

EXCLUSIVE FIX-IT REPORT #2

The Property Inspection and Repair Bible Part I



Price: \$67.00.

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Call Kevin at (713) 858-1330 for your next inspection.

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The Rhythm of the Work

Timing is a big part of planning the project. The order in which you do things has a big impact on how long it will take you to complete the project, what the ultimate quality of the product will be.

I talk a lot about product. It is the houses that we buy ugly and fix up that are the product that we bring to market. If we present a shabby product to the market, the market will not receive us as warmly as when we bring forth a product of quality and usefulness.

The lower end of the market is a house that is a junker, and it will never be much more than a junker. It is old, it has the problems of old houses. Bad plumbing, bad wiring, foundation problems and the wear of all the years and all the people who have lived there.

The upper end of that same market would be a house that is fixed up a lot better than all of the rest of the houses in the neighborhood. Can you see a trellised gazebo on the lawn of an economically challenged neighborhood? Sure. Money can put it there. Hopefully not your money.

You can spend too much money on a rehab. It is nice to have the prettiest house in the neighborhood, but make sure it can still be afforded by the people who would want to live in that neighborhood. A freshly painted house with a new roof (if it needs one) and some nice soft polished brass at the front door can be very inviting to a prospective buyer. That's where you want to spend your money, in adding the value, not necessarily the money.

Putting the money into the house is part of the process of adding value. Nobody knows better than I do about putting money and time into houses. The important part is to spend your dollars wisely.

Every dollar that you spend on fixing the house is a dollar less you will be walking away from the closing table with. Spend what you have to, but spend it wisely. Look at the house thoroughly when you buy it. KNOW what it is going to cost to bring the house to what is commonly known as a "good and marketable condition". That's the scope of the project.

Now the project needs a budget. Figure out how much it will cost to do what you want to do to the house. Get competitive bids for expensive items such as roofs and slabs. Write it all down and add it all up. Decide on the quality level of the product before you spend a nickel, and you will wind up spending fewer nickels to reach that condition we so lovingly refer to as "Marketable."

Once you have decided what you are going to do and how much you can spend on the

project, you can proceed. There is an order to rehabbing just as there is an order in building a house or a bridge. Certain tasks must be completed before other tasks. If you put the wrong one first, you may well end up tearing out some of the work you have already paid for or spent time doing. If you do it wrong and leave it, it diminishes the quality of the product and you have effectively shot yourself in the foot in the marketplace.

There are lots of ways to rehab a house, and some ways are better than others. Having to open up a wall to fix something that should have been fixed before the sheetrock was put up is a good example. Putting the new roof on before you fix the foundation is another. (It can cause little ripples in the shingles that make it look like a rock thrown into a still pond.

I've tried most of the ways of rehabbing a house. I've made most of the mistakes personally. I would like to share with you from the bounty of my mistakes, and offer what I've learned from the experience.

Here then is the order in which I rehab a house.

1. Clear and clean the yard

Get rid of all shrubbery that is too close to the house. Make way for the work. Trim the trees back five feet from the roof so that the branches will not rub on the shingles when the wind blows.

Carpenters and painters work better if they don't arm wrestle holly bushes, and your buying public will once again be able to gaze upon the beauty of your investment. Keep the yard cut and the vegetation trimmed neatly so the house will look its best from the curb.

2. Foundation

Always rectify any problems with the foundation before you begin work on the house itself. If you have any doubt about whether a house needs foundation work or not, ask the advice of a structural engineer, a licensed real estate inspector, or a foundation repair company

Remember that everything in the house sits on the foundation. The foundation sits on the soil. If the soil has shrunk or swollen, it makes the house unlevel. We've talked about that all summer.

When the foundation of the house is square and level, then everything that is built on top of it has a good chance of being square and level. The parts of the house depend on the foundation being right so the different pieces of the house will fit together correctly and perform their functions in the way they were designed to.

Framing that is square and level is stronger, safer and will last much longer than framing

that is not. Sheetrock on the inside and siding of brick or masonry depends on the framing being square or the work will not look right. Have you ever seen a leaning wall on a house? Looks weird, doesn't it? It is not safe, and it is a demonstration of a crumbling asset.

Foundation repair re-levels and stabilizes the house. Whether it is pier and beam or slab on grade, most of the houses in Houston will want a little adjusting in their lifetime.

3. Roof

After the foundation we will dry in the house and close it up against the weather. Roof replacement or repairs are in order now. This also means that you have to coordinate any repairs that will penetrate the roof such as furnace and water heater vents, new turbines etc.

4. Closing the envelope

Closing the envelope of the building involves repairing broken windows, repairing holes in the siding, replacing missing doors and making all locks on doors and windows operable. If this rehab is to be a rental property there are special laws governing what kind of locks you have to have on the doors.

5. Paint exterior

At this point all the exterior repairs have been done and the exterior prepping, priming of new and bare wood, and painting can begin. Be sure to cover the sidewalks and driveways and protect the vegetation when you paint. You want the house to look its best.

6. Interior trades work

Carpentry, electrical and plumbing work can begin at the same time.

Encourage a lot of communication between the trades so that they will work together and figure out things like who has the right of way when both guys want to work in the same place, and coordinate scheduling for things like electrical or plumbing trim out and flooring installation.

7. HVAC

Heating, Ventilating and Air Conditioning. If the furnace or the evaporator coil is to be changed out, now is the time for it. Take that nasty old equipment out over the old carpet or the bare floors, not your pretty new flooring that you just paid a lot of money for.

8. Sheetrock repairs, paint prep and interior painting

Begin putting the interior back together and getting it ready to paint. Make sure all the holes and cracks are filled, and that all of the preparation has been completed when you begin to paint. Plan your work and then work your plan. Put a fresh coat of paint on all previously painted surfaces, and remember that cabinets that are nice and white and shiny are very attractive to a used homebuyer.

9. Trim out

Time for light fixtures, cabinet knobs, new faucets and sinks, new locksets and wallpaper if you like it. Those pretty white cabinet doors will really sparkle when you add a round polished brass knob to the fronts of them. The place has to look like a model home. Make it special; it has to look better than it has ever looked so that your buyers will just not be able to resist writing you an earnest money check

10. Flooring

Get that new carpet and linoleum down. A 1/2" 6 pound rebond pad is a little thicker and costs just a little more than regular pads (about \$30 more for a 1500 square foot house), but it makes the carpet feel so much more luxurious when you walk on it. Be sure you bring the buyer's attention to it when they look at the house. That's one of the ways we sell the value of the house and overcome objections to the price of the property.

11. Cleaning

Clean bathrooms and kitchen. Clean all windows inside and out. Mop floors, vacuum carpet and clean up the yard again. It is time for the house to put its best foot forward and really shine in the eyes of the buyer.

12. Paint touch up

The people who hang the light fixtures and the people who put in the flooring and the people who do the make ready cleaning sometimes leave little handprints and dings on your new paint job. Make sure that the painter takes one last trip through the house to really polish the paint job. Make sure the lines are perfectly straight and everything inside and out looks the very best that it can.

So spend your rehab dollars, but spend them wisely. Don't waste them by making silly mistakes that will only cost you money and opportunity in the market. Remember, clean fresh houses sell faster. Good luck, and I'll see you out on the property.

Is There Time for a Quickie?

Let me give it to you right here, right now. You need to know what you are getting for your money. Real estate investment is supposed to accumulate wealth, not distribute it, so take a good look at that house before you sign a contract. Caveat emptor, let the buyer be aware. We are responsible for our own investments, and it's up to us to make them work.

We do that best when we make good decisions, and we make the best decisions when we are well informed about what we are getting into. There are lots of decisions to be made when you are taking a property, and one of the most important decisions you will make is what to offer based on the condition of the property.

You have to know what it will sell for when it is fixed up. Then you have to figure out what it is going to cost to bring it to that condition. In order for you to do this, you must first evaluate the asset by inspecting it. In this two-part article, we'll look at how you figure out if this house is a good deal or not based on the condition of the house.

Inspecting the house usually involves a licensed real estate inspector armed with the methodology of the Texas Real Estate Commission. He or she goes over the house with a fine-toothed comb and lists out every little thing that "is in need of repair or immediate attention". Like accounting, that level of detail takes time, and it costs you money. Besides, if you are looking at more than one piece of property, you are going to have to proceed at a pretty brisk pace to get everything looked at and evaluated for the purposes of making a purchase offer.

As investors, you will be looking at a lot of houses. Time is of the essence; the deals don't grow cold on the streets today. Harder to find the right rehab property, but you can do it if you can be agile and move quickly. If the property is occupied, if there are tenants, if the property is a foreclosure or if you are trying to see ten houses in one day you just have to be able to make the evaluations at a pretty brisk pace.

If the numbers don't work, if the deal will not make you any money, that property is not a good candidate for your investment model. If you miss a large item on the rehab budget, it could turn your investment upside down and that would be the end of your girlish laughter. It could mean that you have to put more money into the project than the budget will allow, and where is it going to come from? It comes out of your refrigerator, my friends.

We can't let that happen, can we? We need a solid methodology that will give us what we need when we ask for the information. We need a technique that will be successful, something that we can do over and over again and reach the same desired result.

Want to know what the really big guys do when they go for it? Want to know what the successful real estate investors do when they look at a house they want to buy? Want to know how to do an inspection in thirty minutes or less. Come, gentle reader, I'll show you the way.

It's a quickie inspection and it works like this. You look at the general condition of the house first. You walk from room to room looking to see if it needs paint, needs something fixed or replaced, see what is missing. You will later build a budget that will list all these items requiring attention, but for now we just want to get the big picture. Think of it as qualifying the property much like a salesman qualifies his prospects. Is this property the right one for me to put my money and my time into? It helps you keep your focused on the task of looking for the properties that will fit into your investment model.

Look at the general condition first. I walk all the way around the house, and I walk through every room in the house. Walls ceilings, general condition of the plumbing fixtures, appliances, lights, damage, anything that you will have to spend money on to bring the property to a good and marketable condition.

Once you have seen the property, you will know if this is a project that you can undertake and win with, or whether to disqualify it right now. Now turn your attention to the big dollar items that will make a formidable impact on the budget. Look closely at the three most expensive repairs that you will make in a rehab situation. They are the foundation, the roof and the HVAC system.

Check the foundation first, because they usually take more dollars to fix than anything else on the house. If there are bricks, look for cracks. Look for a separation between the trim on the windows and the siding, especially if it is bigger on one end than the other. As you walk through the house, does it feel like the floor is rising or falling? Are you carrying the four-foot level you need to check the foundation for level? Look for cracks around the doors and windows, radiating from the corners. Look for doors that close or open themselves and doors that drag or stick when you open or close them.

When you look at cracks in the perimeter beam (the part of the slab that we can see between the grass and the siding on the walls of the house) remember that a lot of cracks are considered to be cosmetic and not structural if they are less than 1/8' wide. Look for separation, which means that the slab has actually broken, and the two pieces have come apart from one another. The other serious failure is called differential settlement, where one piece of the broken slab is higher or lower than the adjoining broken piece.

If you have any question about the foundation, pull the level out and check it. Remember that if the deflection (rise or fall) is more than 1/4" in 4', then it needs

foundation repair. If you are not sure, and everything else in the deal looks good, see if you can get a foundation repair company in to do a full assessment for you.

Problems with block and beam houses are easier and less expensive to correct as a rule, but you have to remember to check the floors in the wet areas. Check around the commodes and the tubs and in front of the sinks for weak or missing flooring. The more extensive it is, the more it will cost to fix. You can get contractors in later to give you prices, but you don't want to waste their time or yours on a deal that isn't a deal.

As an inspector who has done thousands of inspections on investment property the problem that I have seen the most of is bad planning, particularly budget projections. Even if you have never done it before you can learn to do it like the other successful people. It will teach you how to make the right decisions by copying what has been successful for so many people, and it will get you started a lot faster.

Next article: Roofs, HVAC and other money holes in the house revealed

The Rest of the Quickie Inspection

This is the second part of a two-part article on how to size up a property in a hurry without getting into trouble. The first installment of the article talked about doing a quick once over assessment of the property, and then focusing in on the three most expensive repairs that are usually made to the house. Again, the three big dollar repairs are the foundation, the roof and the HVAC system. These are the most cost intensive single items that you will have to deal with as a rehabber. There may be other considerations, such as having to remove and replace all of the siding on a house, but these three are the top budget busters for investors.

You can learn to look at houses and make rational, meaningful assessments of the conditions and the repair costs just the same as you can learn to fly an airplane, analyze a financial statement or get on the Internet. This is just sticks and bricks, not brain surgery, so read on and learn now.

Roofing is an area where a lot of new potential investors get tripped up when they work up their scope of work and budget for the property before buying it. They get out of the car, look up at the top of the house, and say; "Yep, its got a roof all right, now what else do I look at?" It hurts my stomach to think of investors doing that. You can go wrong several thousands of dollars by missing a roof, and remember, that money comes right out of your refrigerator in the long run. Let me see if I can help you get stronger.

Look at the overall condition of the roof for obvious signs of the roof having "reached the end of its life expectancy". Are the shingles deteriorated to the point where they are sloughing off of the house? Are there bald spots on the shingles where the granular material has long since let go and washed into the gutter? Are there shiny spots on the shingles, or spots where you can see the fabric of the fiber glass matting on the face of the shingles?

Look for signs of abrasive damage caused by tree limbs whether the branches are still there or not. Some folks will tidy up the property just before they sell it, but will often leave the evidence in plain sight. If you can get up on a ladder and see the surface of the shingle look for hail damage. Hail damage looks like acne on the shingle, pock marks where the little ice balls have come out of the heavens and strike the roof with such force that it literally bangs the aggregate (that sand on the shingle) right off the shingle. Have a good look around the neighborhood, and if you see more than one or two new roofs, you should ask about the hailstorm and if the insurance company has come out.

By the way, if a homeowner's policy was in force at the time of the hail storm and the owner did not yet not make a claim, you may be able to recoup some or all of the cost of the roof replacement through the seller's insurance company. Talk to your insurance man, a public adjuster or the seller.

New shingles have nice square cut corners and straight, parallel slots called rain lines. As the roof ages, the corners will eventually become rounded, and the once parallel slots will begin to look like an inverted "V". These are signs of a roof that needs to be replaced. Another sign of a bad roof is what they call "chicken feathers", because the shingles are cupped and curl down under themselves to look like the odd feather sticking up on a chicken. If you see these conditions, the roof is bound for the landfill. Period.

If you see a roof that is made of wooden shingles, be very careful, this is an older roof for sure. You can't put a wood shingle roof on in the city of Houston any more. The fire department says so and they have for years now. Oh, you can get a kind of wood shingle that has been treated with fire retardant and the City of Houston will grudgingly accept it, but no builder or architect in his right mind will put one on. Want to see one of these treated wood shingle roofs? Want to see chicken feathers? Go to Bellaire and Rice and look at the roof on the little bandstand there that used to be a trolley station back in the days. The roof looks like homemade crap because of the wood shingles curling up.

Multiple roofs mean that you will have to pay more to the roofer because he will have more labor to remove it, and he will have to pay more to dump it in the landfill. I have seen as many as six roofs on a house, and it puts a severe strain on the wooden framing on the house (it wants to spread the walls out at the top) and it can also have a negative impact on the foundation of the as well.

Look for lumps in the flat roof areas, or look at the edges of the roof as it runs up towards the peak. Normally three shingles layers make one roof; one starter shingle, and one shingle laid over the other to provide a watershed. This pile of stuff is less than ½" in thickness. If you get on your ladder and examine the edges of the roof, you can usually tell if there is more than one roof there.

Before you go inside, look at the fascia and the soffit. The fascia is the part of the eave of the house that is vertical. It is the part we nail gutters to. The soffit is the part of the eave that is parallel with the ground. When the gutters back up and run over, the fascia is often damaged and because the space between the gutter and the fascia fills up like a purse full of water. The water promotes the growth of certain bacteria and other organisms, and these organisms cause wood rot.

Inside the house, look for stains on the ceilings. Go into the attic to see what is above the stain. Sometimes the stain comes from a problem with the air conditioner; sometimes it comes from a leak at the flashing, a leak at a roof penetration (where the pipes or the chimney go through the roof) or a leaking valley in the roof structure.

Very important to remember when you look in the attic is to take a good look at the bottom part of the roof that you see from inside the attic. Do you see plywood, or do you see 1 X 4 boards running left to right with wood shingles running up and down? If there is a wood shingle roof on a house that has to be replaced you will go from an industry average of about \$85 to replace 100 square feet of roof to \$150 or 175 per 100 square feet because you now have to remove that wood roof in little pieces, and then you have to make a plywood deck all over the roof to put the new shingles on.

All of this can be done successfully in a rehab. I've replaced hundreds of roofs here in the Houston area. The thing I want you to be aware of is that you have to figure repairs like this into the cost of bringing the house to a good and marketable condition. This means adjusting your offering price accordingly, and it is done every day.

Now for HVAC. HVAC stands for heating, ventilating and air conditioning. A lot of the time investment houses will be empty, and will not have the utilities turned on. Of course our best approach is to be able to operate the equipment and make our decision based on the performance of the air conditioning and the heating. Since that is not always possible, our next best choice is to look at the general state of the equipment. Here's how to make better-informed decisions.

First of all, take a walk around the outside of the house and look for the air conditioning condensing unit. In some cases, such as townhouses, you will find this piece of equipment on the roof. In single-family residential properties it will usually be on the side or at the back of the house. You cannot have air conditioning without it, so it has to be there somewhere.

If you cannot find it, the unit may have been stolen, or the house may not have had it to begin with. Clue: if you see window units, it probably doesn't have central air conditioning. If you see equipment in the attic and no condensing unit, it could also be that the house has only central heat, and not central A/C. If it has A/C and no condensing unit you should at least be able to see the refrigerant lines and the power and low voltage wires coming out of the house. Refrigerant lines are normally copper pipes, one larger than the other, coming out of the exterior wall or coming out of the attic and down the side of the house.

Condensing units have an information plate on the side of the unit. This plate or sticker will tell you the serial number and the model number. The serial number will sometimes tell you when the unit was built, the model number will tell you how many tons of air conditioning the unit was designed to provide.

Have a look at the unit. Without being an air conditioning technician, can you tell if this is a brand new unit, a unit that has been there for a couple of years, or a unit that has been there since the Beatles played Shea Stadium? Look for rusted or corroded parts and faded paint. If the information plate has faded out and is

unreadable, it is a pretty safe bet that the unit has been sitting there taking the sun for a while. If the paint on the unit is chalky, it has probably reached the end of its life expectancy and will need to be replaced. Average life span of condensing units in Houston is about 12 – 15 years, with some lasting up to 20 years, but that's rare.

O.K., up in the attic with you. Look at the HVAC equipment up there. Some houses have the equipment in a hall closet, but the same general rules apply when you look at them. First, check out the overflow pan underneath the evaporator coil. The evaporator coil is the inside part of the air conditioning and you identify it by the two refrigerant lines coming into it from the condensing unit outside. If this pan has rust in it, one of two things has happened. Either the drain line for the evaporator coil has plugged up with mold and mildew and overflowed into the pan, or the bottom of the evaporator coil has rusted through.

Plugged up is easy to fix, rotted out means replacing equipment. If the evaporator coil has rotted out from rust or corrosion, you can usually feel it if you reach your hand up under its little bottom and rub it. If you feel rust, or if you can push your fingers up into the bottom of the case, then the evaporator coil will have to be replaced. By the way, if the rust is bright reddish orange, then it is pretty recent, last season or so. If the rust is dark reddish brown, it is old business, and usually means that there was an overflow condition that was repaired. Look also on the ceiling below where the equipment is and see if you can tell if it has been repaired from previous leaking.

Furnaces. They come in two flavors, gas and electric. The electric ones are normally rectangular boxes like the gas ones, but the electric furnace does not have a vent on the top of it that goes through the roof. No, electric furnaces have a big wire running into them. This wire is about twice as wide as a piece of Romex, which is the white plastic covered wire that we normally use in residential wiring. The furnace wire is bigger because it is 220 volt, and it is usually gray or black.

Think of the electric furnace as a great big toaster. It has those wires running through it that heat up and glow like the wires inside a toaster, only they are much bigger. We blow air across these glowing hot wires, the air gets hot, and we blow the air around to the rooms in the house. What goes wrong with electric heat? The wires will sometimes burn through and you will lose that part of the furnace. A typical furnace will have three of these wires, plus some other devices that control the timing and flow of the electricity to the unit.

There isn't much you can do to check electric heat without power, an amp meter or some device to take the temperature of the air going into or out of the unit. You can only go by the condition of the exterior skin of the equipment. It's not much, but at least it is better than nothing.

Gas furnaces give up their secrets a little more easily. The gas furnace has a firebox with a burner in it. The hot gas from this burner goes up through a set of pipes or metal channels called a heat exchanger. We blow air over this heat exchanger, which scrubs the heat off of it, and we blow this heated air around to the rooms the same as the electric furnace. Identify this guy by the vent pipe coming up off a metal box on the side of the furnace called a draft hood. This vent has to carry those hot gasses from the gas fire out of the attic safely.

The main problem with gas furnaces is a “cracked” heat exchanger. Until a couple of years ago heat exchangers were made of cold rolled steel. That means that they were formed from a flat piece of metal that was pressed and forged into the shape of this heat exchanger, and the open ends of the metal sheet were folded over to make a seam. Over the years, moisture, heat and just plain age contributed to the deterioration and final demise of these seams or of the metal heat exchanger itself. This meant that the design to carry hot gasses had been compromised, and the furnace was now distributing combustion gases such as carbon monoxide throughout the house. Since carbon monoxide is a deadly poison to humans, it means that the furnace is unsafe and has to be replaced.

What to look at? There is a cover on the side of the burner compartment that you can shine your flashlight into and see the burners. If you see a large amount of rust there, then the furnace is probably a goner. That rust only comes from one place – the heat exchanger. When this goes, you are better off to replace the entire furnace because the heat exchanger replacement is almost as costly as replacing the whole furnace, and with a new furnace you get a full parts and labor warranty end to end.

New furnaces use aluminum, stainless steel and other materials in the heat exchanger and are far superior in performance and life expectancy to the old steel ones. New furnaces also have glow ignitions (no pilot light) and circuit boards that show a little red or green light when the unit is powered. No need to worry about heat exchangers here.

Ductwork is \$200 per run to replace, so roll your eyes over that, as well. If the ductwork is falling apart, it will have to be replaced.

That was a lot of material to read through, but be assured that it takes less time to check out these things than it does to read through this article. Start looking at the things we talked about on your own home so you will begin to get familiar with what is going on there. Remember, it’s not about heating or roofs or foundations, it’s about money. Your money. I want to see you keeping it in your pocket because you made informed decisions. If you get stuck, call me or talk to me at the next general meeting. I’ll be glad to help. I’ll see you out on the property.

A Disappearing Act

Some days all the locks in the world won't keep out the bad guys, and all the faith and integrity on your part will now always guarantee honesty in the people you deal with. They'll get your condenser in the middle of the night and they'll kick your back door in over the weekend and get the water heater. They'll make faucets and ceiling fans new, still in the box, just disappear into night and fog.

If you have been in the rehab business for any length of time you have had the experience of having equipment and materials stolen off a job. If you are a contractor, same thing, someone has made off with your compressor, or you lost your table saw or if you're like me, lost every power tool you owned in one night. It'll just make you sick when you walk into the rehab in the morning and find the door open.

I won't get into the ethical considerations of taking things that do not belong to you. I won't get into what I think about people who steal tools from a man who feeds his family with those tools. What I have to offer today will help you lower your exposure to the risks of losing money on a rehab, and make you more prone to success in managing that rehab.

First things first. You will never be able to 100% guarantee that you can protect everything on the investment property from theft, vandalism or evaporation of job materials. There are some proven strategies for helping you hang on to what's yours, but in real life, sometimes they're just gonna get you. This month we'll take a look at what you can do to make it harder for someone to steal from your rehab, and some ways to help keep things like sinks and faucets and light fixtures and so on from evaporating.

Some of the most productive time you spend on the rehab will be in your managing it. One of the questions that always come up when something gets stolen is "Who's going to pay to replace it?" Usually the one who will pay to replace it is the investor. The rehab has to pay for everything that goes on that particular rehab, and if the rehab is spending money that has not been projected in the budget, then the money can only come from one of two places. The first place it comes from is your profit, the other place it comes from is what my CPA calls "Owner's Contribution", which basically means that you pulled the money out of your pocket.

One of the things that we can do to limit our exposure in that area is to manage availability of portable, valuable items on the job. Lock them up out of sight. Not *just* locked up, or *just* out of sight, it needs to be both. I do not leave any tools on a rehab, and I am not at all fond of leaving any amount of material on the rehab either. The longer stuff sits there the more attractive it becomes, and that increases the chance that it will turn up missing. If you must leave materials on the job, one place you can look at is locking it up in a closet with a deadbolt on it.

Locked up and out of sight. Remember to lock all the doors and windows to the house as well. If I am at a house to inspect it and the house is locked, the first thing I do is to take a lap around the house. I check every window and door to see if there is one unlocked. Garage overhead door too.

One of the first things we do when we start the rehab is to make sure the building is dried in. That means that the roof is good, there are doors in the doorways, and glass in the windows and everything can be locked up when we leave at night. When you are the last person to leave the rehab at the end of the day, make sure you walk the perimeter of the house going into each room and checking to make sure that each door and each window is locked tonight. Grandpa said that locks only keep the honest people and the kids out. Well, if there is something I can do keep at least some of these folks from making after hours visits, I believe I'll do it.

Here are some other things to consider. Let's start with responsibility and ownership. Who owns the materials? That depends on what your agreement with the contractors is. Some contractors want to supply the materials, some want you to supply them. If they are buying materials and the materials walk off the job, it's the contractor who puts his hand in his pocket to replace them. If you are supplying the materials, then it's your turn to come up with replacement materials. Guess who I choose to supply materials whenever possible. That's right, the other guy. All of it. Right down to the nails. As I write these words I remember buying a box of gun nails (special nails that fit one brand of air powered nail guns, they're all different) for a contractor and then a week later I had to buy another. They disappeared.

Don't be afraid that the contractor will charge you an arm and a leg for the materials above what they cost him. Most contractors I have ever met aren't present enough to build in a charge for their daily trip to Home Depot, much less worry about surcharging materials.

Now let's look at when we pay the contractor for materials he bought for the job. When do we do that? When the materials have been installed, and not before. I am not paying for cabinets that are sitting on the floor in the garage and I don't want you to indulge in that practice either. I know, they'll whine and cry and tell you they can't make payroll, but don't pay them. Now in all fairness to the contractor, you need to determine who will pay for materials and when they will be reimbursed BEFORE the job starts. Remember that surprises can lead to anger, and once you get sideways with each other, you can usually watch the job progress grind to a halt. Save yourself the experience by talking early and talking often.

Something else to consider is to not bring materials onto the job until the day they are needed for installation. Again, this will not make you 100% theft proof, but it takes longer to disconnect a dishwasher that it does to just back you truck

up and throw a box in the back. Japanese management developed manufacturing strategies after World War II (with the help of American Edward Demming) that were aimed at maximizing workflow and maximizing the bottom line. They developed kanban, which is the Japanese equivalent of “just in time”. Materials that were to be used tomorrow arrived either late today, or early tomorrow morning. That way nothing sat around and cluttered up the manufacturing site, and they weren’t saddled with a lot of parts that weren’t going out the door as sold goods. For the real estate investor, this means that the materials arrive the day they are to be installed so that those materials don’t grow wings and fly off into the night to parts unknown.

Control the keys. Get a lock box, or choose a hiding place for a key, or give the contractor his own key for the entry door while the work is going on. When the work is finished, you will want to change the locks and put the new ones on anyway. It works like this. Usually you will change out all the doorknobs and entry locks when you do the painting. Have the contractor put the old deadbolts and entry sets (door locks that use a key to open them) on the entry doors and install the new passage sets (no-lock doorknobs for closets etc.) and privacy sets (locking interior doorknobs for bathrooms etc.). That way when the job is over you or the contractor can put the new locks on the entry doors and you can take all of the keys as the locks are installed. That helps keep people from coming back when the job is done and “visiting”.

What else can you do? When something turns up missing, talk to everyone on the job. Try to see if it has not “accidentally” gotten loaded out on the truck “by mistake”. I use those exact words when I broach the subject of missing materials because the last thing you want to do is to accuse someone who is working for you of stealing. All the rapport and trust you have worked so hard to build goes right into the toilet when people feel like they are accused. Be gentle, be diplomatic, and ask them if they wouldn’t mind talking to officer Friendly when he comes out to make a police report. You will want that police report for insurance claims if you choose to do that (check you deductible first), and even if you don’t make a claim, you can still write some of it off on your taxes, but you will want that police report.

People will lie to your face and they will steal from you. But if you do the things you just read, it will go a long ways towards minimizing your exposure, and it will help make you prone to success.

I’m here to help. Call me if you have a question. I’m Kevin Smith, and I’ll see you out on the property.

Add value here and win big

During a recent inspection for an investor the client called me into the kitchen and asked what I thought he should do about the old and much deteriorated set of cabinets that was there.

They were a cheap set of cabinets to begin with, and the many years of use by a family had left them in a saggy and much fingerprinted state, hardly the thing you would want to display for your prospective buyers.

Kitchens are a funny thing. Them and bathrooms. When people are looking for a house, they will always spend extra time looking at those two rooms in the house. Something about the kitchen being the heart of the house that dates back to the days of yore when we all gathered around the hearth to get warm and wait for the big cauldron of beans and salt pork to be ready. There is more to it than eating beans and hanging out. There is a sense of home that is associated with the kitchen. This is where we nurture, this is where we share with friends, this is where we relax and where we feed our families.

The bathrooms, on the other hand, have far different associations. What you as an investor want to avoid is any association with past tenants or people who may have lived in the house before. Your buyers know that the used house you are offering for sale has been lived in before. They also know that other people have lived some kind of life there, and that they have left the building for good now. What you want them to be thinking is how new and fresh and wonderful your property is, and how they can't wait to pull out their checkbook and lock up the sale.

What do you do as an investor to make yourself prone to success when you are preparing these two parts of the house for sale? Let's think about them one at a time for a minute. Kitchens first. We fix all the cracks and holes in the walls and ceilings. We then have a good look at the cabinets. Almost without exception I will paint the cabinets inside and out with white white gloss or semi gloss oil based paint.

I don't care whether they have been painted or if they are natural finish. I want them to be bright and clean and appear bigger than they are. Paint does that. White paint will also bounce more light around the kitchen and make the kitchen appear to be bigger than it is. Something else it does is give the person who works in the kitchen all the time a well lit place to work in.

I will almost invariably put nice soft polished brass handles and pulls on the drawers and cabinet doors. The soft yellow of the brass gives a look of quality and value to the kitchen and lets the buyers know that this is a special place, worthy of them and their friends.

If the cabinets will take a Herculean effort to bring them back to life, if there are too many pieces missing, if they are just plain worn out, then it is time to consider replacing them. Home Depot will help you design a new kitchen if you bring them the measurements of the room, and show them where the doors, the sink, the electrical outlets and the gas or electric supply for the stove or oven is. This service is free, and there are a variety of cabinets on the market. They range from simple and inexpensive paint grade cabinets through laminated cabinets to cabinets made of exotic woods with complex designs. Your budget, your call. Don't spend your inheritance remodeling the kitchen, but do make it a point of pride in the rehab.

Something else I do in kitchens is to make sure that the lighting is adequate and up to date. Four foot long two bulb florescent lights are the order of the day for the middle of the kitchen ceiling. The one I normally buy is about \$24, but if the house is a little more upscale (resale value of \$60,000 or more), I may choose to get a florescent light that is enclosed in a white cloud Plexiglas cover for \$80, or a four bulb florescent light trimmed in oak for \$80 to \$125. Don't forget to replace the light over the sink with a nice single round globe fixture that has a soft polished brass base. Remember to protect the electrical outlets within 6' of sinks with some kind of ground fault interrupter device.

Paint the walls and ceilings with a semi-gloss paint of a neutral color. White white paint, except on cabinets and woodwork, is too hard and cold, and does not cover the old paint very well. Don't be surprised when they don't buy if your house looks like a hospital surgery.

Counter tops must be in very good to excellent condition with no pieces missing, no cut marks or stains and none of the warn spots that develop after years of putting the Sunday roast pan on the counter next to the stove to cool off.

Floors. In 99 houses out of a hundred the flooring is replaced with new linoleum. If the house will sell for \$75,000 or more, you might consider ceramic tile or a laminated wood flooring such as Pergo, but most investor houses cannot sustain the outlay because of the budget constraint.

Now, about those bathrooms. This is where your buyer feels the most exposed and the most picky about how the room is put together for him. The paint must be fresh and clean. The tile at the tub must be pristine, the sink and commode also. That means no paint, no old rings in the commode, no spots on the faucet handles and a new linoleum or ceramic tile floor. Make it look like it is worth something, but most of all, make it look immaculate. All the metal in this room must sparkle, and the mirrors and light fixture must look like it was slid out of a factory box and hung up that afternoon.

Light fixtures? I prefer a flat bar fixture about 5 inches high, 1 inch thick and 3 to 5 feet long. Again, a soft polished brass fixture is the favorite. Use soft white round (baseball) bulbs and you can't go wrong.

Again, the paint is a semi-gloss off white (neutral) color. Be sure to make the lines straight as a pin, especially where the wall or ceiling paint meets with trim or tile. Do not accept anything less than straight lines from your painter, especially here. They will really look this room over. It is their library, their sanctuary, their special little womb-like place where they can go to be totally alone, no questions asked, no matter how many people are in the house. Make sure that you create a place where your buyer can always comfortable and at peace.

These are some of my thoughts on this important part of residential rehab. There are many ways to do this, but the ways I have shared with you here have been proven to work time after time after time. Use them in good health and I hope they help you achieve the prosperity you deserve.

Go get'em, tiger, I'll see you out on the property.

Make Ready Issues

There are lots of different ways to rehab houses before you sell them. This month we're looking at some of considerations that will make you more prone to success before you begin your project. There are differing points of view regarding what you should and shouldn't do to the house to maximize the value of the product, and by the time you finish this article, you will be making a lot better choices in that regard.

The two points of view on rehab involve performance and marketability. Performance issues are concerned with the basic health, safety and functional items that are addressed by the TREC (Texas Real Estate Commission) inspection procedure. The TREC inspection is a thorough investigation of the property and will tell you what condition the different systems of the house are in such as roofing, foundation, electrical, plumbing and so forth. TREC inspections will tell you what condition everything is in and point out what needs repair or immediate attention in the house. That's what you pay a licensed inspector to do for you.

Marketability, on the other hand, concerns us with what we have to do to make someone buy the place once we have it all fixed up. Marketability issues would be things like curb appeal, what the house looks like to the potential buyers when they pull up. Other marketability issues would be things like the condition of the carpet, fresh paint, some furniture in the house, some towels and candles in the bathrooms, a cookbook on the counter in the kitchen and things like that.

Sometimes the best thing a rehabber can do to a house is not to add something, but take something away. Take for instance that old, dilapidated patio cover. It has been there since Moby Dick was a guppy and it was a Saturday afternoon project when it was built. Now it's looking kind of shabby. What to do? Tear it off and get rid of it, you don't have to replace it either. If there was a way that it would really add the perception of value to the house, then put another one on, but that is almost never the case. Just get rid of it.

Another item like the patio cover is that shed out in the back yard. It may be metal or wood, but if it is not in paintable condition (enough of the structure left to paint) then tear it down and get it off the property. The idea is to make the property clean and appealing. You want the buyer to look at the property and find all the things he likes about it, and none of the things he doesn't like.

What else can we do to the property? I have always like the idea of opening up the wall between the living room and the dining room either with a pass through or just taking the wall out completely. The end result is that the whole place looks bigger, and being able to see from room to room makes it look like they are getting more house for their money. When they can see their family from one

room to the other it also gives them the sense that this is more “home” than just house.

Change all the light fixtures is another thing you can do. If they are in very good shape you can leave them, but if they are the least bit ratty looking or old, then change them all out. Nothing adds more to the interior than good lighting and a lot of soft polished brass. In the bedrooms I always put ceiling fans, and I always let the buyers know that air that is mixed with ceiling fans is easier to cool and heat (it’s true, too). The kitchen needs a big fluorescent fixture so the lady can see to work, and the bathrooms need a sufficient amount of light so that she doesn’t look like a raccoon from putting her makeup on with the little single bulb fixture that so many old houses have.

Don’t forget a strong light over the washer dryer connections either; it’s a real crowd pleaser, and a selling point that you remind them of when you show the house. Don’t forget the outside lights either. Make them pretty, soft polished brass and make sure the bulbs are all working as the house shows.

Plumbing. If the faucets don’t clean up to look new, change them out. Fixing them is not cost efficient. By the time you have torn the leaky faucet apart and gone to the supply house and found all the parts, you could have bought a new one. New and shiny looks better than old and cleaned off. Garbage disposals and dishwashers are another way that we can add the perception of value. If it doesn’t have them, make sure that you consider putting them in. People expect them nowadays, and the closer you get to meeting the expectations of the buyer, the closer you are to the closing table.

If there are a lot of sheetrock repairs you may want to have your painter re-texture the whole place, ceilings and walls. A house can have a lot of damage over the years, and that damage can leave a lot of eyesore patches. Re-texturing makes it all go away and the place looks brand new. Fresh paint top to bottom goes without saying.

Pressure washing the bricks is a good idea, and do the fence while you’re at it. It doesn’t cost that much in the grand scheme of things and it makes a lot of difference. If you have to repair the fence, take the pickets from the short fences at the sides of the house and use them to do the repairs. Then put new fencing up on either side of the house at those short fences. When your buyer pulls up the first time he will notice the new wood right away.

Last but not least, go to new model homes and see what they have done as far as putting out cookbooks and little utensils in the kitchen, putting towels in the bathrooms and red plastic hangers in the closets (thanks to Dick and Donna Karney for that). At the end of the day your buyer may have looked at six or seven houses, and they will all kind of run together. Give them something to remember your house by. It’s like the goodnight kiss that left your toes curled;

it's something special that they can remember you by and think about later and later and later.

That's all we have space for this month. Remember me if you have questions about that house. I'm Kevin Smith and I'll see you out on the property.

Inspector's Top Ten

What goes wrong with a house through the years? What is it that happens that causes the value of the house to deteriorate? What do we need to look for when we are buying a piece of property to make sure that we are making the right dollar offer?

I have done over 1,100 inspections in the Houston area, and these are the top ten items that I see over and over again when I look at a house. Most are just deferred maintenance. Some of them are inherent in the building itself, and were done at the time of construction. They are all correctable at a price. Here goes.

1. Foundation Problems

This is the Gulf Coast. The sub-soil is full of clay. Clay expands and contracts according to the amount of water that is in the soil that surrounds it. When there is a lot of water in the soil the clay expands and lifts whatever is sitting on top of it, like a house foundation. If your inspector tells you that you have foundation problems, or you suspect that there might be a problem, get it evaluated. A structural engineer can do it, or you can have a reputable foundation repair contractor check it out for you and give you a bid for repairs.

2. Poor Drainage

Settling of the soil next to the house, poor initial grading and landscaping when the house was built, and poor management of rain water run off are the chief causes of drainage problems. Poor drainage allows the water to sit next to the slab and that water goes into the soil surrounding the clay we just talked about. Not good. Remedies include such things as splash blocks (those cement things that are under the gutter downspouts), gutters, downspouts, re-grading the areas adjacent to the house, french drains and in some cases, cutting roots that have grown up to form a dam that blocks the natural drainage of water. Rain water is supposed to be directed away from the house and to the street, where it can flow into the storm drainage sewer system.

3. Roof Leaks

If the roof has leaks, the most common places for them to occur are at the chimney flashing, structural flashing, and roof penetrations. Roof penetrations are where anything goes through the roof itself, such as a plumbing vent, water heater vent, chimney and so on. Missing or damaged shingles or a roof that has reached the end of its life expectancy are other causes for leaks. Remember, a roof can be worn completely out and not be leaking at the time of inspection. You have to know what to look for when you evaluate a roof. If you don't know, ask me at the main meeting.

4. HVAC

Heating, Ventilating and Air Conditioning

Air conditioning systems tend to either run or not. They will work hard and long in the Houston summers before they give up the ghost and just flat won't perform. Lot of times the problem is as simple as a freon recharge or the replacement of a electrical contactor. Other repairs, such as condensor replacement, are more costly, and need to be considered when figuring up your offering price for the property.

Furnaces come in two flavors, gas and electric. Older electric furnaces sometimes need to have their little elements re-wired, They look like the wires inside your toaster, only they are 220 volt and rather substantial. Gas furnaces have a thing called a heat exchanger, and this heat exchanger can be a source of problems. It is metal, it rusts out, and can become dangerous. I recommend replacement of the whole furnace when the heat exchanger goes out, because the cost of the heat exchanger replacement is not that much less than replacing the whole furnace, and you will have a warranty on parts and labor if you go for the whole unit.

5. Electrical

Probably the most common item on the list of Recommendations for Repairs in the electrical category is Ground Fault Interrupters. They are required within 6' of sinks in kitchens and bathrooms, as well as all exterior locations, garages and whirlpool, spa or swimming pool installation. Another area where repairs have to be made is when the circuit breakers are the wrong size for the wire that is attached to them. Your inspector or a licensed electrician will be able to make the evaluation.

Another common problem is what I call "Stunt wiring". This is where the well meaning home owner decides that he knows enough about electricity to add lights to the corner of the house so that he can keep the Huns at bay at night. The usual scenario is miles and miles of Romex wire and connections that are no more than wires twisted together and a little piece of black plastic tape on them. Big No-No. Fire hazard.

6. Plumbing

Leaky faucets, leaky drains. Most investors would sooner throw a new faucet on a sink than to mess around with spending 2 - 3 hours fixing the old one (hunting parts, going to Depot etc.) Commodes that are not mounted securely on the floor, commodes that leak and pipes that leak in the attic or under pier and beam houses are also problems to look for.

7. Rotten trim and siding

This is Houston. It rains a lot. If you do not keep the house caulked and painted the water comes in and rots out the wood. Fascia, soffits, siding and window and door trim are all candidates for this type of deterioration.

8. Doors and Windows

Interior and exterior doors can stick, be damaged, become de-laminated (the thin covering of wood veneer begins to peel off because moisture has gotten behind it) or the house has been lived in rough. By that I mean that people use their shoulder or their foot to open the door, or a loose doorknob has been left unattended and using it has caused damage to the surrounding door surface.

Windows get broken or the screens go missing. If you are considering the property as a rental, make sure that you know about the laws in the State of Texas that deal with securing rental property doors and windows. The windows must lock securely, and the exterior doors must have a locking mechanism that can only be operated from the inside of the house.

9. Water heater

If it is in the garage or in a room that opens directly into the garage it must be elevated 18" above the finished floor. The idea here is to protect the burner or igniter in the water heater from coming into contact with gasoline or other volatile vapors that can cause fire or explosion.

Other considerations when looking at the water heater are obviously water standing under the unit rust anywhere on the tank or single walled exhaust vent pipe.

10. Miscellaneous

This could be anything from a cooktop that doesn't work to rotten fencing. It would also include such things a damaged decking, holes in the yard, repairs to attic framing and repairing non-functioning door bells. Pay attention to these odds and ends because they can add up on you and punch a hole in your budget.

I hope that I have given you some food for thought and some things to look for when you go out to buy property. The items that I have listed above certainly do not exhaust the list of things that can break or wear out on a house, but it does give you a basis of what to look for. Remember to pay attention to all of the details that you will need to take care of to bring the house to a good and marketable condition before you make your purchase offer. After you buy it, any additional work that you had not planned on in your rehab budget will come "out

of your refrigerator" as my investor friend says, meaning it will come out of your profits.

Good luck out there, and call me if I can help with inspections or questions.

Why we use Inspectors when we buy houses

The main reason we use inspectors to evaluate property we are thinking of buying is because of what the Romans described as "Caveat Emptor". It means "let the buyer beware". In practical terms, it means the seller is putting the house forth and it is up to the buyer to look it over and decide what the property is worth to them.

Sellers get the prices for their houses from different places. Some use Realtors to determine market value, some use the Multiple Listing Service to do this for themselves. Other buyers are aware of what similar properties sell for in that area, and price their property accordingly. Some buyers just seem to pull the figure out of the air with no substantiation for the amount.

Your job as an investor is to make that price evaluation for yourself, and then make an offer based on what you come up with. Once you have done your CMA (comparative Market Analysis) and have a fair idea of what similar properties are selling for, you need to determine what you are going to have to do to the property in order to bring it to a good and marketable condition. This covers things like new carpet and paint and fixing rotten boards, which you can see for yourself. It also includes replacing the roof, repairing the foundation and making sure that all the things inside the house are performing the function for which they were intended.

These repairs are important for a couple of reasons. First of all, your buyer is going to expect the necessary repairs to be made. Your buyer wants everything to be in good working order when he buys the house. As an investor, that's where you make some of your money, by adding value to the property. Because you are going to have to put money into the property, the money you are going to spend making these repairs is the basis for price reduction negotiations with the seller.

It goes like this, you make an offer and then have the property inspected. When the inspection report comes back, you go back to the seller and say; "based on the findings of this licensed inspection report I am adjusting my offering price to reflect the repairs that have to be made to this property in order to bring it to a good and marketable condition".

Then you are in play, and the haggling starts in earnest.

Now, What else do we know about these repairs? Because you are a member of the Realty Investment Club of Houston and have been to workshops and networked and gone to the General meetings, you know that these repairs are negotiating points when you are dealing with the seller you are buying the property from, but they are also selling points when you have made the repairs and are now selling the property to your buyer. Don't ever miss a chance to

show your prospective buyer that you have put money into the house for him to enjoy, and that these repairs and improvements will benefit him for many years to come.

Another consideration in using the services of a licensed real estate inspector is that the property will probably go through an inspection when it sells. You need to know the condition of the property when you buy it, because you don't want any costly surprises when you go to sell it and your buyer brings in his inspector who proceeds to put the property under a microscope.

Inspections can identify problems before you get too deep into the investment to back out. Once you have closed on the property, it's yours. If you find out after the closing that the house needs 36 piers to fix the foundation and you didn't know about it, then that's too bad for you. An inspection will tell you lots of things like that before you put a noose around your neck financially.

A lot of investors are professional people who do well in their field and have a lot of experience in that field. If single family residential construction is not in your background, you have the option of hiring that expertise the same as you would legal or financial expertise.

What a professional inspector has to offer may be the solution that stabilizes your situation and puts your negotiations back on a level playing field. Professional inspectors are licensed by the Texas Real Estate Commission. It is a tiered license, which means that a person who wants to be an inspector must first spend time as an apprentice, then take an exam before he can proceed to the next level. At the next level he must perform 150 inspections under the supervision of a Professional Inspector. It takes a year before the candidate can sit for the last exam and become a Professional Inspector licensed to do inspections on his own. There is also the matter of 90 hours of college level classroom instruction he must take in construction techniques and inspection before he can qualify to take the exams, and after he becomes a Professional Inspector he still has to complete 8 hours of continuing education every year to renew his license.

In addition to all of this, the Texas Real Estate Commission has ordained a set of Standards of Practice which is the law on how and what is to be inspected in a house. What this all means to you the investor is when you hire a licensed inspector, you are getting someone who is trained, experienced and has a methodology for going over the property with a fine toothed comb. The product of this inspection is a legal document that you can turn to when negotiating with the seller over the purchase price.

SO that's why inspector's can help you when you buy. They have that methodology, that training, and that experience that most folks just don't have in this area. What it means to you is a basis for lowering the offering price by

pointing out the repairs and deficiencies in the property, with a document you can turn to back up what you say. Good luck to you on your adventures in real estate, and I'll see you out on the property.