# Flip

Flip is nothing but a 4-letter word to some folks, but flipping a house is an essential component to maintain a healthy housing stock in any area. There are certain homes that only professional homebuyers can renovate. It is the job of the real estate investor to find and restore those properties, which will reestablish the neighborhood's property values. Flipping also provides housing to buyers who have little to no knowledge in working on houses. In the real estate industry, a flip is an investment opportunity to capitalize on the needs of buyers who do not want to build their own sweat equity and would rather have turn-key ready homes.

Flipping can be very profitable and provide the biggest return of all the real estate investment models. Despite the potential for substantial pay-off, people shy away from the flipping model because it is a longer process, and it is the most involved. Besides locating the property evaluating repair costs, determining the ARV (After Repair Value), and negotiating the purchase price, the investor will have the following to complete:

- Scopes of work
- Finding the right contractors
- Contractor agreements
- Managing the rehab
- Staging
- Selling or renting

Although flipping can be the most profitable, it can also be the most risky, so that is why this section is very important. When followed, the information contained in this manual can be the investor's guide to realizing the best short-term return for time and money spent.

Flipping can best be compared to buying stocks with options. A stock option gives the purchaser the choice to pay a predetermined value for a stock at a predetermined time. When buying a stock, buy it right and wait for the stock to go up. It may take several months or years in the real estate industry, but if investors have the time they can wait for the value to increase and then sell the property they have flipped. When buying an option, investors have to be right AND on time. Options expire and if the stock value does not increase in that time period, then do not execute the option. In real estate, the investor can't NOT execute the contract because the purchase and rehab have already been executed. The real estate investor has to be right AND on time. If the rehab project is only worth 150k in August, and it takes until Dec to finish it, there is a good chance it is no longer worth 150k, and the investor may be sitting on it over the during the winter months. It might take until March to sell it, and if the property has been on the market for several months, it might mean the investor will end up taking less.

**Investment Tip #38:**

**Timing is a key factor in rehabbing. It is almost as crucial an element in flipping as buying right and renovating right.**

By definition, a flipper can be defined as someone who buys a home and then fixes it up and sells it within a six-month timeframe.

Here are some of the biggest mistakes 'flippers' make:

- Not estimating enough for repairs
- Paying too much for a property because they do not account for all of the work needed
- Do not figure in hidden expenses like utilities, holding costs, selling costs, etc.
- Doing the work themselves to save money
- Over extending themselves by growing too quickly, meaning that one goes out and buys several properties at once and gets in over their head
- Not knowing the area/ neighborhood
- The project takes much longer than anticipated
- Not hiring competent and reliable contractors
- Over improving or under improving
    - Granite counter tops in an area where high-end features are not common
    - Slate or ceramic tile in an area where linoleum is acceptable

> *"Buy real estate in areas where the path exists...and buy more real estate where there is no path, but you can create your own."*
>
> -David Waronker

## Flipping to Sell vs. Flipping to Rent

Flipping to sell involves bringing a property up to good condition in order to maximize return and sale for full retail market value.

Rehabbing to rent works best as a long-term investment strategy. If the investor can buy, fix, and hold, the profit will be realized through collecting rent on a monthly basis. An important distinction to understand is the difference in flipping to sell and flipping to rent. Flipping a property to sell will be slightly different than employing a buy and hold strategy. A flip intended for resale means that the investor will want to upgrade finishes to appeal to someone buying a home. A flip intended as a rental property means that the investor will want to consider durability, keeping costs down, and anticipating more wear and tear. Ninety percent of the rehab process is the same regardless of the exit strategy, except for the materials should be slightly downgraded in quality for a rental.

If the real estate investor decides that the flip to rent option is attractive, the benefits are a secured, fairly reliable income stream. However, the property may go vacant at times between tenants, which is a consideration when flipping to rent. The investor will also have more control of profit margins, as a monthly income source can be estimated, rather than riding the real estate market to rehab to flip. Additionally, rentals usually tend to trend upwards in price, so it is a good investment strategy if the investor is not looking to flip and realize instant cash.

Rehabbing to rent allows investors to diversify their investment portfolio. If a foreclosed property can be retained at a substantially good price, this could be an avenue through which to gain a steady stream of income coming in on a monthly basis. Do some homework to determine the rental market in a specific area. If there is a demand, then rehabbing to rent may definitely be worth considering as an investment opportunity, both personally and as a business investment.

While have tenants occupy the property, they may not always care for the property as a homeowner would. Each tenant is different in the way that they live in and treat a property. Although it is the tenant's responsibility for their own possessions and contents of the home, it is the property manager's responsibility to carry property insurance and be on call for any repair issues that may arise.

Another option worth considering is hiring a professional property management company that will handle most issues of the rental such as being the point of contact, collecting rent and handling the scheduling of repairs, etc. The investor can also manage the property and the tenant independently, which means that the investor receives the full amount of rent on a monthly basis, but it is up to the investor to search for and screen potential applicants, collect rent, and handle any repairs/maintenance.

The typical rate for a property manager averages around 10 percent of the rent each month. As an investor, weigh out the options and decide if it is a better idea to manage the property (and headaches) independent of professional consultation and assistance or let a professional handle all of the ins and outs of tenants.

Another option is to have renting the property as a Plan B. In this option, the investor would treat the property as a rehab to flip, market it, and then decide to hold on to it get a better return on the investment later.  If the property does not sell immediately, this option allows for the investor to retain the property, in lieu of dropping the price and not making a profit. However, not all properties make good rentals, so weigh this important factor during consideration.

Holding a property over the course of several years offers the potential for increased value and profit, if investors are able to pay off the loan amount when they decide to liquidate.

> *"Land monopoly is not only monopoly, but it is by far the greatest of monopolies; it is a perpetual monopoly, and it is the mother of all other forms of monopoly."*
>
> -Winston Churchill

## Knowing if it's a Deal

Do research when determining if the property is a worthy investment. Having an exit strategy in place is the most important. When evaluating a property and determining an exit strategy, there are three factors to consider:

01. When considering a flip, think from a potential buyer's point of view. The buyer is typically thinking of owning this home for a long time, anywhere from 3 to 7 years.
02. Is it a hot or cold resale area? Look at the comparables to determine properties that have been either sold or pending a sale, versus active listings. Ideally 50 percent of the listings in the area should be either be pending or sold in the last 3 to 6 months. For example, if a search yields 10 listings, there should be a minimum of 5 that have a status of sold or pending. This is a good indicator of the activity in the area.

03. School district- The better the rating of the school district, the higher the values are for resale. This is true for rentals, of course, but it's a major factor in resale. This is not to suggest that the investor should only buy rentals in bad school districts or in neighborhoods that have slow resale value. These are, however, the largest factors for resale. A smart strategy is to purchase rentals in areas that have decent schools, but the neighborhood might be moving slowly. This generally means the demand is less and the supply of homes is higher; therefore, the investor can purchase the properties at a cheaper price and create more cash flow. Occupants, who do not have the luxury of buying but still want to be in the better school districts, will pay a premium in rent to be in those school districts. Furthermore, that neighborhood will likely turn because of the school district and become a good resale neighborhood. The prices will go up and the investor will have a great flip with even higher margins.

## Back to Flipping

Here are some other things to watch out for when trying to sell a flipped property to the retail market:

- Consider that some investment properties are great for rentals but not necessarily for rehabs. This will be the case when a property is at or somewhat below market value and does not need a lot of fixing up in order to realize rental income by renting the property out. The investor does not want to purchase a property, put a lot of money into the flip, and not see a return on the investment. Thus, it is important to thoroughly research potential investments and make sure that each property fits the business model that the investor is looking to follow.
- Low price point houses may fit the investor's buying formula, but in these areas the residents may not have the means or the credit to get loan approval.
- Smaller profits. Depending on the neighborhood, this equates to not as much value increase in a home once it has been rehabbed and ready to flip. Invest in a flip will be worth it is time to sell it on the retail market.
- Horizontal cracks in the basement, crooked openings like doorways or windows could be signs of a structural issue. These can all be telltale signs that there is a grading problem or the house was built on unstable ground. Until the investor has a lot of experience in dealing with these issues, a best practices approach is to stay away! Structural improvements can eat away at the profit quickly, but they can also be some of the most important improvements to make. In certain situations, this can, however, be a fantastic opportunity for an experienced rehabber, though most investors are taught to avoid such properties. If the investor can make accurate estimates on the cost to fix this type of repair and can correctly renovate the property's damages, this can be a great investment. Make certain that the ARV is correct, the repair estimate, the 'guarantee of warranty' on the foundation fix, and

that the mindset of the end buyer who will be purchasing the home will be satisfied that repairs were fixed and documented.

- Major roads or homes next to commercial or industrial property are typically less desirable to a buyer. They may work for a rehab to rent scenario, but these are major deterrents to the potential homeowners.

> *"Real estate is an imperishable asset, ever increasing in value. It is the most solid security that human ingenuity has devised. It is the basis of all security and about the only indestructible security."* -Russell Sage

## Determining the Right Price

**MAO Formula:** This formula used to determine the "Maximum Allowable Offer"

The Maximum Allowable Offer (MOA) can be whatever the investor is comfortable with and is determined by the costs. 70% is a reasonable MOA. For example, the MOA can be adjusted to 75% if it is a higher end home or even 80% if the investor elects to buy and hold. Of course when negotiating, a first offer should always be 5% to 10% lower than that. The investor will determine the MAO to use as the highest and best offer after trying to negotiate for a lower price first.

How to determine the MAO: Take 100% and subtract the soft costs, which are defined as realtor commission, taxes, mortgage, utilities, etc.

The following is an example of determining the Maximum Allowable Offer (MAO):

100% minus 5% commission (or 4% assuming the investor will come off of the price when selling), 6% carrying costs like taxes, mortgage, insurance, utilities, etc. And 15% profit. These are only rough estimates, as costs will vary on a case-by-case basis.

In general, all of the soft costs, plus the 15% profit bar, will run around 30% of the value, and this is the typical industry standard.

As the formula below illustrates, the ARV should be multiplied by a percentage the investor is comfortable with, and then repairs should be subtracted. This determines the MAO.

$100,000

X 70%

$70,000

- $15,000 (repairs)

$55,000 (MAO)

The goal is to be able to have a MAO as high as possible to entice the seller to go with the offer and still make the most profit possible. The investor can do this by retaining a real estate license, finding cheaper money, managing the rehab efficiently, and finishing the rehab faster.

When an investor is flipping a property and 15% for soft costs has been factored in and that estimate can be trimmed down to 10% or 12%, the investor made the profit 18% or 20%, instead of 15%. In the example above this figures to $3,000-$5,000 extra dollars in the investor's pocket.

This concept can work in the reverse if the investor underestimates repairs, soft costs, overestimate value and/or mismanage the rehab. Ultimately, a mistake in calculations will either increase or decrease profits.

When to go outside of the MAO:

- Ho-tail (Will be discussed this more later, but it is worth mentioning here)
- Want a cash on cash return? Put $10k in repairs and want to make a $10k return
- Have a buyer for the house who will buy the property
- When the investor can purchase the property and know that a profit will still be returned
- The MAO formula can be increased if the property is a rental property

Sometimes higher priced homes do not fit into a MAO strategy, but a huge profit can still be realized.

For example, an investor recently bought a house in a nice neighborhood for $200k. The ARV was $350k, and the repairs were about $60k. The MAO says the investor should have paid $185k ($350,000 x.7=$245,000 and $245,000-$60,000=$185,000). However, once all of the repairs are made the investor will be into the property for $200,000 + $60,000=$260,000. So the profit, before holding/soft costs, etc., would be $90k. While this does not fit the typical MAO formula, the investor was still able to turn a huge profit. Even If the investor would have had to pay $20k more, the investment still a deal.

There are times when the MAO formula will not work, but there must be enough profit in the deal to make it worth the time and energy of the investor.

## Minimum Profit

This is determined by the price of the house and the investor's exit strategy. Example: If an investor is going to rehab and retail a property for $35k, the investor will want to make more than $3,500 in profit.

**Real Estate Flipping Tip #1:**

**Double check the tax records for a property before making a purchase in order to ensure that there are no liens against the property. Checking the tax records alone will not reveal judgments or other encumbrances on the title, so have a respectable title company run a title search for other liens such as county/city violations.**

## Funding Flips

The main factors in funding flips are costs, risk, and flexibility (starting from the best to the worst).

**Private Funding or Individuals-** This generally ranges from 8% to 12%, which is the best range because of the flexibility it allows. Private money is typically from an individual with whom the investor has built a relationship and is someone who wants to make a higher return than can be secured in the market. If the investor has prepared the private money source, the investor should have the private lender ready to wire the money as soon as a deal is located. By securing private funding, the investor can avoid the appraisal, documentation, and general slow pace of a bank to fund these important financial transactions.

**Small Bank Financing-** Today's rates fluctuate from 5% to 7%. This is traditionally the cheapest money and the best relationships to have for long term investing. The smaller banks will generally finance 80% of the purchase price and the fix. However, this will require great credit and money in the bank. For the long haul, a local bank relationship is going to be the most profitable and the best way to build wealth. For buy and holds, keep in mind that they will have a 5 or 7 year balloon payment.

**Hard Money-** This is the more expensive route and the rates can be 20% to 30%, but it can be the only way to start the business, if the investor has no other funding source. The deal is the only factor. The investor can have zero money, horrible credit, and little to no experience and as long as the numbers work on the property, the investor will be able to secure funding. The hard money option is also very fast. Typically most hard money lenders can fund a deal within a day or two if the title work is done. Investors should not be scared by this option. If it means making $10k to $20k, the investor will have to do it and everybody has to start somewhere.

**Big Banks or Mortgage Brokers-** Usually charge from 5% to 8%. This process can be longer in duration, and investors can only have a limited number of mortgages on the their credit. Unless the investor intends to buy and hold, this strategy is not great for flips. For buy and hold, it can work because this will yield a 30-year fixed rate mortgage, where the local banks will generally have a balloon payment due in 5 to 7 years.

**Personal Money-** Real estate investors much ask themselves, "How much is my money worth?" Even when using personal funds, the investor will want to factor in a cost. A reasonable and smart rate is 8% when the investor is using personal funds. This is obviously the fastest and cheapest money, but risking one's own funds can be a dangerous gamble. This option should be avoided, until or unless the novice investor becomes an expert investor in the field.

**Real Estate Flipping Tip #2:**

It is critical to have cash and/or funding available at all times. Here are a few key points to keep in mind:

- Never go all in! If an investor has all available funds tied up in a great deal and a homerun deal comes becomes available, the investor will miss out because the funds are not available to make the purchase
- Always be in a position to buy… ALWAYS!

# Getting the Work Done: Renovations

This was covered more in depth in the *Fix* manual, but the key points will be summarized here for convenience and reference.

Starting the renovations process will begin with the repair estimates the investor created when on the walk-through of the property to determine the MAO. The next step is going back to the property with a tape measure, flash light, graph paper, and any other tools that might be necessary (i.e. screw drivers, hammer, etc.). Everybody's expertise level in construction is different, but it should take around 2 hours to complete this task. Begin by going room to room and thoroughly evaluating all repairs that need to be done to the property. Each room or trade will have its own scope of work (paint, electrical, plumbing, flooring, roof, exterior, HV/AC, etc.). Get bids for each trade or one bid from a General Contractor. Measure rooms and draw layouts for the baths and kitchen, as well measuring cabinet sizes in the drawings. Measure windows, door openings, base trim, etc. Do not waste time trying to be an artist. Only inspectors and contractors will see this.

A best practices approach is to use the scopes of work and get a minimum of 3 bids for each trade. This will help in a big way to understand costs and be able to compare bids. The investor will be able to compare projects to determine if costs are consistent from one flip to the next. When choosing a contractor, there are several factors to consider:

01. Experience
02. References
03. Price
04. Completion time

Always check references. It is easy to skip this part of the process, especially if the contractor is a good salesman. This is the most important factor in choosing a contractor. Determine their experience level and how well they work with other customers.

Price is an important factor, but it should be combined with a good reference. Do not go straight for the cheapest bid. There is nothing worse than paying another contractor to repair work that has been done poorly or have a contractor that never does the work. This will end up costing a lot more than finding a reputable contractor who is honest and gets it done right the first time.

## Contractors vs. Self Improvements

The investor may want to consider doing repairs to the property independently, depending on one's skill level. This can help get a start in the business if cash is deficient, but should only be done out of necessity. An investor should refrain from taking on the repairs independently, unless the investor's skill level is both confident and proven.

Why an investor should avoid doing repairs on the property independently:

- Buying tools costs money
- The project will take more time, which hurts the bottom line
- The project will consume the investor's free time
- An investor's time is better spent in finding other properties

The goal is to make money from investments, not spend all of one's time there.

**Think about this-** Is an extra $5k worth nights and weekends for 6 months? This is an important point to be made. Here is a testimonial from one a student in a past workshop. An inexperienced buyer purchases a property and assumes that if he does all of the work himself, he can save money. After months of weekday nights after his 9 to 5 day job and weekends spent on-site doing laboring on repairs, his costs were around $30k.

At one meeting, this same buyer was asked to present his project to the other students for a case study. After the presentation, multiple contractor students in the room agreed that he could have gotten all of that work done for about $30k from a GC, because General Contractors get materials at a discount and they work quickly. This student spent the same amount of money he would have spent to have someone do all the work for him, plus he lost all of his free time that he spent on the project.

Finding properties, buying properties, negotiating with contractors, and selling properties are going to be the areas of the flipping business that are the most profitable.

Spending time painting or laying carpet is not the best use of the investor's time. On the other hand, hiring efficient, reasonably priced contractors and spending time finding deals or managing the business is how the investor will make money. Imagine Stan Krondke working the cash register at one of his Wal-Mart stores to save $8 per hour. The moral of the story is for the real estate investor is:  Work on your business - not in it.

IC TIP:

**When doing a walkthrough on a property before the rehab, go room by room and think everything through. The last thing that an investor wants to do is define the scope of the project, have the GC complete everything, and then upon doing a walkthrough, notice items that may have been overlooked. If the investor decides to update everything in the home to bring it up to contemporary standards, door knobs, electrical outlets, appliances, etc. should be updated. Compare the home to others in the neighborhood to determine if the specs of the flip are up to par.**

## Hiring Your Own Crew vs. Hiring a General Contractor (or Contractors)

The investor cannot avoid some personal management of the property, whether the decision is to hire a crew or a GC. The decision will depend on how many projects that the investor is working on at a time. Once the investor reaches a point where 3 or more projects are going at a time, the investor may want to hire a personally assembled crew of contractors. By doing this, the investor can have a crew on each job at all times and eliminate down time waiting for contractors to finish other jobs. Also, the costs of bidding a job out are generally around $40 to $80 per hour, depending on the trade. However, having a crew that is assembled by the contract can save significant costs. The investor will be responsible for the purchasing of all the materials. Further, it will be left to the investor to insure and manage the jobs or hire a project manager, but even so the investor can still save 20% to 30% labor costs, which will certainly add up. It is important to emphasize that the investor needs to have a solid, skilled crew that is self-motivated.

After the investor has done a few rehabs and has a streamlined methodology, it is time to create systems. The investor can standardize the process down to the paint color or carpet style for every project. By doing this, projects will become a lot easier to bid when there is a short list of preferred contractors that know the products the investor prefers. Having 2 to 3 standard appliance packages, paint schemes, and preferred floor covering types to roof colors will cut time and costs down dramatically. In this case, the investor can usually secure discounts on materials and contractors will generally offer the best prices because there is a mutual understanding between the investor and the contractor. The investor should update and standardize the process to stay up-to-date with trends. This also allows the investor to utilize left over paint, flooring, and other miscellaneous items on future flips.

Speed is priority in rehabs, as interest costs can add fast and every time a flip is sold and the investor gets the money to invest in another real estate investment. Finishing a project in a timely manner can mean an extra couple of deals or $30k to $40k every year. Have a system down before rushing through the project. Going back to do something twice will be counterproductive and cost more in the long run.

A rehab all started when the investor walked room-to-room measuring floor sizes, cabinets, vanities, and drawing layouts for the kitchen and baths. This does not happen overnight. The investor will need to learn on the job and take the time to become familiar with the process.

From this process comes systems and speed, which means greater financial gains, not to mention the ability to do as many flips as the investor can handle at one time. In real estate investing, the sky is the limit!

## Breaking Through to Multiple Rehabs at Once

It does take a lot of effort to work on multiple rehabs at once. This situation can get tricky through a variety of different factors. The first consideration is the timeline. An investor will not want to purchase each flip at the same time and go through all of the rehabs at the same time. If possible, it is better to have rehabs in different stages. For example, an investor has three flip investments running simultaneously. In this scenario, the first rehab is nearing completion, the second is just beginning the rehab process and work has begun on-site, and the third rehab just closed escrow and the investor is putting together scopes of work and soliciting bids from contractors. This is an ideal scenario because they are all in different steps of the process. Hopefully a buyer will soon come along for the first rehab project, which will allow the investor to realize the return and potentially invest that in the other two projects if necessary. An investor does not want to overextend finances or time, should the investor decide to break through to multiple rehabs at once.

If the investor is managing multiple rehabs at once, it is of the utmost importance to have a good crew on each job or moving from project to project. The real estate investor wants to avoid a situation where a certain portion of the rehab is stalled because the contractor is finishing another project at another job site. Time is money, so a timeline and funds must be lined up for each project in order to avoid unnecessary delays/setbacks.

The smart investor should avoid trying to manage the project without support. Have dependable and trustworthy general contractors at each project to ensure that the project goes smoothly.

Some real estate investors may consider it worthwhile to establish a Limited Liability Corporation (LLC) for each property. This is typical in every investor's practice, so the investor should consult an attorney early and often to decide what is best course of action, weighing the pros and cons of an LLC carefully.

> *"Every day, you'll have opportunities to take chances and to work outside your safety net. Sure, it's a lot easier to stay in your comfort zone... in my case, business suits and real estate... but sometimes you have to take risks. When the risks pay off, that's when you reap the biggest rewards."* – **Donald Trump**

## Getting Ready for the Sale

The project is nearly done, and it is time to do a walk through. At this point the investor will go in with a set of fresh eyes, meaning the investor has not seen the job site for some time. Contractors almost always think they are done, but they cannot see the job from the perspective of the investor. This is when the seller's hat should be put on and a walk through from the vantage point of a buyer is necessary. In most cases, the investor will see plenty of touch ups and items that need to cleaned or finished.

The investor should walk through with the contract or scopes of work and go through line-by-line, checking off everything to make sure nothing was missed. Make a list on a separate sheet of the items that are not completed to my standards and also new things that need to be done.

**IC TIP:**

**Take painters tape and use it to mark off spots that need touch up paint and other items looked at.**

A lot of times the investor will have initially missed repairs or upgrades that need to be done. When a house has been renovated, perhaps things that did not seem necessary before now stand out like a sore thumb when the finishes around it are all new. These items will be an add-on and an extra charge but can be necessary to match the rest of the house and get it ready to sell.

After these lists are complete, the investor will do one final walk through and sign off on the work.

**Real Estate Flipping Tip #3:**

**Be sure to pull fresh comps on the property after the rehab is complete. As what may have been good comparables when the property was purchased may now be outdated.**

## Staging the Home

The investor should consider two different options when it comes to staging:

1. Pay a professional
2. Spot staging

A profitable recommendation is to establish a staging plan at least two weeks prior to the rehab being complete. The advantages and disadvantages of each staging options are outlined below.

## Paying a Professional to Stage

Once the flip is nearing completion, the investor will have a staging company bid the house and have the property scheduled for a professional cleaning. Do not wait to get the staging company out there before the property has been cleaned, because a staging company can take up to two weeks to deliver the furniture and décor. Staging a smaller home or one that is awkwardly laid is best outsourced to a staging company because a professional stager can help the space look maximized and also assist potential buyers in imagining their own belongings in the home. A full staging will encompass couches, rugs, beds and bedding, flat screen TV, etc. Staging costs typically range from $500 to $800 per month, but that will probably return a few thousand dollars back on the sales price all because of the staged home. By staging the home, the buyer is able to visualize the potential of the property, which may just help the property sell faster and give it an edge over the competition!

## Spot Staging

Some investors do choose to self-stage. Some investors keep tubs of small staging items on hand from stores such as Pier 1 Imports and Bed Bath & Beyond that are beneficial to use on smaller flips. Items recommended for spot staging include soaps, paper towel holders, shower curtains, and other general types of decorative items. This method can save time and money but on higher end homes hiring a professional to complete the staging task will maximize the aesthetics of the space.

## Selling Strategies

### Pre-Sell/ Coming Soon Marketing Campaign

Garner as much excitement as possible about the flip and a newly renovated property coming on to the market soon. This type of "Coming Soon" advertising involves a sense of urgency and also creates buzz and curiosity about the property. At this stage the investor should do the following items:

- Post on Craigslist, using single property websites from REIBB
- Start a buyers list from past open houses and email them
- Post on Facebook early and often, which helps to establish presence, both for the property and the investor. This could generate business, if someone who has a house to sell sees that there is an interest in investing in these kinds of real estate ventures
- Enter the property into the MLS with a specific date that showings can begin
- Post the For Sale sign in the yard with the "Coming Soon" banner

In some cases, if the investor has successfully marketed the property investment, the investor may be able to pre-sell the property. This scenario involves few staging fees and few interest and utilities expenses. Typically the investor can save anywhere from $8,000 to $10,000 by pre-selling a property.

Upon completion of the rehab, the investor can do the real launch of marketing efforts around the property. An effective marketing campaign can be done through a real estate agent or through selling the property independently through a FSBO listing.

## For Sale by Owner

For Sale by Owner, otherwise known as "FSBO" can be a less expensive way to sell the property, but it does have some pros and cons associated with it.

### Pros of FSBO

- No commissions!
- The investor is in control of marketing and showing the property
- No worries about too many days on market accumulating
- Deal directly with the buyer to make the deal work - to create a win-win deal
- Option to utilize a FSBO site that adds the property to the MLS for a few hundred dollars, depending upon the options the investor chooses

### Cons of FSBO

- Hard to create urgency
- Limited exposure
- It is up to the investor to determine competitive, market value pricing
- No intermediary party to aid in negotiations. The investor is dealing directly with the buyer. Real estate agents can be a great buffer to relay information correctly to a prospective buyer and can add comfort to the buyer, who can be confident the sale is being handled professionally
- The investor will be responsible for marketing and showing the home, which means more time and effort from the investor
- Dealing with and understanding the necessary contracts
- More risk involved on account of disclosure
- Most studies show a higher sales price is earned with the use of a realtor for the sale of the property

In 2012, FSBO listings accounted for just 9% of all home sales, but 31% of respondents in this survey did not actively market the home. However, results showed that an agent -assisted home sold for $215,000 compared to a FSBO home selling for just $174,900. One-third of the FSBO sales were by sellers whom already knew the buyer of their home before the transaction.

The National Association of Realtors states that the primary reason homeowners choose the FSBO option is to save on the commission. The investor is not the homeowner, and time will cost the investor money. Carefully consider the value of time and money personally invested, as opposed to hiring out the labor and possibly securing a much quicker sale.

Additionally buyers want to use the expertise of a buyer's agent. Most first time buyers have done some research for the purchase of their home and normally employ an agent to help them make sense of putting all the pieces of the transaction together.

## Marketing 101 for a FSBO

There are a wide variety of ways to market a FSBO property. The following is a 10-step guide that offers a detailed process to marketing the property as a FSBO:

**Step 1: Pricing the property.** An accurate pricing strategy on the property is key to ensuring that the property sells, as opposed to sitting on the market with multiple price reductions. The investor has chosen to do a FSBO to save on the commission, so factor that into the overall pricing. Always leave room for negotiation but also ensure that the pricing is competitive with other comparable homes in the neighborhood.

**Step 2: Take photos of the home.** Take quality shots of the key features. Generally speaking, landscape (horizontal) orientated photos are better than portrait (vertical) orientations, when shown on web pages and other marketing materials. Try to hone in on the home's best features, especially if anything is unique. The investor must also consider the time of day the photos are being taken, as lighting can be very sensitive. Early in the morning or right before twilight are the best times to snap some pictures. This is especially true for exterior shots. When taking photos at twilight, interior lights should be turned on and try to avoid any shadows.

**Step 3: Create a listing write-up.** Create a list of the features of the home such as bedrooms, bathrooms, garage, square footage, lot size, and a brief paragraph or so about the key points. The investor is trying to sell the property, so engage with the buyer's needs and wants and write as if it were you, the investor, searching for a home. The ad copy should be convincing and sell someone on calling the number to come look at the house. Once the listing write-up has been completed, the investor can use this to establish a flyer for marketing the property, which should also feature photos and be printed in color. Make an extended and condensed version of the write-up, which the investor can utilize for different marketing purposes.

**Step 4: Place a For Sale sign in the front yard.** Consider also having a brochure/flyer holder attached to the sign where listing flyers can be seen and collected by people who are driving or walking by the property. If a flyer box is utilized, you need to make sure the flyer box is refilled on a regular basis.

**Step 5: Think about establishing an online presence.** According to a study by the National Association of Realtors, 42% of U.S. homes purchased were found online. Thus, many buyers today are turning to online searches to find a potential home to purchase. Inexpensive websites such as Realtor.com, Zillow.com, and Trulia.com will feature the property. If the investor does not have any type of social media presence, then leverage that by posting the listing onto the online social networking sites such as Twitter, Facebook, LinkedIn, etc. Online communities like Craigslist are also great resources (and usually free) to post a property on.

**Step 6: Consider putting together a video tour of the home.** This can be posted on YouTube and include the link URL on any advertisements and flyers.

**Step 7: Look into the cost of advertising in the newspaper.** This can be in the form of a classified ad or a smaller color display advertisement. Also inquire about the cost to advertise in a real estate magazine that prints in color.

**Step 8: Spread the word that there is a property for sale.** Neighbors of the property may know a friend or relative in the market that they may want as their neighbor.

**Step 9: Host an open house to showcase the property.** Investors should provide food available and alert contacts that are on their buyer list.

**Step 10: Offer agent incentives.** Visit real estate offices and drop off a property flyer that offers an incentive to the agent to bring a buyer (typically 2% to 3% of the sale price).

### Real Estate Flipping Tip #4:

**If the investor does host an open house, here are a few tips to help prepare:**

- Check in to advertising in the weekend open house section of a local newspaper, but be careful not to spend a lot of money on this. Try it out and see if this type of marketing works. Posting the open house on Craigslist might just be the easiest and cheapest marketing medium.

- Place additional open house directional signs on major roads and around the neighborhood to help direct traffic in the area that may not otherwise know about the open house.

- Ensure that the house has a good smell. If nothing else, throw some refrigerated cookie dough in the oven and serve fresh and hot cookies.
- Make sure it is clean and ready to show.
- Turn on lights.
- Have property flyers handy and speak with a lender about preparing a financing sheet.
- Investors should supply a sign in sheet for buyers to put down their contact information. If they do not buy this property, perhaps they would be interested in a future flipped property. Build a database of potential buyers!
- Make sure that blank offer forms available.

**IC Craigslist tip #2 –** Putting these key words and phrases in the subject line on CL posts will garner a MUCH higher response rate: Special financing available, inquire within. Coordinate with a trusted loan office to find out what special finance options are available for this house and in the area. MHDC, FHA, grant money, down payment assistance, gift funds, etc. are all forms of special financing.

## Accepting an Offer

In a FSBO, typically the seller's side is responsible for opening the escrow. Speak to the title/escrow officer and see if they can do a preliminary title report ahead of time by opening a pre-sale. By doing this, the investor can save time waiting once an offer has been accepted. Confirm the buyer's mortgage approval and ensure that earnest money is deposited in escrow. Make sure that the title and escrow company have all needed information/documents from all parties involved.

## Retail with a Real Estate Agent

There are many advantages in working with a real estate agent, as discussed above. The biggest disadvantage is paying a commission, which affects the bottom line. It is recommended to have one or two preferred realtors with whom the investor has a good working relationship and who have proven themselves and their work ethic. When looking for a realtor to partner with, seek out someone who is connected with a reputable brokerage, has experience in working with investors, knows technology, does advertising, and has a thorough understanding of the market/neighborhood. It also does not hurt if they are well connected, as they will have a lot of contacts and a good potential buyer pool they can market the property to. All of these attributes will help get the flip sold more quickly. The real estate agent should have the time to devote to marketing and selling the property and they should understand the investor's business.

## Pros

- Hiring someone whose job is to sell the property
- The investor does not have to do it
- Eliminates the worry about knowing the ins and outs of contracts and knowing which forms to use and when
- Puts a buffer between the investor and the buyer for negotiations
- No advertising costs or worry about marketing the property

## Cons

- Cost- Remember that the seller pays commission!
- Hire the right agent
- Less control because the investor is relying on someone else to do the job

The pro in this situation falls under the category of why the investor might hire a GC to complete the work, instead of doing it independently. The investor may be able to rip up carpet, hang drywall, or install the backsplash, but WHY DO THIS? Real estate investors should be expert deal finders, not expert painters. Why not hire out the SECOND most important process in flipping...SELLING THE HOUSE AND CASHING IN (or out, depending on the investor's perspective).

Another question that real estate investors have: "Should I be a licensed agent or not?" When real estate investors are also licensed agents, they can sell the $260k house and saving half of the commission may be worth it. The investor will lose the 'buffer' in the negotiations, but if the investor is savvy in this way, then the savings could be from $7k - $8k. This will then free up some money to pay a buyer's agent more or attach a bonus for the selling agent, two incentives that makes the house more attractive than the one down the street.

**IC Selling Tip # 39 –** If selling FSBO, or with an agent, or with a Flat Fee MLS, or if the investor is an agent who has done a great job on the flip and has a good 'spread,' then a great way to cash out (or in) quickly is to put a bonus out there for the selling agent. In many companies, this bonus goes directly to the agent and bypasses their split, which makes the property stick out and rise above the rest on the market.

It all depends on the house and situation. If the investor has a good working relationship with an agent, then it may be easier to have them do their job and pay the commission. The agent will also have the marketing strategy already established, so that makes the investor's life and job much easier.

## Retail with Flat Fee MLS

While a flat fee MLS service can be beneficial, it does not solve the entire problem of selling the home. There is still a lot of independent work to do. This type of scenario is much like doing a FSBO with an added incentive of having an MLS listing.

### Pros

- Cheap way to get MLS exposure

### Cons

- Not really hiring an agent. The investor will still have considerable work to do and there will be no buffer between the investor and buyer or buyer's agent

The bottom line is this- no matter what method the investor utilizes to sell the property, get buyers in the door

## Types of Buyers

The real estate market is seeing a wide variety of buyers entering the market that are not the typical buyers. Outlined below is an explanation of each of the types of buyers. They encompass international investors, hedge funds, and buy and hold investors. Who the buyer is should not be a paramount concern of the investor. The ultimate priority is how fast the property is sold.

## International Investors

The real estate market has seen a surge of international investors enter the United State real estate market. The National Association of Realtors ranks Canadians as the largest international investors, making up 11% of overseas buyers purchasing homes in the US, the second largest group of international investors were Chinese purchasers based on a survey in 2012. The UK and Germany are also higher on the list of foreign investors purchasing US real estate.

The majority of these international investors are also looking for investment properties, while some of them are looking for vacation homes.

### Pros

- Creates a demand for property
- More loop holes to go through on their end with the title and escrow process because it is a foreign investment

### Cons

- Home prices can be driven up on account of more sales
- More competition for sought after neighborhoods

## Hedge Funds

Hedge funds are a fairly recent hot trend that we are seeing in the real estate investment world. Typically, certain areas and neighborhoods that are targeted by hedge funds. While this creates activity in the real estate market, buying in bulk drives up prices. This type of buyer is typically looking for single-family homes to utilize as rentals, so they can get a return on the investment while holding the real estate. Thus, the buyer is employing a buy and hold strategy. These buyers are primarily purchasing properties in harder hit states from the housing crisis, because of the better deals to be had. Hedge fund managers make money by lining up investors and purchasing properties. They get paid the fees (asset management fees, acquisition fees, etc.) regardless of how good or bad the investment actually is for their investors. The housing market is different than the stocks or bonds market, so hedge fund investors will be a different beast to work with.

### Pros

- Typically a cash offer
- Quick closing

### Cons

- The hedge funds typically buy in bulk, which affects market inventory and also drives up prices. This could be good or bad depending upon each investor's unique situation
- Hard for regular or first-time buyers to compete with a cash offer

## Buy and Hold Investors

This type of investor knows what they want to buy. They are typically very thorough in the evaluation of the property and are looking for something that they can hang on to for the long term. This buying scenario allows the investor to buy a property, fix it up, and sell it to another buyer so either they can put a tenant in the property or the investor can either put a tenant in the property or sell it turn-key. For example, if an investor purchases a property and flips it with the intention to rent and is unable to secure a tenant, then the property is not a turn-key investment from a potential buyer's perspective. However, if the investor is able to secure a tenant in a property that has been flipped, the property is truly turn-key, which will attract a larger pool of buyers.

### Pros

- Typically they are ready to move on a deal fairly quickly on account of them wanting to get the deal closed and beginning to generate income from renting out the property

### Cons

- They know what they want and usually are pretty well educated on the market and properties. Therefore, they try to negotiate on price as much as possible

## Owner Financing/Hard Money Connection

Owner financing, also commonly referred to as 'owner carry' or 'seller financing' can have its perks. Some investors actually prefer offering owner financing on a flip, as opposed to renting it out, but it is all a matter of preference and one's individual situation. If a buyer purchases a house, then it is their responsibility, even if they are doing owner financing. Whereas when the investor is renting out a property, anything that goes wrong is the investor's responsibility. The investor does not have to worry about homeowners insurance or maintenance or property taxes in this option. Owner financing also allows the investor to leverage a portfolio, as well providing the option of selling the note to someone else if a better deal comes along. Here is an example of terms: Suppose an investor is selling a house for $45,000 and the buyer puts 40% down and the investor carries the remaining 60% at 8% amortization with a 3-year balloon payment. The buyer puts $18,000 down; the investor carries the $27,000, which generates $198.12 per month. The investor can use the $18,000 the buyer put down for another opportunity and still realize the monthly income from the mortgage without the headaches of a renter and property maintenance expenses.

### Pros

- Could collect interest much higher than a bank
- If the interest the investor collects is greater than the interest that is paid, then this is a good option to consider

### Cons

- Could tie up money the investor could use for other endeavors
- Buyer could default on the loan, which could be good or bad for the investor, depending upon how the deal was structured

Offering owner financing may help the investor get a deal done and also offer an edge over the competition. If the investor's situation allows, this may be something worth considering.

## Partial owner finance with large down payment

While this scenario relates a lot to the owner carry situation above, it usually carries less risk since it is a lower loan amount with more money down, which means more risk for the buyer. In this situation, the buyer may have a loan from a traditional lender but may not be able to qualify for the full loan amount, or they may be getting a loan from a relative but need additional assistance in covering the full amount of the house.

### Pros

- Large enough payment to make it advantageous
- Low chance of default
- Rewards associated with default

### Cons

- Money tied up

## Selling Closing Checklist

Finally, the investor has made it to the finish line of a rehab and is ready to go to the closing table. The following checklist will help ensure that the necessary components are in place to close the deal:

- Provide the buyer (or buyer's agent) with all of the warranty information for new appliances, etc.
- Cancel property insurance
- Disconnect utility services for the home
- Wiring instructions

- Lender information
- Keys
- File docs (Dropbox or Google Drive keeps files online through cloud storage, which makes them accessible from any computer, smartphone, or tables with Internet access)
- Celebrate!

Now repeat and standardize. This is how investors will become more adept and build wealth. Eventually they should develop a system and this process will be all standardized. In the mean time, consider the following lists:

- Investors should add or remove people (contractors, etc.) to their team list
- Create a spreadsheet of materials: Paint, flooring, cabinetry and counter combos, landscaping, etc.

## Some Final Thoughts

There is a lot of money to be made as a real estate investor. By getting the property up to speed as quickly as possible, the investor will be able to minimize risks and maximize profits. A philosophy worth working by in real estate investment is "Rehab, Flip & Repeat."

While the money comes from the sale, make money on the buy. The investor should purchase properties that are good deals and that have been secured by a respectable general contractor who can get the job done right in a timely manner and who will mind the expenses and the timeline. Real estate agents will probably say that an investor will typically see the best return on improvements made in the kitchen and bathrooms. Curb appeal is also crucial to a good (and quick) flip. If investors will follow these steps outlined throughout this manual, the opportunity to be a successful real estate investor can be achieved. Real estate investing requires time, money, and knowledge.

Work quickly and make sure that the rehab stays on track as much as possible; no rehab will ever go perfectly as planned. By doing so, the investor will be able to maximize profits and minimize risks. The first couple of rehabs are always the hardest as the investor learns the ropes, establishes a good rehab team through general and subcontractors, and distinguishes what pays and does not pay in terms of upgrading. Always have an exit strategy in place.

Investors should not let repairs scare them away. There is no problem that money cannot fix, but issues with homes can scare potential buyers away. It will benefit investors to investigate a crack in the foundation to see what it would actually take to fix it. In most instances the seller knows that there is a problem, and they may be more willing to negotiate on price if investors are willing to take the problem and the property off their hands.

If the investor has a good deal and a well planned exit strategy, then success will surely follow. Keep the rehab simple.  Be cost efficient and sell for a profit...and repeat! The investor is now on the path to financial security and freedom!

*"Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth."*

**-Theodore Roosevelt**

## Glossary of Commonly Used Terms (All terms in italics are ones introduced within Manual 5):

| | |
|---|---|
| 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 |
| MAO | Maximum Allowable Offer |
| 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 |