

# big bear real estate today

## Fixer Upper Myths & Facts: What You Should Know Before You Buy (1099)

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Before deciding that your next home must be a fixer upper, you should do some homework into what to expect when purchasing these types of homes. Many prospective homebuyers tend to have a romanticized version of the entire process, and are quite shocked when confronted with the hard reality. *Fixer-upper homes can often represent a good deal, but there are some points that a homebuyer should be aware of before making that offer.*

### MYTH #1 . . .

I can make a "killing" in the real estate market by buying a run-down home, for tens of thousands of dollars less than the average home, fixing it up, and then immediately selling it for full price, or more.

### FACT #1 . . .

Most homeowners looking to sell their "fixer-upper" home understand that they will have to list their home at a price that reflects the cost involved in restoring the home to its original condition. The asking price of a fixer upper is usually calculated so that the savings represented by the lower than average market price is roughly equal to the amount of money that a buyer could expect to spend on necessary renovations. Updating the "look" of a home, or upgrading to higher-end finishes, is not included in these calculations, and you should be careful not to spend so much money on renovations that you are unable to recoup your investment.

### MYTH #2 . . .

If I'm buying a fixer-upper home, I don't need to bother with the added cost and aggravation of a home inspection because I already know what I'm getting.

### FACT #2 . . .

The right to a home inspection should always be included in an Offer To Purchase and Sell agreement, and it is arguably even more important to include one when you are looking to buy a fixer upper. Structural defects are normally not visible to the untrained eye, yet will cost much more to repair than the obvious cosmetic fix-ups. Most licensed home inspectors will not only detail the defects that they uncover, but can also give you a good idea of the costs involved in fixing them.

### MYTH #3 . . .

It's better to pay a lot less and buy a "fixer upper" in an undesirable area, than to pay more for a comparable "fixer upper" in a better neighborhood.

### FACT #3 . . .

Most of us have heard the quote, "the three most important things to look for when buying a home are: location...location...and location!" While this is obviously meant to be funny, and is a somewhat oversimplified rule of home buying, it does drive home the point of how important it is to consider where you will buy your home. Purchasing a fixer upper in a desirable neighborhood will cost you more initially, but the payoffs -- personal peace-of-mind and higher return on your home investment when you sell -- should not be overlooked.

### MYTH #4 . . .

Once I fix this house up, I can turn around and sell it for double the price I paid.

### FACT #4 . . .

A home will only sell for what the market can bear. What this means is that no matter how many upgrades were made, or how much money has been invested in the upgrades, a home will only sell for what the majority of homebuyers are willing to pay. Factors to consider when calculating your possible return on investment:

#### **1. Location: What kind of a neighborhood is the home in?**

The type of neighborhood will determine which type of buyers you will attract when you decide to sell. For example: An area consisting of mostly "first time buyers" will attract buyers who have a strict and limited budget. They are looking for affordability above all else -- including high-end finishes and perfectly landscaped gardens.

#### **2. Neighbors: What are the neighboring homes like?**

A beautiful home surrounded by unkempt, run-down homes will sell for much less than a beautiful home surrounded by well kept, nicely maintained homes.

#### **3. Surroundings: What are the surrounding features?**

Buyers are willing to pay more for a home that is in a convenient, yet quiet locale. While you may find it convenient to side onto a school, many potential buyers would eliminate such a location due to the noise level associated with the presence of hundreds of excitable children, and the congestion caused by school buses and parents dropping off and picking up students.

### MYTH #5 . . .

I can make a lot more money by turning this single family home into a multi-family dwelling.

### FACT #5 . . .

While this statement is for the most part true, it may not be possible. Most towns and cities have strict zoning laws that not only dictate the maximum allowable occupancy within any given area, but also dictate the size and design of a home when building new, or creating additions to an existing structure.

**Once you have thoroughly investigated the pro's and con's associated with purchasing a fixer-upper home, and you have decided that it's right for you, be sure to "run your numbers".**

1. List Price of Fixer Upper
2. Average Recent Sale Prices of Similar "Non Fixer Upper" Area Homes
3. Estimated Cost of Repairs from Reputable Source (e.g. referred Renovation Company)
4. Buffer Amount for "Unexpected" Repair Costs (usually 1/2 of estimated total)
5. Selling Expenses (real estate fees, lawyer fees, closing costs)
6. Amount of Profit You Desire versus Amount of Actual Profit

For example:

1. \$200,000.00 = List Price of Fixer Upper
2. \$255,000.00 = Average Sales Price
3. \$ 25,000.00 = Estimated Repairs
4. \$ 12,500.00 = Buffer for Repairs
5. \$ 17,000.00 = Selling Expenses
6. \$ 20,000.00 = Desired Profit Versus Actual

**Profit of \$500.00**

If your intent was to purchase the house shown in the example above, make the repairs, and immediately list the house for sale, your Actual Profit shown is only \$500.00. If, however, your intent was to purchase the same house, but actually live in it for a few years before selling, you would normally expect to turn a much better profit for two reasons:

- First, historically speaking, the real estate market normally goes up over time and your anticipated sale price would be higher - affording you more profit.
- Second, the money that you would have been paying in rent to live elsewhere - with no return - is actively paying down your mortgage and increasing your equity.

As with all investments, though, nothing is guaranteed. So when looking to finance a home, keep in mind that the real estate market has taken some big hits in the past. Never overextend yourself financially.

*Please note that the figures in the calculations shown were used for example purposes only. Local housing prices, repair costs, and selling costs will vary greatly from one location to another. It is recommended that all Buyers thoroughly research their local costs and legal restrictions before purchasing.*