

## **Is the Fixer-Upper You're Considering a Hidden Gem or a Money Pit?**

The ad might draw you in like an old-style carnival barker: "Hurry, hurry, hurry, step right up and take advantage of this once-in-a-lifetime deal. Solid structure, (they don't build them like they used to!) just needs a bit of TLC." And usually that old fixer-upper is being offered at a head-turning price.

Whether you're looking for home-sweet-home or a project that can earn you some profit, the truth is that a fixer-upper - a home in need of some TLC - can be a great deal. But *only* for the *right* person, in the *right* situation, and in the *right* market, because it's also true that a fixer-upper can quickly turn your life into a living nightmare.

So, should you bite? Should you even nibble? Here are some key considerations to keep in mind if you're thinking about buying a fixer-upper project...

### **A Lost Cause isn't a Fixer-Upper**

If the house truly is solid in terms of the primary structure, it might be worth considering. If the fixer-upper portions are limited to cosmetic considerations, the house might indeed be a worthwhile project. But if much of the underlying primary structure is in need of significant repair or replacement, it's highly unlikely that the project will be worth your time and investment.

Structures that need significant work to repair or replace roof, plumbing, siding, flooring, heating, etc. are likely to be like a car totaled in an accident - the cumulative cost of repairs will very likely exceed the market value.

### **The More 'Cosmetic' the Project, the Greater the Payoff**

What type of renovation work is needed? The *best* payoffs tend to be gained from projects that are solely cosmetic in nature. Floor refinishing or painting, for example. The return in value gained vs. expenditures of time and money are highly profitable for a project that just needs some prep and painting.

Smaller renovations that are partly cosmetic and partly structural - replacing doors, installing new lighting, upgrading kitchens and bathrooms - can also pay off.

In general, the more 'structural' in nature, the less profitable a project is likely to be. And really big renovations such as structural additions very rarely pay off in terms of market value added.

When considering whether a renovation project is worth the expense, use this rule of thumb: If the renovation(s) you're considering will raise the value of the

house more than 15% above the area's median sale price, it's unlikely you'll be able to recover your investment.

### **Are You Willing to Swap Sweat for Equity?**

Do you have the skills and the willingness to jump into the project and do much of the work yourself? If so, that can make all the difference.

That doesn't mean that you'll be doing *all* the work yourself; rare is the individual who has the skill set needed to handle *everything* involved in a home renovation. But if you have to use hired labor for every single task, there's a greater chance that costs will spiral out of hand and potential profits disappear.

### **Make an Offer You Can Live With**

If a fixer-upper looks like it might be worth pursuing, use this formula to determine the maximum price you can comfortably offer for the house:

- **Start with the projected value of the house.** If you buy the house and invest the funds and time in returning it to a state of glory, what will its value be? Be realistic!
- **Subtract the total cost of renovations.** What will it cost to make all needed repairs and renovations? Subtract that number from the projected value of the renovated house.
- **Subtract another 10%.** Take 10% of the total cost of renovations and also subtract that from the projected value of the house to cover unexpected expenses. (There are *always* unexpected expenses!)

The number you're left with? That's your *maximum* offer. If the house can't be had for that price or less, walk away.

### **Remember, the Purchase Price is Only the Beginning...**

When you buy a house that's shipshape and up-to-date, you simply buy it, move in and start living happily ever after. But when you buy a fixer-upper, the spending is just beginning. Unless you have cash on hand, you'll need an ongoing source of funding to keep the renovation project from sputtering and stalling.

Try to avoid accumulating credit card debt, or borrowing against your retirement funds. A better option would be a loan that's tied to the first mortgage on the house. In essence, you'll be borrowing against the projected value of the home once renovations are completed.

A fixer-upper can be a way to earn some nice profits. It can also be a means of acquiring the home of your dreams. But fixer-uppers also have a nasty and well-

earned reputation of quickly turning dreams into nightmares. Carefully and realistically evaluate a project before jumping into it, and odds are good that you'll be able to avoid the money-pits while mining the hidden gems.