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PART 1: Is House Flipping the Right Investment For You?



House flipping involves buying a house in need of repair, making the fixes, and selling it quickly for a profit. It's a fairly simple idea, but the execution is anything but simple. Flipping a house isn't an investment that most investors should take on. That said, for the right investor, house flipping can be extremely profitable. *Christopher Murray, writer for Investor Junkie* provides insight on whether or not you should invest in house flipping.

The Short Version

- House flipping can be lucrative for investors with capital upfront and who are willing to DIY the project.
- You can make a substantial profit on just one flipped house, assuming you aren't met with any complications.
- House flipping is risky, and investors need to be prepared to have extra cash saved in an emergency fund.

The Cost of an Average Flip

Nearly every expert I talked with mentioned the immense cost of flipping a house. The average cost, hovering around \$48,000, makes this investment option unreachable for beginners. Be expected to pay the following costs during the process:

Purchase Price

The purchase price is likely the largest cost you'll need to pay. Financing a house you intend to flip increases your risk, so you'll want to pay the entire sales price if possible. If you have to finance it, consider living in the home while you renovate.

While flippers are intended to be cheap homes you renovate, you'll need to come up with thousands of dollars, if not hundreds of thousands of dollars to cover just the purchase price cost. "House flippers could benefit from applying the 70% rule. It entails that investors should not pay more than 70% of a property's ARV, minus the costs of the renovations required," says Jon Sanborn of Brotherly Love Real Estate.

Closing Costs

When you purchase a flipper, you'll need to pay closing costs twice: when you buy and when you sell. On average, closing costs tend to "range between 2% to 7% of the purchase price," says Sanborn.

Being a real estate agent yourself will help reduce these costs as you'll get a commission when you buy (as the agent for the buyer) and you'll only have to pay one realtor when you sell.

Renovation Costs

The biggest cost you'll have will be the materials and time you need to actually renovate the home. "Naturally, investors calculate the major costs of big-ticket items like kitchen and bathrooms, roof, painting, and floors, etc., says Scott Harvell, Founder of Quick Sale Homes, Inc. "But some investors don't budget for many of the smaller ticket items that stack up. Light fixtures, switches and outlets, door handles, landscaping, and even as minuscule as nails and screws can all add up to thousands of dollars."

Utility Costs

While you're renovating, you need to consider the cost of running the electricity, water, and heat. Just like any other homeowner, you'll pay these on a monthly basis until you unload the property.

Marketing Costs

When you're looking for a house or you're looking to sell a newly flipped home, you'll need to account for the cost of the marketing you'll need to do.

Harvell says "Most investors must consistently advertise in order to have enough opportunities to purchase properties at a discount. The average cost per contract in our market is currently \$7,500. In other words...every \$7,500 we spend in advertising results in one house under contract, on average."

Pros & Cons of House Flipping

Pros

- **It's a short-term investment** – Most flips happen within a year, making them short-term investments that often have high returns. This means you won't have to wait a decade to reap the rewards of your investment.
- **Experienced builders can do DIY projects** – Flipping is best done by those who know what they're doing either on the construction side or the real estate side. This reduces what you'll have to pay an outsider to do the job.
- **Potentially high profits** – Flippers earn an average of \$67,000 in returns when they sell. If everything goes as planned, you could earn a serious return in a very short time frame.

Cons

- **The housing market is often risky** – The housing market isn't known for staying consistent. Certain years see a huge uptick in home buying while others see high interest rates and fewer buyers. For the uninitiated, understanding the complexities that cause these shifts can be difficult and you may not end up buying or completing your project at the right time to buy or sell.
- **You'll pay a lot upfront** – Between the purchase price, closing costs, and all of the other associated costs, you're looking at a huge chunk of money just to get started investing. Many investments don't have minimum investment requirements even close to that high.
- **You may pay short-term capital gains** – If you buy, renovate, and sell your home within a year, you'll end up paying a short-term capital gains tax.
- **Financing can be difficult to secure** – You can't go out and get a traditional mortgage when you're flipping a home. Instead, you'll need some sort of renovation loan (there are many). These are risky loans for lenders "so they often require collateral like homes or cars before granting approval for funding which adds extra time (and expense) onto any project plan," says Shaun Martin, CEO of Cash For Houses.

How Long Does it Take to Flip a House?

According to Rocket Mortgage, a typical flip where no issues arise takes anywhere between 6 – 12 months. That said, investors shouldn't underestimate how many ways this particular investment can go wrong. You're buying a home, not a stock reliant on a host of factors that shift the price. You could find you need to redo an entire electric system you didn't account for, or the whole foundation could be shot, or you may need to repair a well or plumbing.

You never fully know what the house has in store until you have the keys in hand and you start tearing things down. That said, adding a few extra months to your time frame is a necessity when flipping homes.

Watch for more house-flipping tips next month when we specifically address who can make money flipping houses and final tips for successfully flipping.

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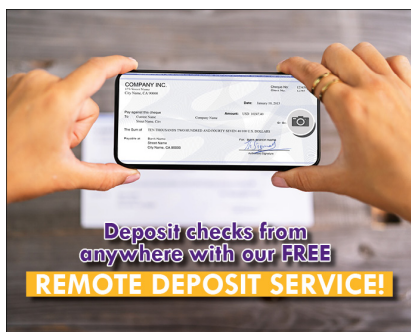
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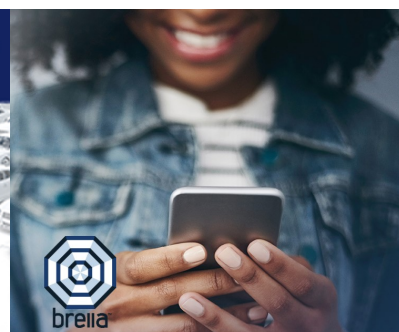
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