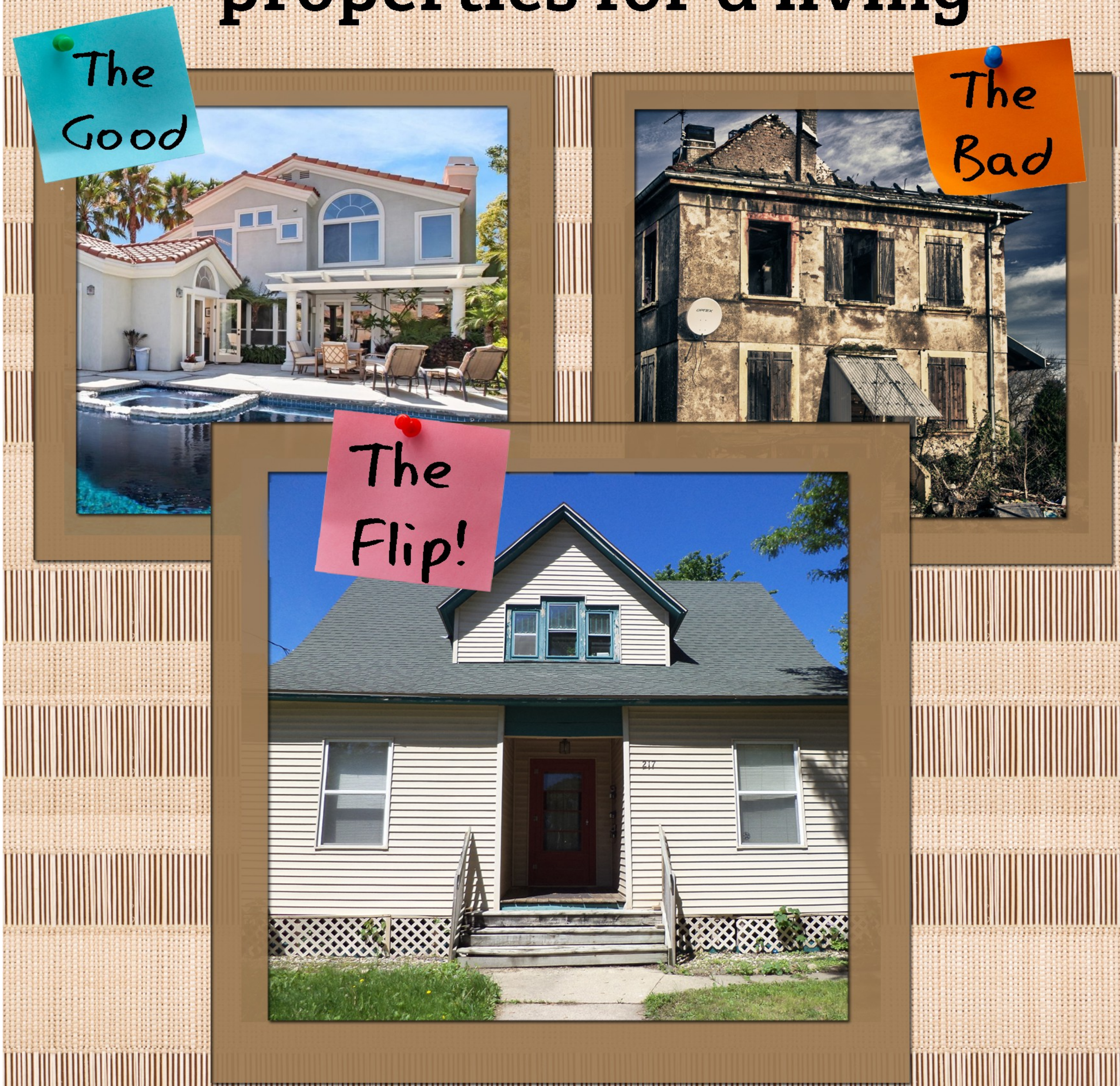
REAL ESTATE Breaking Bad: How to flip decaying real estate properties for a living



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The Author's word

Hello and thank you for reading this book!

I also want to thank some of the most important persons in my life, those who are always there for me. These are the persons who supported me no matter what, for better and for worse. For this, I have to thank you Lavina, Heinz, Shoofa and Codrut. Alex, you are also here, for your support and patience.

Thank you!

Introduction

Selling a property to make a profit can be a great idea to earn some money, but who has the time to wait until the house bought with money from a loan appreciates enough, so you can make a profit? No one, especially when there is another way to approach real estate: house flipping.

The concept of buying a poor house, fixing it and then selling it for a profit has been out there for a long time, but it gain more awareness when the TV shows started to promote this business.

However, after the crash in 2008, the bubble seemed to have busted.

The reality is you can still sell real estate for a profit, if you know how to do it. And this is exactly what this book will teach you.

Read on to learn how to evaluate a deal, how to find the money to finance it and how to start the fixing process. All you need to know to start the business of flipping a house is right here, at your fingertips, so read on and learn how to become a pro in real estate businesses and change your career right away. Learn to sell houses for a profit!

Chapter 1 – Up close and personal with the "flipper"

When you hear about flipping houses for a profit you think of instant money and speedy repairs. Is this the reality of house flipping or are the TV shows cutting out the reality bites?

The concept of flipping a house is rather simple: you buy a property at a small price, fix it and then sell for a profit. It sounds good, but if you expect to make hundreds of thousands of flipping houses, you need to get a reality check!

Flipping is not an easy job and the profits are not that well rounded. On top of it, like any "on the edge" business, if you mess it up you might get into bankruptcy. Other times even though you do all the right things, you still manage to sink along the properties due to house market crashes or other unexpected situations that make the selling for a profit part of the flipping impossible.

When you get into this business, you must know a lot more than the basic concept, if you plan to stick around for some time, investing in the house market. There are many things to learn, but before you start buying and selling, you have to know five major facts of the trade.

Flipping comes with a risk

Flipping is not gambling, but it does come with a high risk. As opposed to gambling, flipping risks increase due to your own actions. To make a successful flip you need to buy at the right price, the right house, and then make the right repairs before you sell. The mix of the right purchase price and the right repairs is hard to get. When you look at a property you need to “see” if it has the potential to gain enough value, as there are many properties out there that don't have what it takes to become flipping candidates; is you see, there is nothing you can do to increase their value.

Bad candidates include houses in neighbourhoods with a high crime rate or remote locations where there are no job opportunities. These houses usually need a miracle to happen under the shape of a huge infrastructure investment of a huge factory to become flippable, so be realistic and evaluate your odds of being successful.

Whether you buy and flip in Chicago or San Diego, you need to focus on the house when you make the repairs and remember that any flip beyond

$20-$30,000 is the exception, not the norm as TV shows and “make quick money” guides depict them. Yes, you will encounter highly profitable flips, which can round up your budget with astonishing sums, but it is always better to go safe with smaller amounts. Professional flippers have around 10 flips in one year, each one around $30,000, which bring an accumulated profit.

Flipping does not happening overnight

Many beginners dive into the business of flipping a property believing they will fix it and then sell it in couple of weeks. The reality is these things take time! The actual repairs might last for a couple of months and then, when it is all ready you will need to wait one, even two more months before you find a buyer and one more month to seal the deal. The average flipping time is about six months, which is far from the TV image of “overnight” miracle. And this is when things go on well, as planned. Problem is most houses hide a lot of “dirty secrets”, like bug infestation or else, which eats up even more time, so be prepared to wait for selling the house and cashing in the check.

Flipping works on every market, if you know how to do it

Couple of years ago there was a house market boom, which allowed many skilled entrepreneurs to flip houses for a profit, but after the market crashed, few of them managed to stay on top of their things. And even without a crash, you might wake up one day and discover your hot market going cold due to an unexpected reason. Every item that goes up, must go down and house prices stick to this rule. Always!

However, there are always properties that hold their value regardless the market’s ups and downs. These are the real deals that are hard to find, but they exist everywhere, in any market. If you have what it takes to find such a deal, you might sell for a profit, even when the market is cold as ice. This is pretty much like fashion: there are trends coming and going, but some items are timeless. The same goes for houses, so make your pick carefully!

Know what you want to do with the house

A traditional flip has three steps: buy, fix and sell. However, there are multiple types of flips and you need to know what you want to do with the property before you actually buy it. After you fix the house you can rent it or sell it, but you need to remember that each day you keep the house you lose money on interest, utilities and taxes. To make sure you don't stick with the house for a long time to come, you need to evaluate your chances to monetize it after the rehab before you make the initial purchase offer. Many flippers think they can add a lot of value to a house, when the reality is there is no value to increase from the first place. This often results in long time on the market and when a house stays on the market for a long time, its value decreases. Also, if you are insecure about what to do with the property and you oscillate between multiple options, you may find yourself being forced to sell it for a lesser amount.

Consider the worst case

We are being taught to think positive in order to attract positive outcome, but when you want to flip a house you need to consider the worst case scenario. No one wants to think about bad things, but you need to, if you want to have a plan when things go wrong. Otherwise, you will be completely unprepared to deal with problems. And most of the times, if you want more time to solve a problem, it might get worse. For example, if you discover the roof is leaking and you are unprepared to deal with it, you may jeopardise the entire fix, as the water infiltrations leads to floods and mould. Be ready to solve every problem on the way and learn to cut losses when bad things happen.

When you want to enter the flipping business you need to have a plan for every bad or good thing that may come across your way, in order to succeed and make a profit out of the flip. As I mentioned earlier, there are multiple types of flippers and flips, and you need to know them when you go out there, searching for a house. Some properties are great sellers, while others are just great renters. Read on to know what you can do with a fixed property to be able to assess the potential of a house when you first set your eyes on it.

Different types of flips

In the world of house flipping there are multiple ways to deal with the classic three step process. In this book we will focus only on the legal ways to flip a house; there are also a lot of illegal flippers out there who work their way on the market before being caught by the long arm of the law. And they are always caught!

Flipping type 1: Buy, fix, flip

The classic form of a flipping implies buying a house, repairing it and then selling to a person who is going to live in the house. However, there are multiple ways to deal with this and the other most common type of flipping.

The newest type of flip is fixing the house with the buyer at hand. This means you buy the house, find a buyer for the house and then fix it as per the buyer's requirements. The model is emerging in Baltimore and you must know where it has the potential to work and where it doesn't work. For example, this model of flipping would never work in New York

This model has its own benefits. The first one being your profit is secured, as the prospective buyer is going to buy the house when it is ready. It also saves you the hassle of guessing what sort of finishing touches would appeal to most buyers. However, if he changes his mind and you don't have any signed contract with him, you may end up with a highly customised home that is hard to sell. This method works great in neighbourhoods where you can buy a row of similar houses, fix one up and use it as a model for what you can do. Show the model to potential buyers and then sell the other houses in the row with customised fixes, saving the buyer a lot of hassle and offering him a custom home in a neighbourhood of identical houses, possibly with different purposes.

Flipping type 2: Buy and resell as is

This one is a little trickier. You need to have an eye for houses that you might sell as they are slightly below the market price.

This type of flipping goes on like this: you buy the property off a hot market, and then sell it in poor condition, as it is, below the market price, still making a profit. This is a delicate business which only works in transitioning markets with a certain type of houses. The profits in this case are not that great, but you can make some money out of multiple transactions of this type.

This model has a second version: buy the property and sell it as it is to a flipper. You will make a smaller profit than a fixer, but you can make the money quicker than with the classic model of flipping.

Flipping type 3: Buy, refinance and lease with option to buy

This method of flipping can save you money as it can help you find someone to pay for the monthly house taxes quicker. The principle is simple: buy a property, fix it up and then sell for terms. When you finish the repairs, refinance the property at its new value; if you've done your calculations right, you won’t need to put in more money. The next step is renting the house with an option to buy after twelve months or more. The rent payments will cover the mortgage rates and when you feel the need to sell the property you will not have to pay a broker's fee. If the tenant buys the house after one year you can also benefit from lower capital gains tax rate.

Flipping type 4: Pre-construction flippers

This is another method which only works in hot markets, where the price of a property increases almost every month. If you buy a property when it is in pre-construction phase, when its price is significantly lower, then sell it when it is ready, you can end up with a round sum in your pocket, without having to do any repairs on your own.

But this method is a real gamble: if the market sinks before the building is ready, you might lose a lot of money and even end up with a property whose maintenance costs are higher than your budget.

Pseudo-Flipping: Scouting for a flipper

There are markets where flipping is a hot business and if you want to make a profit without actually becoming a flipper, become a scout. This means you are going to find the properties for the actual flippers and sell them for a tip. They will pay you for the research, as they will be saving a lot of time and time is money. Moreover, by roaming around flippers you can learn their business and prepare yourself for the moment when you can turn to this job as well.

Chapter 2 – How to find the deals

There are multiple ways to find a good deal and until you gain notoriety and the deals come to you, let's review the most effective ways to find a deal.

Find a seller under special circumstances

There are many reasons to sell a house and you can exploit some of them when you are looking to buy a house to flip it. A highly motivated seller is willing to make a discount, which is very important when you are looking for a good deal. Emotions play an important part in selling a house, so you might want to look for people who have gone through a phase of divorce, death of a loved one or relocation – in all these cases, the property needs to be sold fast and one should be open to negotiations. However, never take undue advantage of people's emotions or emotional events to get the property for a cheaper price! Remember you might also end up in one of these situations!

Newspapers, Internet and Direct Mail

The newspapers are often overlooked, but many great properties are being marketed in the newspapers! Start by looking at the local offers and then enlarge your search area. Be prepared to hear negative replies, as negotiating a deal is never easy and some sellers are just not interested in what you can offer them.

Direct mail can also be a great way to find a commercial property because there are many people out there who are willing to sell their properties but don't advertise it outside their own circle of friends. On the other hand, if you place a letter in someone's mail box and it catches his attention, you may find a deal out of nowhere.

When you are looking a building to flip you need to focus on owner ads, both offline and online, because they are more interested to sell and they also provide some advantages, such as discounts and no extra fees. You can gradually learn which ads are posted by owners and which ones are posted by real estate agents. Before you learn to spot them out, look for ads with keywords, like “motivated”, “vacant” or “handyman”.

Don't overlook the rental ads, because there are many landlords who might agree to sell their property for a number of reasons. Some become landlords out of luck or unfortunate events, like the death of a relative, so they might be willing to sell the property. Some landlords just get tired of the whole renting process or they might reach the point when the property needs a lot of repairs and selling it would be a more profitable deal for them.

Speaking of ads, you can also post an ad on the internet or the newspaper under the “wanted” section. Keep the ad as small as possible, focusing on the condition of the property and the fast closing. Keep the ad out there for at least six months before you evaluate its results. Just as in the case of direct mail, there are people who don't bother to advertise their properties for a number of reasons and they prefer to contact buyers themselves. If there are a lot of other similar ads in the newspapers or sites where you advertise, don't worry: sellers can pick you because they like how you've answered the phone or another small, emotional detail, which you cannot foresee.

Real estate agents

When you find real estate agent ads that advertise a certain property you might be interested in, they are usually posting ads to advertise themselves, not a specific property. So, get into their game and call them to ask for other properties they have on sale. It is best to send a fax or an email to let them know you are a flipper and you are looking to invest in a certain type of property, especially those that require fixing. This will make them call you when they have offers, as they know you are going to close the deal for a good price. At the end of the day, you will save time finding real estate agents who can present you with various offers.

Mortgage properties

If you manage to find a mortgage broker you are a lucky man or woman! Mortgage brokers receive a lot of dead leads from people who face foreclosure, which you can save and turn into a flipping opportunity. There are a lot of people who don't qualify for a loan, while other people are unable to pay their loans so they are willing to sell their properties. All these situations are not advertised until the moment they hit foreclosure, so if you manage to get information on these properties from a mortgage broker, you've hit the jackpot in the world of real estate. Just like in other cases when you are dealing with desperate people, never try to take advantage of them to buy the property for lesser than its real value.

Farming neighbourhoods

One of the ways to find great deals on a regular basis is farming a neighbourhood. This method is being used by many professionals, as it supplies a steady number of leads. The principle is simple: you focus on a single neighbourhood or area to buy houses. It might be an area close to your own home or not – the important thing is to be a hot area for the real estate business.

One of the great benefits of farming is getting to know the area and its dynamics, which will make your offers more precise. When you can evaluate the value of a house as effectively as possible and you know how much value you can add, you can also take out the property at a fair price and sell it as fast as possible.

Another benefit of farming an area is that people will become accustomed to you and your marketing strategy, as the entire area might oversaturate with your business cards and offers. When people get to know you, they tend to make businesses with you, so farming an area might be a great way to find deals for flipping.

Government-owned and Bank-owned

The properties that are being foreclosed by the bank are called REO and most times, come with special financing. All the banks have a special department that deals with REO properties, so call them and let them know you are interested in buying these properties.

Another type of REO is the government owned property. There are many buildings sold with a federal loan or under other government regulations that make these homes affordable for medium and low income families. The problem is these programs can end with foreclosure if the tenant fails to comply with the specific mortgage measures. You can find these properties on the official websites dedicated to government owned homes, but to access these databases you might need a real estate professional or a registered real estate broker.

Probate Estates

When a house owner dies, the property becomes a probate estate while the will is being processed and the property is being passed over to the heirs. However, there can be times when the heirs are not interested in the house itself, but in the money, so they are eager to sell it and get their inheritance as cash. While the property is being disputed it is being cared for by an administrator.

To find these properties you can go over the obituaries or work with a layer that can inform you on the probate estates in the area. Once you've found an administrator, let him know you are interested in probate estates and other decaying properties; an administrator usually has multiple properties to deal with, so you may find one or more deals from one single lead.

The reason to buy such properties is because they are usually in poor state because the owner was no longer interested in the building or was not able to care for it. There are also cases when the building has been vacant for a long time, so it is neglected.

Referrals

When you are looking for the best deals you can't cover large areas, so you need all the help you can get. After achieving some experience in the business you will see that most of your deals come from referrals, so start working on them from the very first moment.

Get business cards and make sure every real estate specialist in the area has at least one, so they can easily contact you when a good deal comes out in the market. Hand over your business cards to all the people you know, from your friends to the mail man, insurance agents and other persons who meet a lot of people due to their work environment.

Picking the right neighbourhood

When you are looking to flip a building you need to pick the right neighbourhood – if the neighbourhood is not a hot area for commercial buildings, you might have an amazing hotel, but struggle to sell if after the flip due to the neighbourhood.