

As Housing Rises, Flippers Turn Money Pits To Money

By KATHLEEN DOLER, FOR INVESTOR'S BUSINESS DAILY

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Top Spots For Flipping

By average gross profit

Omaha, Neb.	\$85,537
Daytona Beach, Fla.	\$51,657
Washington, D.C.	\$46,205
Palm Coast, Fla.	\$43,721
New York	\$39,458
Pittsburgh	\$36,537
Charleston, S.C.	\$29,850
Virginia Beach, Va.	\$26,565
Tampa, Fla.	\$23,446
Chicago	\$23,099

Source: RealtyTrac (realtytrac.com)

Profiting from property can take reimagining and rehabbing.

With housing supply down and competition up, real estate investors must work harder to buy homes to own, rent or flip. Some brave veterans of the process are going deep for value: buying decrepit homes that others won't, to fix and sell.

It takes "experience and imagination," said Lin He, an investor, landlord and flipper in Fountain Valley, Calif. "When I first come into a house, I'm looking to see which wall I can move," to turn stale styles into "open floor-plans with desirable indoor-outdoor living."

"There's more money to be made when you go into a house and there's a structural problem that you can fix," said Oliver Mills, an investor and flipper in Fair Oaks, Calif. "I'm currently looking at a house with tree damage, trying to buy it under market value. There are no other offers on that house — if there were 20 other investors, they wouldn't be talking to me."

What's the success formula for these major rehabs? Buy it right, then redesign a bad layout or fix a nasty repair, using a top construction team.

"If the price is right, I can fix a lot of problems" and still make money, He said.

Flippers are very active again in today's revitalized residential [real estate](#) market. A report from foreclosures site RealtyTrac shows that single-family home flips across the U.S. were up 19% in the first half of 2013 from the same period a year ago and up 74% from the first half of 2011. It defines flips as homes that were purchased and then sold again within six months.

Investors made an average gross profit of \$18,391, or 9%, on the initial purchase price, the RealtyTrac report says. But flipping is "tapering off in markets where fewer distressed bargains are available," said Daren Blomquist, vice president at RealtyTrac.

Flipping margins vary greatly geographically. For instance, in Los Angeles flippers have been doing very well, "buying at 8% below market and selling at 11% above market," Blomquist said.

Money And The Map

"Generally speaking the rules of thumb are buy low and sell high . . . and buy the worst house in a good neighborhood," Blomquist said.

Investors say they can fix many ugly structural issues, but they can't fix a lousy location. Flipper He avoids "busy streets or bad neighborhoods."

But buying low is getting more difficult as property prices rise, though of course these rises help once a homeowner or investor is selling. In the latest data, from May 2013, the S&P/Case-Shiller 20-city Home Price Index posted a year-over-year increase of 12.2%. Most noteworthy, Dallas and Denver reached record levels, topping their pre-bust peaks set in June 2007 and August 2006.

Offering "10 or 20% below list isn't realistic anymore," said Andrew Robb, an agent with RE/MAX Renaissance Realty in Phoenix. Investors need to stop "swinging for home runs instead of singles."

Friendly Or Fearsome Fixer?

Brave investors say some fixers are just too risky, at any price.

What do they avoid? Old homes, built in the 1950s and earlier, can be fraught with budget-busting issues.



Carpenters Noel Ripley and Dave Thorne build a deck on a home they're renovating in Cohasset, Mass. [AF View Enlarged Image](#)

Valentine Sales & Management in Phoenix.

Mold is tricky, some investors say stay away from homes with any signs of it. Others say it's not that hard to fix. Joe Crisafulli, owner of Crisafulli Building & Remodeling in Spotsylvania, Va., said, "You just don't know what you're getting into ... how far (mold might) go into the wall."

Is old plumbing a deal breaker? Actually no, says Kit Critchlow, a contractor with Ashton Builders in Phoenix. Ashton is working with big investors to rehab homes for flips and rentals. Critchlow says they're working on more than 60 homes at a time.

Older homes may have deteriorated galvanized piping, he says, but you can sometimes just replace the bad pipes, marrying old pipes to new plastic pipes. Also he said, "You can re-pipe a whole house for around \$4,000 or \$4,500, less than painting a home's exterior."

What other fixes are brave investors taking on? Total interior remodels are normal for Maria Giordano, a real estate investor, flipper and landlord in Phoenix.

"Most of the ones I go into are total gut jobs," Giordano said. So she remodels all the bathrooms and the kitchen, with new flooring, paint, fixtures and appliances.

Giordano says her very first flip required a gut job, plus it had structural damage to the rafters, and "needed a new roof and needed the pool redone." However, she says she got such a deal from the bank on the foreclosure property that she made almost "\$30,000" on the flip "after a six-week renovation."

"The first week back on the market we had seven offers," she said.

Smaller distressed homes are no longer available in many areas, so investor He has gone bigger. He recently remodeled a large home in Joshua Tree in Southern California.

Calling that one a gut job would be a gross understatement.

He reconfigured and remodeled the kitchen and living area into a great room, reworked the entries into some of the bedrooms, put on a new roof, refaced the exterior, put in new landscaping, put in a backyard fireplace and hardscape, refaced the interior fireplace, put in new flooring throughout, reconfigured the master suite and bath with a walk-in closet and put in all new lighting.

"I created value by reimagining the floor plan and adding character to a boring tract home," He said. The reward: a \$200,000 profit after a four-month remodel.

Potential Gotchas

What mistakes can hurt a flipper? Experts say always use a licensed contractor and get permits for work that needs it. A remodel that doesn't meet muster means no payday. "If it doesn't pass inspection, it doesn't close escrow," Giordano said.

Giordano gets multiple bids from contractors. "And get firm pricing" and written bids, Critchlow said.

Another no-no: Don't over-improve. "A lot of investors want to remodel to their tastes (with granite and travertine, etc.) ... but it's got to be a house and neighborhood that justifies that," Critchlow said.

Also, remodel to rent, not just flip.

"Flipping is high reward, but high risk," He said. "I work for the money when I do flips. Rentals are working for me."

"Some old houses have wood foundations and that I just won't do," said Doug Clark, a Utah-based flipper and host of Spike TV's "Flip Men." He says lenders usually won't lend on these houses. He also says older homes with knob-and-tube wiring or lath-and-plaster walls are too much trouble.

And he says opening any exterior walls on an older home might "trigger a city inspector to require that everything in the home be brought up to current code."

Buying a property with an unpermitted add-on can also be a nightmare. City building departments may require the add-on to be removed or rebuilt with permits.

In general, steer clear of foundation problems. A foundation issue fix "could cost \$20,000 to level a slab" or take having the house jacked up and "new footings poured," said Dan Valentine, broker-owner of