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The Ultimate Guide to FLIPPING A HOUSE

Welcome to the comprehensive, no-nonsense guide to house flipping. It's good to have you here! In this guide, we'll break down the eight steps to flipping your first house. But before we proceed, let's check out these steps at a glance.

- Step 1 – Understand the basics – Know what house flipping is all about and what it doesn't involve.
- Step 2 – Examine your situation – Assess your financial strength, determine how much time and what skills you'll need, and learn when to turn to others for help along your house-flipping journey.
- Step 3 – Look for a discounted property – Identify properties at the best prices and perform due diligence on each. Be patient and objective as you look through many properties, and don't just settle for the first one you find.
- Step 4 – Make an offer – Bust out your negotiation skills and get the property under contract. If your offer is accepted, you can gather more information to access funding.
- Step 5 – Source funding for your rehab investment – Apply for suitable loans, but also consider other funding options that may be available to you. Learn when to negotiate for better terms and when not to, and learn what questions to ask lenders.
- Step 6 – Revamp the property – Improve the property in preparation for the sale. Hint: it goes beyond what you may have seen on *Flip This House*. It requires a lot of financial discipline and dedication. Learn what you can do yourself and when to call a professional.
- Step 7 – List your rehabbed property for sale – This is the stage where you offer your new property to potential buyers. Quick sales guarantee higher profits.
- Step 8 – Conclude the sale – Officially complete the transfer, hand over the property to the buyer, and determine your profit. Rinse and repeat!!!!

These are the eight steps involved in the house-flipping process, and we're about to get into each one in detail. Don't expect house flipping to be a walk in the park; the steps may look simple, but each one can involve a substantial amount of work. That's why we've prepared this comprehensive guide to walk you through each step.

You're about to get a solid foundation for your new real estate flipping business. But first things first, we'll show you what you need to start your house-flipping journey.

Step 1

Understand the Basics of House Flipping

We're guessing this isn't your first time hearing the term 'house flipping.' It's a popular term that's been used in almost everything – pop culture, TV shows, movies, and even sports. Many celebrities are into house flipping.

But what is house flipping all about? Let's find out together!

House Flipping Explained

You flip a house when you buy a property at a low cost and sell it at a higher cost, making some profit in the process. You can find a more detailed explanation in the *Journal of Real Estate Finance and Economics*, but that's the simplest way to describe it. House flipping involves renovations and improvements, but these are not the actual flip. Selling a home at a profit requires considerable effort, especially when it comes to getting the property into a better condition in order to command a higher selling price. Remember, to make a profit, you need to sell it for more than the *combined total* of your purchase price and renovation costs.

If you've seen houses 'flipped' on TV, they're mostly about the renovation and not necessarily about the flipping. These homeowners mainly renovate their homes for personal use. Even if and when they want to sell, they'll have a hard time finding a buyer because the homes have been improved so much that they cost more than similar homes on the market! This is one ugly situation you'll want to avoid when going into house flipping. The essence of house flipping is to make a profit.

We thought we'd include this explanation because of the number of requests we get from people who want us to loan money on non-profitable flips, forcing us to turn down the request and explain why. The truth is a lot of work goes into house flipping, and TV shows only show the public the glamorous part, leaving out a lot of hard behind-the-scenes work. For instance, one tough step you rarely see on TV is finding the right home at a discount. This search might take weeks or months, but if you don't get it right, it may be impossible to make a profit from flipping in the end.

You should also know that house flipping is like any other business – it involves risk. You may lose your money as a real estate investor. Never see house flipping as a risk-free business because it simply isn't.

Step 2

Know Your Strengths and Weaknesses

Now that you know what house flipping is all about and what it's not about, the next step is to discover what you're good at and what you'll need help handling. To unpack this, we first need to identify all the various parts of house flipping.

Various Aspects of House Flipping

1. Research/Scouting

Research/scouting should be towards the top of your list of critical house-flipping skills. In house flipping, research means scouting the best discounted property to increase your chances of maximizing your profits as an investor. The old saying is true, "You make your money on the purchase, not the sale." Take your time and find the right deal. The scouting process requires a lot of effort to check not only multiple properties but a variety of different areas. To excel at research, you need time, money, and excellent networking skills. If your marketing budget is small, you should be ready to compensate by investing more time. Examples of marketing include putting out branding signs, sending out mailers, and placing google pay-per-click ads... all of which cost money. Some examples of scouting, which involve more time than money, include driving for dollars, networking with wholesalers, and scouring Craigslist and other Internet sites for motivated sellers.

2. Negotiating

Your journey into house flipping will have you working with a host of other people – sellers, buyers, contractors, and real estate professionals. You'll enter into several contracts and forge many relationships going forward. Some will find this easy and natural, while for others it comes harder. If you're in the latter group, now's the time to improve your negotiation skills. Don't worry; with dedication and effort, you'll soon get better.

3. Accounting

You thought house flipping wouldn't involve math? Well, we hate to break it to you, but you'll be doing some calculations in this business. The first on the list is profit calculation, and it's more than just subtracting purchase cost from property sale cost. You need to factor in several other costs to determine if the deal is a favorable one, including holding fees, insurance, taxes, and commissions. For this, we recommend that you have a proper record-keeping system in place. And don't be afraid to seek out professional help if it's your first time. There are countless great smartphone apps out there that can help you quickly analyze a property's profitability. They'll prompt you to include ALL relevant buying, holding, and selling costs. Without this information, you'd just be guessing at your profitability.

4. Rehabbing

This is the aspect of house flipping we can easily relate to. Everybody knows that, at some point, it will come down to dismantling the property and rebuilding it so it can be sold. But rehabbing has several sub-aspects. Depending on what you want your new house to look like, you need to be prepared to put in the work – but be realistic about what you can do yourself and what you need help with. You'll also need to learn the laws in your area concerning house renovations and rebuilding. Do you need permits?

If yes, what types? Are you allowed to go DIY with the process, or are you required to hire professionals?

In most cases, your lender will want to have professionals in the picture. You should also pay attention to the quality of materials and craftsmanship you're using for the job. As much as you want to make a profit, be extremely careful about cutting corners. After all, properties that are adequately rehabbed are more likely to command higher prices during resale.

5. Raising Capital

This list wouldn't be complete without this vital ingredient – money. You need money to get most things done in house flipping. No, this doesn't have to be your own money, but a loan won't cover all the financial commitments involved. For instance, marketing costs are not covered by loans or other external funding. The same goes for costs that come up before you get your loan expended, such as inspection costs and costs related to property access.

Chances are you'll need earnest money to secure the property under contract before starting your due diligence. In some cases, you may get a loan that can cover both the purchasing and the rehabbing costs. But other expenses may come up when the rehab is in progress; for example, you may discover that a plumbing problem is more serious than you thought. No matter how great your financing is, be prepared to cover costs that you hadn't considered when estimating your primary loan. Know how much money you have on hand and where you can source emergency funds if necessary. Rather than depend solely on your own pocket, consider other funding options like lines of credit and credit cards for unforeseen expenses. You need to have this figured out, as your lender will almost always require you to have some type of emergency fund to tap into in case you run into trouble.

6. Persistence

Last on the list is persistence – the most important skill to have as a real estate investor. House flipping is a challenging business. Prepare for your limits to be tested by challenges from any of the other aspects on this list as well as from things we haven t covered. Remember, the reality of house flipping is more complicated than buying low and selling high. Especially if you re a first-timer, be ready to deal with several ups and downs. You ll get turned down a couple of times, sweat to get positive answers, and even lose money at some points. But whatever happens, you need to be persistent and draw from your inner strength to keep going. The more time you spend on the job, the better you become. As you keep trying, you ll learn how to minimize risks and losses; you ll master the art of regrouping, bouncing back, tweaking your strategy, and finding solutions when it matters. Remember, this is a learning process. Embrace your first few deals as education. You might even lose money on your first deal... don t get discouraged because, you get better with each lesson you learn. The best professional flippers started just like you. They struggled in the beginning, but they never gave up. Persistence is what separates the men from the boys, the women from the girls. Fail your way forward!

Summary

Three ingredients are crucial to a successful house-flipping endeavor – money, resources, and skills. You may have some of these ingredients already, while you may need help with others. But in the end, you're in the driver's seat. You determine whether you'll find success. It's on you as the business owner to continuously seek solutions to the issues that arise, either singlehandedly or with the help of others.

Step 3

Look For the Right Property

This may be the longest and least glamorous part of the process, and it will be tempting to settle on a suboptimal property to get it over with sooner. But you'll be glad that you didn't stop until you found exactly the right property for your rehab investment. In some cases, you may check out over a hundred properties before arriving at one that meets your investment preferences. A good marketing strategy can save you this stress – meaning it can save you from having to look at as many properties. Remember, you make your money when you buy. If you don't buy right, no amount of money can save your deal.

Here's a common mistake investors make:

In our line of work, we've sometimes seen investors getting so carried away by their initial estimates of profit that they fail to consider their projections might be incorrect. Don't settle for the first or a particular deal because it appears to be the best. Also, make sure you know how to walk out of a bad deal. Chances are a better deal is out there somewhere. Opportunity cost is basically when you take a mediocre or bad deal that may cause you to pass on a really great deal that might be right around the corner. Choose your deals wisely!

What makes a property ideal for flipping?

When scouting the right property for your house-flipping investment, always keep a close eye on properties with a deep discount. Discounted properties will help minimize the post-rehab selling price without you incurring losses.

That said, your ideal property should also have a higher chance of attracting a pool of buyers, and ultimately a large potential to sell fast for maximum profit. Remember, to make the best possible profit out of a house-flipping investment, you need the best-discounted property, a fast rehab project, and a quick sale in the end.

Assessing a property should involve a detailed assessment of similar properties that have recently been listed and sold in the same area. What you find here will determine whether you should get the property under contract or keep scouting. In this stage, there are several property-finding strategies you can use to get the best results.

Look for the ugly duckling in the nicer neighborhoods. If you can bring an ugly house up to the condition of any comparable properties around it, you probably have a winner on your hands. You also want to find an area where houses are selling fairly quickly. Look at the average days on the market. If houses aren't selling fast in your potential neighborhood, you should take that as a huge red flag! Some neighborhoods tend to have more rental properties or rent-to-own properties... these are NOT the ideal places in which to flip houses.

You need the right tools for accurate results.

You can quickly determine values, plan the rehab, and estimate profits using specialized real estate tools. While you're at it, it's advisable to compare apples to apples to get realistic expectations for profits. If your flip has one bathroom, be very careful not to compare it to homes with two bathrooms. You must make the property price adjustments. Make sure you're familiar with all the critical factors that may affect values or help you see the property objectively. Will you need to install granite countertops to get top dollar? Is a central heating and air system standard for the price range you're shooting for? Also, the location of your comparable properties really matters. For instance, you'll often see two neighborhoods right next to each other with very different property values. Why is that? Are they on different sides of a freeway? Are they in different school districts? Feel free to invite a real estate professional for help in areas you're not used to. For the most accurate value assessments, you should work with people who have no interest in the outcome of the deal. You may not get the best objectivity from a real estate professional who stands to gain a commission from a successful deal.

Make your ARV below the lower comps.

The **after repair value** (ARV) of a property is its estimated worth after renovations. It's a crucial metric in your calculations, and working with the right comparables increases your chances of getting the best profits. Again, use recent local listing records to get an idea of the worth of the houses in the neighborhood; making sure you'll be profitable even when the property sells for a lower price guarantees a higher profit when it sells for more. You shouldn't go for a deal where everything must line up perfectly to ensure a profit. With conservative estimates, you can afford some margin of error.

Summary

Property scouting is a continuous process in the real estate investment business. While you may struggle at first, you'll get better with the more properties you check. Remember to always be objective in your assessment of a property. DO NOT fall in love with a property. This is a business, not a house-flipping TV show!

Step 4

Get Your Property under Contract

Recall that we mentioned negotiation as a crucial skill in Step 2; now is the time to bring it on! You need a lot of confidence and excellent negotiation skill to get your property under contract. You'll also require earnest money. If you're using a realtor, you'll probably need at least $1,000 for earnest money. If you found a seller and there's no realtor involved, you can get by with as little as $10.00. In fact, I have never given more than $10 earnest money EVER.

What is earnest money?

The money you pay to the seller, pending the time you complete the property's assessment and inspection and determine if you'll flip it or not, is called 'earnest money.' We often see buyers get so worried about losing the earnest money that they shrink back from the deal. However, you can protect your earnest money by wording your contract properly and finishing up your due diligence as soon as possible. It's usually best to offer less than what the seller is asking and proceed to negotiations from there. The seller will also require proof of funds to convince them to put the house under contract.

Feel free to get professional help.

You don't always have to pay the earnest money to the seller – you can pay it to a third party title company instead. This will ensure you can easily retrieve your money in case you decide to back out of the deal. A real estate professional with rich experience and knowledge about your focus market can help you with this and many other decisions. Of course, if you only give $10, this becomes a moot point, unless losing $10 is going to wreck you – in which case you shouldn't be flipping houses.

Summary

The first step is to overcome your fear. Double-check every contract before signing. You do not want to sign an exploitative contract. Be ready to make several offers – some will fall through, and others will not.

Step 5

Source the Funds for Your Rehab Investment

Now it's time for everyone's favorite part: getting the money. You have a couple of loan options to choose from here. Most investors prefer hard money loans because they're short term. You can work with a private money lender, provided they're knowledgeable in structuring a loan and documenting things. Other options are your local bank and secured or unsecured lines of credit. If you're going into small flips, a credit card could work just fine. All that said, you may consider multiple financing options to complete the deal.

When sourcing funds, it's essential that you factor in all of the costs of doing the deal vs. not doing the deal. You'll never make the best decisions if you're only looking at interest rates and points. A wise man once said, "It's not the cost of money but the availability that matters." Cheap money is great. Everyone wants cheap money, but if it's not quick and easy, that cheap money could cost you your great deal. In the real estate investing business, FAST money usually gets the deal. Make sure you and your lender are on the same page in terms of expediency.

Be prepared for the higher interest rates of hard-money loans – after all, investment property loans come with higher risks for the lender compared to primary residence loans. Furthermore, a higher interest rate over a short period may be better than a lower rate over a long period. You should also consider if the hard-money lender charges the interest over the entire loan term, irrespective of when you pay off the loan or charges other pre-payment penalties.

Finally, confirm that your lender is actually ready to give you the loan. It's common to see first-time investors take advice from different sources (other than the lender) about the possibility of getting better rates or improved terms. However, such advice hardly works for all borrowers. Even when it does, it's not effective in first flips, especially when you can't offer the lender a successful track record or substantial amount as a down payment.

When should you negotiate improved terms?

Negotiate better terms if you:

- aren't new to house flipping and have multiple successful deals under your belt;
- can provide a substantial down payment;
- bring an excellent credit score of 750 or higher to the table; or
- are borrowing from a friend rather than a company with set rules. But be careful in this case, as relationships can be ruined if anything goes wrong.

When should you consider options other than negotiating?

Negotiating will hardly work in a situation where you:

- are a first-time flipper;
- can't cough up at least 10% down payment;
- want the lender to fund both the property purchase and additional costs;
- are unable to make monthly payments; or
- do not have a great credit score.

What questions should you ask your potential lender?

Before working with any lender, ask them the following questions to ascertain the actual loan costs:

- Do you reveal all the fees before the loan offer?
- Do you charge pre-payment penalties?

- Do you allow extension of the loan term when required?
- Do I have to make monthly payments?
- Are those monthly payments interest only?
- How much do you require as a down payment?
- What's the minimum credit score you require?
- Do you finance rehab budgets or just the purchase?
- Do you escrow the rehab money?
- Do you frequently access the scope of work and rehab plans?
- Do you loan according to the ARV or the purchase price?
- Do you help me confirm if the deal will be profitable after paying all costs?
- What other funding options are available, and do they come with restrictions?

Summary

No lender will offer you a blank check.

You'll almost certainly encounter unplanned expenses. Even if you get 100% financing, be ready to spend some of your own personal money.

Step 6

Finish Up the Rehab of the House

The transformation of a house is the part of house flipping most people are familiar with, and it's thrilling. It's even more exciting when you get to try out a couple of your interior design fantasies. But house rehab isn't all about the glamor – you have to be ready to do the dirty work!

Use quality materials to do quality work that will pass inspections.

You'll definitely require professional help at this stage, unless you're a licensed contractor or you got lucky and only a superficial rehab is needed. This is because:

- Many lenders will make you submit a bid and scope of work from a licensed contractor before they'll consider giving you funding. This is to ensure accurate cost and scheduling. Some lenders will go further and only release funds when you produce the receipt for completed work and a signed lien release from the contractor. This is called escrowing rehab funds. This simply makes sure that the lender's money is being put back into the project and not going somewhere else.
- Some municipalities or counties have rules in place where only a licensed professional can handle reconstruction work like plumbing, electrical, and HVAC. You may also

require permits in some cases. This is why getting familiar with the laws of your area is so important.

- You'll more likely get your asking price or higher if your home is adequately rehabilitated so don't skimp on the rehab.

Always be on time.

This is where your excellent management skills come in. You need to ensure the work is done well and completed on schedule. Otherwise, you may not get your profit as expected. Many rehab budgets and profits have been blown by extended holding periods and costs. We also recommend a professional contractor for this role because they can help you:

- stay on budget while sticking to the scope of work;
- manage the subcontractors' and workers' workflow to ensure that everyone stays disciplined and works together to get the best results; and
- stay on or ahead of schedule to expedite the listing and sale.

Summary

You need quality and timely rehab work to increase your chances of getting a quick and profitable sale. Don't cut corners by taking up a contractor's role when you're not qualified to. Finally, always make room for setbacks and challenges.

Step 7

List Your Rehabbed Property for Sale

Congratulations on finishing up your rehab! Now you're all set to sell your improved house. But first, ask yourself the following questions:

What's your initial asking price?

As tempting as it may be, making your initial asking price high is not advisable. Holding costs will kill your budget. We know you want to make maximum profit, but you shouldn't overdo it. Here are some tips for arriving at the right asking price.

Like you did when valuing the pre-rehab property to see if it's the right deal, you should also review the market to see if values have dropped or risen. For best results, we advise setting your asking price close to the ARV. This will expand your buyer pool and increase your chances of selling your rehab property for the best price possible.

Do you need an agent?

Yes, you do. Experience has shown that using an agent to sell rehab homes increases the chances of a fast and profitable sale. These professionals are always ready to use their connections, resources, and knowledge to get you the best deal possible. You can probably do this by yourself if you're an experienced house flipper. But a first-timer is better off working with a professional real estate agent.

Yes, you'll pay them, but it's always a worthy investment. This is because a real estate agent will assist you at every step of the way – listing, staging, and talking to as many potential buyers as possible. You can make this easier for your agent by maximizing every listing opportunity you get. This shouldn't be an issue, as you should have budgeted for a listing agent at the analysis stage.

How soon can you list your home?

Our best advice at this point is to have realistic expectations. While there's no specific timeline for house listing and sale, we have a few helpful insights into how the process generally works.

You can only get in front of more buyers by showing the house more often. The 'days on market' is the time it takes for your home to go under contract, right from when you first listed it. Remember when you were doing your analysis of the property and you looked at the average days on market for the neighborhood? Hopefully yours will sell faster, but this doesn't necessarily mean it will. Lots of different factors can affect your days on the market. One of the most important factors is the season. Is your house going up for sale in the spring when everyone is out looking or in the fall after kids have started school and home sales have slowed down?

The condition, location, and asking price of the home can all influence your 'days on market' as well. The perfect blend is a property in excellent condition, situated in the right area, and selling for a low price. And remember, most homebuyers fund their purchases with a traditional mortgage, which may take up to several weeks to sort out. So, the closing may take that much time from the day you get the home under contract.

Finally, note that despite all the hard work you've put into the property, your potential buyers will most likely demand additional upgrades or changes. It's absolutely normal. Once again, you should have included an amount for "seller concessions" in your initial profit calculations.

What is the right offer?

The first decent one. While the first round of offers may not bring in as much profit as you'd hoped, it will still be a good deal for you – because you've factored the ARV into your asking price. First, it gives you a feeling of accomplishment for completing your first flip. Second, it helps you save money if your hard-money lender has no pre-payment penalties in place. Be very careful when passing up initial offers, as the costs are mounting every day that you hold the property.

Summary

Selling your rehab property is as demanding as finding the pre-rehab property. So, both require the same level of hard work. Don't be too hard on yourself – there's so much to learn at this stage of the house-flipping process, especially if you're a first-time flipper.

Step 8

Sell Off Your Rehab Property and Make a Profit

Finally, the stage we've all been waiting for – the stage where you make money!

What should you expect from the closing process?

1. Closing requirements: Make sure all your partners in the deal (if any) are present at the closing, even if they're not signatories. You should also bring a photo ID.
2. Duration: Closing takes less than an hour, on average.
3. Payment method and timing: Depending on how the title company disperses funds, you can get your payment via an instant wire transfer or check. In some rare cases, you may need to wait a few days.
4. Settlements: If you owe anyone who isn't listed on the closing statement for fund disbursements via that process, you should pay them back.
5. Miscellaneous: You'll get a notification in advance from the title company if there are potential issues that may stall the closing process. The only thing you have to worry

about apart from this is your buyer not showing up or showing up without the agreed amount of money.

Summary

Congratulations on reaching this stage. We're proud of your resilience and hard work. You should be proud too! Now rinse and repeat!

Finally...

In this guide, we've discussed the basics of flipping a house. But it's important to note that each real estate investment is unique. Be ready to experience new situations and challenges as you go through this journey. No one promises this will be easy, but we're confident that this guide will help you start strong and keep you on track till you get to the finish line.

Do you have questions about house flipping and the possible funding options available? Feel free to get in touch with us today. We'd be delighted to answer your questions and provide expert advice where necessary.

What's more, in addition to teaching you how to flip a house, we'll help you fund your deal, whether you're a first-time flipper or a regular seeking the right funding option.

We'd love to hear from you.

Cheers to your next successful flipping,

–Rodney Miller and the team at Hard Money Partner.