

EPISODE 555

[INTRODUCTION]

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FT: Welcome to So Money everyone. Spring is in the air, and you know I love real estate, and I encourage you to share your questions for Ask Farnoosh on the Friday episodes. If you have a question about real estate, renting, owning, buying, selling, give it to me. I love it. It's a topic I just can't get enough of, and that's why I'm really excited to bring back today's guest, Scott McGillivray.

You probably know him from HGTVs *Income Property*, or *Moving the McGillivrays*. He's a real estate pro having invested in over 100 homes. Scott is now teaming up with owners.com, it's an online brokerage that provides tools and services to help buyers and sellers save money and save time.

If you want to know more about Scott's money past and the best day of the week to buy a home, go back and check out his initial So Money interview, episode 398, where he also talks about how rejection can be a really good sign for homebuyers.

In our conversation today, we talk about where the market is headed in 2017. Is this going to be a more expensive market for buyers, a cheaper market for buyers? How are interest rates going to drive the marketing? The financial sacrifices perspective homebuyers are willing to make to buy that home, because so many of us just want to become homeowners. At the same time, some people are just better off renting, and Scott has his take on who should buy and who should just rent.

Here's Scott McGillivray.

[INTERVIEW]

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FT: Scott McGillivray, welcome back to So Money. This is a really good time to have you on the show. It's spring and everyone wants to upgrade, upgrade their house.

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SM: Everybody wants to buy real estate in the spring.

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FT: It's true. Should we just skip spring though, because if everyone is trying to buy real estate right now, it's got to be a heated market.

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SM: The spring is the most active market, but it doesn't necessarily mean it's the best time to buy or sell, because there's usually the most listings and the most transactions all happening at the same time. If you want to get in before the rush, you got to list February. If you want to wait until it settles down, you can list in June, but we find that in July and August, there's a real lull in transactions happening. It's definitely a time of the year you cannot ignore if you're planning on doing anything in real estate.

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FT: Last time we had you on the show was 2016, which was a very, I guess in some cities, a record breaking real estate year. In New York, for example, prices — I live in Brooklyn. I'm not sure how familiar you are with this market, but it was so tight. Houses were not on the market for very long. Now, we're in a new — It's a new era in 2017 for a lot of reasons. I think mostly because interest rates are inching higher, that's the prediction. How do you think that's going to — How will that impact the market as far as prices, as far as inventory. What do you think?

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SM: I'm looking at this survey here through owners.com and the top fear among homebuyers is the increase in interest rates. 73% of homebuyers are fearful with increased interest rates. It's scary, but it's also good that people are prepared and they're thinking about this, because it probably is going to be the greatest impact on their finances moving forward, is what happens when interest rates go up and all of a sudden your mortgage payments are more.

It's something you have to consider. If you want to kind of take the fear out and prepare yourself for these things, it's not hard to use an online tool, like a mortgage calculator, to sort of predict where your thresholds are going to be based on where interest rates may go.

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FT: Right. While we don't have a lot of control over interest rates, you're right, we have control over our own financial budgeting, and credit scores go a long way in determining your interest rate. If you don't have a great credit score, work on that to help at least get you the best possible interest rate.

People are also — I was looking at this owners.com site, which, by the way, you've partnered with owners.com, and they looked at the different ways that people are willing to adjust their financial lives to afford a home. It's still an American dream. Most people say they would stop investing, and more than half said they would stop putting money aside for a rainy day, which seems counterproductive. If you want to be a homeowner, you need savings.

What's the advice?

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SM: It is a tough call, but you're right. The data is interesting. Saving sacrifices is moot. Interesting to see how many people, almost three-quarters of people are basically willing to pull out their investments, their stocks, or contribute to other investments in order to buy a house, because a house can be an investment. That's not too bad.

Where really people need to focus though, instead of pulling from an emergency fund, because everyone should have some savings for — Like you said, like a rainy day, or for an opportunity in the future. Where people need to pullback is on the luxuries, going out for dinner all the time, even buying coffee every morning, buying new clothes, memberships, and all of these.

One of the biggest sort of culprit in terms of eating up of people's finances, there are all these subscriptions now, right? You can have these subscription music apps, and you're buying things, and it's just like every month you've got —

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FT: Uber, Lyft, Seamless, especially all these products, these apps, where you're just connected, your car is connected and you just have to click, tap, boom. It's very convenient, but then at the end of the month you want to cry when you look at that credit card bill.

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SM: These things add up. These things add up; the data usage, the overages. When you don't actually have to get a bill in your hand and handover money, it's a lot easier to spend. These apps are dialed in, you're automatically paying and you don't even see it. You don't even feel like it's being spent, but you got to be diligent. You got to look at it and say, "How much am I really spending on some of these things," because when the day comes, when you want to buy a home and you're looking for a down payment, chances are you've already spent it unless you were planning ahead. It is scary. People are mentioning that they're willing to make these sacrifices, but whether or not they're actually doing these whole other things.

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FT: Scott, have you ever told someone, "You know what? Maybe buying a house isn't for you."

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SM: Yes.

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FT: Even if you have all the financial ducks in a row, at the end of the day you have to be the right kind of person to undertake a homeownership, especially if we're talking about a house that you might have to fix up. Even a house that's perfect, there's going to be problems down the road, and if you have the kind of lifestyle where you're moving around. Who is the person that you've told, "Yeah, maybe you should rent."

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SM: Anyone who is in a short term or temporary scenario should consider renting before purchasing. For instance, looking at students going away to college or university, somebody on an employment relocation of some sort. In those scenarios where a real estate purchase is going to be a temporary and a time sensitive issue, meaning you're going to have to sell it four years from now, definitively, or whatever it might be, those are situations in which you want to probably consider renting.

Then, in terms of overall types of individuals, if you really have trouble with your savings — If you don't have a good credit score and you've got zero dollars to your name, you probably don't have the discipline, or you are not prepared to take on a mortgage payment, because you really have to practice.

I often tell people, "If you're starting from scratch — If you really want to know if you can buy a home, here's what you do; you determine the type of home you want and what the mortgage payment would be," because anyone can come up with the mortgage payments calculation. Let's say \$1,500 a month would get you the mortgage you want, you need on the house that you want. Let's see if you can put \$1,500 a month away for a year. If you can do it for a year, you're probably in good shape to actually go out and purchase a home, but if you've never saved a dollar in your life and you think that purchasing a home is the next best idea, you're going to get yourself in trouble.

By practicing for a year, putting \$1,500 a month away, look, you're going to have \$17,000 in savings, first of all after a year, which is great, and you have proven to yourself that you're disciplined enough to be able to consistently make a mortgage payment. Homeownership should not be taken lightly. You got to take it seriously. It's a huge investment. It can be a monstrous opportunity, but you have to follow the rules.

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FT: And you've got a years' worth of your mortgage payments ready to go after that practice.

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SM: Yeah. Nothing wrong with having that type of money — I usually tell people, "That's your down payment," sometimes. Right?

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FT: It is. As far as prices these year, where do you think we're think? Where are we headed? It's been such a market if you're selling, but do you think that there's going to be pressure, downward pressure on pricing this year? If so, why?

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SM: Especially, right now, there's a lot of things going on, and there's so many factors that affect real estate prices. Number is affordability though. Right now, where interest rates are today and where home prices are on average in most markets, there's still room for prices to go up. There is. If interest rates get much higher in a short period of time, we'll definitely see some leveling off of the market.

Another factor that does affect home prices is foreign investment and immigration, which it's hard to say what's going to happen in that space this year with new government and new rules and regulation. Without more people coming into certain areas the supply and demand gap grows and prices go down.

There are external factors that are very hard to predict at the moment. Overall, if I had to say based on the metrics I have, what's going to happen, I think we would see a slight increase in housing prices in most markets across the country this year, especially urban areas. As long as interest rates don't move too high too fast, I think things will be fairly stable in the right direction for years to come.

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FT: Many of us, going back to the owners.com survey, are willing to buy a fixer upper in order to save money on that home, but that again is not for everybody. You've done this so many times. You've invested in over hundred properties. Of course, you're the renovation expert. What are some easy ways to spruce up a home?

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SM: The good news is with what's been going on in the housing market for the last 10 years, there was a large pullback in the reinvestment and real estate for a good eight-year period really. The last two or three years, I've been going to the builders show, and the design shows, and the home shows. For 15, 20 years, I've been frequenting all the major shows around North America, and it's only in the last three years that we've seen a massive surge in demand again. Things have really ramped up, because people weren't investing, which means there are properties that are fairly distressed or have been neglected, where there are opportunities to come in at a reasonable purchase price and do some work to add value back to them. They are getting eaten up quickly. You know what — Often say, "You got to buy the rumor, not the news." Now, it's the news. People know. The demand for housing is up and everybody is kind of on top of it.

If you're looking for a fixer upper, there's definitely some out there and it's still my advice to — To purchase something that requires at least some work in order to create value. The smaller tasks are typically some of the ones that have the best returns, things that are simple, like a paintjob. People always underestimate, it seems a cliché, "Oh, yeah. Paint it." You got to do a

good paint job, but it goes such a long way. Fixtures and hardware, updating light fixtures, changing out door hardware. Again, it can just elevate a space so quickly.

Simple things that don't require a contract, like replacing appliances, for instance, is something a homeowner can do to bring the caliber of their space up a few notches for sure and make it more functional. Countertops, faucets, backsplashes, those types of elements, small cosmetic, reasonable DIY projects, done properly can do a lot to improve the value of the home and even make it feel more like a home if you're buying something that needs work.

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FT: That's the thing. It has to be done properly. I've gone through, recently, a very big renovation in my house. In the end, I think my team was solid, but I had a few rough starts getting my team assembled. How do you — What's your advice for someone who wants to find and hire contractors to do this work? It seems like sometimes it can feel like a gamble. Obviously, recommendations go a long way. Ultimately, what's your advice?

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SM: A reference is fantastic. If you know somebody in the area that had a good experience with this individual, that's going to go a long way. Typically, you're going to have to bring in a few individuals. Something that's growing in popularity is not only hiring a contractor, but possibly hiring a designer.

I've been working with a lot of designers who have their own teams and manage their own teams. There's an added cost, of course, but if it's guarantee somebody keeping the project organized and on track, then that might be a good way for you to go as well.

Interviewing multiple individuals, getting references, doing a scope of work with the contractors so that everything is specifically outlined including timelines and budgets, all keys to having a successful relationship through a renovation.

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FT: Right. You can really negotiate, right? How do you open up that conversation; negotiating with contractors?

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SM: Everything in contracting — Everything in construction is really a negotiation, because it's not like there are set standards for every renovation, because every renovation is kind of customized.

The best thing you can even before you engage with a contractor is to have a list of all the things that you would like to have done and you believe needs to be done, and then to do some research on how those things need to get accomplished. I've seen a lot of people get taken advantage of mainly because they're uneducated about the work that needs to be done, so people feel they can overprice and the won't be questioned.

I usually advice, if you want to have a bathroom renovation done, you want the toilet moved, go online and Google it, or go on YouTube and start to see what people have done and understand some of the terminology, because there's a different between somebody who might say to a contractor, "I want to rearrange this bathroom. I want the toilet there, the sink there, and the mirror here," versus somebody who says, "I'm looking to have the toilet flange relocated to this space, and I understand the plumber is great to have that accomplished, and I would like to have the tiles reworked around it." Even just being able to use the right terminology will help prevent somebody from trying to take advantage of an uneducated renovator.

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FT: That is great advice. It's like going to the mechanic and being like, "The car is making weird noises. Fix it."

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SM: Yes, versus you go in and say, "Hey, my transmission is flipping. I need to it changed."

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FT: Right. That is really good advice.

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SM: Yeah, and it doesn't take long. Now, with what's available online, you can do so much of the work yourself.

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FT: You can, but should you?

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SM: No. Sorry. So much of the homework [inaudible].

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FT: Right. Oh! The homework.

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SM: Homework yourself. I did see recently — I saw an article, a woman who built her own house by watching YouTube videos. I'm like, "Oh, please don't go in that house."

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FT: Is it a tiny home? Oh my God. Yes — Please wear a helmet upon entering that house.

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SM: Yeah, exactly.

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FT: You had mentioned in an article, I was reading about you and it was on Yahoo, about there's always one thing that you do before making an offer on a home, and that is asking the neighbors about the house. Why would the neighbors know anything about what goes on in the house?

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SM: So brilliant. Talk to the neighbors. I knock on the neighbors doors. I knock on neighbors doors, and I have learned so much from talking to neighbors. Neighbors love to talk. They know, the neighbors know. I'll give you an example. A couple of years back, I was about to purchase a property, and the neighbor was just out in the yard and I walked by and said, "Hello." She just said, "Oh! Hi. Yeah, they're selling over there." She's like, "They're having such a hard time. That basement keeps flooding. They've had work after work done and it's just a disaster." She's like, "I don't blame them for selling." I'm thinking, "Wow! That's a good piece of information right there just by saying hello to the neighbor."

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FT: Did you tell her that you were looking? Did you tell her you were a perspective buyer?

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SM: Yeah, I told her. She's like, "Oh! You're looking in that house?" She's like, "Yeah, they finally had to move. They gave up. That basement just keeps flooding." I was like, "Hmm. Good to know."

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FT: Fun fact.

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SM: Knock 15,000 off the purchase price right there.

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FT: How do you go back to the owner? Would it be like, “I was talking to your neighbor.” Are you honest about it, or do you —

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SM: Sure. I would just say, “Look. I’m aware that there’s some flooding issues,” and if that’s a risk I’m willing to take on myself. As a contractor, maybe I’ll be able to solution it right, certain things. Maybe I’ll do a backwater valve, or a backflow preventer I’ll put on the sewage line, or maybe it needs a sump pump pit. There’s lots of ways of doing these things. When you’re in the business and you know how much they cost and how quickly they can get done, you have a pretty good competitive advantage.

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FT: Scott, let’s look at your portfolio. For this year, what are you looking to add, take out, as far as housing? What are some of the project that you’re looking forward to this year? Are you buying in certain part of the country that we should know about? Because you’re such the expert, we want to follow in your footsteps.

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SM: I will never reveal my secrets. No. I am doing a few things this year. I’m working on a new show. We’re in production on a show where we do a lot of buying and selling of real estate with individuals. That’s a fun show that we just got started on. It’s called *Buyers Bootcamp*, and that’s going to probably be the best way of showcasing how to work with individuals that want to capitalize on real estate in different capacities.

For me, personally, I think — You have to remember, I've been doing this for 17 years. It's looking like I will sell more properties than I will purchase this year. I have some properties that I've been holding for quite some time, mostly single family. The value that they have today has exceeded my expectations. In some areas, the cash flow just kept up with the price points. I'm probably going to be selling in certain market that I think may be overrated.

I think there are still some good opportunities for purchasing. The vacation market, vacation property market has been something I've been investing in now for the last couple of years, and I'll continue this year.

Southern states still tend to capture my attention more than the northern states at the moment. I also have a portfolio in Canada which I've been selling a lot of that portfolio values in the Toronto area.

No matter what, I'm always getting something. I will be purchasing properties, multifamily properties. They're still sort of my top of my list along with the vacation properties as well.

Some flips. There will be some interesting flips this year, and I don't typically flip a lot of real estate, but I've got some interesting opportunities with some distressed properties to turn them around and a lot of that will be on the show. It should be interesting.

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FT: Very exciting, and that's on HGTV?

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SM: That's on HGTV.

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FT: All right. Scott, thank you so much for stopping by again, and we're really excited for you this year and hoping all your real estate projects proof fruitful. Everyone listening, listen to Scott. He knows what he's talking about. Thanks for stopping by.

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SM: Thanks Farnoosh.

[END]