

5 steps to a profitable home purchase by Robert Bruss

A little investigative reporting goes a long way

The following column from Robert Bruss' "Best of" collection first appeared Sunday, July 16, 2006.

"I can't believe the mortgage company approved me to buy a condo in such bad shape." That's what I overheard a young lady tell her breakfast date at the coffee shop I like to visit on Saturday mornings. The place is always very busy. The tables are close together so it's hard not to overhear conversations at the adjoining tables.

Burying my head in the newspaper, I then heard her say, "But my dad remodels kitchens so I know he will make it a beauty." I wanted to tell the guy, "Marry her, she's on her way to a real estate fortune!" But I kept quiet and looked away.

Then she went through a list of condo fix-up work she plans to make, such as fresh paint, new carpets and several decorating ideas. At that point, the guy changed the topic. If they marry, she will obviously be the real estate *tycooness* in that family.

HOW TO FIND A PROFITABLE HOUSE OR CONDO---- If you are a typical house or condo buyer, you probably want to purchase a new or resale residence in near-perfect, "model home," move-in condition. That's fine.

But expect to pay full retail market value. That is not the way to make a profitable home purchase.

If you want to profit from your home purchase, as that young lady will, buy a house or condo needing profitable improvements. Extreme cases are called "fixer-uppers."

To be polite, some listing agents call them "tired homes." Having bought and sold many profitable residences over 40-plus years of investing, here are my top five criteria for buying a profitable house or condo:

1. ASK HOW MUCH THE SELLER PAID---- The longer I'm involved with real estate investing, the more important I think this key question is. I wish I started asking it many years ago when purchasing investment properties.

Even if you find a house or condo in excellent condition, before making a purchase offer, ask your buyer's agent, "How much did the seller pay for this home?"

Most buyers don't ask this vital question. Your buyer's agent might be shocked. Just explain the reason you need to know is to discover how much negotiation room the seller has so you can buy the property. Your agent will be thrilled to learn you plan to make a purchase offer.

For example, if you learn the seller paid \$100,000 for the property many years ago, and the comparable home sales prices in the vicinity indicate it is worth \$300,000 today, that seller has lots of negotiation room. However, if your buyer's agent checks the public records and discovers the seller paid \$250,000 for that house last year, the seller doesn't have much negotiation room for you to buy a profitable house at a below-market purchase price.

2. ASK WHY THE SELLER IS SELLING---- This is a controversial question for a home buyer to ask. Only the smartest buyers dare ask it. Knowing the seller's true motivation for selling is critical if you are to buy a profitable house or condo.

Often the listing agent doesn't know the answer. Be sure to communicate to your buyer's agent, who will then tell the listing agent, "I need to know so my buyer can make a purchase offer that meets the seller's needs."

Sometimes, you won't be told the truth. For example, if the reason for the home sale is a divorce, the listing agent might be reluctant to reveal that fact. However, I've found that to be important information so I can make a purchase offer providing cash to satisfy both sellers.

Or, if you learn the home is in foreclosure and the lender has scheduled a foreclosure sale in three weeks, you better be prepared to purchase fast before the seller loses the house.

I recall one situation several years ago where I asked the nasty listing agent why the sellers were selling a home I really wanted to buy for my personal residence. He arrogantly replied, "It's none of your business. Just bring a cash offer."

Not wanting to do business with him, I never made a purchase offer on that house. Later, I learned the sellers were very wealthy and were retiring to Palm Springs. I could have made a low-down-payment offer and they probably would have carried back a mortgage on very attractive terms.

3. LOOK FOR "THE RIGHT THINGS WRONG"----- This used to be my primary criteria for buying a house or condo at a bargain below-market purchase price. Although this reason is still ultra-important, it is no longer as important as the first two criteria.

That condo buyer who sat at the table next to mine a few weeks ago, understood this rule even if she didn't have it on her profitability list. By purchasing a condo needing a kitchen renovation, she was acquiring an almost instant profit opportunity, especially since her father is in the kitchen remodeling business.

"The right things wrong" mean profit opportunities. Often, all that is needed are a coat of paint and new wall-to-wall carpets. Additional profitable examples include new light fixtures, new appliances, fresh landscaping, and bathroom updating.

Examples of the "wrong things wrong" or unprofitable improvements include a new roof, foundation repairs, new plumbing or wiring, and new windows. The reason these obviously necessary updates are unprofitable is they add less market value to the home than they cost.

4. DEDUCT FROM MARKET VALUE FOR THE COST OF REPAIRS---- Most sellers of houses and condos are well aware if their home needs repairs or updating to current market value standards. There are two ways for buyers to handle this.

One is to offer a low purchase price to compensate for the obviously necessary repairs. However, such an approach often upsets the seller who doesn't realize how much it will cost to bring their home up to neighborhood standards.

A better approach is to offer close to current market value, based on recent sales prices of nearby comparable houses or condos, but then list and ask for credits for necessary repairs, such as a new roof, foundation repairs, landscaping, and new plumbing or wiring. This method is often more effective because the seller then realizes all the work their "fixer-upper" needs.

5. ASK THE SELLER FOR AFFORDABLE FINANCING---- Although home mortgage financing is easily available today, you might be able to do better in the right circumstances by asking the seller to carry back a mortgage for you. This can be especially valuable if the seller owns the home free and clear with no mortgage, you plan to immediately renovate the house to increase its market value, and you expect to refinance or sell the home after the improvements are completed.

To illustrate, if you offer a retiree seller a 5.5 percent interest rate on a carryback mortgage, that's better for you than at the local bank. However, be sure there is no prepayment penalty so you can refinance when you complete renovations to increase the home's market value.

As the old saying goes, "It doesn't hurt to ask." There is no easier mortgage lender than the home seller. My experience is retirees are especially anxious to finance home sales because they usually can't obtain such a high yield with the safety of a mortgage on their former residence if you fail to make the payments and they have to foreclose. By obtaining easy seller financing, you just increased your purchase profit even more.

On the **World Wide Web**, search for articles by "**Robert Bruss**." You may possibly find many informative articles that may help you with your real estate knowledge of purchasing and/or selling.

SUMMARY: If you ask the right questions, your real estate purchase can become a profitable investment, whether you are planning to keep your home purchase for a short time or for many years.

**** This article is being providing to you from **Ron Hidalgo** of **Saunders Realty** Montgomery, Alabama.

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