

Finding the Right Home - Q & A

Q: How do you choose between buying and renting?

A: Home ownership offers tax benefits as well as the freedom to make decisions about your home. An advantage of renting is not worrying about maintenance and other financial obligations associated with owning property.

There also are a number of economic considerations. Unlike renters, home owners who secure a fixed-rate loan can lock in their monthly housing costs and make prudent investment plans knowing these expenses will not increase substantially.

Home ownership is a highly leveraged investment that can yield substantial profit on a nominal front-end investment. However, such returns depend on home-price appreciation.

"For some people, owning a home is a great feeling," writes Mitchell A. Levy in his book, "Home Ownership: The American Myth," Myth Breakers Press, Cupertino, Calif.; 1993.

"It does, however, have a price. Besides the maintenance headache, the amount of after-tax money paid to the lender is usually greater than the amount of money otherwise paid in rent," Levy concludes.

As for evaluating the risk associated with home ownership, David T. Schumacher and Erik Page Bucy write in their book "The Buy & Hold Real Estate Strategy," John Wiley & Sons, New York; 1992, that "good property located in growth areas should be regarded as an investment as opposed to a speculation or gamble."

The authors recommend that prospective buyers spend a few months investigating a community. Many people make the mistake of buying in the wrong area.

"Just because certain properties are high-priced doesn't necessarily mean they have some inherent advantage," the authors write. "One property may cost more than another today, but will it still be worth more down the line?"

Q: What are the pros and cons of adding on or buying new?

A: Before making a choice between adding on to an existing home or buying a larger one, consider these questions:

- * How much money is available, either from cash reserves or through a home improvement loan, to remodel the current house?
- * How much additional space is required? Would the foundation support a second floor or does the lot have room to expand on the ground level?
- * What do local zoning and building ordinances permit?
- * How much equity already exists in the property?
- * Are there affordable properties for sale that would satisfy housing needs?

Ultimately, the decision should be based on individual needs, the extent of work involved and what will add the most value. According to Remodeling magazine's annual "Cost vs. Value Report," remodeling a home not only improves its livability

but its curb appeal with potential buyers. The highest paybacks come from updating kitchens and baths and, most recently, adding on a home office, according to the survey.

For more information, check out "The Do-able Renewable Home," a free booklet available from the American Association of Retired Persons, Fulfillment Department, 601 E St., N.W., Washington, DC 20049; (202) 434-2277.

Q: What do all of those real estate acronyms in the ads mean?

A: If you find yourself stumbling over weird acronyms in a real estate listing, don't be alarmed. There is method to the madness of this shorthand (which is mostly adopted by sellers to save money in advertising charges). Here are some abbreviations and the meaning of each, taken from a recent newspaper classified section:

- * assum. fin. -- assumable financing
- * dk -- deck
- * gar -- garage (garden is usually abbreviated "gard")
- * expansion pot'l -- may be extra space on the lot, or possibly vertical potential for a top floor or room addition. Verify actual potential by checking local zoning restrictions prior to purchase.
- * fab pentrm -- fabulous pentroom, a room on top, underneath the roof, that sometimes has views
- * FDR -- formal dining room (not the former president)
- * frplc, fplc, FP -- fireplace
- * grmet kit -- gourmet kitchen
- * HDW, HWF, Hdwd -- hardwood floors
- * hi ceils -- high ceilings
- * In-law potential -- potential for a separate apartment. Sometimes, local zoning codes restrict rentals of such units so be sure the conversion is legal first.
- * large E-2 plan -- this is one of several floor plans available in a specific building
- * lsd pkg. -- leased parking area, may come with an additional cost
- * lo dues -- find out just how low these homeowner's dues are, and in comparison to what?
- * nr bst schls -- near the best schools
- * pvt -- private
- * pwdr rm -- powder room, or half-bath
- * upr- upper floor
- * vw, vu, vws, vus -- view(s)
- * Wow! -- better check this one out.

Resources:

* "Real Estate's Ambiguous Language You Oughtta Understand," Glennon H. Neubauer, Ethos Group Publishing, Diamond Bar, CA; 1993.

Q: Do we dig deep and buy a dream home or settle for a starter home?

A: Choosing between a smaller house in an affluent neighborhood, an older, bigger house in a more working-class community or a brand-new home is not easy. If you're in this situation, start by examining your priorities and asking the following questions:

- * Is the surrounding neighborhood or the home itself the most important consideration?
- * Is each of the neighborhoods safe?
- * Is quality of the schools an issue?
- * Do any of the areas seem to attract more families with children or adult residents? And where do you fit in?

As for the return on your investment, home-price appreciation is hard to predict. In the late 1980s, the more expensive move-up housing appreciated wildly. But during the recession that followed, smaller homes tended to hold their value better than more expensive ones.

Q: How do I get the real scoop on homes I am looking at?

A: Home inspections, seller disclosure requirements and the agent's experience will help. Disclosure laws vary by state, but in some states, the law requires the seller to complete a real estate transfer disclosure statement. Here is a summary of the things you could expect to see in a disclosure form:

- * In the kitchen -- a range, oven, microwave, dishwasher, garbage disposal, trash compactor.
- * Safety features such as burglar and fire alarms, smoke detectors, sprinklers, security gate, window screens and intercom.
- * The presence of a TV antenna or satellite dish, carport or garage, automatic garage door opener, rain gutters, sump pump.
- * Amenities such as a pool or spa, patio or deck, built-in barbeque and fireplaces.
- * Type of heating, condition of electrical wiring, gas supply and presence of any external power source, such as solar panels.
- * The type of water heater, water supply, sewer system or septic tank also should be disclosed.

Sellers also are required to indicate any significant defects or malfunctions existing in the home's major systems. A checklist specifies interior and exterior walls, ceilings, roof, insulation, windows, fences, driveway, sidewalks, floors, doors, foundation, as well as the electrical and plumbing systems.

The form also asks sellers to note the presence of environmental hazards, walls or fences shared with adjoining landowners, any encroachments or easements, room additions or repairs made without the necessary permits or not in compliance with building codes, zoning violations, citations against the property and lawsuits against the seller affecting the property.

Also look for, or ask about, settling, sliding or soil problems, flooding or drainage problems and any major damage resulting from earthquakes, floods or landslides.

People buying a condominium must be told about covenants, codes and restrictions or other deed restrictions.

It's important to note that the simple idea of disclosing defects has broadened significantly in recent years. Many jurisdictions have their own mandated disclosure forms as do many brokers and agents. Also, the home inspection and home warranty industries have grown significantly to accommodate increased demand from cautious buyers. Be sure to ask questions about anything that

remains unclear or does not seem to be properly addressed by the forms provided to you.
