<u>The Anatomy of a House Flip</u>
<u>Fundamental Assessment</u>

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Many of you have been watching television seeing all the money being made in flipping, some have made amazing returns, but what you don't see are the real actual numbers and how many of those TV fortunes were all on paper. This guide to flipping is designed to help you keep away from many of the pit falls and to have a solid plan to achieve success. This guide does not use false gimmicks and zero down maneuvers, this is a practical guide to success in flipping.

So, you want to become a flipping entrepreneur? So where do you start?

First things First
How much money do you have to invest (risk)?
What is your level of risk or comfort?
Are you using cash or borrowing money?
What skills do you have? Contracting, Real Estate, etc...
What do you want to make for the time, effort and risk?
Do you know reliable contractors to help you in areas you are not knowledgeable in?
Do you have an intelligent and knowledgeable real estate professional assisting you?
Is your family on board?

Try to answer these before you start!

How much Money might you need?

Well most people start off with low to middle income houses thinking that they make the best investment with the least amount of out of pocket cash. This is not always true but let's follow the assumption.

Through looking online, contacting a realtor, sending out farming letters, going to foreclosure sales, or say from a referral you have found the target house.
Fixed up what will it bring on the market. Not the highest number, but the best of the worst price. Meaning if the market says it would bring $195,000 but the lowest sale fixed up is $185,000 then that is your beginning number. Why start here. You always start with the end in mind and work backwards. The following worksheet will explain it clearly.

Sample Home

Work Sheet

Market value of home after renovated	**top $195,000**	**bottom**	**$185,000**
Closing costs to sell estimate 8.5% sales, fees, legal, title			**- $ 15,725**
Amount of desired profit			**- $ 20,000**
Renovation costs estimate			**- $ 30,000**
Contingency if you are wrong 10%			**- $ 3,000**
Closing costs to buy			**- $ 6,000**
Estimated purchase price			**$ 110,275**

That's 59.6% of market price, call it 60%. Surprised?

If you have seen ads for we bad your ugly, bad, dilapidated houses, then would you be surprised to know they buy a solid number of homes at this price or lower. But you're saying no reasonable person will sell at that. IF you are going to play in this market you can not over pay. The rule is money in real estate is made on the buy not the sell. Buy right or lose money.

But wait there is more. What if you borrow the money?

Well you well have the down payment, loan costs, carry costs for the loan, (monthly payment). So, what is the interest rate and what is the cost over the period of time you are using the money till the sale? What if it takes longer than a month to renovate or what if takes 3 months to sell? What does that look like?
In reality you might need to buy the home at 50 cents on the dollar to cover your assets. **Do your homework. Get with your Banker early!**

On average your first venture may require 20% down to finance plus costs because you may be treated as an investor. Terms may vary and a good banker may have different a plan to help you.

What about taxes? Depending on how long you hold the asset, it may be considered regular income versus capital gains. Check with your CPA to know how it will be calculated depending on the hold time. In other words, depending on current tax code if you were in the 32% tax bracket and the home went as ordinary income that $20,000 in profit just became $13,600

Analyze the return- Let's assume the numbers above are all correct. The down payment is $20,000 and your closing costs were financed. You used cash for the repairs and you did not use the contingency but you paid $110,275 for the home. Your total investment is $52,055. You sold the home for $185,000. Your net profit after taxes at 32% is $15,640 plus you got the $52,055 back from your original investment.
It took you 3 months from purchase to renovated sale. What was your return on investment? 30% but if you could repeat that 4 times in a year your annual return would be more like 120%. On the $52,055 You get the compound effect. You have to ask your self is it worth the risk to turn $52,055 into $67,695. By the way if you did these 4 times in a year you would have been able to put the original money back in your retirement accounts and work off the profit only.

The question is what level of risk reward are you willing to take? If this meets your needs, then let's get started.

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