

Home Flipping has Risks but can be Very Profitable

Home flipping has been very popular for the past decade or so, and many people have made good money over that time. Flipping is a term for buying real estate property with the intent of turning around and selling the property for a profit. Most of the time, there is some remodeling of the property involved. Flipping has been marketed pretty heavily as a get rich quick scheme and many people have jumped in without the sophistication that it takes to make good money.

In order to be profitable, there are a couple elements that will dictate success: 1) buy property that is currently selling well below market value and 2) keep the cost of remodeling low.

One way to buy cheap is to pick up properties that are in foreclosure and being auctioned off. This sounds easier than it really is, although with today's glut of foreclosure properties on the market, it may be easier now than in the past. Many times, even though the property is going up for

auction, there are buyers on the inside that will quickly tie up the property.

Of course, the second way to buy cheap is just through negotiating a great price on a property that has sat on the market a long time or is a turn-off to buyers due to disrepair. Finding property that is up for "short sale" is another alternative.



According to Wikipedia a "short sale" is a sale of real estate in which the sale proceeds fall short of the balance owed on the property's loan. It often occurs when a borrower cannot pay the mortgage loan on their property, but the lender decides that selling the property at a moderate loss is better than pressing the current debtor. Both parties consent to the short sale process, because it allows them to avoid foreclosure, which involves

hefty fees for the bank and poorer credit report outcomes for the borrower.

Once the property has been purchased the second element kicks in. Those who can remodel the property themselves will be able to keep costs much lower than those who have to hire contractors for the work. Much of the time, freshening up a property with a fresh coat of paint and trimming the shrubbery is enough to get the property ready to go back on the market. Other times, serious work such as electrical, plumbing, heating and roofing are required. It is important to make sure this type of work is done within code and professional licensed contractors may be required.

A good home flipper knows the markets well and can judge how much can be paid for the property up front and how much cost can go into the remodeling while still maintaining the potential for good profit upon resell.

Having the property sit on the market for a long time

can eat up those potential profits quickly. It is important to remodel quickly and get it resold quickly or costs of financing, utilities, property taxes and more can turn the flip into a loss rather than a gain.

Speaking of financing, it is important for the buyer to understand that business loans are not available for home flipping. Personal funds or mortgages are the means to purchasing and remodeling the property. The days of being able to purchase property with no down payment or to finance more than the purchase price are in the past. The old saying "it takes money to make money", is going to be the rule to succeed in home flipping in the future.

It is also wise to speak to an accountant before jumping into the home flipping game. Knowing how the short-term capital gain will affect your income taxes, may affect your decision to invest.

Right now, the average sale price of a home has dropped from 2008 prices. That is a two-edged sword. It makes it easier to pick up properties cheap, but it makes it harder to resell at a profit. In some parts of the country, there have been properties selling for unbelievable low prices, but here in Utah, we have not seen that much fluctuation. Again, knowing your market is very important before jumping into the home flipping game.

Overall, home flipping has been a successful investment for many people in the past, and it will be again in the future. However, make yourself a sophisticated investor. There are many salespeople out there telling you to buy their book or take their class, but don't let yourself get caught up in a frenzy for easy money. Spend the time to learn the ropes, understand the market prices and have the investment funds available.

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