

## Fixer Uppers

### The Lure of the Fixer-Upper

One persistent myth in real estate is that anyone can make money by buying a fixer-upper or foreclosure property at low cost, doing the renovation work themselves, and then reselling at a profit. Many experienced contractors and career renovators do just that, but first-time buyers can get caught in a web of cost overruns, contractor disputes and resale problems.

For many first-time buyers, a fixer is the only option, and sometimes the best option. Follow these basic rules of thumb when you consider buying fixer-uppers, foreclosure properties or other real estate "bargains":

- ? ? Look for fixer-uppers that have only cosmetic problems. Exterior additions or major defect repairs can be costly, and the expense of correcting major structural defects may not add a penny to the market value of the house. Fixers that have only cosmetic problems, such as ancient shag carpeting or bad wallpaper, are ideal for first-time buyers. Cosmetic repairs can be relatively inexpensive, and some fixer-uppers will pay back double their cost. Always have a fixer-upper professionally inspected before you buy.
- ? ? Don't pay too much, especially if you want to resell quickly. If you overpay, you may suffer a loss when you sell. In terms of investment potential, the best time to buy a fixer is when the market has bottomed out and is turning around. The worst time to buy is when the market has peaked and is starting to decline. Research the potential market for the restored fixer-upper, and make sure that your plans for the house don't result in an over-improvement for the neighborhood.
- ? ? Estimate renovation costs accurately before you buy. If you miscalculate, your profit will dwindle. By having the property professionally inspected as a condition of the purchase, particularly if you buy it in "as is" condition, you'll reduce the chance of having to fix unanticipated and costly defects.
- ? ? Evaluate the floor plan. With a good basic layout even the most hideously decorated house is an ideal fixer-upper. On the other hand, a house that seems a maze of rooms may have a defective floor plan that no amount of paint and paper will remedy.
- ? ? Renovate wisely. In planning your remodel, keep resale value in mind--even if you plan to live in the house for some time. Kitchens, bathrooms, large closets and additional storage spaces are important to today's buyers. Curb appeal sells houses, so concentrate on improving the landscaping and front entry. Also, stick to neutral color schemes.

*The Amstadter Team*

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**Creative Financing for Fixer-Uppers --- Nailing down the money to remodel. FHA Title 1:**

Short-term, fixed-rate loan; allows a buyer to borrow up to \$25,000 to make specific home improvements to a house, such as upgrading the kitchen.

**U.S. Dept. of Housing and Urban Development 203(K):** Long-term, fixed-rate loan based on expected market value of home after renovation; allows buyer to purchase a fixer-upper property "as is" and rehabilitate it. Down payments range from 3 to 5 percent.

**Seller financing:** Loan terms negotiable; seller may pay for some or all of the work before closing, or carry a second loan for repairs or home improvements.

**Assumable adjustable rate mortgage:** Long-term flexible loan; allows buyer to assume existing loan when property is resold; ideal for remodeling buyers who want to do the work, then turn around and resell again.

**Combination loan/equity line:** Long-term, fixed-rate loan combined with short-term line of credit; allows the buyer to take out an equity line of credit to pay for renovations after closing (loan may be paid off by refinancing on higher appraised value).

TIP: You can also get a seller to pick up all or part of the cost of home improvements if you negotiate for them as repairs required after a home inspection. Many sellers prefer to lower their asking price and sell the property "as is" instead of financing the repairs. This presents fewer problems for the seller and the buyer can close the deal easily.

**Other Bargains:** A Short Course-Some real estate investors make a career out of buying and selling foreclosure, probate and short-sale properties, but it's a dangerous business for the inexperienced. If you're a first-time buyer, consider working with an agent or lawyer who has experience in such properties.

**Foreclosures:** If a buyer can't keep up with loan payments, their lender will foreclose on the mortgage and put the property up for auction. If the auction fails to produce a buyer, the property reverts to the lender, which then offers it for sale. You can purchase other foreclosure properties through the Federal Housing Administration (FHA) or the Department of Veterans Affairs (VA). Check local legal ads and, in the case of FHA and VA properties, the Internet.

\*\*\*\*\* CAUTION \*\*\*\*\*

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If you buy a foreclosure property, you may have to agree to an all-cash deal with no contingencies and buy the property "as is." Always get a professional inspection to avoid buying a house with major defects. You may also have to deal with eviction proceedings if the current owner hasn't vacated the property.

**Probate sales:** Probate property is sold to settle the estate of a deceased owner. These properties may be listed with an agent, though some sales take place at a court hearing. Because the estate's executor or a court administrator coordinates the sale, you may or may not get a bargain price. Their interest is to get the best price they can.

If the heirs dispute each other over who has the legal right to the property, it may not be saleable until estate matters are settled. Always get a professional inspection to avoid buying a house with major defects.

**Short sales:** A short sale occurs when a lender reduces the amount of the loan payoff on a home, which it may do for a seller who can't cover the mortgage due and closing costs in order to sell. Many lenders prefer to clear such a loan from their books, even at a loss, to avoid the cost of foreclosure or having the house in their inventory. This can make for an attractive deal for a bargain-hunting buyer. Make sure your purchase contract includes a time frame (30 days) for the seller to obtain written permission from the lender to conduct a short sale. Prepare for a tough negotiation. As always, get a professional inspection to avoid buying a house with major defects.

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