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YOUR HOME: REAL ESTATE

5 things to consider before buying a multifamily home

Thinking of buying a condo? Here's why you should consider a multifamily instead – even in this economy.

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PETER AND MARIA HOOEY

By Elizabeth Gehrman

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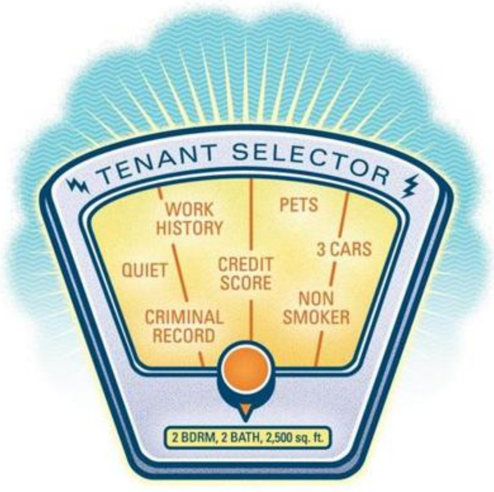
When Michael and Monica Tesoriero started looking at houses last year, they were set on a single-family in Medford – until they saw how little they could get for their money. "After seven months of looking," says Monica, who works in finance at Harvard University, "we came to the realization that most houses in our price range in Medford needed too much work." On top of that, Michael, now a chef at Boston College, had not long ago endured a frightening 14-month period of unemployment. If one of them got laid off again, they figured, it couldn't hurt to have a little extra money coming in every month. "Nowadays we have to consider the possibility that one of us might lose our job," Monica says. "What would happen then? Do we lose our house, too?"

In this wobbly economy, the first instinct for home buyers in the Tesorieros' situation might be to downsize their dreams from a single-family to a condo. But that's not what the couple did. Instead, they bought a 2,700-square-foot two-family in Revere and became landlords. "We decided it would be a better investment for us," Monica says, "and would give us the possibility of having rental income."



PETER AND MARIA HOOEY

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Originally a little apprehensive about finding a good tenant, the couple considered themselves lucky that there was already someone living in the house they felt they could trust. "That played an important role in our getting the house and feeling comfortable," Monica says. The tenant is responsible and keeps the place clean, but better yet, her rent contributes $1,000 to their mortgage every month, about half the total. The Tesorieros could handle the mortgage without that rent, Monica says, but it makes them feel better to know they're getting a little help paying for their own four-bedroom, one-bath unit – plus garage, yard, and full basement. "I think we made a very good investment for the future," she adds.

It's easy to assume that developers are the only ones buying investment property in this rocky home-buying market. But for the small-landlord-in-training there couldn't be a better time to consider a multifamily: Prices are down, and interest rates are at historic lows. In addition, according to rental-brokering agency Rental Beast, the Boston-area vacancy rate for rentals is 3.7 percent, about half of what it was three years ago, while rents have increased by 7 percent in the past year.

Sure, buying a multiunit can be scary, especially if it's your first house, because you're taking on the responsibility of an extra unit or two. But if you do your homework, the benefits can far outweigh the drawbacks.

>> Look in the right places

It's pretty hard to find an affordable two-family in Beacon Hill or Harvard Square, so if you can't put aside the idea of living in the thick of things, now may not be the time to buy a multifamily. And communities like Belmont and Arlington, in which houses already have layouts that make condo conversions easy, are pricier because you're competing with developers, according to Tony Giacalone, owner of Tony's Realty in East Boston. "Something with tiny bedrooms or giant kitchens is not as easily converted to condos," he says, "but it might make a fine rental."

If you don't mind being slightly out of the city center, you can still get a lot of bang for your buck in Dorchester, East Boston, Roslindale, Roxbury, South Boston, Chelsea, Everett, and even sometimes Cambridge and Somerville. In those areas five years ago, says Paul Campano, a broker with Keller Williams in Cambridge, "developers and wannabe developers were scrounging up two- and three-families all over the place. But that market is less active than it was, so now there's less competition to get the best properties." And if you buy near public transportation and college campuses, Campano says, you shouldn't have a problem getting and keeping tenants, even if the rental market softens.

It's undeniable, however, that a lot of the housing stock available in these neighborhoods will need work. "Those are the houses that tend to sit the longest," says Evan Smith, who, after buying his first multifamily in 2010 at the age of 28, has become a builder. "And the longer they sit, the cheaper they get." Smith took a year off from his job to renovate the triple-decker he and his wife, Sara, purchased in Roxbury. "That year off was probably one of the best investments I've made," he says. The couple now live in a four-bedroom apartment on the top floor of the house and aren't putting a penny of their money into their own mortgage. "I knew if I got the right square footage in the right area," Smith says, "I could get the right rent to cover the mortgage."

>> Focus on the long term

Rob and Juliet Pyles bought a three-family in East Boston for $500,000 at the height of the market. "Is it worth that now?" asks Rob, CEO of TourSphere, a developer of smartphone applications for museum and city tours. "No. Do I mind? No, because I have absolutely zero intention of selling it. For us, these properties are very long-term investments."

Every one of the experts we spoke to agreed. "Lots of first-time home buyers go into this adventure thinking they will sell in two or three years," says Ishay Grinberg, president of Rental Beast, which also runs the largest apartment-rental database in Massachusetts. Many who got burned when the housing bubble burst were those who planned to buy a multifamily, fix it up, then flip it as condos – but by the time they were ready to sell, the market was crashing. "You can't make this purchase unless you're looking at it as a 10-year project," Grinberg says. "The market fluctuations are too big on the sales side."

>> Run the numbers

The key point in buying a multifamily is making sure you do your math. If you do it right, the numbers can add up to profit.

"In East Boston you can buy three condos [individually] for $750,000," says Giacalone, "or you can buy a triple-decker that probably won't sell for more than $400,000." Or, you might be thinking, you could buy just one condo for $250,000 and not have to worry about tenants and their maintenance problems. True, but, surprisingly, you might end up spending more. According to the Massachusetts Association of Realtors, the median price for a multifamily in Greater Boston in the first three quarters of 2011 was $285,000; the median price for a single-family was $357,000; for a condo, the median was $307,000. (In part, the reason for the low median price for multis is that they tend to be clustered in less ritzy neighborhoods.)But another thing a lot of people may not know is that even a $250,000 condo can actually cost you more upfront, assuming you'd be putting 20 percent down. With a 620 credit score, says Kevin McGoff, a loan officer with Metlife Home Loans in Peabody, a first-time buyer can get an FHA loan on a two- or three-unit with only 3.5 percent down. This can allow you to keep more of your savings as a cash reserve. "Especially for a first-time multi buyer," McGoff says, "that's important, in case there are maintenance issues or the tenant doesn't pay."

Campano lays out a typical scenario: Say you put 3.5 percent down on a $500,000 three-family. That's just $17,500. And with historically low rates, you'll probably be paying about 4 percent in interest, giving you a principal and interest payment of $2,304 a month. But each unit you're not living in rents for $1,500 a month. (Your real estate broker will give you a good sense for what the rental units would be worth well before you buy.)

If you bought that multi today, Campano says, you would have about $102,500 in equity come December 2021 – $120,000, less the $17,500 down payment. And you're saving what you might have paid in rent – say, $1,500 a month, or $180,000 over 10 years. Moreover: this is using today's numbers. Rents will most likely increase, while payments for a fixed-rate mortgage will not. "Even if the home never appreciates, which rarely happens in history, you are sitting on a $100,000 nest egg," says Campano. "Why wouldn't you buy a multi right now?"

Even when the stock market isn't swinging wildly, Rob Pyles prefers keeping his money in real estate. Not only because it gives him a place to live while earning him some extra cash, he says, but also because maintaining the house properly gives him "control over how it performs." Evan Smith notes that exterior and common-space maintenance, in particular, is money well spent, because its cost is split over multiple units. "You only have to replace one roof," he says.

In a two-family, the rent probably won't quite cover the mortgage, and you might pay a bit more for that house than for a single-family. In that situation, says Giacalone, it's essential to make sure the tenants' share more than makes up for the extra money you're paying each month. "One couple I worked with were looking at $275,000 single-families," he says. "They ended up acquiring a $330,000 two-family, and the $1,200 a month income more than covered the additional $55,000 they paid for the house."

>> Choose tenants carefully

Anyone who's ever known a multifamily owner has probably heard some horror stories. Every landlord has one, from the tenant who refuses to pay rent and keeps breaking things, saying you're not keeping the building up to code, to the one who screams at you and then tells the police you threatened her. But remember, unlike with a condo, when you own a multifamily, you get to pick your neighbors, and there are ways to mitigate your risk when choosing them.

Some landlords have gotten lucky by going mainly on intuition when judging prospective tenants. Once Smith was showing an apartment and the prospective tenants yelled at their son when he said something they didn't like. "I'm like, 'Done, forget it,' " says Smith. " 'I already know what kind of person you are.' " Pyles, too, says he pays attention to whether a tenant shows up on time to see the place and is well dressed and polite, but both he and Smith back up their first impressions by doing credit and background checks.

"You need to have a good interview process," says Matt Martinez of Wellesley, principal of the Beacon Hill Property Group and the author of How to Make Money in Real Estate in the New Economy. "Ask the same questions to all prospective tenants. Have them fill out an application. Check referrals. Check both previous and current landlords. Check current employers, and do a credit and criminal check." Some limited information can be found online, but to save yourself time, you can simply pay a service like the National Tenant Network, in Tewksbury, to screen tenants for a fee.

"A common error for novice landlords is they're concerned about getting a tenant into the unit right away," says Martinez, "so they get the first person who comes along and overlook some inherent red flags they would have discovered in an application."

>> Communicate with tenants

Rather than relying on a verbal agreement, it's best to have tenants sign a lease. "I always recommend having any contractual obligation in writing and having your attorney review that document," Martinez says, "because otherwise it's your word against theirs."

Evicting a tenant can take up to six months and be very costly. To avoid having to evict, communication is key. Make sure the tenant knows your phone numbers and e-mail address, and feels comfortable using them. Be prompt about any repairs, and if you say you're going to show up on Saturday, don't wait until Monday to arrive.

Even in an apartment that doesn't need renovation, you will have to put time and money into maintenance, but whatever you spend goes toward protecting your investment. Small repairs like fixing a leak or painting a room in the rental units are a straight tax deduction – you spend one dollar, you deduct one dollar – while larger expenses such as renovating a rental's bathroom can be factored into depreciation calculations. Also, you can use maintenance to your advantage; scheduling regular smoke-detector checks or even simple walk-throughs with the tenant lets you scope out the place to see whether it's being taken care of.

It helps to be a bit handy – maybe you can replace that broken ceiling light yourself instead of calling an electrician to do it – and landlords say that trying to stay friendly with tenants can go a long way toward derailing potential problems.

"You have to have a bit of entrepreneurial spirit," says Pyles, "because it's a business, even if you don't think of it that way. You're providing a service and getting paid for it. Being a landlord is not for everybody, and I'm not saying everybody should do it, but I think it's worth considering, instead of saying, 'No, I'll be fixing toilets every day.' "

Elizabeth Gehrman's book Rare Birds: The Extraordinary Tale of the Bermuda Petrel and the Man Who Brought It Back From Extinctionwill be published in November 2012. Send comments to magazine@globe.com.

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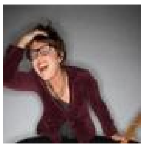

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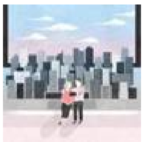

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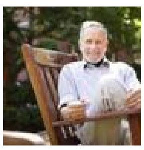

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