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Fixer? Break it down

Check your math before buying on the cheap with dreams of renovation, experts advise.
By Marnell Jameson, Special to The Times

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MARRY in haste. Repent at your leisure. That old saw could apply just as well to buying a fixer.

Before you fall in love and rush to buy and renovate a rundown old house that has a certain charm, take some time to get to know it better. A little due diligence, experts say, can save a lot of heartbreak — and serious money.

Todd Hays is a serial fixer.

The 45-year-old publicist just sold his 12th renovation project and is working on his 13th.

"I do it because I love to do it," he says, standing in his newest acquisition, an 80-year-old home in Pasadena. "I would do it even if I didn't make money doing it, though I don't want to lose money." Mostly, he says, he has made a profit — sometimes more than others.

For him, the decision whether to buy a fixer or walk away from it comes down to his heart and math. "I need to know I'm going to love the house when it's done and that to do what I want will make financial sense."

Hays lives in all his projects while fixing them, and saves money by doing much of the work himself.

But certain flaws in a prospective home, even one that he loves, will kill the deal. For Hays, deal breakers include expensive but essential upgrades that won't show, such as foundation, extensive plumbing or electrical work.

He avoids expensive projects to undo previous upgrades. For instance, he decided against buying an old Craftsman whose owners had stuccoed over wood siding.

Hays also steers clear of homes in danger of sliding down hillsides, and would think twice about buying a home that has been in a fire or flood.

"But the real deal breaker comes down to a home being overpriced for the amount of work it needs," he says. To make sure the property pencils out, Hays makes a detailed list

— down to specific types of doors and hardware — of what all the improvements he has in mind would cost. Then he adds 10%. "People who have never done this should add 20%. There are always surprises."

He then tracks every dollar he puts into the home renovation on his computer. "I know — to the penny — what I paid, what I invested and what I net."

Andy Heller, 44, co-author of "Buy Even Lower: The Regular People's Guide to Real Estate Riches," agrees that those new to renovation should proceed with caution. He recommends buyers get good appraisals and inspections up front and be prepared to walk away from certain flaws.

Fifteen years ago, when he and his partner, Scott Frank, started buying homes to renovate and sell, they walked away from houses with significant structural problems, foundation issues or excessive termite damage. "These homes aren't for amateurs."

Heller, who lives in Atlanta and gives seminars across the country on this subject, says, "Any offer you make should be contingent on inspection and walk-through."

When Heller and Frank walk through a home for sale, they calculate what repairs it will need and make an offer based on what they see. While in escrow, they get a professional inspection. If, after going through the home carefully, they find more that needs repair, they go back to the seller and ask for a discount based on the additional work.

"We always leave ourselves an opportunity to reopen the negotiation," Heller says. For them, a decision to buy comes down to one word: margin. "We don't care if the electrical is shot, so long as we've assessed it, built that into our offer and gotten an appropriate discount."

To determine the size of a discount, Heller suggests that a buyer have a contractor estimate how much the repair or upgrade would cost, then present that to the seller as the basis for asking to purchase at a lower price.

Heller and Frank rely on experts providing good estimates before finalizing their purchases. "Many people buy the house, then find the contractor," Heller says. "They should do the reverse."

Before closing, the pair recommend buyers walk through the house with a reliable contractor and obtain a detailed estimate of what it would cost to make it what they want.

People often get in over their heads for three reasons, Heller says: They don't properly assess the necessary repairs before they buy. They don't have a good inspector and good contractors. Or they don't have the money to do the needed repairs.

Still, even if a buyer does everything right, the market is the wild card. For this reason, Heller says, homeowners need an exit strategy. Options for owners who can't cash out

when they want to include remaining in the home longer, renting the house or selling it on a lease-option.

The Southern California real estate market has primarily allowed Hays to ride the wave of appreciation and realize a nice profit. But back in the early '90s, while he waited for the market to come back, he lived for seven years in a house that he'd intended to live in for only two. As it was, he made only about \$5,000 on the house.

He did a little better the last time around. A home he bought in January 2003 in Studio City for \$600,000 recently sold. He invested about \$80,000 in the home and will net more than a \$300,000 profit for the upgrades after factoring in appreciation.

If he'd used a contractor instead of doing much of the work himself, he estimates he would have paid an additional \$40,000 for improvements, but he would have still come out ahead.

He bought his current home project, a 2,300-square-foot house built in 1926, in September for \$700,000 — \$159,000 below the initial asking price. He's working to restore the Pasadena home's original Spanish style, which previous owners weren't always faithful to. For starters, he removed the hollow-core doors and put in shaker doors he found at Lowe's that resembled those that were in the original house.

Today, after renovating more than 100 houses in a decade and a half, Heller and Frank like what turns other buyers off. "We love the ugly and awful. We have bought homes on busy streets, under power lines, on steep, sliding slopes and near railroad tracks," Heller says. "We won't walk away from any house if the price is right."

Even though money is important, it's not always the most important factor. Frank overpaid for the home he now lives in and knew he was overpaying when he bought nine years ago. But it's the house his wife wanted.

"Did I overpay?" he asks. "Yes. Did it make my life better? Yes. There is a value to having a happy wife."

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Look long and hard

Bruce Irving, former producer of "This Old House," worked on 33 renovations during his 17 years with the show. The renovation consultant offers this advice when buying a fixer:

Appraise the neighborhood. Obtain the price range of recently sold houses. You want to know how much you could safely invest and not price yourself out of the neighborhood.

Visit the building department. Find out what is allowed — and what's not. Investigate every regulatory body that may have a say in the remodel.

Get an inspection. Inspectors don't want to be deal breakers, but most will tell you what's wrong if you listen. If there is a little water damage, suspect a lot. Owners may "go to great lengths to try to hide it," Irving says.

Beware of environmental hazards. Lead, asbestos and mold are all common in older homes. Either avoid these problems entirely, or factor in what it will cost to abate them.

Make two lists: What needs to be done. What you want done. Must-haves in a house include hot and cold running water, heat, no leaks. On the wish list may be a new kitchen, updated baths, a few walls moved. Seek realistic, detailed bids.

Don't over-improve. Before you put in a tricked-out kitchen, look around the neighborhood and see what's comparable. If a gourmet kitchen is important to you, put it in. Just know that if it's a lot nicer than any kitchen around, you risk not getting a full return on that investment.

Couples should test their remodeling compatibility. If you're going to do this with your mate, first tackle something small, such as installing a mailbox or a closet system, before taking on something major.

Time it right. Don't start a renovation if you already have your plate full with other responsibilities demanding your time and attention. Remodeling is stressful.

Don't underestimate what it takes. The biggest mistake most people make is grossly underestimating the time, energy and money they will need to invest.

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