Fixing up the Property

Now that the property has been acquired, it is time to get it ready for the finish line. Most cases of rehabbing or flipping equate to bringing the property back to its full market value. If investors make it to this step, they can be assured they got a great deal on the property. At this point, investors are also looking for a fairly quick turnaround in fixing it up and reselling it, so they can make their profit and get onto finding the next big deal.

The biggest part of the fix is the contractor and any sub-contractors hired for the project. This manual will be discussing how to get contracting work done later, but what investors should keep in mind throughout the project is that they need to bring the house up to full retail value right away. The longer investors have the property, the more holding costs are associated with it. While the property may have come at a great price, if an investor is holding it for an extended period of time, there will be unnecessary costs incurred. Such costs include maintenance and money expenditures for holding it. The following are all of the different options for fixing up the property and bringing it back to full market value the maximum profit can be realized.

> *"Now, one thing I tell everyone is learn about real estate. Repeat after me: real estate provides the highest returns, the greatest values and the least risk."*
>
> -Armstrong Williams

Types of Holding Costs

Maintenance costs

Maintenance costs are not a friend to investors. If investors are paying a landscaper for maintenance on the property, such as lawn care at $25 a week, this adds up in a hurry. The longer investors hold the property, the more time there is for something to break down or go wrong and add in additional maintenance that may have to be done. Other monthly costs associated with a property encompass the utilities, ranging in everything from electric, gas, water, trash, and sewer bills. If the season happens to be winter, the heat should be on before water pipes break and cause a huge mess. Broken pipes are never fun to deal with. Also, there will be monthly costs involved in insurance and taxes.

IC TIP:

When shopping around for insurance, investors should ask about the builders risk policy, as this is the best type for rehab insurance.

Money Costs

Especially when borrowing funds, the longer investors have the property, the less time they have to keep it on the market. If investors have a hard money loan, they may only have a 4 to 6 month timeframe to get a pre-hab or rehab done and sold. If investors have to extend the loan, because it will not sell as fast as they would like, that is money coming straight from the bottom line, as well as more stress added to the equation.

Opportunity Costs

The money investors could be making with the funds they have tied up in the purchase and 'fix' of the house is what can be referred to as an 'opportunity cost.' If investors purchase a 'good' deal and shortly after come across a 'homerun deal,' they might not be able to move on it because their funds are already tied up in the 'good deal.' The rule of thumb is that the faster investors get their money back, the sooner they can move onto the next investment. If investors find a deal they will not be able to get to anytime soon, they will need to calculate all of their holding costs. Investors may find it is worth holding off on the purchase of it and investing in more liquid assets instead for the meantime. Even if it is a small return but a safe investment, like a bond or stock, it may be worth it.

Conclusion

It's important to complete any repairs needed as quickly as possible. Even if investors find a great deal but they cannot get to it right away, they must make sure to calculate all holding costs associated and then reevaluate the purchase.

Rehabbing: Retail Market vs. Renting

Whether rehabbing to make the property a rental or to turn around and sell it to the retail market, an investor's mindset should be the same. Investors should layout their budget as much as possible in advance and try not to get too discouraged with a set back or overages, as they are just a part of rehabbing.

IC TIP:

Investors should take the lead by encouraging and 'incentivizing' workers to get the job done on time and within the budget. This will really help the bottom line and free an investor up to move onto the next great deal.

Retail market

The wants of buyers in the area the investor is looking should be an important consideration. A buyers wants will vary in price range with every location, but a concerted effort should be made to understand what a potential buyer may want to see in a property without going overboard.

What does the buyer want?

- A move in ready home
- Minimal upkeep/maintenance
- Modern amenities
- Curb appeal
- Ceramic tile
- Updated kitchen
- Backsplash
- Finished basement

Investors can find the answers to all of the questions by running comparisons on properties in a close proximity to their property.

The materials used when rehabbing will likely be different for properties going to the retail market than for those being rented. Properties intended for sale on the retail market expect a higher standard.

For higher standards in a retail property, investors will want to choose ceramic over vinyl flooring, hardwood over carpet, central air conditioning over window units, and offer premium appliances. Investors must also consider: siding, gutters, plumbing, electrical, roofing, and the kitchen. Investors will want to go a step or two further for buyers in the retail market, as the buyer needs to be thinking that they will not have to worry about fixing or replacing anything for years to come, as they are buying a recently upgraded and finished product that is ready to move into and enjoy. Studies show that most homebuyers typically stay in a home from three to six years after purchase, so the updates should at least fit into that timeframe.

The upgrades investors do depend on the area and their potential buyer pool. Generally, ceramic tile can be found cheap enough to install for the kitchen and bathroom, and it looks expensive. Before deciding on tile or vinyl, granite or particle board, investors should what amenities other homes in the neighborhood have and try to at least match them in quality. Granite countertops say 'expensive' but might be overkill for the area.

Generally a good rule of thumb is to spend money in kitchens and bathrooms, as these areas of a home usually yield the highest return on the resale market. In a good working class neighborhood, a $4k-$6k kitchen will be sufficient. However, for higher end areas installing 42" cabinets and granite will bring the home up to both the neighborhood and buyer standards but may cost over $10k.

Investors want the highest Return on Investment (ROI). As an example, a kitchen remodel will return 66 percent on average and a bathroom remodel will yield a 62 percent return on average, according to Remodeling magazine's annual cost vs. value report. This report is based on homeowners doing the remodeling and choosing their taste preferences and higher budget, since they will be living in the home. Real estate investors want the finished product to be good looking but also come at a reasonable cost to have redone. Investor should aim to make the finishes look high end without spending a high price.

Investors rehabbing for the retail market should pay close attention to the exterior of the

Rehab Investor Tip #1:

Neutral colors and finishes will appeal to a larger audience of buyers. Investors should avoid anything that is particularly outdated such as popcorn ceilings, gold colored fixtures, and stick on tile in the bathroom and kitchen floors. Such items scream an 80's remodel.

home, as this will immediately improve a home's curb appeal. They should look at the siding, windows, doors, etc. and make a good first impression to the potential buyer by having a fresh coat of paint on the front door if it is peeling. If the sidewalk is cracked and needs repair, investors should pay attention to the exterior details, as well. A little bit of landscaping can go a long way in updating the exterior of the home.

Rehabbing to Rent

Rehabbing to rent is different in many ways. Investors must have the mindset for a flip and still try to get all of the repairs made as quickly as possible. As opposed to flipping for a buyer, investors will want to do their rehab differently. They must have the mindset that it will be a rental. The property does not need to be nice enough that anyone would be happy to live there, as that would cost way too much. Rental properties should be finished, but not overly done.

With a rental, tenants are not as respectful of the property as a homeowner would be. Thus, it is likely things will need to be replaced after a number of years. It is not worth the cost to make the appliances and finishes nice and high-end because if something breaks down or gets ruined, the investor has to pay for it. This is why rehab materials are different for rentals than for retail. Investors must understand that the person who will rent this property has no incentive, besides a small deposit, to maintain everything and keep it like new. There are some tenants who really care, but on average an investment property is another place to live for the renter that they do not have any ownership in.

What to choose for a rental over a retail property:

- Vinyl over ceramic
- Bottom line appliances and fixtures

- Carpet over hardwood. Hardwoods will need to be redone, especially if renters have a pet. Refinishing the floors new tenant could wear down the hardwood. Carpet can simply be replaced.
- Particle board counters over granite
- Nothing over storm doors
- No molding over crown molding

Investors should take out as many moving parts that can break and keep it simple, by simplifying the kitchen, bathroom, and lights. Some investors take out garbage disposals because they can break when too much is forced down the drain and it gets clogged. Investors should consider removing ceiling fans and putting in cheap fixtures. The turnover between tenants should cost less than $500 of clean up and paint. A rental property does not need high-end thermal windows, or a top of the line high efficiency furnace, or 3x's the amount of insulation recommended, etc. It is up to the investor how much should be taken out, but unless a property management company oversees the property, the investor will be the one getting the calls to fix things when they break.

Most of what was previously mentioned pertains to lower end rentals (less than $100k ARV). However, if investors are going into high-end neighborhoods, they may have to add a few amenities. In these cases, still aim for simplicity. Investors may want to consider using a "middle of the road" product when updating. For example, instead of carpet, consider a faux hardwood vinyl floor that will have an expensive looking finished product, but is much cheaper than installing actual hardwood.

"Landlords grow rich in their sleep without working, risking or economizing."

-John Stuart Mill, English philosopher and economist

Pre-hab

A pre-hab is not really rehabbing/restoring a property. A pre-hab entails smoothing out the rougher edges in order to make the property's real potential shine through to buyers. Buyers have a hard time overlooking flaws in a property and envisioning the potential in a property. A neglected house is at the top of the list, and that is where a pre-hab comes in to the picture. Often times a pre-hab may just mean taking a vacated home and hauling out all of the trash left inside and addressing the overgrown landscaping. This strategy should have a quick turnaround time and does not entail remodeling the kitchen and bathrooms, etc.

There are also a lot of people who gut a whole building - drywall and all - because they know the condition was so bad it would be really hard to sell. When investors pre-hab a property, the home is then a blank canvas for rehabbers. A pre-habber is an investor lucky enough to come across a deal first for a low cost and then sells to a re-habber who will put their money and time into fixing the property.

Cleaning up a place before reselling it can make a huge difference in value. $1k to $5k of clean up could net $3k to $15k or more in the sale price. Some people, even investors, cannot see past big time clutter, and it can make a big difference to a potential owner occupant. There will be times investors find a good deal, but it smells like cat urine or cigarette smoke, which would deter potential buyers. Just by eliminating these smells, investors can increase their asking price. The goal of pre-habbing is to get rid of anything that may somehow detract a buyer from having interest in the home.

Here are examples of 3 different classes of a pre-hab:

- Light: Ranging from $500 to $2k- Consists of removing trash and debris; cutting the grass and general clean up.
- Medium: Between $2k to $4k- This encompasses removing or remediating mold in the basement, removal of some drywall, fix and clean up water damage, heavy landscaping/overgrowth removal, fix any broken windows, plus all of the items in the light example above.
- Heavy: Usually costs around $5k to $10k. This entails actually completing all of the landscaping with mulch and possibly shrubs for better curb appeal, full gut of the house down to the studs, new roof, removal of the old plumbing and appliances, etc. This may also involve dealing with mold problems, water issues, etc.

The pros and cons of the pre-hab:

Pros:

- Wider potential buyer pool and a larger profit margin
- Not as much work involved
- Quicker turn time
- No tough decisions like what kind of fixtures or countertops to choose
- Less opportunity for the project to go over budget like a rehab could

Cons:

- Have to close on it in most cases
- Investing time and money that could affect the bottom line
- Another deal could come along, while the investor is invested in this one
- Generally, not as much money to be made as a full rehab scenario

How much to spend

Investors need to ask themselves, "If I did X, how much more could I get for this property?" That dollar amount needs to be higher than what an investor puts into the property. If it is higher, how much higher, and is that amount worth the investor's time? For example, Lisa purchases a house for $20k and puts $5k to $10k in it, and she can sell it for $42k, as opposed to $25k. This would be worth it, not only because Lisa drastically increases her asking price, but also because it takes a lot of 'if' factors out for the end buyer. So, the buyer will have a much better understanding of what they are getting by taking away the 'you never know what is behind those walls' speculation. Also, Lisa could more easily sell to a potential owner occupant because the $203k renovation loan would be easier to figure out. Additionally, the homeowner is more comfortable with the process and can limit overages because all of the 'what-if' factors are taken out of the equation.

How much to pay workers:

- Cleaning crew $300 to $500
- Light vegetation removal and cutting the grass $50 to $200
- Mold remediation $1,500 to $3,000
- Roof. This all depends on each individual situation, but a good range is between $2,500 to $6,000 depending on the size of roof and materials needed
- Trash clean out, which is dependent on how bad the situation and how big the house is, but a good estimate is between $200 to $1,000
- Landscaping. Mulch costs around $100 to $1,000, and weeding is usually part of grass cutting and clearing (listed above), and if shrubs need to be purchased, try to select the Home Depot special for a low cost spruce up.

The ultimate goal for a pre-hab is to take it from an "eye sore" to an "eye catcher." It is the increase in the perceived value of the property that is going to make the investor money in a pre-hab scenario. An investor could probably wholesale "as is" but would make more money taking a few days to pre-hab it. By pre-habbing the investor is only 'cleaning-up,' rather than rehabbing and 'fixing-up.' If an investor gets into the pre-hab and realizes there is not much left to bring it to full retail, then taking the property to the finish line is advisable and will be profitable!

Rehab Investor Tip #2:

It is business, not personal. Investors are not pre-habbing or rehabbing the home for their personal use. Although they may have different, more specific tastes, not all buyers will. The end goal is to sell it, not to make it the way investors personally want it.

Rehabbing

Investors should view the house for the ARV, but break it down into small elements for the work that needs to be completed (i.e. replacing the carpet, re-keying the locks, upgrading the kitchen, etc.). It is important to have a rehab strategy in place before just jumping into the project feet first. Investors should outline all of their plans well and adhere as much as possible to the original scope of work laid out.

Rehabbing gets done from the outside in. By fixing the exterior and landscaping before doing any updates to the interior, investors will garner inquiries about the property before it is even on the market. However, investors should always wait until the end of the project to do any exterior fix ups that will get in the way of the interior rehab work. For example, if an investor paints the porch in the beginning of the re-hab, there will be boots with paint, dirt, and everything else walking all over the fresh paint job.

Rehab Investor Tip #3:

Investors should not act spontaneously when beginning a rehab. Investors should have a clear goal in mind for the completed project. If investors do not make a plan and stick to it as much as possible, they will not end up with a well laid out project that stays on time and budget. Even before purchasing a property, investors should have a clear vision for it, by speculating about the target buyer and what the buyer is going to expect to see in the property. This is what an investor needs to put into the property to make it sell – and sell quickly!

Intro to Contractors

Financing costs can add up fast, so getting rehab evaluation and bids from contractors as soon as possible is a high priority. If feasible, investors should negotiate with the sellers so that investors can have access to the property to write their scopes of work and meet with contractors before the close of the sale. This may be referred to as an 'access contingency.' By doing this, investors will not be acquiring expenses while they evaluate the property and can start their rehab the day that they close escrow, or at least as close to it as possible. This will also allow for contractors to get an eye on the property to point out any repairs that may have missed, which could drastically increase the repair costs. This is also why investors should have an inspection contingency in their contract.

An 'access contingency' makes it easier to implement with an individual seller or a vacant property. There are occasions where the seller is not comfortable with the investor coming in to the house while they are still occupying it. If the investor negotiates an access contingency in the beginning, it can save time and money in the end. The verbiage for this contingency may sound something like, "seller to grant buyer access to property for inspections, bids, contractors, etc."

Rehab Investor Tip #4:

Before meeting with a contractor, investors should go through the property and make a list of items they see as needing to be completed and write down any questions they have. The contractor should be taking notes, measurements, etc. Investors should establish a strong relationship with their contractor. It is up to the contractors to do quality work the investor on time and on budget, and because of them, the investor should be profitable. More than likely it will take time to develop a few good "go to" contractors with whom an investor trusts and are willing to work with the investor. Once the investor treats those relationships well, they will help the investor succeed in this business. The relationship should be mutually beneficial for the investor and the contractor both.

Interviewing Approved Contractors

Choosing the right contractor is the most important topic covered in this manual because without the right contractor, investors will not have a good product to rent or go to market with. Investors are looking for someone who has 'all around' construction skills. The more the contractor can do the better. Investors do not want to have to do all of the handholding and babysitting to ensure that the project is on track and everything is getting done correctly. The more the contractor has to hire out for different trades, the higher the bid will be.

Why this element of the work should be hired out:

- Investors do not have time
- Investors do not necessarily have the expertise
- Investors should be a manager, not a laborer
- If investors get to do more than one rehab at once, it could be logistically impossible

Rehab Investor Tip #5:

Even if investors got a great bid price, their profits can disappear quickly if they do not manage the repairs properly.

Where to find the contractors:

- Angie's List
- Craigslist
- Word of mouth through other investors
- REIA's or other RE investor clubs in town

Referrals from other rehabbers are some of the best referrals, so investors should make this their first choice in researching potential candidates.

Angie's List can be a great resource, although it does cost a low fee to join. The beneficial aspect of Angie's List is that it has real reviews from people like customers, which are helpful in determining who to hire. Angie's List does work best in larger metropolitan areas as smaller cities and towns may not have that many reviews (if any) for each contractor.

Craigslist is another option. Although this can provide some options, it is a little more hit and miss and investors do not have any referrals to go off of. If investors use this, they should carefully screen anyone hired off of Craigslist and call references to verify workmanship and reputation.

The Contractor Interview Process

Once investors have identified a few potential contractors, they should call the contractor on the phone and interview them. If the phone interview seems promising, the next step would be to set up an appointment to meet at the property for a walk through. It is highly beneficial to walk through and around the property with them to get their opinion and ideas. The contractors are the professionals, so it is always helpful to get a second eye on things as they may discover repairs that the investor has overlooked. Although this may take up more time, it will ensure that everyone is on the same page with how much work needs to be done.

Here are some questions to ask while interviewing a contractor over the phone and in person:

- What experience do they have in rehabbing?
- Availability and turnaround time for project completion?
- Do they have familiarity in the area?
- Do they have insurance? Insurance is a must and should be verified. An insurance company will need proof of contractor insurance, usually in the amount of $1 million).
- References- Investors should inquire about providing references from previous work. Investors follow through and call the references. It is easy to assume they would not give them to the investor, if they were not good referrals, but the investor will find that is not always the case.

Remember that the investor's project is likely not the only project that the contractor has, but investors need to emphasize their timeline that the contractor needs to abide by, since investors have monthly carrying costs associated with the property. Some rehabbers put financial penalties in their contracts for work that is grossly overdue. Investors do not want to set unreasonable expectations, but they also do not want to be at the bottom of the contractor's priority list either.

Before hiring any company, investors should get copies of their current insurance and workman's compensation, as investors are putting themselves and their business on the line by having a liability on the project, if a contractor company cannot furnish these two items. If investors hire the company and they do not have these things and one of their employees falls off the roof, the investor is liable for damages, for which the contracting company can sue the investor. This can cost the investor's company hundreds of thousands of dollars, so it is important to spend a little bit of time to confirm that the company does, in fact, have up-to-date insurance coverage.

A Brief Review

- Investors should spend 2 hours writing a scope of work or use the repair estimate worksheet
- Investors should ask contractor referrals from other rehabbers and research options on Angie's List and Craigslist
- Investors should interview on the phone
- Investors should interview in person and at the property, if possible

- Investors should call and verify references
- Investors should verify insurance and workers comp
- Investors should hire

Pricing

A good rule of thumb is to get three bids, especially when the investor is new in this business. Investors also need to decide on one contractor, versus many to do multiple jobs and consider what is best for their time management and pocketbook?

To figure this out, investors should make sure that they and their contractor do a thorough walk through assessment of the property and clearly outline what needs to be done. This can be done through a repair estimates worksheet. The contractor should write down the scope of the work to be done for each item that needs to be replaced/repaired (i.e. windows, kitchen cabinets, doors, fencing, etc.). By doing this, investors can determine the general contractor's price for each item. This breakdown will tell investors if they should hire the GC for everything, or if they could save money on an item the investor feels is grossly overpriced. The price may be a little higher than if the investor were to personally do all of the labor, but it may worth the extra money not to worry about it. Additionally, if the investor thinks the GC's price is too high but does not want to undertake any of the workload, it does not cost anything to get bids. Shopping around a little bit more to get the best rate is advisable, as it means more of a profit realized in the end.

Rehab Investor Tip #5:

: Investors get what they pay for. Cheaper does not always mean better, and most times can mean more expensive in the long run. If investors do not get a quality job, or it does not get done right the first time and has to be redone, the work might not be done in the time frame they are looking for, and it might not bring the total job up to the finished product they hope for. Sloppy work or cheap labor will likely mean money lost.

Ways to know if the contractor is a good one...

- Investors should ask them if they have their own tools
- Investors should look at their truck
- Investors should ask for before and after pictures from a previous project
- A good rehab contractor will be able to do most repairs/updates "in house"
- A good rehab contractor will also have relationships with other tradesmen
- Good rehab contractors will get cheaper prices, if they has relationships with other tradesmen

Risks Associated

If a contractor is not an expert in all fields, there is a risk that the investor will not get the most quality work. These risks are inherent when hiring new contractors. It may benefit the investor to stop by the work site more frequently with new contractors to ensure the work meets the investor's standards. An investor can also mitigate this risk by being thorough with the hiring process. Investors should screen as much as possible so that once they have a few projects under their belt, investors should have a multiple "go-to" list of contractors and sub-contractors to call upon when they start doing multiple rehabs at once.

There is also a high risk that contractors will work past an investor's timeline and budget. These risks will become less of a problem with the more rehabs an investor does, because an investor will better understand the contractor's turnaround times and costs associated with the repairs. Investors should always add a little padding to their repair costs for instances such as these, but it isn't necessary to make the contractor privy to these reserve funds. A safe padding estimate is 20%. If the contractor says repairs will cost $10k, an investor should have at least $12k set aside for the project. This should also help cover repairs that may have been overlooked, as well.

Other Contractor Considerations

It will almost always be cheaper and less work for investor to find a contractor that can "do it all," as long as they have the experience behind them to do this. If investors have to get multiple contractors, that is going to increase the time they will have to invest to complete the project and will be a logistical management nightmare to get everyone lined out. Appliances cannot go in before the flooring or the fixtures before the cabinets and painting. That is why it is nice to have one contractor that can handle all that the job entails and can deal more with the logistical end of things, instead of the investor.

Getting the Contractor under Contract

Investors should not go off the word or a handshake of a contractor. It is crucial that they sign a contract. It does matter who orchestrates the contract so long as the contractor is under contract with the investor.

Here are a few tips that the contract should cover:

- Investors should have a deadline to a contract - with penalties if possible
- Investors should define the scope of work in great detail
- Investors should layout the payment terms (1/3, 1/3, and 1/3)

Investors should get bids for all types of work that need to be completed at the project. This is a great way to learn costs and determine the best prices.

Another important point is that investors should never pay contractors more if they ask. If they do start asking for more money, investors should hold them to the budget. Investors should always go with the deadline and original proposal, unless they authorize additional work. The contractor should be paid what was originally agreed upon. If the investor has a good working relationship established, the General Contractor (GC) should recognize that if the investor is satisfied with the cost and quality of work, the investor will be more willing to use the services of the contractor in the future and be a repeat customer. In this way, investors provide contractors with a steadier stream of income, as well as a source of potential references.

If the contractor provides their own contract, write in specific information such as:

- Deadline for work
- Fee for being late
- Payment schedule of 1/3 up front, 1/3 part way through and the last 1/3 upon completion of the project

IC TIP:

The Inner Circle website (ssicinnercircle.com) has a wealth of information that investors can download for handling contractors. Listed below are some of the items currently available:

- Independent Contractor Agreement
- Scope of Work
- Payment Schedule
- Indemnification Insurance Agreement
- Final Punch list

Accountability

Investors should not hire their contractor and wait until the contractor is scheduled to complete the job to go check on the project. Investors want to stay involved and try to make their presence known. A good suggestion is to pop in on the job at least every 3 to 4 days and sometimes more often, depending upon the work being done and the contractor doing the work. This way the investor knows what is being done and can keep the contractor guessing on the next on-site visit.

Some tips to keep the investor to keep the contractor accountable:

- Investors should set clear expectations
- Investors should put some pressure (not a resentful amount) on them to have it completed in a timely manner
- Investors should inspect the quality of work when they make visits
- Investors should ensure that all work is done up to code
- Investors should approve all changes to the scope of work and agree on a price
- Investors should do a walk-through with the original contract and scopes of work and fill out a punch list before the investor makes the final payment to the contractor

Inner Circle Secrets:

- Investors are paying the utility bill, so they should set the expectations to turn the thermostat to 78° or higher in summer or 60° in the winter. All contractors and other jobsite workers know to keep the thermostat set to 78 degrees or above as utilities can cost hundreds or thousands of dollars. Contractors love to have the heat or air conditioning on full blast. The problem is that the windows and doors are always usually open during a renovation.
- How to keep them motivated without overdoing it...
    - Pay on time - investors expect contractors to have it done on time, and contractors expect to be paid the same
    - Maintaining respect
    - Investors should be committed to their word
    - Investors should stay involved as possible
- How not to manage
    - Investors should never pay them more than the original agreed-upon amount
    - Investors should not pay them anything beyond the agreed upon terms (1/3 at the beginning, 1/3 at the middle and 1/3 upon completion). Giving advances to the contractor should always be avoided
    - Investors should not be too loose with giving contractors extra time to complete something
- Micromanaging
    - If investors have to do this, they have hired the wrong crew
    - Investors should trust contractors to do what they are paid to do
    - Investors should have a certain dollar amount that will not be released until a final approval. Investors should use this as leverage to get those little things done at the end, instead of micromanaging throughout the process

Rehabbing 101- Tips from the Pros

Investors should keep in mind who will purchase and live in the home and what the potential buyer will want to see. Investors should be conservative in their choices so that they appeal to a larger buyer pool and stay within a neutral color palette. An investor's specific tastes will not appeal to every buyer. Investors should keep their personal tastes out of the equation in favor of more widely accepted (and expected) colors to be used in the house. Investors are not creating the home based on how they would live, but rather how someone else will live in the home. First time re-habbers will make mistakes and will learn lessons from each rehab. What is important is that investors take the lessons and apply them to each project so as not to make the same mistake twice.

Although some investors may have an inclination to be the contractor, it will inevitably lead to more headaches and money spent in the end. Investors should find a reputable and reliable contractor and hire them to do what they do best so that investors can do their job as a real estate investor. Investors should be hands-on in managing the project but not the one swinging the hammer and pounding the nails.

Rehab Investor Tip #6:

As a general rule, the investor should resist all urges to swing a hammer or rip up carpet. Unless the investor is just looking to see what is underneath the carpet, the work should be hired out. Investors should busy themselves in becoming deal finders, not trying to become expert rehabbers. Investors who work in their own rehabs make less money overall. Any time spent on a job means less time spent looking for and structuring deals. However, if the project needs 'all hands on deck' to bring it over the finish line to be ready for an open house, the investor should do whatever it takes. If that means picking up a paintbrush, grabbing a bottle of Windex, or mowing the grass, then so be it. However, if the project gets to this point, perhaps the contractors were not the right choice. This is why investors must do the appropriate and thorough check-ups on contractors.

Rehab Investor Tip #7:

: An investor needs to check around for pricing on big ticket items. Although supplies might be most convenient at a big chain store like Home Depot, it may be worth it to check at some locally owned Mom and Pop stores. They typically have better deals on windows and flooring from Mom and Pop stores. Often, everyday items are more reasonably prices at Home Depot or other bigger name stores.

Rehab Investor Tip #8:

Consistent items among in houses cut down on costs, which will bring in bulk discounts. For instance, using the same 'neutral' paint color for a house and using the leftovers on another house will save money. Investors should be very mindful of the dollars and cents by not buying top of the line stuff and staying low to mid quality, depending upon the area and the eventual use of the house, whether it is intended as a rehab for rent or rehab for sale.

Rehab Investor Tip #9:

Investors should compare their rehab project with other homes in the neighborhood and not overdo the project. By installing unnecessary, high-end finishings, investors may not be able to realize the maximum profits because they chose expensive tile and granite, rather than linoleum and formica. While landscaping, curb appeal, color scheme and other exterior touches are nice, the exterior of the home should not look like something that does not belong in the neighborhood.

Costs and Projects Usually Associated with Rehabbing

Having already touched on walking around the property before purchasing and getting a good handle and estimation of costs associated with fixing up the property, this manual will go further into detail about how to better estimate the cost of repairs.

There are four big items that must be inspected and realized as the more costly items to fix and usually tend to require permits in order to repair. Those items are: structural, electrical, plumbing and the roof.

1. Structural: Investors should inspect the foundation for cracks. If the property does have any structural related issues, they can be extremely costly to repair and can very easily eat away at profits. If cracks, mold or any other signs of water damage are visible, a professional should come out to provide a bid and an expert opinion or assessment.

2. Electrical: Electricians should come out to inspect the home, especially if it is an older home. For example, it is hard for people to get houses with knob and tube wiring insured or if it is the old circle fuses, a buyer will be very hesitant to purchase this without a new, updated box. Investors must look at the general wiring, breakers, fuse box, etc. for any major updates and repairs.

3. Plumbing: Investors should inspect the outside of the house for any large trees that may have roots growing under the house. This could lead to plumbing and foundation related issues. Investors should inspect each sink in the bathrooms and kitchen to make sure there are no leaks. There could even be cases where a house looks normal, but investors may find that all of the copper piping has been removed/stolen. This can be determined by following the main water line to ensure that everything is where it should be.

4. Roof: Investors should look for missing or loose shingles, pay attention to water stains on the ceilings, look for bows in the roof, multiple layers of shingles, worn down, aged grit on the shingle, and any other signs that point to a replacement or repair.

Listed below are a few other items that investors should be on the look out for that can add in costs quickly. If the house was built before 1978, investors run the risk of lead paint. There are a few methods to test it, but perhaps the most cost effective is to order a test kit online for lead based paint.

Another issue that investors may find in older homes is popcorn ceilings. Most buyers do not want to see popcorn ceilings or deal with trying to change them. If it is an older home that has popcorn ceilings, there is a possibility that the material may have asbestos in it. Investors should have it tested or go online and purchase a test kit for it.

Mold is another concern. Spotting in dark and damp places like basements could signal mold and should be addressed immediately.

All scenarios of lead paint, mold, and asbestos can lead to having professionals handling the removal, which can add up quickly, so it is important that investors do their homework. If the results are positive, investors must disclose this information to the buyer. There are some people who will not have those items tested because of this reason. Some investors may paint over everything and run the tests and because they really did not know if there were any harmful materials, investors will not be held accountable. However, this is likely something for which the end user will be looking/testing, so it is advisable to go ahead and test it.

Rehab Investor Tip #10:

While each area and every contractor is different, materials are materials. As investors begin doing more and more 'fix' projects throughout their real estate investing career, they will learn more about the cost of each item and begin to develop a clearer picture of all costs associated with a rehab project.

Permits

Investors should know what does and does not require a permit. While they may be able to get around a permit in some cases, it is not worth it to get caught, be charged a fine, and have the job delayed because of the investor is either misinformed or uninformed about permits. Code enforcement can really affect the timeline if the project is written up. Pulling the necessary permits initially and adhering to the guidelines can help to avoid stop-work orders. While it depends upon the city/county, permits may be required for general construction, plumbing, electrical, gas, and HVAC. Permits do cost money and take time to fill out, but in the end it will save time, money, and delays if the investor were to be caught doing the work without the permit.

Top reasons for getting permits:

- Limit personal liability on the job for injuries sustained because of faulty work.
- If a buyer hires a home inspector, the home should be able to pass the test so the sale can be executed.
- Investors do not want to live in fear of an inspector showing up on the doorstep, if the proper permits are not in place.

- Pulling permits is par for the course to be viewed as a professional in the industry.

If investors are unsure as to whether or not something requires a permit, they should call and ask. It is always best to be safe and face the consequences of paying the price and having a delay in the project.

Securing the Property

Depending upon the area and neighborhood, investors may want to consider putting some security measures in place for their investment. The property should give the appearance that someone lives there. The blinds should be shut, and a car should be pared in the driveway, if possible, and at least one interior and exterior light should be on. It may also be a good idea to switch what lights are on every so often. Investors should introduce themselves to the neighbors, who may assist in monitoring the house. Typically the contractor has valuable tools, as well as materials, in the house, so minimizing the risks of the property being broken into is a high priority.

Many products can give the appearance of someone living in the property. Some lamps have timers and there are fake televisions that simulate the light output of a TV screen that can be seen by anyone looking through a window. Both items can be purchases for less than $30.

Mobile wireless alarm products are available that can be moved from rehab project to rehab project and can be installed in less than an hour. Some rehabbers that have 2-3 projects going on will employ 3 systems and move them from project to project upon completion or when it is sold. These systems are connected by cell phones, so all investors need is power to the building. Simply hanging a sign reading 'This property is monitored by 'XYZ Alarm Company' can serve as a deterrent for some thieves.

Conclusion

Investors should not aim to upgrade the property any more than what is the nicest house on the street. They do not want to fall into spending money on unnecessary repairs/upgrades that are not needed and require additional funds. The project then becomes a money pit, instead of a money maker.

Investors should monitor the pre-hab or rehab project as close as possible without getting in the way. This is especially true if investors are utilizing a new contractor to ensure that they have the investor's best interests in mind, rather than their own pocket book. It is crucial to screen contractors and not take someone's word or because they seem like a 'nice guy.' By not checking insurance, references, etc. investors can get in trouble and jeopardize the project and the profit.

The biggest take away from this manual should be to bring the property up to full retail value the right way and as quickly as possible and figure out if a pre-hab or rehab is the best option. A pre-hab will have a shorter turnaround time, less money invested, and no managing of contractors for an extended period of time. While a rehab requires more money, time, and management, it usually has a bigger payout at the end. Managing the rehab is essential to making sure that the 'fix' is done on time and on budget with quality work and materials being used.

While it only takes 30 or 60 minutes on a TV show to perform an entire 'flip' and the fix part usually seems pretty effortless, in reality it does take extensive time and effort, but the payday in the end is worth it. With any rehab, there is a certain level of risk involved. Investors should plan out their budget and expected expenses, set a realistic timeline, and stick to it as much as possible. No rehab project will ever go as smoothly as expected. Projects are likely to hit at least a bump or two along the way, but it will pay off. Every day spent rehabbing is one day less that investors have to market and sell the property to recoup the investment and pay back lenders. Time is money and holding costs should be a major concern for any investor. When anything takes longer than expected and causes a delay, the result is a money loss.

An investor's mantra should be that any real estate investment is only used for one thing, and that is to make money! Successful real estate investors make smart business decisions.

> *"Far better it is to dare mighty things, to win glorious triumphs, even though checkered by failure, than to rank with those poor spirits who neither enjoy much nor suffer much, because they live in a gray twilight that knows not victory nor defeat."* – **Theodore Roosevelt**

Glossary of Commonly Used Terms (All terms in italics are ones introduced within Manual 4):

ARM	Adjustable-Rate Mortgage
ARV	After Repair Value
CLTV	Combined Loan to Value
CRM	Customer Relationship Management Software
DFIT	Debt-Financed Income Tax
DM	Dealmaker
DOM	Days on Market
DTI	Debt-to-Income Ratio
EP	Equity Partner
GC	*General Contractor*
HML	Hard Money Lender
IC	Inner Circle
IC Tip	Inner Circle Tip
LTV	Loan-To-Value
MLS	Multiple Listing Service
MSI	Multiple Streams of Income
OPM	Other People's Money
POZ	Positive Only Zone

PPC	Pay-Per Click
PRS	Professional Real Estate Student
RE	Real Estate
REI	Real Estate Investor
REO	Real Estate Owned
RESPA	Real Estate Settlement Procedures Act
ROI	Return on Investment
SAQ	Seller Analysis Questionnaire
SEO	Search Engine Optimization
SMS	Short Message Service
SOI	Sphere of Influence
SSIC	South Side Investment Club
TSB	Think it – See it – Believe it
UW	Underwriter
VA	Virtual Assistant