs
- Reduced mortgage insurance rates

Home Possible (Freddie Mac)

Home Possible loans can be great for lower-income households who want to house hack once — but not necessarily pursue a bigger real estate investment portfolio. That's because borrowers can own two properties, with a max of four units.

» Learn more about Fannie Mae and Freddie Mac loans

FHA loans

FHA loans are best for borrowers with a poor credit history and relatively low debt, including first-time buyers and seniors. Because you're putting down only 3.5%, you have to pay a potentially high PMI, so make sure you have enough income to cover your monthly payments.

An FHA loan could be a good way to finance a house hack — though probably not for medium-term real estate investing. That's because you have to live in your home for three years, so you wouldn't be able to move onto a new house hacking venture as soon as the first one becomes profitable.

Note: FHA mortgages have varying requirements depending on the household size, regardless of whether all members are on the mortgage. Having boarders in a single-

family house can maximize the benefits of an FHA loan: their rent payments will help cover the mortgage, providing flexibility in the type of house you can buy and manage.

FHA Section 203(k)

Section 203(k) is a rehab loan. If you buy or refinance a house that's at least a year old, you can renovate it and, get paid back by the FHA, then let out the remaining units. Rehabilitation projects might include:

- Repairing major structural issues (e.g., roof, foundation, HVAC)
- Making changes for improved functions and modernization.
- Updating large appliances
- Adding accessible features

You can also add or convert a garage, which can then be used for rental income.

VA loans and NADL (Native American Direct Loans)

You'll likely get more competitive interest rates if you're a veteran, active duty service member, or married to one.

That, plus a $0 down payment requirement makes VA loans great options for taking on house hacking. You have to pay a one-time funding fee instead of a monthly PMI, which is a worthwhile price for a relatively small investment.

Your first step to applying for a VA loan is to get a Certificate of Eligibility (COE).

USDA loan

The typical USDA loan for single-family home buyers may not work for house hacking since it prohibits earning income from renting. Connect with a mortgage loan officer in your area to see if these rules apply.

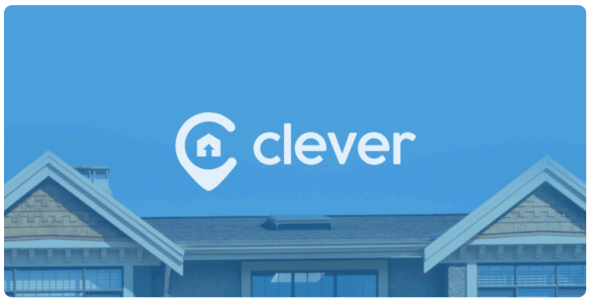
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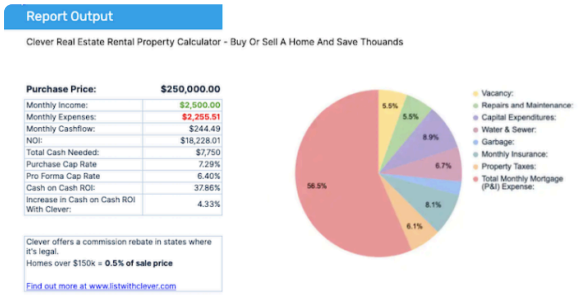


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[1] BiggerPockets – "The 1% Rule in Real Estate: Is This a Realistic Way to Evaluate Rentals?".

[2] Nolo – "I'm a Landlord Selling a House: How Do I Handle Renters Living in It?". Accessed June, 21, 2024.

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Our experts continually research, evaluate, and monitor real estate companies and industry trends. We update our articles when new information becomes available.

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