

# REAL ESTATE NEWS



Penny & John  
**DUMKE**  
Fine Homes



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## Quote

*"It is no profit to have learned well, if you neglect to do well."*

*Publilius Syrus  
- 100 BC*

## What Improvements, Prior to Sale, Return the Most Profit for YOUR Home?

by John Dumke

After a seller knows how much his home is worth, the next question is "What can I do to increase the value?". Sellers will usually start with ideas based upon the fix up work they were going to do for themselves, that list of 20 things you haven't done yet. While Real Estate agents have some fix up ideas, they may not be able to determine the cost of, or return on those improvements. Sure new paint will make it appear fresh, but how much more does fresh sell for?

Through 17 years of experience in fixing up homes, I have developed a simple 10 point scale that shows us where the money is hiding. We start by calculating the range of market values for YOUR home. Then we estimate your home's before condition (rate on scale of 1 - 10, 10 being best), and then estimate your homes after condition, again with the same 10 point scale. These three components plus knowing the cost to fix up will tell us how profitable the proposed improvement will be.

To determine the RANGE of market values for your home, we determine the lowest price your home would sell for if it was a complete dog (1) and what the value would be if your home was totally awesome (10). A 10 has been recently remodeled, with a new gourmet kitchen, and high end custom baths.

The price data for a typical tract neighborhood usually approximates a normal distribution, otherwise known as a "Bell Curve". Lots of homes sell around the average with less sales at the upper and lower end of the range. I will eliminate the really low and high sales prices and just capture the meat of the range where 80-90% of the sales occur.

Let's consider the example of a 3 bedroom, 2 bath, 1,800sf home in Los Altos. The range will be from around \$600,000 to about \$850,000. But in eliminating the outliers at the low and high price we end up with a smaller range of around \$650,000 to \$750,000. I eliminate the outliers because the few sales below \$650,000 were in either very poor locations, terrible floor plans or extreme fixers, and homes that sold for more than \$750,000 are usually complete remodels from the ground up.

If the property in question is in an average location, with a reasonably well done addition, then it simply won't sell for as low as the few low outliers. Neither would it be profitable or wise to completely rebuild the house to complete with the \$850,000 homes. So while the range for the entire marketplace might be about \$250,000, the realistic range for this specific home would be from \$650,000 to \$750,000. This range is where 80-90% of the sales occur. This also happens to be a nice round \$100,000, which makes it easy to illustrate my point, because we now divide the \$100,000 by our 10 point rating system and value each point as \$10,000.

Next, we HONESTLY assess your homes current condition. Don't compare your home to your level of expectations. We should compare your home to other homes recently sold and currently on the market. If you have seen some of the homes from the list of comparable sales, where does your home fall? This number doesn't have to be perfect because our estimation is relative. We are looking for the difference between before and after.

Now let's create a game plan for a home I typically see: a 3 bed, 2 bath 1,800sf Los Altos home. We'll call it Grandma's house. This hypothetical home has been very well cared for and always well maintained. The home has a great floor plan and is structurally sound. The kitchen cabinets, counters and the bathroom tile are in good condition. But the last time anything was cosmetically changed was over 20 years ago. The carpet is green shag, the wallpaper in the kitchen has green and yellow apples, and the interior paint is 20 years old. Overall the home is clean and well maintained with a worn and dated look.

The first thing to know about most buyers is how they perceive a home. Most buyers don't have a firm understanding of fix up costs. They will base their decision regarding the homes overall condition, based upon what they see cosmetically. They will assess the home within 3 minutes or less. There assessment of the home is completely emotional.

If buyers view homes through emotionally uneducated

eyes, then how we present the home is everything. Sure there will be an educated buyer that will see the diamond in the rough, but to get the BEST price we want EVERY buyer to see a diamond. Then we will find the buyer willing to pay a higher price, not the educated buyer who wants to pay less.

Knowing that most buyers will not see your Grandma's home for the wonderful place it is, we lay out a simple cosmetic upgrade game plan. Since the home is dated, it might be perceived as a 4 or 5 out of 10. Our proposed fix up might include the following: Interior paint (\$2,500), new linoleum in the kitchen (\$700), both baths (\$700 for both), redo the hardwood floors in the living room and hallway (\$1,200) and carpet the bedrooms and family room (\$1,800). The total cost for these improvements would be \$6,900.

These improvements will likely move the property to at least a 6, 7 or 8 out of 10 without any difficulty, for a 2-3 point improvement. With each point worth \$10,000, we just improved the homes value \$20k-\$30K. While you might say that's no big deal, this type of return is phenomenal. A 3:1 return (or 300%+) in no more than 2-3 weeks of time and the home sells, WOW! We often help coordinate these types of repairs since we have the contacts and experience.

The above example is typical of a profitable strategy. Another typical example, but where profits are hard to come by, is when a client has a very nice home. They have many recent upgrades and improved the property significantly. These clients often wonder "What else can be done?". Now we have to be more selective because we are dealing with the laws of diminishing returns. Let's say this home is an 8.5 out of 10.

Let's say prior to deciding to move, the seller had considered remodeling the kitchen and are wondering whether they should go ahead with this game plan. Unfortunately, while this improvement might make the home a perfect 10, it will not return any profits. Using the above spread of \$100,000 or \$10,000 per point, changing the home from an 8.5 to a 10 will only improve the value \$15,000, and a kitchen remodel will run at least \$15,000 and up to \$40,000 - \$50,000 for a gourmet kitchen. Not a profitable game plan.

If you are a 8, 9 or 10 you will benefit from smaller improvements. Maybe new counter tops so that the buyer doesn't perceive the kitchen as needing to be remodeled RIGHT NOW. However, you will still greatly benefit from the finishing touches of "Staging". For a detailed description of the "Staging" process and ideas on how to "Stage" your home, log on to [www.LBRE.com](http://www.LBRE.com), and click "How to Prepare Your Home for Maximum Appeal".

Now that you understand the 10 point scale and how to determine Return On Investment, let's discuss some basic fix up principles:

**1) How much will the buyer have to spend to move in?** It's a buying signal when a buyer visually plans where their furniture would go. Their next consideration, is what needs to be fixed NOW, before they can move in. If a buyer can move right in, then the list price is more palatable and negotiations are more likely to go in your favor.

Here are some generic ideas, but keep in mind that the solution may take a trained eye to catch. That is why we work with a designer. Not so we spend more, but to spend less. New cabinet hardware, new light fixtures, paint the dark brown ugly cabinets a fashionable trendy color, replace the counter with Formica that has a rich pattern/color of granite, and maybe new appliances. What will it take, so that when the buyer looks at the kitchen they say "The kitchen is decent, serviceable, clean, and will work fine for a few more years and I can remodel it later". The difference is that one is an immediate financial burden, while the other becomes an exciting possibility for the future. Less money out of the buyers pockets NOW means more money in yours during negotiations.

**2) Is the issue functional or cosmetic?** Replace the word cosmetic with emotional because emotions are what sells a home. If the issue is functional move it to the bottom of your priority list, if it is cosmetic/emotional, move that idea to the top because that is where the money is.

**3) Focus on the big picture.** With paint, carpet and linoleum, I can cover 90% of a homes visual surfaces. As in the example of Grandma's home, with less than 1/10th (\$6,900) of the \$100,000 price spread, I fixed 90% of what you see on the interior. "Staging" also creates value as there is usually little or no cost to properly "Stage" a home, yet it creates a more emotional environment. These are the big pictures items.

**4) Choose colors with character and style with resale in mind.** This is a little hard to convey how this might be done, as this is something I leave in the hands of our professional designer. Paint is the same price whether it is stark boring bright white, pink, or an elegant sandstone hue for the walls offset by white door trim and white ceilings. You can and should use color, but again knowing what you are doing and having a designers touch helps tremendously. A consultation with our designer for both color selection and "Staging" advice is always included with our service at no charge. Our goal is to offer you world class service and professional advice that will result in a better sales price.

**5) Will the buyer notice it in the first 3 minutes?** If not then put it on the bottom of your priority list. It can even be fixed during escrow, if it needs to be addressed.

**6) Focus on the interior first.** Then focus on the front yard, and finally the rear yard last. Consider that new homes are sold without any landscaping at all. It all comes back to principle #1, "What do I have to do to move into the home". A fully landscaped back yard is not profitable or necessary, however sprucing up the front yard can be a plus, as it adds to the curb appeal. While buyers often over estimate how much interior improvements might cost, they will often underestimate landscaping work. It is not be difficult to spend \$5,000 landscaping a back yard, but buyers often figure they can do it for \$500 themselves and it will be fun (See Principal 7 below) and they don't have to do it right now.

**7) Is it ok to leave a couple of projects for the buyer?** Often times after a seller and I have fixed up Grandma's home, something stands out as needing to be fixed, it is ok to leave the buyer with a couple of projects. Buyers don't mind personalizing a home and making it theirs. The key is that the condition can't overwhelm them. If there is new paint, carpet, linoleum and refinished hardwood flooring and they can move in, then replacing a bathroom vanity can be a fun weekend project several months down the road. Whereas doing the entire cosmetic make over themselves would be financially, emotionally and technically overwhelming. There is a very definite point where buyers just shut down and become overwhelmed with the scope of work and will not consider purchasing a home. Leaving a couple of exciting projects for the future, will not scare off a buyer.

**8) Should we just give them a paint and carpet allowance?** While this sounds good intellectually, and often times Realtors might promote this idea to just get the listing and take the easy way out, it doesn't translate into emotional appeal. Envision that you are a buyer and are looking at two homes. Grandma's home BEFORE a cosmetic face lift where EVERYTHING you see needs to be redone and is listed for \$700,000. Now, the exact same model up the street has been redone, the walls are painted an attractive sandstone color with white trim, the hardwood floors are rich and luxurious, and while the kitchens and bath are not new, they are freshly painted and have new flooring. The home looks well taken care of. You don't have to do much you can just move in and make the home your own later. And the list price is \$707,000, which for all intensive purposes is the same as the other home. I can tell you that the buyer will go for the home that makes them feel good. The only reason to go for the Before home would be if they could get it for \$30,000 - \$50,000 less.

Knowing what to fix, how to fix it, and how much the cosmetic improvements will enhance the value, is a GREAT asset. I think there are many homeowners that would consider cosmetically maximizing their homes value but their Realtor may not have the skills, or desire to propose a fix up game plan and then be able to execute it.

# Market Activity

The following information is from the Multiple Listing Service as of 07/25/2006.  
Properties in Black are currently for Sale, Properties in Red are currently in escrow

Address	Br/Bth	Sq Ft	Lot Size	List Price
<b>Alamitos Heights</b>				
339 Flint	3/2.5	2242	3250	789,000
626 Flint	2/2	1294	6500	818,000
5675 6th Street	2/2	1350	4000	839,000
801 Havana	2/1	1307	3780	849,000
367 Ultimo	3/1.5	1757	6500	880,000-910,000
745 Ultimo	4/3	2150	6500	899,900
715 Havana	3/2	2002	6400	979,000
795 Havana	3/2	2231	6400	980,000
716 Havana	3/2.5	2149	6500	997,000
742 Terraine	4/3	2566	6400	1,094,000
365 Havana	4/3	2807	8100	1,098,000
631 Winslow	3/3	2308	6499	1,100,000
836 Terraine	3/2.5	2183	5460	1,129,000
695 Havana	3/3	2223	7150	1,150,000
370 Winslow	3/3.5	2373	6560	1,197,000
622 Santiago	3/1.75	1840	8100	1,229,000
389 Panama	4/4	2980	5009	1,249,000
400 Flint	4/3	2718	6500	1,294,000
908 Santiago	3/2.5	2588	5460	1,300,000
343 Ultimo	3/3	3017	4573	1,325,000
304 Flint	4/4	2751	4168	1,325,000
355 Los Altos	3/3	2830	7800	1,799,000
<b>La Marina Estates</b>				
1421 Hackett	3/1.75	1600	6825	649,900
6447 Rendina	4/3	1980	6912	779,000
6530 El Jardin	3/2	1980	9310	879,000
6521 Mantova	4/3	2927	9240	1,069,000
<b>Los Altos (S. Fwy)</b>				
6130 Fairbrook	3/2	1461	6200	550,000
1608 Petaluma	3/2	1104	5770	575,000
1823 Greenbrier	2/1	1271	5775	579,900
2121 Stearnlee	2/1	1206	5775	579,900
2150 Senasac	3/1	1054	6380	585,000
2247 Canehill	3/2	1367	6140	589,000
6010 Marita	3/2	1934	6610	599,000
2143 Greenbrier	3/2	1689	5775	599,900
1941 Britton	3/2	1544	6090	615,000
1957 Britton	3/1.5	1417	6090	645,000
1825 Hackett	5/2	1822	5940	639,000-649,000
5432 Abbeyfield	3/2	1317	7470	649,900
1856 Litchfield	2/2	1141	5775	654,900
6933 El Roble	4/2	2000	5840	655,000
6417 Madera	3/2	1372	6104	659,000
6436 Bayard	3/2	1400	5820	689,000
6457 Madera	3/2	1700	6050	699,000
2215 McNab	3/2	2168	6000	749,000
1856 Hackett	5/6	3400	6758	750,000
2143 Stearnlee	4/3	2054	5775	789,000
1964 Britton	3/2	1735	6210	795,000
1930 Conquista	3/2	2105	7040	799,900
6120 Marita	4/2	2292	6890	799,999
1909 Lave	4/2	2578	6090	849,000
5418 Garford	3/2	1713	7200	879,000
2286 Fanwood	5/4	2519	6000	884,900
<b>University Park Estates / College Park</b>				
6304 Vermont	3/1.75	1647	6380	825,000
6900 Septimo	4/2	2265	6760	798,500
804 Stevely	4/2	2009	11070	799,000
6207 6th Street	3/3	2827	7690	1,095,000

## 2005 Stats

*(Based on closed sales from 2004 - SoCal MLS)*

### Alamitos Heights

Number of Sales - 41

Low Price - \$680,000

High Price \$1,800,000

Average- \$1,000,736

Average Sqft - 2,396

### La Marina Estates

Number of Sales - 7

Low Price - 645,000

High Price - \$755,000

Average - \$703,857

Average Sqft - 1,611

### Los Altos (all)

Number of Sales - 192

Low Price - \$412,000

High Price \$1,040,000

Average - \$596,848

Average Sqft - 1,456

### Univ Park Estates

#### College Park

Number of Sales - 19

Low Price - \$593,000

High Price - \$899,000

Average - \$697,205

Average Sqft - 1,874

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*3<sup>rd</sup> Qtr. 2006*

## *Inside*

*What Improvements,  
Prior to Sale, Return  
the Most Profit for  
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*Market Activity:*

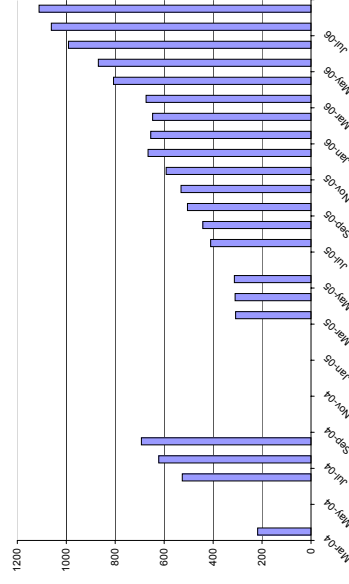
*What's happening in  
your neighborhood?*

*2005 Stats by Neigh-  
borhood.*

## Market Health

The graphs below show approximately 200 sales per month in Long Beach, while the inventory of unsold homes has climbed to around 1,100, resulting in a 5 1/2 month supply of homes. This is in stark contrast to the spring of '04 and '05 when there was less than a 1 month supply of homes for sale.

Unsold SFR Inventory in Long Beach



SFR Sales in Long Beach

