

How to buy profitable real estate

Excerpts from article by Robert J. Bruss for Inman News

Are you the adventurous type of homebuyer who wants to make a profitable purchase? Or are you looking for a near-perfect "model home" acquisition where all you have to do is turn the key in the front door and move in?

If you are the adventurous type, as I am, please read on. But if you want to buy a model home in perfect condition and are willing to pay top dollar, you're wasting time reading further.

Here are five keys to unlock a profitable home purchase:

1—BUY A SOUND, WELL-LOCATED HOME WITHOUT MAJOR DEFECTS. Most homebuyers aren't looking for major fix-up projects. But minor cosmetic repairs are the most profitable way to enhance a home's market value. Presuming a house is in a decent location and doesn't require major renovation, it is the perfect profit candidate. Paint is the most profitable cosmetic improvement of all. Spending \$1 for paint often produces \$5 or more in increased market value. Other examples of profitable cosmetic improvements include new carpets and hardwood floor refinishing, fresh landscaping, new light fixtures, and updated window coverings. But try to avoid buying a home that needs unprofitable structural improvements, such as a new roof or foundation repairs. For example, if a house needs a new roof, which will be costly but will add little or no market value, that is an unprofitable but necessary expenditure. More examples are foundation repairs, new plumbing, or wiring updates, which are expensive but add zero market value.

2—ASK HOW MUCH THE SELLER PAID FOR THE HOME. This might seem like an irrelevant question for a home buyer to ask, but it is extremely important. If the seller has owned the home for many years, he or she probably paid a low purchase price compared to today's market value. That means the seller has lots of room to negotiate on price and terms. However, if the home seller recently purchased for a price close to today's market value, that seller doesn't

have much room to negotiate on the sales price, considering the condition of the residence.

3—PURCHASE BELOW MARKET VALUE TO COMPENSATE FOR THE OBVIOUS NEED FOR REPAIRS. Some naïve home sellers think their home, which needs cosmetic repairs, should sell for just as much as the similar home down the street, which was recently sold in excellent condition. But savvy home buyers negotiate hard, emphasizing to sellers and their listing agents that the market for a home needing fix-up work is very limited. Most prospective buyers seek near-perfect homes but the few buyers of fix-up homes must be rewarded in the form of a lower purchase price because they must encounter the work of fixing up the house.

4—BUY FROM A HIGHLY MOTIVATED HOME SELLER. Closely related to the previous key to unlocking a profitable home purchase is determining why the seller is really selling. If the seller is just testing the market and isn't anxious to move, negotiating a bargain purchase price to compensate for "the right things wrong" can be very difficult. However, if the seller is highly motivated, such as moving to a retirement home, a job transfer, family situation, or economic problem such as a pending foreclosure, the seller is unlikely to hold out for the last dollar of profit.

5—LOOK FOR AFFORDABLE FINANCING. As home mortgage interest rates slowly escalate, it pays to look for affordable mortgage financing. The best source, by far, is the home seller. Retirees who need extra retirement income are, by far, the best source of seller financing. To illustrate, if you discover the reason for the seller's sale is to move to a retirement home, or an assisted living center, that seller probably needs extra income. If he or she receives an all-cash sale, the best that seller can expect to receive today is 3 percent or 4 percent interest at a bank. But if you offer that seller 5 percent or 6 percent interest, secured by a mortgage on the home they know so well, you can obtain bargain financing and also help the seller. I've learned from buying many houses with seller financing, the key to success is to include in the purchase offer the exact mortgage payment the seller will receive each month, such as \$1,893.45. The interest rate alone is not sufficient to gain acceptance.

DON'T BUY A HOME NEEDING AN "EXTREME MAKEOVER." One of my favorite weekly TV programs offers an extreme home makeover to a lucky homeowner. After viewers learn why the home needs major renovation, the experts quickly move in and perform major miracles within a week or so to create a practically new home for the happy homeowner. But that's not the real world. Having renovated many fix-up homes that needed profitable improvements, I know it takes weeks, sometimes months, to renovate a house. However, the results of acquiring a house with "the right things wrong" can be extremely profitable. If you want to profit from your next home purchase, follow the five keys above and buy a house with profit opportunities.