

Feature Story

The Importance of Repairs in Today's Changing Market

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Whenever one of my friends asks what I do for a living, and I tell them that I sell foreclosed homes, they always give me the same response, "Can you get me a deal?" It always gives me a chuckle, but it's no secret that there is a stereotype surrounding foreclosures and low-pricing trends.

Oftentimes, people believe that foreclosures are priced lower simply because they are bank owned. Along with the rundown homes that investors snap up, repair and flip, there has been a recent trend of greater numbers of average and above average conditioned homes popping up for sale across the country.

We have seen the market explode in the last five years and although this market is enticing for many, the fact remains that not everyone has the cash or a history of good credit to purchase one of these homes. The typical buyer profile has shifted from cash investors looking to fix and resell, to families looking to buy their first home with an FHA loan. As for sellers of these properties, now more than ever repairing a property can prove to be a lucrative option. Listing a property in repaired condition can also cut the marketing time in half, open up exposure to many more buyers, and help to avoid city fines and violations due to unacceptable property conditions.

In my experience, there are several factors to consider when deciding whether or not to make repairs. Some concerns include how much the home is worth in its current condition. If the home is under \$100,000 sellers should think carefully about the cost effectiveness of any repairs made. Also, how old is the home? If it is over 50 years old, repairs may be more involved and expensive than the seller is willing to tackle. Is the home in a high rental area?

If the immediate competition in the area is for rental property, then most likely the buyer is going to be an investor who has the money and time to repair the property and who will then rent or resell it. Is the property in a high crime or vandalism area? This is an important consideration. Sure, it's great when a home is repaired and shows much better than it had previously. But that image can quickly fade if someone breaks in and destroys the work that was done, or "borrows" the new air conditioning unit that was just installed. Many would be buyers or renters will avoid these areas so it may not be worth doing all the repairs only to let the property sit for extended periods without a sale and risk further damage.

I've seen three approaches when it comes to deciding which type of repairs are necessary on a property. The first approach is making repairs to simply preserve the property condition. This is often used in lower-end properties, where a cash buyer or conventional loan may qualify. Typical repairs may include having a leaky roof tarped, removing mold, fixing defective plumbing, removing water damage, repairing sheetrock and drywall, and boarding/securing all doors and windows to prevent vandalism.

The second approach is to make the minimal amount of repairs to qualify the property for FHA and VA financing. These repairs are usually completed in moderately priced properties, and are aimed at preserving the property while protecting the health and safety of the occupants. HUD's website mentions the 3 S's — safety, security and soundness. Some common repairs of this nature are installing appliances and light fixtures, correcting plumbing work, fixing doors and windows, installing new carpeting, making drywall repairs, adding kitchen cabinetry, replacing A/C units, and repairing plumbing fixtures. Repairing these items is often more cost effective for the seller, yet still ensures that little or no repairs will be needed when the buyer undergoes their home inspection.

The third approach to repairing a property is performing cosmetic repairs to make the property more appealing and move-in ready. This is often utilized in higher-end properties where competition can range from new construction to other REO homes which have been repaired. Typical repairs in this category include upgrading to stainless steel appliances, adding new carpeting throughout the home, painting the interior, upgrading the counter tops and cabinets, tiling the bathroom floors, and installing energy efficient windows and doors. This can significantly cut down the marketing time and increases the probability of multiple offers.

When making property repairs, the broker plays an important role in the decision process. The more information provided in a BPO or appraisal, the easier it is to make a decision on repairs. Information on neighborhood trends, market conditions, typical buyer profiles, and current employment conditions, are extremely important when analyzing a property as a potential rehab project. Realizing the full potential of a property early in the marketing process will help to accelerate the selling process after repairs are made.

So when it has been decided that repairs should be made to the property, who makes the repairs? In most cases two bids are required. One is usually from a national vendor, and the second bid usually comes from the listing agent. A copy of the contractor's license, W-9, and insurance information should always be provided for liability purposes. Most agents have contractors they have worked with over the years, and whom they know will not only get the work done in a timely fashion, but will do a solid and honest job.

The longer the seller has to keep a property in their inventory, the more money they can lose on the sale. When a repair bid has been approved, the typical turnaround time for most major repairs is about two weeks. Obviously that can vary with extensive plumbing work, mold removal or large areas of water damage, but a good contractor will generally be able to have things wrapped up within a few weeks.

After the repair work has been completed, photos should always be taken and sent to all parties involved in the transaction. The seller wants to be reassured that all of the work outlined in the original bid was completed. The servicer wants to be sure that the work was completed properly, so that the home can then be listed. And the buyer wants to know that the property will now meet their lender's conditions, so they can move forward with the sale.

Sometimes the agent listing the property will have to pay for the repair expenses up front. It is always best to check with your point of contact for the property (the asset manager or

seller), prior to the start of having repairs made so you can make the proper payment arrangements. Most companies will opt to either pay the contractor directly or reimburse the agent who fronted the bill. This is usually done within a few days of the repair completion. When reimbursing an agent, proof of payment to the contractor, and a copy of the invoice will be requested. When reimbursing a contractor directly, a copy of their insurance, W-9 and license are usually needed. Some contractors require half of their payment up front for materials.

I typically try to discourage this. My reason for this is if the contractor has an incentive to complete the work, they tend to move a little faster. If they've been paid half the money upfront, what is their rush to complete the job? The best scenario is when repairs are made while a property is under contract. Typically, the title company handling the closing can make payment directly to the contractor at the closing table.

The federal governments \$8,000 tax credit for first-time homebuyers, has given many qualified buyers a good incentive to buy now. Many of these buyers will be looking to obtain an FHA loan where a property needs to be in average to excellent condition. Repairing a property now, in order to list it in already financeable condition will put many sellers ahead of the game. The ultimate goal in any sales transaction is to sell it as quickly as possible, while making the highest possible profit. And more often than not, it is much easier to accomplish both goals when a repaired property has reached its peak marketing value.

Not every home will realize an increase in value if repaired. But when it has been decided that a property would benefit from having repairs made, following the outlined steps to line up a contractor, obtain bids, inspect the final work and expedite payment, will ensure a smoother transaction. Repairing a property correctly can bring the seller, servicer and buyer together in order to reach their end goal, a sale.

Shannon McCormick is an asset manager at Keystone Asset Management, Inc., in Lansdale, Pa. With over five years of experience in the REO and appraisal industries, Ms. McCormick joined Keystone in 2004. During her time there, she has worked in the property valuations, evictions and closings departments before moving to her current position. Prior to this, she worked at Orisyn Research, a review appraisal firm.