



## Learn How to Flip a House

### Description

Do you want to learn how to flip a house for a large profit? Join the team! House flipping is becoming increasingly popular around the country. The number of house flips hit 80,000 in the second quarter of 2021. That's about 5% of all house sales, or one out of every 20 transactions!

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You only need to watch an episode of any popular house-flipping show to understand why it's so tempting. A 30-minute video makes it appear very simple to flip a house and profit handsomely. Seems simple enough, doesn't it?

## What Exactly Is House Flipping?

When a real estate investor buys a house and then sells it for a profit, this is known as house flipping. A house must be purchased with the goal of immediately reselling it in order to be labeled a flip. The time between purchase and sale can range from a few months to a year.

## House flipping can be classified into two types:

An investor purchases a property with the potential to increase in value with the necessary renovations and updates. They gain money after finishing the work by selling the house for a much higher price than they paid for it. You may have heard this referred to as a "fix and flip."

An investor purchases a home in a market where home values are fast rising. They make no improvements, and after a few months of keeping the property, they sale at a higher price and profit.

We're mostly focusing on the first definition of fix-and-flip and giving you with advice to help you choose a house, perform modifications, and sell smartly.

## Is it profitable to flip a house?

Flipping properties may appear to be straightforward, but it is not. Let's face it: a house flip may either be a dream or a nightmare.

## Find knowledgeable real estate agents to assist you in selling your house.

When done correctly, a property flip may be a terrific investment and quite profitable. You can do sensible modifications and sell the house for considerably more than you purchased for it in a short period of time.

A house flip, on the other hand, can just as easily go in the opposite direction if done incorrectly. We've all heard horror stories about house flipping, where what appeared to be a fantastic price turned out to be a property with a weak foundation and a leaking roof. In the end, a house flip may not make you money. It might cost you thousands of dollars.

You don't want to lose money if you decide to flip a house. You want to make a sensible investment and profit from it. That's why many individuals hire an appraiser to determine the worth and then apply the 70 percent rule to determine whether a fix and flip is likely to pay off as expected.

## What Exactly Is the 70% Rule?

The 70 percent rule states that the buying price of a home should be 70% of its after-repair value, less restoration and repair costs. This prevents you from splurging on a home that will provide minimal return on investment. This is how it appears:

Assume you estimate the after-repair worth of a residence to be \$300,000. Begin by multiplying \$300,000 by 70%, or 0.7.

\$300,000 multiplied by 0.7 equals \$210,000

Assume it need \$50,000 in repairs. Subtract \$50,000 from \$210,000 to get the maximum price you should spend for the house.

\$210,000 minus \$50,000 is \$160,000

That implies the home's purchase price must be no more than \$160,000 in cash—more on that later. And if you didn't catch it, you'll make \$90,000 when you sell the house for its after-repair worth of

\$300,000.

Remember to account for your two favorite things: time and taxes. Using the previous scenario, let's imagine it takes two years to complete and sell the house flip. That equates to \$45,000 per year of labor. When long-term capital gains taxes are included, house flipping is unlikely to be profitable.

However, if you finish the fix and flip in six months, you've made \$90,000 in half a year. Because you owned the residence for less than a year, the profit is considered a short-term capital gain and is taxed at your regular personal income tax rate, which is higher than the long-term capital gains rate. However, this flip is still a steal.

## **In 5 Easy Steps, Learn How to Flip a House**

### **1. Use cash to fund the house flip.**

Flipping properties may be a risky business, especially if you don't have any money. It's easy to understand how adding debt to the mix simply makes matters worse. Here's why we always propose flipping a house for cash:

There are no interest charges. House flippers who borrow money may have to pay interest for months, increasing the amount they must sell the house for just to break even.

There is no rush to sell. When you utilize debt to finance a flip, you may act in desperation. If you can't sell the house, you'll most likely drop the price and lose money. Cash-only house flippers can ride out a weak market because they don't have interest payments piling up against them every day the property isn't sold.

There will be no debt to hold you back. Most importantly, any type of "investment" using debt is a bad idea. Period. Even with cash, trying to sell a flipped house for more money than you invested in it is a risk. Using debt in the process increases your chances of losing money if your plans go through.

Let's look at an example to demonstrate why borrowing money to flip a house isn't a good idea: You take out a loan to buy a house to flip, and everything appears to be going swimmingly until renovations take six months instead of four. When you advertise your home, it sits on the market for a month before you're forced to lower the price and sell it for far less than you expected.

You close a month later and receive your payment. However, a large portion of your reward is used to repay the money you borrowed plus eight months of interest! This is in addition to the standard selling charges such as agent commissions, taxes, and title fees.

Desperation would not have compelled you to sell low if you had flipped the house with cash. With no interest payments to worry about, you might have waited until the market warmed up and the price was perfect before selling.

The financial risk of property flipping is simply not worth it unless you can pay cash.

## 2. Understand the Market

Many house flippers are so focused on their next job that they overlook the less attractive part of the profession. However, if you don't grasp the market and real estate trends in your area, you may encounter the following problems:

You're not sure if you're getting a decent bargain on the house you're buying. When the house is listed at market value, the sale price should be low enough that you can perform the modifications and yet come out ahead.

You are unable to precisely estimate the home's prospective value. Your idea for the home must be compatible with the neighborhood's reality and the ability of the neighborhood's residents to afford the home you design.

You have no idea how to price the place. If you acquired a house in a community with predominantly \$130,000–150,000 properties, you should price your flip at the lower end of that range when the time comes to sell.

So, how can you have a thorough understanding of the market in order to execute a successful flip? Find a real estate agent in your neighborhood who has years of expertise. Your agent can assist you in narrowing down your property search to the right neighborhoods based on your price range, renovation budget, and anticipated profit.

You may believe that the house you spotted online is a steal for \$145,000 and has a lot of potential. (Imagine what it would look like with a new kitchen!) However, if the nicest and largest house in the neighborhood sold for \$160,000 three months ago, any modifications would most likely outperform the neighborhood. And you'd be stuck with a home that couldn't be sold.

Working with a real estate agent that understands the market like the back of their hand pays dividends. When you're ready to sell, your agent can use their expertise to price your home competitively so you obtain top money. Working with a top-tier agent can assist you in making a wise investment that will keep your finances on track.

## 3. Create a House Flip Budget

Don't put off creating a budget until after you've purchased an investment property. Before you sign the dotted line, determine your price range for acquiring a home, making necessary repairs, finishing renovation projects, and paying selling costs.

Make a list of any cosmetic projects as well as any costly overhauls, such as plumbing or electrical issues. If you don't have any construction experience, a contractor can tell you what needs to be fixed and how much it will cost. Surprise repairs may make or break a flip, so do your research here.

Get a house inspection and any other specific examinations you may require once you're under contract. It is always preferable to detect problems early on rather than being caught off guard later on.

## 4. Make Smart Renovations

Dreams of shining hardwood floors, trendy light fixtures, and great kitchens with professional-grade stoves may easily spiral out of control. That's why it's critical to plan your budget ahead of time and then ensure that your renovations stay on track and really increase the value of your house.

Don't forget that major upgrades, such as kitchens and bathrooms, can make or break your flip. Take, for example, the kitchen. The average cost of a significant kitchen remodel, according to the 2020 Cost vs. Value report, is about \$68,500. <sup>2</sup> The average amount recovered from such expense is only around \$40,000. <sup>3</sup> When you're flipping a house, you don't want to see that kind of ROI.

If you want to sell your house for \$220,000, don't spend \$60,000 on bespoke cabinetry, high-end finishes, and that dream kitchen island! Consider a wiser renovation that focuses on repainting existing cabinets, installing granite countertops, and updating appliances. You'll pay less and have a much better chance of recouping your costs when you sale the house.

While you may spend in a few major modifications on a flip, don't underestimate the significance of minor changes. A fresh coat of paint, new hardware, and new landscaping can all make a big difference!

## 5. Seek the Advice of a Local Real Estate Expert

Is it possible to make money by flipping houses? You most certainly can if done correctly! Flipped homes sold for an all-time high median price of \$267,000 in the second quarter of 2021, with a gross profit of about \$67,000. <sup>4</sup>

Remember that the gross profit does not include the cost of repairs and renovations. However, if you're able to flip with cash and keep within your renovation budget, it's entirely possible to make a good return on your investment.

The secret to successfully flipping a property is to do it with cash, make a wise investment in the sort of house you buy, choose repairs within your budget, and sell it promptly. Having a real estate professional on your team makes all of this possible!

A qualified real estate agent can provide the market expertise and practical counsel you need to make a wise investment, whether you're buying a house to live in for years or to flip in six months.

### Category

1. Lifestyle

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