WRENCH & WALLET

Buying Your Second House as a Rental

The practical sequence for going from one house to two, in the order it actually comes up.

This isn't a substitute for the full guides at wrenchandwallet.com/becoming-a-landlord, it's the checkable version of everything covered across that series, pulled into one sequence. Work through it in order, several steps genuinely depend on the ones before them. Where long-term and short-term rentals diverge, both paths are marked.

1 Decide Your Lane

The decision everything else builds on.

- ☐ **Decide cash flow or appreciation, not both**
  Markets that cash flow well and markets that appreciate strongly are usually different markets. Pick one before you start looking at listings.
- ☐ **Choose single-family, duplex, or small multi-family**
  A single-family home or duplex is simpler to finance and manage for a first rental. A 2-4 unit property brings in more total rent.
- ☐ **Decide long-term or short-term rental**
  This choice changes the zoning risk and the insurance you'll need later. Decide before you shop, not after you've made an offer.

2 Get Financing Lined Up

Before you fall in love with a specific property.

- ☐ **Confirm which loan classification you're actually getting**
  Second home and investment property carry different down payments, rates, and occupancy rules. Know which bucket you're in.
- ☐ **Get pre-approved for the realistic category**
  Roughly 10% down for a second home, 15-25%+ for a true investment property. FHA and VA loans aren't available for a non-owner-occupied purchase.
- ☐ **Check how your existing mortgage affects what you qualify for**
  Your current mortgage payment counts as debt in the new loan's debt-to-income calculation, it doesn't disappear from the math.
- ☐ **Ask about a DSCR loan if your DTI is already tight**
  Qualifies you off the property's own rent-to-payment ratio instead of your personal income, worth asking about directly.
- ☐ **Confirm where your down payment is actually coming from**
  Gift funds generally aren't allowed on an investment property. Equity from your first home, via a cash-out refi or HELOC, usually is.

3 Analyze the Specific Property

Before you make an offer, not after you've fallen for it.

- [ ] **Pull real rent comps, not a guess**
  Three to five comparable units that actually leased in the last 90 days, not what a listing claims the unit could rent for.

- [ ] **Run NOI, cap rate, and cash-on-cash return**
  Not just a monthly cash flow guess off the mortgage payment alone. Run the actual numbers before you get attached.

- [ ] **Check whether the cap rate beats your borrowing rate**
  If your interest rate is higher than the property's cap rate, financing can actually hurt your return instead of helping it.

- [ ] **Price in a real vacancy and maintenance allowance**
  5-8% vacancy is typical, and total operating expenses commonly run 35-50% of gross rent. Don't skip either in your math.

4 Confirm Zoning and Legality

Two separate layers of rules. Check both, independently.

- [ ] **Pull the property's actual zoning designation**
  A five-minute check through the city or county planning department's online GIS lookup tool.

- [ ] **Request the full HOA disclosure packet, if applicable**
  CC&Rs, current operating rules, and recent board minutes, not a verbal summary from the seller or agent.

- [ ] LONG-TERM RENTAL
  Confirm rent control or just-cause eviction rules
  Some cities and states limit how much and how often you can raise rent, or require cause to end a tenancy.

- [ ] SHORT-TERM RENTAL
  Call the city directly about current STR permit requirements
  Short-term rental rules are the most volatile part of this entire process and can change with very little notice.

5 Line Up Insurance

Before closing, not after you own the place.

- [ ] **Disclose the rental use and get an actual landlord policy**
  A standard homeowners policy can be denied outright once you start collecting rent. Disclosure is what protects you.

- [ ] **Confirm the liability limit and loss-of-rent coverage**
  Landlord liability commonly runs $300,000 to $2 million. Loss-of-rent coverage is the piece a homeowners policy doesn't have.

- [ ] SHORT-TERM RENTAL
  Ask about dedicated short-term rental coverage
  Platform host protection like Airbnb's AirCover has real gaps and shouldn't be treated as your only coverage.

- [ ] **Ask about a vacancy clause if renovating before renting**
  Many landlord policies limit or exclude coverage after 30-60 days of vacancy, confirm this if a renovation will take a while.

6 Budget the Real Ongoing Costs

What the listing photos don't show you.

- [ ] **Build a real capital expenditure reserve**
  Roughly 1% of the property's value a year, or 5% of monthly rent, set aside specifically for the roof, HVAC, and water heater.
- [ ] **Set aside a turnover reserve**
  $2,000-4,000 per tenant turnover is typical, plus several weeks of vacancy while the unit gets re-rented.
- [ ] **Carry a genuine eviction reserve**
  Total exposure on a single bad tenant placement can run $15,000-30,000 once lost rent is factored in. Screening reduces this risk, it doesn't eliminate it.
- [ ] **Check the post-sale property tax reassessment**
  Your tax bill may reset at the time of sale and not match what the previous owner was actually paying.

7 Decide Structure and Management

Before you close, not after.

- [ ] **Decide personal name or LLC before closing**
  Transferring an already-purchased property into an LLC later can create real complications with your existing mortgage.
- [ ] **Decide self-manage or hire a property manager**
  A property manager typically runs 8-12% of monthly rent, in exchange for the income becoming genuinely passive.
- [ ] **Consider an umbrella policy**
  Worth it once you own even one rental property, since your liability exposure is meaningfully higher than a standard homeowner's.

8 Get Ready to Screen and Place a Tenant

The step that determines everything that happens after move-in.

- [ ] **Write your screening criteria before you screen anyone**
  Same standard, applied in the same order, to every single applicant, documented. This is your best protection against a discrimination complaint.
- [ ] **Confirm your state and city's fair housing rules**
  Roughly twenty states and a growing list of cities protect source of income, including housing vouchers, beyond the federal baseline.
- [ ] **Decide upfront whether you'll consider Section 8**
  Where source-of-income protection applies, declining an applicant specifically because of a voucher is illegal, not a gray area.
- [ ] **Require proof of renters insurance in the lease**
  Your landlord policy won't cover a tenant's own belongings, requiring renters insurance protects both of you.

Every item above gets its own full breakdown in the Rental Property Investing section at wrenchandwallet.com/becoming-a-landlord. This checklist is the map, not the whole territory.