A FREE GUIDE FROM ANTONIO RUBIO · TU CASA

The Complete Guide to

Second Homes & Investment Property

Different loans, different math, different risks — how to run the numbers before you buy.

ANTONIO RUBIO

Bilingual Yuba-Sutter Real Estate Agent · Better Homes Realty

CalDRE #01472558 · Licensed since 2005

(530) 870-1063 · antoniorubiotucasa.com

Se habla español.

BEFORE YOU START READING

A Note From Antonio

Buying a second property is a different game than buying the home you live in. The financing is different, the math is different, and the risks are different. A first home is a place to live that happens to build equity. A second home or a rental is a financial decision first — and it either works on paper or it doesn't.

That's good news, because it means the answer is knowable before you commit. This guide shows you how lenders classify a second home versus an investment property and what that does to your terms, the four numbers every investor should be able to calculate, and the mistakes that turn a promising rental into a monthly drain. Nothing here is tax, legal, or investment advice — talk to a CPA and a licensed lender about your situation. Think of this as the conversation we'd have before you write the offer.

— Antonio Rubio, CalDRE #01472558

CONTENTS

What's Inside

Tap any line below to jump straight to that section.

1. Second Home vs. Investment Property — Not the Same Loan

These two sound similar and get used interchangeably in conversation. Lenders do not treat them as similar at all. How your loan is classified changes your down payment, your rate, and how much cash you need sitting in the bank at closing. Getting the classification right early saves you from a very unpleasant surprise three weeks before closing.

A Second Home

A second home is a property you keep available for your own use — a place near the coast, in the mountains, or close to family. Lenders generally expect it to be a single unit that you occupy some part of the year, and they do not want it locked into a rental pool, a timeshare arrangement, or full-time property management. Many lenders also expect it to sit a reasonable distance from your primary residence or in a recognized vacation area, on the logic that a “second home” twenty minutes from your first one is usually something else. With strong credit, down payments often start around 10%.

An Investment Property

An investment property is bought to be rented to tenants. There is no occupancy requirement, and one to four units is standard territory for residential financing. In exchange for that freedom, the terms tighten: down payments typically run 15–25%, rates commonly sit about 0.5–0.75 points above what you'd get on a primary residence or second home, and lenders often want to see six months or more of reserves — payments you could cover from savings if the property sat empty.

There is one meaningful advantage on the investment side. Because the property is expected to produce income, lenders will often let a portion of the projected market rent help you qualify — commonly around 75% of it, with the discount covering vacancy and management. A second home earns you no such credit, because on paper it produces nothing.

2. Financing Differences at a Glance

The same borrower, the same credit score, and the same price can produce three very different loans depending only on how the property is classified.

Factor	Primary Residence	Second Home	Investment Property
Typical Down Payment	0–3.5% with VA, USDA, FHA or low-down conventional	Often 10% or more with strong credit	Commonly 15–25%
Typical Rate Premium	The baseline everything else is measured against	Slightly above primary, sometimes matching it	Commonly about 0.5–0.75 points higher
Occupancy Rule	You must live there as your main home	Available for your own use; no rental pool	None — tenants are the point
Reserve Requirements	Modest, and sometimes none	Usually a few months of payments	Often six months or more
Rental Income Helps You Qualify	No	No	Yes — commonly about 75% of projected rent

Down payments, rate premiums, and reserve rules are set by individual lenders and investors, vary by credit profile and property type, and change over time. Treat the ranges above as the shape of the landscape, not a quote — a licensed lender confirms what applies to you.

Investment Property Analysis Framework	
1	**Estimate Gross Income** Use realistic market rent from comparable rentals — not the listing's optimistic pro forma.
2	**Subtract Operating Expenses** Taxes, insurance, maintenance, management, and a vacancy reserve. What's left is Net Operating Income.
3	**Calculate the Cap Rate** NOI divided by purchase price tells you the unleveraged return — how the property performs before any loan.
4	**Factor In Financing** NOI minus your mortgage payment is cash flow. Divide that by cash invested for cash-on-cash return.
5	**Compare & Decide** Stack the numbers against your goals and against other properties before you write an offer.

3. The Four Numbers Every Investor Should Know

You do not need a finance degree to evaluate a rental. You need four numbers, and each one answers a different question. Run them in order and a property tells you fairly quickly whether it's worth pursuing.

The formulas, in one place

- NOI = Gross Rental Income − Operating Expenses
- Cap Rate = NOI ÷ Purchase Price
- Cash-on-Cash Return = Annual Pre-Tax Cash Flow ÷ Total Cash Invested
- The 1% Rule = Monthly Rent ≥ 1% of Purchase Price (a screen, not a verdict)

Net Operating Income (NOI)

What the property earns in a year after the costs of running it, but before your mortgage. Operating expenses mean taxes, insurance, maintenance, property management, and a vacancy reserve — not your loan payment. NOI is deliberately loan-blind so you can compare two properties on their own merits.

Cap Rate

NOI divided by the purchase price, expressed as a percentage. It answers: if I paid cash, what would this return? Because it ignores financing, it's the cleanest way to compare properties against each other and against the going rate in your market.

Cash-on-Cash Return

Your actual annual cash flow divided by the actual cash you put in — down payment plus closing costs plus any money spent making it rentable. This is the number that answers what your money is really earning, because most investors use a loan.

The 1% Rule

A rough screen: monthly rent should be at least 1% of the purchase price. A $250,000 property would need to rent for $2,500. It's increasingly hard to hit in expensive markets, so treat it as a filter that tells you where to look harder — not a verdict that decides the deal.

Worked Example — A $350,000 Single-Family Rental	
1. Gross annual rent	$2,400 per month × 12 = $28,800 a year.
2. Operating expenses	Taxes ~$3,850, insurance ~$1,400, maintenance ~$2,300, management at 8% ~$2,300, vacancy reserve at 5% ~$1,450. Roughly $11,300.
3. NOI	$28,800 − $11,300 = $17,500.
4. Cap rate	$17,500 ÷ $350,000 = 5.0%.
5. The financing check	25% down leaves a $262,500 loan. Near 7% over 30 years that's about $1,750 a month, or $21,000 a year — more than the $17,500 NOI.
6. The verdict	It loses roughly $290 a month before a single repair. Note it also fails the 1% screen: $2,400 rent on $350,000 is 0.69%.

That example is not a scare story — it's the entire reason you run the numbers. Nothing about that house looks bad from the curb. The math is what tells you it doesn't work at that price, and the math is also what tells you what would fix it: a lower purchase price, a larger down payment, or a property that rents for more.

Worked Example — A $260,000 Duplex That Does Work	
1. Gross annual rent	Two units at $1,450 each = $2,900 a month, or $34,800 a year. That's 1.12% of price — it passes the 1% screen.
2. Operating expenses	Taxes, insurance, maintenance, 8% management, and a 5% vacancy reserve come to roughly $11,400.
3. NOI	$34,800 − $11,400 = $23,400.
4. Cap rate	$23,400 ÷ $260,000 = 9.0%.
5. Cash flow	25% down leaves a $195,000 loan, about $1,300 a month near 7%, or

	$15,600 a year. $23,400 – $15,600 = about $7,800 a year, roughly $650 a month.
6. Cash-on-cash return	$65,000 down plus about $7,000 in closing costs is $72,000 invested. $7,800 ÷ $72,000 = about 10.9%.

Two properties, one market, two completely different outcomes — and you can tell which is which in about ten minutes with a calculator. These figures are illustrative: rates, taxes, insurance, and rents vary by property and change over time. Run your own numbers with real quotes before you rely on them.

4. Building a Rental Portfolio

Most investors find the first property the hardest. Once one is bought, rented, and cash-flowing, the second is easier — you've learned the process, you have a track record a lender can see, and often the first property's performance helps you qualify for the next.

Managing It Yourself vs. Hiring It Out

Property managers typically charge 8–12% of collected rent, often with a separate fee for placing a new tenant. Self-managing keeps that money, and if you live nearby, are handy, and can take a Saturday phone call about a water heater, it can make good sense on one or two properties.

The honest version is this: self-management is a job, not a passive investment. It's tenant screening, maintenance calls, rent collection, and the occasional difficult conversation. Build the management fee into your numbers even if you plan to self-manage — then the deal still works on the day you'd rather hand it off, and if you never do, that's margin instead of a shortfall.

Landlord Basics

- **Screen tenants consistently —** Income verification, credit, rental history, and references — applied the same way to every applicant. Consistency protects you legally and finds better tenants.
- **Know your habitability obligations —** California landlords must keep a rental livable and make required repairs, and the standard is set by state law rather than by your lease.
- **Handle security deposits by the book —** California caps the deposit, sets a 21-day deadline to return it, and now requires photographs to support deductions. Chapter 7 covers all of it — this is one of the most common sources of landlord disputes.
- **Keep a maintenance reserve —** Water heaters, roofs, and HVAC systems fail on their own schedule. Money set aside is the difference between an inconvenience and a crisis.
- **Know the state rules before the local ones —** California's statewide rent cap and just-cause eviction rules apply here in Yuba-Sutter. Some cities add more on top. Chapter 7 covers the state layer; ask about local ordinances for the specific address.

5. Tax Considerations — Questions for Your CPA

Real estate has real tax advantages, and they're a genuine part of the return. They're also specific to your situation, which is why this chapter is written as questions to bring to a CPA rather than answers to act on. Antonio is a real estate agent, not a tax advisor.

Depreciation

The IRS lets you deduct the wearing-out of a residential rental building over 27.5 years. It's a paper deduction — it reduces taxable income without costing you cash — which is why a property can show a tax loss while putting money in your pocket every month. There's a corresponding rule at sale called depreciation recapture, which is exactly the sort of thing to understand before you sell rather than after.

Deductible Expenses

Mortgage interest, property taxes, insurance, repairs, management fees, and the cost of getting to and from the property are generally deductible against rental income. Careful records make this straightforward; missing records make it expensive.

The 1031 Exchange

A 1031 exchange lets an investor sell an investment property and defer capital gains tax by rolling the proceeds into another qualifying investment property. The timelines are strict and unforgiving: 45 days from closing to formally identify the replacement property, and 180 days to close on it. The proceeds must also pass through a qualified intermediary rather than your own bank account.

Before you sell anything

• The 1031 clock starts at closing, and the deadlines are not extendable for ordinary reasons — plan the exchange before you list, not after.

• You must engage a qualified intermediary before the sale closes. Touching the proceeds yourself can disqualify the exchange entirely.

• Second homes and personal-use properties generally do not qualify. The rules turn on how the property was actually used.

• This is a summary, not tax advice. Confirm every detail with a CPA and a qualified intermediary before acting.

6. Mistakes Investors Make

- **Trusting the listing's rent estimate —** Marketing materials quote optimistic pro forma rent. Verify against what comparable units actually rent for right now, in that neighborhood.
- **Leaving out vacancy and maintenance —** No property is occupied 100% of the time and nothing stays new. Budgeting a vacancy reserve and a maintenance reserve is what separates a real estimate from a hopeful one.
- **Underestimating the cash required —** Between a 15–25% down payment, closing costs, reserves, and any work needed before a tenant moves in, the cash to close is well beyond what a primary residence demands.
- **Buying for appreciation with negative cash flow —** Betting on price growth while losing money monthly means you must fund the gap indefinitely. If you do it deliberately with reserves to cover it, that's a strategy. If it happens by accident, it's a problem.
- **Skipping the local landlord-tenant rules —** Rules vary by city and county, and not knowing them is not a defense. Read them before you buy, not when a dispute starts.
- **Not pricing in management —** If the numbers only work because you manage it for free, you own a job. Include the fee and see whether the deal still stands.
- **Treating it like buying a home —** A house you love and a rental that performs are different tests. Emotion is useful in one and expensive in the other.

7. California Landlord Rules You Have to Price In

Every number in this guide assumes you can actually charge the rent you modeled and re-tenant the unit when you need to. In California both of those are set by statute, and the rules apply in Yuba City and Marysville exactly as they do in Sacramento. Price them in before you buy, not after.

The statewide rent cap

California's Tenant Protection Act limits annual rent increases on covered units to 5% plus the regional Consumer Price Index, capped at 10% total, whichever is lower. You may raise rent at most twice in any twelve-month period, and the total still has to fit under that cap. That one rule decides how fast a building with below-market rents can be brought to market — which is usually the entire reason for buying one.

- **What is covered —** Most rental housing more than 15 years old. The 15 years rolls forward, so a building exempt this year can become covered next year.
- **What is commonly exempt —** Single-family homes and condominiums owned by an individual rather than a corporation or REIT, owner-occupied duplexes, and certain deed-restricted affordable housing.
- **The exemption only works if you claim it in writing —** A single-family exemption requires specific statutory notice to the tenant. Without that notice the property is treated as covered, no matter who owns it.
- **Notice periods —** Thirty days written notice for an increase of 10% or less, ninety days for anything above it.

Just cause — you cannot simply decline to renew

On a covered unit, once a tenant has lived there twelve months you need a legally recognized reason to end the tenancy. At-fault reasons are things like non-payment. No-fault reasons — an owner move-in, a substantial remodel, taking the unit off the market — generally require relocation assistance equal to one month's rent. Buying a building with tenants in it means buying their protections along with it.

Security deposits

- **One month, for most landlords —** Since July 2024 the deposit is capped at one month's rent, furnished or not. An owner who is a natural person, or an LLC whose members all are, and who owns no more than two residential properties totaling no more than four units, may collect two months. Active-duty service members are capped at one month with no exception.
- **Twenty-one days to return it —** With an itemized statement of any deductions, plus receipts or estimates for the work.
- **Photographs are now mandatory —** Move-out photos before any cleaning or repair begins, before-and-after photos of any work you deduct for, and move-in photos on tenancies starting on or after 1 July 2025. Skipping them in bad faith can cost you the right to keep any of the deposit, and the images must be kept on file for four years.

Your property tax resets the day you buy

Under Proposition 13 the county reassesses at your purchase price. A rent roll showing the seller's low, long-held tax bill is not your tax bill — rebuild that line at roughly 1.1% to 1.25% of what you are paying before you calculate NOI. Getting this wrong is the most common way a California rental pro forma turns out to be fiction. Expect a separate one-time supplemental bill after closing as well.

Proposition 19 changed how rentals pass to your children

- Before 2021 a parent could pass rental property to a child and the child kept the parent's low assessed value. That exclusion is gone for anything that is not the parent's own primary residence or a qualifying family farm.
- An inherited rental in California is now reassessed to market value, and the property tax on it can multiply overnight.
- If part of why you are buying is to hand something to your children, that belongs in the conversation now — with an estate attorney and a CPA — rather than after the fact.

Summary of California law as of 2026, and it changes. Yuba City and Marysville do not currently add a local rent control ordinance on top of state law, but local rules change too. Confirm both state and local requirements with a qualified attorney before relying on them.

8. Investor FAQ

Can I convert my current home into a rental and buy a new primary residence?

Often yes, and it's one of the most common ways people acquire their first rental. Lenders will look at whether you can carry both payments, and some will count a portion of the expected rent if you have a signed lease. Because your old loan was written for an owner-occupied property, tell your lender what you're planning rather than discovering the rules later.

How much cash do I actually need to close on a rental?

Plan for the down payment (commonly 15–25%), closing costs of roughly 2–5% of the price, several months of reserves, and whatever it takes to make the unit rent-ready. On a $300,000 rental that realistically lands somewhere north of $80,000, not the $60,000 the down payment alone suggests.

Do I need an LLC to own a rental?

That's a legal and tax question rather than a real estate one, and the honest answer is that it depends on your assets, your insurance, and your goals. An attorney and a CPA should answer it together. Be aware it can also affect your financing, since lending to an entity is different from lending to a person.

What's the difference between a cap rate and a cash-on-cash return?

Cap rate ignores your loan and tells you how the property performs on its own — useful for comparing properties. Cash-on-cash includes your financing and tells you what your invested cash is actually earning. A property can have a modest cap rate and a strong cash-on-cash return, or the reverse, depending entirely on the loan.

Can family gift funds cover an investment property down payment?

Generally no. Gift funds are widely allowed on primary residences and often on second homes, but lenders typically require an investor's own funds on an investment property. Rules vary by lender and program, so confirm before you count on it.

Is a duplex a good first investment?

For many people it's an excellent one. You get two income streams under one roof and one lot, a vacancy costs you half your rent instead of all of it, and if you live in one unit you may be able to finance it as a primary residence — which can mean a far smaller down payment. The tradeoff is that you'd be living next to your tenant.

How many months of reserves will a lender want?

For investment properties, six months of payments is a common expectation, and more if you already own several financed properties. Reserves mean documented, accessible funds — confirm what counts with your lender.

Should I buy near where I live or where the numbers are better?

Distance costs money and attention. Out-of-area investing can work, but it depends entirely on a property manager you trust, and it removes your ability to drive by and see the roof yourself. For a first property, close to home is usually the better teacher.

What if the property doesn't appraise for the purchase price?

The same problem as any purchase, with less emotional room to solve it. You can renegotiate the price, bring the difference in cash, or cancel if your contract's appraisal contingency protects you. For an investment, if the appraisal comes in low, that's information worth taking seriously.

Is this a good time to buy an investment property?

The market-wide version of that question has no useful answer. The answerable version is whether a specific property, at a specific price, with a specific rate, produces the return you need. That's a calculation, and it's the one this guide walks you through.

VERIFIED RESOURCES

Check All of This Yourself

Every program named in this guide is real, currently operating, and run by the agency listed below. These links go to the official source — not to me, and not to a sign-up form. Verified September 2026.

California tenant protections (HCD) www.hcd.ca.gov/

Security deposit law — Civil Code 1950.5 leginfo.legislature.ca.gov — Civ. Code § 1950.5

Rent cap & just cause — Civil Code 1946.2 leginfo.legislature.ca.gov — Civ. Code § 1946.2

IRS — like-kind (1031) exchanges irs.gov — like-kind exchanges

Check any California real estate licence dre.ca.gov — licence lookup

Programs, funding and rules change, sometimes mid-year. If a page below has moved or a program has closed, that is the moment to call rather than assume — and it is exactly the kind of thing I keep track of for the people I work with.

ABOUT YOUR GUIDE

Antonio & Ana Rubio

Since 2005 I've helped families across Yuba City, Marysville, and the greater Yuba-Sutter region buy and sell real estate, in both English and Spanish. I work alongside my daughter Ana, a licensed agent since 2016, as a father-daughter team. Our promise is simple: we treat your move with the same care we'd want for our own family.

Find Antonio — Everywhere He Works

Antonio Rubio · Better Homes Realty · CalDRE #01472558

1615 Colusa Hwy #200, Yuba City, CA 95993

Phone: **(530) 870-1063**

Website antoniorubiotucasa.com

In Spanish antoniorubiotucasa.com/es

All free guides antoniorubiotucasa.com/guides

Google Business Profile share.google/boQNcJkWgvECW5equ

Leave a Google review g.page/r/CaGVcUMDcjyBECE/review

Zillow www.zillow.com/profile/Antonio%20Rubio

Homes.com www.homes.com/real-estate-agents/antonio-rubio/n48qdzm/

Realtor.com www.realtor.com/realestateagents/56ccff8d0fa417010077818d

HOW THIS SERIES WORKS

The Five-Guide Library

Each guide stands on its own, but they are built to be read together — most people move through more than one stage of property ownership in their life. Here is the whole library, and where the guide in your hands sits in it.

The Antonio Rubio Guide Library	
1	**The First-Time Home Buyer Guide** Loans, down payments, inspections, and negotiating your first offer.
2	**Second Home & Investment Property Guide** How rentals are financed and how to run the numbers before you buy. YOU ARE READING THIS ONE
3	**Selling Your Home Guide** Pricing with evidence, preparing, marketing, and negotiating the whole offer.
4	**Land, Acreage & Building Guide** Water, septic, zoning, access — and financing a home you build yourself.
5	**Commercial Guide — Apartments & Business** Multifamily metrics, commercial lending, and buying an existing business.

Every guide in this library is free, in English and Spanish, at:

antoniorubiotucasa.com/guides
antoniorubiotucasa.com/es/guias

The Numbers Are Learnable

Every investor who owns ten properties once stood exactly where you are, looking at their first one and wondering whether they were about to make a mistake.

The difference was never nerve. It was running the numbers honestly, walking away from the deals that didn't work, and being ready when one did.

You now know how to tell those apart — and that skill compounds for the rest of your life.