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## Trading up in Long Beach

By John Dumke

Tom & Susan have lived in their Los Altos home since 1991. Like most homeowners during the early 90's they watched their homes value decline to about the loan amount. Simply holding on to their home during this unsettling period was the best strategy.

12 years later, they have two pre-school aged children, several hundred thousand in equity, and the need for more space. Tom & Susan are not alone in their quest. With property prices having more than doubled in the last 5 years, lots of people think it is a great time to trade up. Rapidly rising prices has created a buzz & enthusiasm. People feel smart about their wise investment and want to put their equity to work and buy a more expensive home.

But rising prices make it harder to afford a more expensive home. Why? When trading up you are financing the difference between your current homes value and the new purchase price. In a rising market this gap expands. Five years ago a buyer with a 250k home trading up to a 500k home took on an additional 250k in debt. With home prices having more than doubled, these two homes are now worth 500k and 1 million. Now the same trade up buyer must take on 500k of additional debt. So even though you may be sitting on a boat load of equity, rising prices have made the trade up process more expensive.

Tom & Susan immediately considered Park Estates and La Marina Estates because of the larger lots. They wanted a back yard with a pool. Usually larger lots come with higher price tags as they found out. "We were looking in the 600's, which we thought might get us the house we were looking for, but what we found were homes that either needed lots of work or were not in the ideal location. So then we opened our search to other neighborhoods including Los Altos"

Buyers like Tom & Susan have found that trading up to BOTH a more expensive neighborhood and a larger home is often biting off more than can be chewed. Most successful trade up folks pick one or the other as their focus, otherwise the payment becomes more than they had bargained for.

Many trade up buyers from Long Beach's tract neighborhoods figure that it might be smart to move to a more expensive area in the process of getting a larger home. There are some good arguments in favor of going the whole distance. One, you don't want to overbuild for the area and two, selling and buying is expensive and why not consolidate both upgrades into one move? But buyers looking to trade up from Long Beach's tract neighborhoods with prices around the 450k mark find that it might take 650k to upgrade the neighborhood and then maybe 850k to get the home they really want, which for many trade uppers is too big of a jump.

Tom & Susan searched to areas of similar price to see what they could find. This included their current neighborhood of Los Altos and as far away as the city of Agoura. "We thought we could get more for our money in Agoura, but 625-640k would get us only one more bedroom and a 2 car garage. But no upgrades, and maybe a small pool but nothing spacious because the lot isn't any bigger than ours.... nothing spectacular."

"As far as Long Beach is concerned we have looked at a lot of homes, we just looked at a home in our same area with about 2,400 sf for 620k, but it didn't have a very big back yard. It was nice, but if we were going to move, it should be what we want. We've seen a lot of nice homes, but there was always something that just was not right."

With the lack of inventory more buyers are remodeling their existing homes. It usually isn't a buyers first choice as the amount of time and work is huge, but lack of choices lead many buyers in that direction. Susan says... "We might as well build. We have met with a couple of contractors and have pretty much decided to move in that direction. But until they take a sledgehammer to my home, I am going to look at every new home that comes on the market because moving will be a lot easier than the building."

Like many trade up buyers you may also be considering building vs. buying. The decision usually only comes after an extensive search with no results. So if you think you

might be heading down that path, here are some things to ponder.

### PROS in favor of building.

#### 1) **You like your neighborhood and specific location.**

Then why not improve your home. "But won't I be overbuilding for the area?" The heck with this argument. If you aren't planning on selling, then who cares?

**2) You really like your home and only want a little more of this or that.** Some homes are easier to add on to than others. The more your existing home and placement on the lot favors an addition, the cheaper it will be to create a great home. Spend time playing with different floorplans. I have found some of the 3D home designer software great for quick brainstorming. To help with your proposed floorplan, setback requirements for your lot can be found at the city of Long Beach's web site. See side bar for more details.

**3) You like remodeling.** You are just one of those nutty people that likes the challenge of tearing something apart and making it better.

**4) You are the right person for the job.** Your Dad is a general contractor and you have 6 brothers all in the trades. Seriously, you have connections, the time, experience, the desire and the talent to put it together.

**5) You will get what you want.** This should be reasons #1, #2, and #3, because this is why you would put up with the hassle of building. You can't find what you are looking for, but you can create it.

### Cons to Building

**1) Your home is not suited for an addition.** For whatever reason.... sometimes it is the floorplan, sometimes it is the way the home sits on the lot, or maybe there are a lot of small bedrooms. The more problems, the more likely you will need to just mow the thing down. While this is not a bad option, the cost will exceed that of your original remodel.

**2) Your location is marginal.** Remember the 3 rules of real estate investing... location, location, location. This especially applies when remodeling. Being on a busy street or backing a freeway affects value, but less so for a starter home. Buyers at the low end, know that they have to sacrifice to get into an area. They are more willing to accept a flaw, but buyers at the upper end don't have to settle and won't want to buy their dream home right next to the freeway.

**3) You might get divorced.** When your physical home life is unstable it puts a strain on your marriage. Make sure that both people are on board and truly want the same thing. This is not something to take lightly. What is your tolerance for mistakes and mess? Having a separate resi-

dence can greatly reduce this stress, but this comes at a price.

**4) You will have to move or live in a construction site for 6-18 months.** No matter what the contractor says, no matter what your schedule says. Even if you *COULD* live in your home, you may not want to. What would be the cost of an apartment for the period of construction and can you deal with the on going mess.? If you are a neat person or if you need order in your life, the construction process will likely drive you crazy.

**5) You don't have the time, skill, connections or desire.** This is a personal call, but if you don't think that you do, then you probably don't.

**6) You have to figure out what you want.** It's really easy to go look at a home and say, "I like this,,, and I don't like that", but creating something is much more difficult. Most people don't have vision. This can be overcome. You have to think really hard about what you want, plan for it, spend countless hours with an architect, cover every variation, weigh its pros and cons and determine the best overall game plan. There is a lot of work before you even pound one nail. The more basic your remodel or the more constrained you are by your existing floorplan the easier it gets. But the more flexibility you have, the more design decisions you will need to make.

**7) There is no guarantees you will get what you want.** I am sure you have heard stories about all the design changes that take place on a construction project. Until people see things in real life they often don't get it.

**8) You have to figure out how to finance the project.** There are construction loans, lines of credit or savings and cash. While a construction loan is not the biggest stumbling block, it sure is easier to qualify for a new home loan.

**9) It will cost more than you thought.** Even if you have firm bids, add 20-30%. Because those firm bids only cover 70-80% of the project. Items come up that you didn't anticipate. It is inevitable.

So why would I want to bother with these hassles? It comes down to one of two reasons. Either the home that you want is not available in the resale market or you can create a your dream home cheaper than it can be purchased.

Best wishes to Tom & Susan as they embark on their remodel.