

# SPEC REMODELING STRATEGIES: Tips from a Pro

**O**ver two decades, spec remodeler Larry Dworin has mastered the art of buying fixer-uppers to rent and resell. He has also authored two Craftsman books,

**Reported by Ted Cushman**

Profits in Buying and Renovating Homes *and* Renovating and Restyling Vintage Homes. During a phone interview and site visit, Dworin shared the secrets of successful spec rehab.

## Getting Started

**JLC:** How did you get into this business?

**Dworin:** Back in the 1970s, when I was about 25, I wanted a nice house, but I couldn't afford anything that was in



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# Smart buying, frugal rehab, steady rentals, and timely selling add up to a good living

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good condition. So I fixed up an old house and when I sold it, I wound up making \$10,000 for \$500 worth of fix-up. That was a year's pay back then for what was really just a few weeks' work. So I said, "I think I'll keep on doing this." Not every project has been that profitable, but I'm making from 20% to 30% — and up into the hundreds-of-percent for the houses I hold on to.

**JLC:** *What's the basic concept of your business?*

**Dworin:** Mostly I look for run-down houses that have a lot of appreciation potential. They've got to be in good neighborhoods, and they have to look a lot worse than they really are. I want to do as little work as possible, because everything I do comes out of my profit. On the other hand, if they didn't need any work, I wouldn't be able to get them cheap.

After I fix the houses up, I usually rent them rather than sell them right away, for two reasons. First, I try to buy in neighborhoods where the property values are appreciating, so the longer I hold them the more they are worth. Secondly, holding the houses has tax advantages. If you hold the property for a year or more, your income from selling it is taxed as capital gains instead of earned income, and the tax rate is lower.

Also, you can deduct depreciation on the houses on paper over 29 years, even if the value is really going up, not down. Combined with my own personal deduction for the mortgage on my own house and so on, that is enough to shelter \$40,000 or \$50,000. Some years I pay

no income tax at all. Of course, I have a lawyer and an accountant who advise me. You wouldn't want to go into a situation like this on your own.

**JLC:** *You mentioned mortgages. Do you borrow money to buy your houses?*

**Dworin:** I prefer to pay cash. If I have money from the sale of a house, sometimes I'll turn around and buy another one. Good handyman specials turn up at irregular intervals and you have to grab them whenever you can.

But it's easier to borrow money to buy an existing house than to build a new one. With a construction loan for a new house, banks are afraid you might not finish the project. But an existing house, is good collateral: Even if you don't fix it up, it won't be worth less than when you bought it. When I first started out, I was borrowing the money for my own house. That's a good way to start: Even without a good credit history, you can usually borrow money to buy your own home.

**JLC:** *How many houses do you have in the cycle at one time?*

**Dworin:** Right now I own six houses, plus one I'm working on. Eight rental properties is a better number, because six don't provide quite enough rental income. But when I have too many rental properties, I spend too much time on maintenance. A little while ago I was up to 14 rental houses, and I was spending all my time fixing things for the tenants. I couldn't get any remodeling work done.

Occasionally, I'll buy more than one house at a time if they're super deals

that aren't going to be around later. But I only actually work on one at a time, because I have to finish up and get them rented. I once remodeled three houses at the same time. Three mortgage payments and no rent coming in — that can kill you.

## Working Alone

**JLC:** *I know you do most of the work yourself. Did you start out with a background in the building trades?*

**Dworin:** Just what I learned in high school shop class. Over the years, I've learned things a little at a time — plumbing, electrical, and so on. Most of it is pretty straightforward stuff. The really difficult part of those trades is the commercial work. To an electrician, houses are easy.

**JLC:** *Don't you need licenses for plumbing or electrical work?*

**Dworin:** That depends on the locality. In my area, you can do any work on houses you own, and technically, I'm the homeowner. But I did a house once where the building department was very strict about owners doing work, and they wouldn't let me do anything at all. I couldn't even touch a tool. I generally stay out of those areas, because it's more expensive to do the work that way.

**JLC:** *Do you ever hire employees? With a four-man crew, you might be able to knock out six of these jobs in a season.*

**Dworin:** Yes, and I've done that. I've had up to four employees at times. But I can't always find six jobs in a season. Sometimes I don't find any for a

# Another Fine Mess

I recently dropped in on Larry Dworin at a property in his own neighborhood that he had purchased for \$65,000. The rehab was well into the demolition phase. "This isn't really a 'before' picture," he said. "This is a 'during' picture. It looks even worse now than it did when I bought it." On a tour of the grounds, Dworin ticked off the property's assets and liabilities:

**Location, location, location.** Surrounded by fields and woods on a quiet country road, the one-acre lot with barn has a very pleasant setting. The area's becoming popular with career people who commute to nearby Detroit, Mich., and property values are on the rise. "Just down the road, someone's building a \$350,000 house," says Dworin. "This house will never be worth that much, but it will be a way for someone with less to spend to get into a nice area."

**Foundation.** The turn-of-the-century stone foundation needs just a little patching, says Dworin. The concrete slab is recent, and underfloor drainage keeps the basement dry. "I think someone lived down here during the '60s," Dworin comments, pointing to psychedelic graffiti on the wall. It's typical of the cosmetic problems that scare buyers away, enabling Dworin to buy houses like this for much less than they're worth. A little drywall and paint will take care of the eyesore.

**Structure.** The entire house was rebuilt in the 1940s after a fire. The framing met code at the time and is still in good shape. A roof leak several years ago was patched, but water damage to plaster was never fixed. Dworin plans to drywall over the stained plaster, and leave the roof alone.

**Space and amenities.** At 1,400 square feet, there's plenty of room for a small family. A downstairs bedroom could serve as an office or den, and two reasonably large upstairs bedrooms need only drywall and new windows. Dworin has

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Grffiti from a former tenant turns off most buyers and drives down the property's price. Removing it is a cheap improvement.



Sound floor framing is exposed where Dworin has roughed in new plumbing for the upstairs bath. A planned closet will support the joists he has drilled through.

while. Then I lay people off and they get other jobs, and by the time I do find something they're not interested anymore.

Anyway, there are a lot of advantages to working alone. For one thing, you don't have to deal with tax withholding and paperwork. Also, I find that if you have three or four people, you're not necessarily tripling or quadrupling your output. I used to waste a lot of time on organizational stuff, just trying to keep all these guys working.

**JLC:** *What about subs? When would you call an electrician or a plumber?*

**Dworin:** Anything to do with the utility companies I might hire an electrician for. Sometimes the utility company doesn't want to deal with non-electricians for things like service drops and meters. Generally I'll do the panel myself, unless there's no way to turn the power off, and I don't want to deal with it.

I'll hire a plumber for anything that requires excavation. I don't really want to dig up the main sewer line or make

alterations to septic systems. I don't have a backhoe or a bulldozer.

I also hire out anything to do with cement, other than real small things. I'll do a service walk, but not driveways and sidewalks. It's just too heavy, and you need a crew to get the cement in and finished before it sets up. I try to avoid those jobs. Cement flatwork doesn't add much value to the house anyway. A homeowner will never come out and say, "What a lovely sidewalk. I really like this." They'd much rather have a bigger



Plaster in this room was applied too thin and has stains from an earlier roof leak. New drywall is a simple fix.

Once a tiny fourth bedroom, this room is now a large bath with a big window, part of a spacious new second floor layout.



### Another Fine Mess,

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already converted a tiny fourth bedroom upstairs into a large bathroom, taking the house from a tight four-bedroom, one-bath plan to a more modern and spacious three-bedroom, two-bath edition. The downstairs bath, inconvenient as the house's only bathroom, will now be an attractive extra.

A narrow doorway into the staircase was too small. "The people living here told me they had to bring furniture in through an upstairs window," says Dworin. "My tenants aren't going to want that." To solve the problem, Dworin has cut out a bigger opening at the bottom of the stairs.

**Exterior.** Removing 1950s-era mineral siding revealed the original wood siding, still in good shape despite flaking paint. The porches look terrible but are still sound, says Dworin. "I'll spruce up the outside for now, recast the cement stairs, then improve the porches over several years while I'm renting the place out."

### Profitability

In all, Dworin expects to spend about \$7,500 fixing up a property he bought for \$65,000. When he's done, he'll have a rental unit he "could sell in a week if I offered it for \$99,900," he predicts. "A \$27,000 profit isn't bad for four months of work, but I think I'll hold it for a few years and try to sell for \$130,000 or \$150,000."

In the meantime, he says, he'll rent the house for about \$800 a month. The rent typically amounts to about a 7% annual return on his investment, says Dworin — roughly what a Treasury bond might pay, but not much compared to the stock market. Most of his annual gains, he explains, come from appreciation of the property value. "Combining the rent and the appreciation, we look for about a 25% annual return on investment," says Dworin.

The key is patience and timing. "You have to be careful," notes Dworin. "Sometimes, a property will stay flat for several years, and you'll get tired of waiting and sell it. Then, of course, it goes up 30% the next year."

— T.C.

bathroom. But on some houses, the city says we have to put a new sidewalk in, and that's it. Those are just expenses, and they're to be avoided unless it's a really profitable job.

I do all of the flooring, drywall, tile, and finish carpentry myself. Both my wife and I paint, too.

### Sizing Up Properties

*JLC: It seems as if any skilled remodeler could make a living the way you do.*

**Dworin:** The thing that's hard is the real estate part — picking the house out. You've got to be real sure that this is just the right house. It should be such a bargain you can't believe it, so that you say, "Why isn't anybody else buying this?"

The perfect property is one that is all overgrown so you can hardly even see the house, with mountains of trash all over the place. This drives off all the other buyers. Inside, I like to see falling

plaster, more trash, peeling paint, real ugly colors — one of my favorites is 1970s shag carpet with dirt ground into it.

So most other buyers take one look and say, "Get me out of here, I don't care how cheap it is, I don't even want to look at it." But if you look the house over, you often discover that the superficial problems are all that's wrong with it. Houses like this sell for 30%, 40%, 50% below market because they are so ugly. But you clean up the yard, get rid of the

trash, put up new drywall, get some new carpet, and you're done.

**JLC:** *Does anybody help you find the property?*

**Dworin:** A good real estate agent can help a lot. Ask them, "What areas are really moving up? What's desirable? Can you tell me about some older areas that might have fixer-uppers, neighborhoods that people are moving into?" The first area they suggest might not be perfect for you, but it will give you a place to start.

Then check it out yourself. Drive around the neighborhood on a Sunday afternoon when they have open houses, just to see what you get for the money. If you see a house for \$100,000, okay, that is what you can get for \$100,000 in that neighborhood. Then if you see one that is similar but is a mess and is only \$50,000, you know you're looking at a bargain.

**JLC:** *What are some red flags that would tell you that you don't want a certain house?*

**Dworin:** The foremost concern is the location. You don't want a bad neighborhood. Even in a desirable neighborhood, you don't want to be next to commercial operations, like gas stations, noisy bars, or party stores that throw trash in your backyard. If your house is right next to something like that, it will always be cheaper than others even just a few houses away.

**JLC:** *What else should you watch out for?*

**Dworin:** Major foundation problems. I will deal with minor problems, like one little section that needs some tuck pointing, but if the house is going to have to be lifted up and a new foundation put under it, you're looking at a minimum \$10,000 cost. This house better be a super deal before I'm going to approach anything like that. Usually it won't be, because the houses are generally priced on how they look, and buyers don't know what foundations are supposed to look like.

As for other problems, it's not so much any one thing as a combination of things that start adding up. Say the house has a bad roof; okay, I'll fix the roof. But if it also needs to be replumbed and rewired, and the floors are sagging, and, and, and — at some point, it isn't worth doing.

Another caution is houses that are too small and can't be expanded reasonably. Sometimes they look big on the outside, but the layout's bad and there's no practical way to fix it on a reasonable budget. You might as well just tear it down and start over.

**JLC:** *Would you ever do a room addition to add space?*

**Dworin:** So far, I have never built a room addition from the ground up. But I do a lot of conversions — turn attics

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The hardest part is picking the right house. The perfect property has superficial problems that drive off all the other buyers, but there's nothing else wrong with it.

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and garages into rooms — because that can be done a lot cheaper. I would add a room if that was the only thing the house really needed. But usually, these houses are not just small, they have poor layouts, they're cramped, and the kitchens and bathrooms are ugly. When you add it all up, there's no profit left. Even with an addition, it's still going to have a rotten layout.

**JLC:** *What about major systems, like rewiring or upgrading the water supply?*

**Dworin:** I inspect the wiring and if it needs a lot of work, that lowers the price I'll offer. But rewiring isn't that hard. A couple thousand dollars will usually cover it.

A lot of my houses are on wells, and I always have the water tested before I

buy. If the groundwater's polluted, I won't buy the house. I've never had a problem with city water.

I've had a problem with the waste line, though. One time, the drain to the street was crushed after I'd been renting the house for two years, and that was expensive to replace. That's just one of the risks you take.


**JLC:** *What about energy upgrades — insulation, better windows, a new furnace?*

**Dworin:** My customers never ask about it. People care about kitchens, bathrooms, space — not insulation. I put insulation into spaces that are easy to reach if the wall happens to be open anyway. I also blow insulation into attics, because that's cheap and easy.

I fix windows if they're rotting out. Nice windows I repair, ugly windows I replace, but not for energy reasons. For energy efficiency, I put on storm windows. That's cheaper than a new window and just about as good.

I replace furnaces if they're broken or really inefficient, like the old octopus furnaces from the thirties. They put out a lot of heat, but the fuel bills are astronomical. Anything from the 60s or later, though, I usually keep if it's working.

**JLC:** *What about porches?*

**Dworin:** Porches are a lot easier to fix than people think. A porch is a simple structure — no wiring or plumbing running through it, just simple framing. Even if the porch is sagging badly, usually the only problem is wood that's rotten where it contacts the ground. So I jack the porch up, put a concrete pad in if possible, replace anything rotten with pressure-treated wood, and paint the whole thing. It's a huge improvement for just a little work. If the floorboards are too soft to save, I replace them with pressure-treated plywood and paint it. 

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**Ted Cushman** is a carpenter and photojournalist who lives and works in South Bend, Ind. He can be reached by email at [tedcushman@earthlink.net](mailto:tedcushman@earthlink.net).