

# PUGET SOUND BUSINESS JOURNAL

## **Can't afford a house? Then buy a whole duplex**

A local Seattle couple were facing a dilemma familiar to many Seattle couples: They wanted to buy a house, but couldn't find one they could afford. "The neighborhoods we wanted to live in were too expensive," said the couple.

Instead of following their friends to the suburbs, the 29-year-old and her husband tried another tactic: They bought the duplex they lived in, and used it as a steppingstone toward a home they really wanted. By managing the building on Seattle's Capitol Hill and applying the rents toward their mortgage, they built equity that helped finance their recent purchase of a four-bedroom house in the city's Leschi neighborhood.

"We would have loved to buy our first home and have it for ourselves, but this helped us get a much nicer house."

It's becoming a common tactic. Deterred by soaring home prices, a growing number of young buyers are turning to duplexes and other multifamily buildings. "A lot of people are using that section of the market as affordable housing," said Josh Blake of Blake Investment advisors, a Seattle firm.

But the strategy carries risks. Building owners are vulnerable to destructive tenants vacant units, and other factors that could force them into a tenuous financial position. And, if the real-estate market cools, buyers could end up with a long-term commitment to a property they didn't intend to hold.

For many buyers, it's worth the gamble, in part because high housing prices have made multifamily buildings a more realistic option. The median price of homes currently for sale in Seattle is \$475, according to the Northwest Multiple Listing Service. By comparison, duplexes carry an average price of about \$450,000, and three-unit and four-unit buildings typically cost between \$400,000 and \$600,000.

Because lenders do not treat buildings with less than five units as commercial property, financing a small building is similar to financing a home: Buyers typically make down payments of between 5% and 10%, and can take advantage of interest-only loans and other creative mortgage options.

Buying a small building has two key advantages. First, it reduces the cost of the owners' dwelling. The local Seattle couple, for instance, paid \$375,000 for their duplex and lived in one of the apartments. Because they rented out the other half, the effective cost of buying their home was about \$188,000 -- less than many local condominiums.

The other upside: By applying a building's rental income toward its mortgage, owners can build equity more quickly than if they bought a house with a smaller price tag. The couple wouldn't disclose their building's rents, but said they "more than cover the mortgage." Thanks to an appreciating market, the property is now worth more than \$600,000, they said.

Local brokers say the market for small multifamily buildings has shifted away from hard-core investors toward young buyers. A local Seattle broker recently began "staging" duplexes that are for sale, installing temporary furniture in order to appeal to owner-occupants. They sold 28 four-unit buildings in Bellevue, mostly to young buyers seeking a foothold in the market. About 25% of these buyers now live in the buildings.

Perhaps the strategy's biggest risk is that owners won't be able to fill their units, leaving them on the hook for a mortgage payment they might not be able to afford. Another concern is that maintaining a building can be pricey, an important consideration for young buyers who might be strapped for cash.

"There's always the impending repair that you don't know about, and it's always expensive. And if a tenant trashes the place, we can't really afford to redo it."

For the couple, the investment has paid off. They are keeping their duplex as an investment, and paid \$584,000 for their new home, a two-story house two blocks from Lake Washington. Managing a duplex "is not a responsibility I love to have but it has worked out well for us."

**Justin Matlick**  
Staff Writer