

Fixer-Uppers - Q & A

Q: Where are fixer-uppers found?

A: You can find distressed properties or fixer-uppers in most communities, even wealthier neighborhoods. A distressed property is one that has been poorly maintained and has a lower market value than other houses in the immediate area.

Ascertaining whether the property you're interested in is a wise investment takes some work. You need to figure what the average house in a given area sells for, as well as what the most desirable houses in that area are like and what they cost.

Some experts suggest that buyers who take this route try to find a "cosmetic fixer" that can be completely refurbished with paint, wallpaper, new floor and window coverings, landscaping and new appliances. You should avoid run-down houses that need major structural repairs. A house price that looks too good to be true probably is. A smart buyer will find out why before buying it.

The basic strategy for a fixer is to find the least desirable house in the most desirable neighborhood, and then decide if the expenses needed to bring the value of that property up to its full potential market value are within one's rehab budget.

Q: Are there programs for fixer-uppers?

A: If you need a home loan to buy a "fixer-upper" and remodel it, look at the U.S. Department of Housing and Urban Development's Section 203(K) loan program. The program is designed to facilitate major structural rehabilitation of houses with one to four units that are more than one year old. Condominiums are not eligible.

A 203(K) loan is usually done as a combination loan to purchase a "fixer-upper" property "as is" and rehabilitate it, or to refinance a temporary loan to buy the property and do the rehabilitation. It can also be done as a rehabilitation-only loan.

Investors must put 15 percent down while owner-occupants are required to come up with only 3 to 5 percent. HUD requires that a minimum of \$5,000 be spent on improvements.

Two appraisals are required. Plans and specifications for the proposed work must be submitted for architectural review and cost estimation. Mortgage proceeds are advanced periodically during the rehabilitation period to finance the construction costs.

Q: What kind of return is there on remodeling jobs?

A: Remodeling magazine produces an annual "Cost vs. Value Report" that answers just that question. The most important point to remember is that remodeling a home not only improves its livability for you but its curb appeal with a potential buyer down the road.

Most recently, the highest remodeling paybacks have come from updating kitchens and baths, home-office additions and extra amenities in older homes. While home offices are a relatively new remodeling trend, for example, you could expect to

recoup 58 percent of the cost of adding a home office, according to the survey.

Q: Are there gov't programs for rehab?

A: The U.S. Department of Housing and Urban Development's Section 203 (K) rehabilitation loan program is designed to facilitate major structural rehabilitation of houses with one to four units that are more than one year old. Condominiums are not eligible.

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For a list of participating lenders, call HUD at (202) 708-2720.

If you are a veteran, loans from the U.S. Department of Veterans Affairs also can be used to buy a home, build a home, improve a home or to refinance an existing loan. VA loans frequently offer lower interest rates than ordinarily available with other kinds of loans. To qualify for a loan, the first step is to apply for a Certificate of Eligibility.

Another program is the Federal Housing Administration's Title 1 FHA loan program.

Resources:

* "Rehab a Home With HUD's 203(K)" brochure, U.S. Department of Housing and Urban Development, 7th and D streets S.W., Washington, DC 20410.

Q: What are some resources for info on home improvements?

A: If you're getting ready to embark on a home improvement project involving contracting help, "Ready, Set, Build: A Consumer's Guide to Home Improvement Planning Contracts" lays out a road map for selecting the right contractor, obtaining competitive bids up to what to include in a contract. There also is information on consumer rights, liens and financing.

The book is available for \$9.95 through Consumer Press and Women's Publications, Inc., Dept. SR01, 13326 Southwest 28th St., Fort Lauderdale, FL 33330-1102; (954) 370-9153.

Resources:

* *Profiting From Real Estate Rehab*, Sandra M. Brassfield, John Wiley & Sons Inc., New York; 1992.

* *Remodeling magazine's annual "Cost vs. Value Report"*, available for a nominal fee from the magazine; call (202) 736-3447 to order a copy.

Q: Are there any special tax breaks for historic rehab?

A: Qualified rehabilitated buildings and certified historic structures currently enjoy a 20 percent investment tax credit for qualified rehabilitation expenses. A historic structure is one listed in the National Register of Historic Places or so designated by an appropriate state or local historic district also certified by the government.

The tax code does not allow deductions for the demolition or significant alternation of a historic structure. Check with your accountant or tax professional for any changes that may have occurred.

Resources:

* National Trust for Historic Preservation, Washington, D.C.; (202) 588-6000.

Q: What are some guidelines to follow when trying to find a contractor?

A: While hiring contractors recommended by friends is usually a safe route, never hire a construction professional without first checking him or her out first. If your state has a licensing board for contractors, call to find out if there are any outstanding complaints against that license holder. Also, call your local Better Business Bureau to see if there are any complaints on file.

If you are satisfied with the answers you find there, interview the contractor candidates. Ask what kind of worker's compensation insurance they carry and get policy and insurance company phone numbers so you can verify the information. If they are not covered, you could be liable for any work-related injury incurred during the project. Also be sure that the contractor has an umbrella general liability policy.

If they pass the insurance hurdle, next check some of their references. A good contractor will be happy to provide as many as you want.

Finally, don't let yourself be rushed into making a decision no matter how competitive the market may seem. Also, never pay a deposit to a contractor at the first meeting. You may end up losing your money.

Q: Are fixers a good idea in bad areas?

A: Distressed properties or fixer-uppers are everywhere, even in wealthier neighborhoods. Such properties are poorly maintained and have a lower market value than other houses in the neighborhood.

Many experts recommend that buyers find the least desirable house in the best neighborhood and then decide if the expenses needed to bring the value of that property up to its full potential market value are within one's budget. Most experts say inexperienced buyers should avoid run-down houses that need major structural repairs and instead look for properties that only require cosmetic fixes.
