7 TIPS TO SUCCESSFULLY FLIP HOUSES

WHAT THE TV SHOWS WILL NOT TEACH YOU

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After watching a bunch of episodes of the latest and greatest "flipping tv shows," you say to yourself – "*If these morons can do this, I sure as hell can flip houses too!*". First and foremost, we applaud your enthusiasm. Nothing happens without enthusiasm. However, we would caution you greatly as you embark on this "flipping houses" journey.

Over the past several years, we have flipped many different types of homes, from simply cosmetic rehabs to full gut renovations and sold them anywhere from $100,000 to over $700,000. On one side of the coin, flipping houses can be very rewarding and lucrative as shown in many tv shows out there. However, on the other side of the coin, flipping houses can also cause stress, painful headaches and has the potential to lose you money.

Whether you are about to flip your very first property or you are a regular flipper with tons of properties under your belt, our intention is that this article helps set you up for success so that your flips are an absolute success.

1. Know Your Market

We have flipped properties in both up and down markets. We have flipped properties in hot markets and more stagnant markets. We have flipped properties in a seller's market and a buyer's market. The point here is that you need to know which market you are in. Let us explain...

You need to be cautious of "hot" markets (days on the market are usually less than 30 days) just as much as "stagnant" markets (days on the market are high and there are not many properties being rehabbed in the area). For example, we had finished a gut renovation on a property that was located in a hot community in a major city. When we listed the property, we anticipated it being on the market for a very short amount of time but it ended up taking over 6 months to sell.

Because it was such a "hot" market, there were tons of other flips (along with ours) that hit the market at the same time, so our beautifully renovated property just became "one" of the many properties for sale. Here are the lessons: watch how much you pay for dilapidated properties and always have funds aside for unforeseen issues and carrying costs to cover a few months on the market.

2. Finding deals

The first key to finding deals to fix and flip is to find an area that *will support* fix and flips. In order words, an area that you can buy low enough, rehab to meet the market demands, and sell at a price with a strong resale value and homebuyer pool. One of our favorite areas to fix and flip have a strong school system that is desirable for couples and/or families to live in. Income areas, located next to stable neighborhoods are also great places to invest.

Our favorite homes to flip are for first time home buyers which typically has a price tag of $300,000 or less. There is always a market and demand for these types of homes. To put it simply, we love to find the ugliest house in a nice neighborhood with strong homeownership.

There are tons of strategies to find the actual deals in your marketplace. To find the actual properties themselves, you can work with investor friendly realtors, wholesalers, or even do your own marketing to find leads. Our favorite strategy is “driving/walking” for dollars to find vacant and dilapidated properties. Go around, knock on doors and talk to the neighbors. The tip here is, don’t wait for the lead, go find the deals, they are out there to be found!

3. Know your customers

If you were to begin any type of business and did not know your customer inside and out, then you would quickly go out of business. The same goes for flipping property. Once you settle on the market you are going to flip properties in, you must research the type of homeowner that is buying properties in this particular area.

Go to lots of different open houses and see what types of layout and finishes your competition is using. If you are selling a $700,000 plus home – the amenities and finishes are quite different than the finishes in a starter home. The bottom line is to know your customer as though you are them. You have to know the type of home these buyers want and will pay for.

Here are the top 3 questions to ask yourself:

1. Is it a young couple or a family?
2. Where do they typically work?
3. What is important in a home to these types of customers?

4. Know your competition

When you decide on the marketplace you want to flip properties in, this is when you need to begin researching all the properties that are for sale (and under construction) in this marketplace. Additionally, you need to study the properties that sold in the last 6 months as well.

Get to know the average ARV (after repair value) of these properties, DOM (days on market), the overall inventory landscape, and what your competition is offering. You also need to know the realtors who have the most listings and are selling the most properties in your marketplace.

Note: If you are looking for a realtor to potentially help you sell the property after it is renovated, then this is a great way to find a realtor who knows your marketplace inside and out.

5. Build a strong team

Michael Jordan said it best, “Talent wins games, but teamwork and intelligence wins championships.” Flipping homes is absolutely a team sport. We have never met anyone who flipped properties successfully who did it ALL by themselves. Even the DIY folks who do all their own construction with their own two hands, they even utilize team members at different points of the process. Whether you are a rookie or veteran, forming and maintaining a powerhouse team will be critical to your growth and sustainability.

Here is a short list of key team members to consider:

- **Private Money Lenders and Bankers -** Depending on how you finance the flip, these will be two team members that you need on your team. When it comes to private money lenders, these are private individuals who trust and respect you enough to lend you money at an agreed upon interest rate and/or points and equity . This money is typically more expensive than bank financing, but private money can be quicker and more flexible. Both strategies are effective financing options – it just depends on the deal itself and your experience. The key is to have these financing relationships lined up before you find the deal that way you have options.
- **Wholesaler -** It is important to have relationships with a few wholesalers who are active in your marketplace. You want to keep yourself “top of mind” that way when a new opportunity comes

up, they think of you to present it to. If you get some of these opportunities presented to you, make sure to review it quickly and don't waste the wholesaler's time. Also, spend time getting to know a couple of these wholesalers. That way you can figure out how to help them in their business as well.

- **Realtor -** It is always helpful to have a realtor on your team that can assist you find properties and also help you relist the property after it is fixed up and complete. Before doing business with them, make sure they are "investor friendly" realtors who understand your goals clearly. Ask if they are currently working with investors and if he flips or hold real estate properties himself.
- **General Contractor -** Unless you are going to do all the rehab yourself, you will need to hire a General Contractor. This topic can be an entire article in it of itself, however, just know that working with an honest, reliable and quality oriented GC is critical to the success of your project. One tip on how to find GCs is to drive around your local market and look for other rehab projects going on. Once you see a construction job going on, get out of the car to meet the GC and check out their work. Before hiring him, go to his finished project so you can see his quality of work.
- **Accountant, Insurance agent and Attorney -** These are always super helpful team members to have on any type of real estate investing venture, especially fixing and flipping houses. Always stay in constant communication with your accountant, insurance agent and real estate attorney. One of our most profitable flips came from a lead that our attorney uncovered. You just never know where your next deal will come from.
- **Hard Money Lender -** Although they can be expensive, it is always helpful to have a relationship with at least one hard money lender that knows and respects you. Sometimes deals move very quickly, too quickly for a bank, so it is always helpful to have someone you can go to if you need to close in 2 weeks or less.

6. Analyze Deals and Manage your finances

If you are using your own money or OPM (other people's money), it's essential that you know your numbers before you begin playing the flipping game. You should be using some type of software, tool, or even excel form to help you analyze each deal before even making offers. We have used different tools and programs over the years. BiggerPockets has some great calculators and one just for fixing and flipping. Here is the link if you want to check it out: https://www.biggerpockets.com/flip-analysis.

As you analyze your deals, be sure to include all the terms and fees of bank loans (or private loans) in your closing costs. Please do not follow the numbers they show at the end of the HGTV episodes. During your analysis stage and running your numbers, don't forget to add transfer taxes, commissions, carrying costs and capital gain taxes (especially if you are selling the property in less than 12 months).

During the construction process, you need to manage your finances very closely and able to (at any point of the project) know your costs and know if you are ON budget, UNDER budget, or OVER budget. We can't stress this enough. You have to be able to manage your money so closely during the flip process. You can use a software or program for this or for many of our projects, we utilize an excel spreadsheet to manage our finances. This excel document tracks our checking account (money coming in and money going out), it tracks payments to our contractor, and controls the overall financial picture of the project.

Additionally, it is imperative to have a financial cushion. Even though your lender may request a reserve account for monthly payments, plan on holding the project accordingly, so if the property does not sell as quick as expected you have funds available to cover all the carrying costs and unexpected surprises (that always seem to happen). If you are using a private lender or hard money lender, always calculate the worst-case scenario.

Note: If you are doing multiple projects at the same time, creating separate bank accounts (under your main business account) for each property will facilitate a lot the management of all the money that comes in and out.

7. Working with contractors

Finding and working with reliable, honest, and quality oriented contractors can make all the difference in having your flip go smoothly or having it be an absolute nightmare. The following tips have saved us a lot of headaches over the years and has made the construction process easier. Establishing your “policies and procedures” up front will eliminate the emotion from the equation when your contractor comes to you and asks for more money before he finished with what you both agreed on. By far, this is the most important part of the flipping process, so here are the top 3 crucial things you should always do:

A. Have a contract in place with detailed scope of work and selected finishes.

Do not start a job without a signed contract in place. Period! In addition to the contract, attach an agreed upon scope of work – I.e. a detailed description of everything you want to be done at the project. Be as detailed as possible and remember to keep updating this file as you go. Remember – what is not in writing is not agreed upon. Contractors love to charge you extra for "change orders" so be careful of this and make the agreed upon scope of work as detailed as possible.

Also, pre-selecting your finishes will avoid miscommunication between you and contractor. Make a list of all of these items and fill out the following columns: item, quantity, model, supplier, cost, picture and link (to purchase it).

B. Implement and stick to a payment plan

An easy way to create an efficient payment plan is to divide the project in one deposit (10 to 15% of project cost), 5 to 6 phases and final payment (5% to 10% after passes final inspection/CO (certificate of occupancy). We typically pay the contractor half the phase total when the phase has begun and half when it is complete. The goal is to follow this rule - once the phase is 100% complete, the contractor will get 100% paid for that phase.

When dealing with a bank for a construction loan, you would create a “draw schedule” (which has been approved by the lender). Once each phase is completed, an inspector will stop by, verify the completion and then release the funds.

Keep in mind, if you have to fire the GC, you must have enough funds to cover the rest of the construction. Be always on top of payments.

C. Scheduling

A payment plan goes hand in hand with scheduling. Make sure you have ongoing meetings with your GC and plan together how long things will take. Weather conditions and other unforeseen issues might delay the project. Do not babysit your GC on a daily basis. If you have to do it, you shouldn’t be working with him/her. Visit the project regularly and track the progress (Download Slack, an app that you can keep track of everything).

As you can see, there is a lot to flipping a home successfully. We hope those tips are helpful and you will be able to implement them in your business.

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