

Real Estate Ain't Dead ~ It's a Live and  
Kicking! Make A Small Fortune  
Flipping Houses...2014



"How Not to Lose Your Shirt In the  
Flipping Game...Deals, That Puts the  
Cash In Your Hands".

*by Terry Clark*

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*And more ~ Real Estate Flipping Resources (recommendation)*

### #1. Can You Handle Flipping a House?

Some people say flipping a house is easy and everyone should do it; others warn you to be careful, so what is the truth? Probably both. Everything is easy once you know how, so those who tell you it's easy are probably those who have experience and been successful. Perhaps those who warn you to be careful are those who've failed, or if not failed, they've been caught doing something that cost them money.

To flip a house you need to get money and if you don't get the right deal, it may cost you your profit. Supposing you get the right loan and you get the house, then what could go wrong? It may be that you buy the wrong house. It could need repairs that you were not aware of and they are going to cost you more than you bargained for.

It could be that the renovators you were depending on couldn't come and held the whole project up. Or that there was bad weather that prevented your repairs from going ahead. Then selling took a lot longer than you anticipated for some reason. Meanwhile your nerves were getting shot to pieces because your deadline for selling had come and gone.

You might have ended up having nightmares about going into debt and becoming bankrupt. Welcome to the real world. The real world is where things do go wrong and need you to step in and make some tough decisions. The real world is not perfect. You happily got into debt and now you wonder if you really will ever be able to get out of it again.

Flipping a house is not for the faint-hearted. Another reason that could cause you to worry is that you intended doing all the renovations yourself to save money, but didn't realize how hard it was or how much time it would take. You are still working your day job and by the time you've knocked off in the evening, you truly don't want to start another job. Especially one that is so physical as painting and decorating.

Or maybe you got sick and just weren't up to the task. In fact, you've bitten off more than you can chew and now you are choking on the remains! Or maybe in the time it took you to get it fixed up, the real estate market started to crash. All these things need to be taken into account before you start flipping houses. You need to have strong nerves

and you need to not panic the moment something seems to be going wrong.

Do you consider life to be a worry or a challenge? Do you enjoy sorting out tangles or would you rather your life had no tangles. If you want a free-from-worry existence then maybe flipping houses is not for you. But if you enjoy a challenge, then maybe this is just what your need to keep life interesting.

## #2. Successful Flipping Strategy

To create a successful flipping strategy the first thing you need is money. It need not be your own of course, and most likely won't be. But you need to get the right credit and have it available quickly. Only when you can offer to close in ten days will you have the most success.

People who want out of their stressful situation such as divorce or the death of a loved one usually want to move quickly. And they need to be assured that they will get their money. If they can be sure of getting it quickly, then they are more likely to agree to a price reduction.

When its time to sell the property, make sure the buyer meets all the mortgage requirements. A qualified loan officer will be able to check this out for you. Be sure to keep everything legal and above board or you'll soon get caught.

You need to learn how to find the right property to flip. While it will often look ugly, there shouldn't be a great deal of expensive renovation needed to improve it. Cosmetic improvements are the thing to look for; you don't want structural problems.

Many houses suitable for flipping may not need anything done to them at all. The only reason they are for sale is through illness or divorce. In this case the person is willing to sell for less due to emotional trauma. You can offer to help by buying the house and giving them the money quickly.

Tact and understanding is needed in dealing with those under stress and emotional trauma. You don't just barge in and offer to buy the house. And you need to make sure the purchase contract is in your favor. A good closing agent will be necessary to help you close the deal.

Once you have the property, you need to move quickly to do what's needed and get it back on the market. You may have to work twice as hard as usual and miss out on those leisure time activities to get it done. So what? Just think what you are achieving.

If the house needs fixing and you cannot do it yourself, be sure to line up your helpers to come in when you want them. If painters are coming, make sure they are finished before the carpet layer starts. When fixing a house, chose modern décor that will really help your home sell. Find out

what sells well and make your house look like that.

Marketing your property to a target market is much better than just listing it in a generic manner. If the home would be ideal for a young couple, then make sure you advertise where young couples are likely to see it. If it has aspects that would interest a retiree, then see that your advertising gets into the right market.

What Your Flipping Goals Should Look Like:



### #3. How to Build a Great Team

If you are serious in your intentions of flipping houses, then surrounding yourself with a great team becomes essential. No one person has all the skills necessary to do all that is involved and do it quickly and efficiently. It's not only the work of renovations that you need help with; that is only a small part of flipping.

First you need the right lender; a mortgage broker could be the right person to work out the best type of mortgage for you - and where to get it. Getting the right kind of finance is all-important, so your lender is an important part of your team.

An agent is also important. While you can probably learn to find good houses to flip by yourself, if you have not had much experience, then the services of an agent will help you. Your agent can also help you to sell when the time comes. You need to have an agent that is pro-active in the selling process. One who simply lists your property and waits for the phone to ring is not the sort of agent you want. Remember that selling quickly is paramount to success.

An attorney will make sure that everything you do is legal and he will know exactly what you need for protection. An appraiser on your team will ensure that the house you buy will be worth what you need to get for it after you've fixed it up. If you are going to flip without fixing - not all houses need fixing - then an appraiser will give you a good estimate of the value of your property.

Contractors are the people who will make your house look like new again and you'll want to know that you can trust them to come and work for you as soon as you contact them. Once you get someone who is reliable, then be sure to treat them like gold. In other words, respect them and their skills and pay them fairly and promptly. To find reliable and prompt contractors, ask around. Talking to people is a great way to find out the reputation of any company, be it a one-man show or a big consortium.

Decide what you have the time and skills to do yourself, and what you will need help with. While painting is relatively easy, doing it professionally might be a little harder. Carpet-laying may be do-able if you can get the carpet shop to do the cutting, but if you are hopeless at taking measurements, then let the pros do it instead. Plumbing and electrical work will need the experts touch.

If you have a day job, then you may not have the time to attend to the landscaping, so a handyman will be another part of your team. But don't get caught up in doing extensive gardening. In the average family these days, both are working, and they may not want to spend all their spare time maintaining a garden.

#### #4. Getting Financing for Your Flip

You cannot do a flip without the necessary finance and where you get it from is important because some mortgages cost a great deal in fees and closing costs. This will take a huge chunk out of your profit, so it makes sense to reduce it where possible. Many lenders charge a great deal more if they know that the loan is for an investment property.

If you own - or are buying - the house you live in then you may be happy to get an equity line of credit. This allows you to borrow what your house is worth, minus what you still owe on it. The costs are often very small compare to other mortgage fees, but the interest rates are usually variable, which means that they could work out higher on average than other types of loans. But there is an upper limit cap to protect you.

However the good news is that often the lender will offer a discounted interest rate for the first say, six months of the loan, so if you flip your house before that time is up, you'll end up paying a lot less interest. Some lenders charge quite a bit for set-up fees, while others waive these fees altogether, so it will pay you to shop around for the best deal.

Many investors find it easier to get that 100% loan - no money down - if they buy 'owner occupied' homes. This means in fact that they are meant to be living in the home. For those people who buy the home as an investment, this could pose an ethical problem. But wait! If you are not going to rent the house out, then can't it be considered as 'owner-occupied'? After all, you'll be in and out while the renovations are being done, won't you? Many people own two homes and only spend a few months in one, i.e. a holiday home. Therefore, taking advantage of the owner-occupied status is good sense.

If you don't have any home equity that you can take advantage of to get your finance, then consider a hard money loan. This is typically private money especially allocated for real estate. While the interest rates are high, the money is provided promptly and enables you to get that fast cash when you need it. Hard Money lenders are easy to find online.

If you have a good credit score, then you may also consider using an unsecured line of business credit. While this type of loan may also attract a higher interest rate, you may be able to get an introductory rate of 0%. Then if you flip your house in the planned time, you won't have to pay any interest at all. Whatever plan you get, always read all the fine print and make sure you understand it before signing.

#### #5. How to Determine What Amount of Profit You Could Make

Determining the amount of profit you will make on your real estate investment is the most important part of the process. This is what you do before anything - apart from looking for a bargain. When working out your Return over Investment (ROI), you have to start from the end and work backwards.

Find out what the surrounding homes are selling for - and what the prognosis is for the next few months. Consider whether the home is in need of fixing up, and if so how much you will spend on that. Find out what your costs and fees are going to be and then add them all up, including the purchase price of the house. Then subtract the total from the price you realistically think you should get for it when you sell.

To find out the market price use your appraiser if you have one. If not, then look at the surrounding homes and see if they compare to the one you have your eye on. Do they have the same floor space, the same number of bedrooms and similar backyard space? If so, go and see what prices they are selling at. The place to ask is the local real estate office.

It is important to compare apples with apples. If surrounding homes are not the same, then you won't get an idea of what yours will sell for, unless you plan to upgrade it to the same standard. This could take quite a bit of cash and time, so be wary.

If the sum doesn't come out in your favor, then don't go ahead with it, no matter how attracted you are to the house. You may be able to cut costs, of course. You could always offer the seller less for the home in return for a quick sale and see what the response is.

An example: Suppose a house you might buy to flip costs \$400,000. You allow 10% of that price for renovations and 10% for holding costs (that is, mortgage fees, closing costs and interest). That is \$80,000. Add that to the selling price of \$400,000 and you get \$480,000. If you want to make 10% on your investment, calculate 10% of \$480,000, that is 48,000 and add it to the selling price to find out what you will have to sell your house for. The price would be \$528,000. But if your market research tells you that the home will only bring \$500,000 when renovated then you need to purchase it for \$28,000 less. If you can't do this, then don't buy it at all.

Don't live in a dream world of hope and optimism. Stick to cold hard facts and make the numbers count. Of course, only you know the figures that it will cost you for holding and renovation. It could be less than 10% and so you could still make a profit. But don't forget that you need to get a decent profit to make it worthwhile, and sometimes contractors' estimations blow out. The thing is for you to do the sum using conservative figures, and then your investment is more likely to be safe.

## #6. What Legal and Tax Issues Will You Need to Know

Before you start flipping properties, you should sort out the legal and tax issues. This is where a good attorney will be needed. Tax is a sore point with many people, but it must be paid or you'll face the consequences. That's not to say you cannot reduce it - legally - if you know how.

Once the IRS sees that you are a business then you will be taxed accordingly. That means state income tax, federal tax and self-employment tax. The last two are 35% and 13.5% respectively, while the state income tax will probably depend on what state you are in. All this adds up to a big bite out of your profit cherry.

But if you hold onto the house for a year or more, your federal tax can be reduced from 35% to 15%. The only trouble is, flipping only one house a year won't keep you, unless it's a million dollar or more mansion.

Another option is the 1031 plan that allows you to roll over your capital gains into another, similar property. You must still live in the first property for one year and the second one cannot be lived in as a permanent residence. There are also time limits for finding and closing the sale that must be adhered to.

Living in the house for two years will get you out of paying capital gains tax on up to \$250,000 for a single person and \$500,000 for a couple, since that sale is deemed to be your permanent residence. But if you intend to flip houses often,

you will be doing it for a business and so you may as well act like one.

Doing one or two a year is fine for supplementing an income derived from some other source. But if you want to do it as a business, then you will have to be treated like a business by the Uncle Sam. Once you consult an attorney and an accountant, you may find that you are far better off to simply buy and sell as many as you can, make a profit and pay the necessary tax. After all, remember that the 13.55% self-employment tax does benefit your retirement.

To protect yourself and your finances, it is advised that you set up a Limited Liability Corporation (LLC). A good attorney is essential to make sure you do everything legally. Even if you do have to pay the full tax, at least you'll sleep easy at night.

### #7. Keys for Spotting a Potential Flip

The property that you buy for an investment - particularly a flip - needs to be priced lower than market value. While you may find one by depending on real estate agents, it's much better to find one on your own. Real estate agents often invest in property themselves, so they will keep the best deals for themselves.

The best thing to do is drive, cycle or even walk around your chosen area. This area will be a reasonably good one, not somewhere that you may be in danger of getting bumped off! So what do you look for?

Look for an ugly house. Its ugliness could be due to the color of the paint or even the condition, such as peeling and fading. A house that is not maintained tells you that the owner cannot afford to look after it, or has lost interest due to ill health, age or emotional problems.

An ugly house may have a roof that needs replacing, overhangs and guttering that are falling down and rusty, or it might just be terribly out-dated.

A house could be ugly on the inside, with dirt and trash scattered about, or just badly maintained and with fixtures old-fashioned or worn.

Look for an unkempt lawn. If the weeds are knee-high and all the flowers dead, it will tell you the residents may be finding upkeep beyond their strength.

A house with no front windows. Windows are the eyes of a house. If there are none, prospective buyers will be turned off. They may not even know why, but that is psychology. Adding windows is a quick and simple renovation.

Look for a house that is empty. The windows will be boarded up, or blinds always pulled down

Of course looking around the neighborhood can consume a lot of time, so if you haven't got much of that commodity, then you can look through the newspaper. In fact you need to do that as well, whether you've time or not. Real estate ads will declare 'good home for first home buyers', 'for sale by owner', or 'handyman's dream.' These are your flippers.

Now look in the back of the newspaper at the foreclosure notices or the files for bankruptcy. In some cases, check the local courthouse for these details, plus 'lis pendance' that is simply a notice of foreclosure. These will denote that people need or want to sell up their houses and want to do this more quickly than the average seller.

If someone cannot keep up his repayments, but wants to maintain his credit rating, then selling quickly before foreclosure is the only way to do it. Flippers are easy to find once you know what to look for.

#### #8. What to Look for on Inspection of a Flip

Once you've found a house you think might make a good flip, it's time to inspect it all a little more closely. One of the most important things people want these days in a house is space. Simply knocking down a few walls will give an illusion of space and could enhance buyer appeal.

Another means of adding floor space is by finding it in the basement or attic. Many houses have under-utilized space in these areas. The thing to be careful of is how much headroom there is. Make sure any renovations adhere to the standard. Homes built around the time of WW2 have basements that are too low for living space, but others can be converted easily to make another room.

The biggest problem with converting basements is flooding, but an expert can often fix this for less than you would expect considering the return. The attic - if it runs the entire length of the house, can often be converted to the

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