

When Real Estate's in Trouble, Spruce up Your Home and Finances

As the subprime lending mess sorts itself out, there will be plenty of conflicting signals in weeks ahead on what you should do with real estate and your investment picture as a whole. Most of the advice will be knee-jerk.

Your response shouldn't be.

If you've been working with a financial adviser you trust, you should already have a plan that insulates you from the worst the market is dishing up now. When it comes to real estate those with spotless credit, ready cash and absolutely perfect properties are the ones who will be in the best position to successfully cope with this challenging market.

If that doesn't describe you, you should consider doing some spruce-up work around the house, strengthening your credit report, and taking a hard look at your long-term plans. Some ideas:

Should you sell? Do you have a job opportunity in another city or country you can't refuse? If the answer's a yes, then it's probably unavoidable that you need to be in the market. Of course, that job opportunity should pay you well enough or give you a moving allowance to blunt your hardship level while you're trying to sell. However, if it's just a matter of wanting to take advantage of a relatively good price on another piece of property and you need to put your current residence on the market, definitely think twice – in certain markets, homes prices have begun to fall.

Should you buy? Many economists and financial professionals believe that the pain isn't over in the housing market. The enormous price increases of the last few years went unmatched by increases in personal income and were fueled by rampant speculation, historically low interest rates and lenient lending standards. If you plan to live in the new house for at least 4-5 years and have established a solid financial foundation then you're probably in the best position to make your investment work long-term.

Is your property in good shape? If you're not in an immediate position to make a move, then consider improvements. When the market does recover, buyers won't revert to the mentality of late 2004 when people wanted property in virtually any condition at any cost. Buyers will want property in clean, move-in condition when you decide to put it on the market, so make sensible investments in landscaping and cosmetic repairs inside and outside the house.

Should you renovate? Be really careful here. People always expect renovations to pay off big, and rarely does that happen – it may take years to recoup your money,

much less show a profit. For a reality check, go to *Remodeling* magazine's annual Cost vs. Value report online (<http://www.remodeling.hw.net/content/CvsV/CostvsValue-project.asp?articleID=381305§ionID=173>) and check 2006 project cost averages for your region of the country. In any event, never believe that in a good or bad market a renovation is going to buy you immediate profits on a home.

Know how you're going to handle capital gains: When you sell, remember that married couples can exclude from their taxable income up to \$500,000 of gain and individuals filing separately can exclude up to \$250,000. It's required that you must have owned and used your home as your principal residence for two out of five years before the sale. The exclusion is generally applicable once every two years. However, if you are unable to meet the two-year ownership and use requirements because of a change in employment, health reasons or unforeseen circumstances, then your exclusion may be prorated.

Clean up your credit report: If you're not planning to borrow now, make sure you're in good shape to borrow later. Start with your credit report -- you have the right to get all three of your credit reports -- from Experian, TransUnion and Equifax -- once a year for free. You can do so by ordering them at www.annualcreditreport.com, but do so at staggered times throughout the year so you can catch potential errors in your report as they happen. Also, if you need to clean up any bad behavior -- late bills, heavy credit card debt, clean it up before you wander back into the real estate market. Also, a bad credit score can raise the total cost of your mortgage.

September 2007— This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by local member Bill Rodau, MS, MBA, CFP® at *Creative Financial Services*, 262-780-0870, www.imfeeonly.com. The column is provided for your general information only and you should contact this planner or other professionals for specific advice regarding your unique situation.