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High-End Houses Lure Flippers From New York to California

By Prashant Gopal - Oct 17, 2013

Home flipping, in which a buyer quickly resells a property for a profit, is becoming more popular for high-end houses in the U.S. as deals for cheaper residences slow.

There were 968 single-family houses priced at $750,000 or more that were sold by flippers in the third quarter, according to RealtyTrac, which defines the transactions as those that occur within six months of the previous purchase. The figure was up 34 percent from a year earlier, while rapid trades within the broader market fell 13 percent, the Irvine, California-based foreclosure-data firm said in a report today.

Investors who buy homes and sell them within months are finding they can make more money with houses in higher price ranges from New York to California. Flippers for cheaper homes are facing competition by investors such as Blackstone Group LP (BX) that are acquiring thousands of single-family homes to turn into rentals, while fewer properties are entering the foreclosure pipeline as real estate prices rise and the job market improves.

"There's more opportunity to buy homes at a discount at the higher end," Daren Blomquist, vice president at RealtyTrac, said in a telephone interview. "The flipping frenzy is dying down on the lower end because they're running out of good inventory to buy at a discount."

The average gross profit on a high-end flip is more than four times that on a home in the lower range, RealtyTrac said.

Five Markets

Flips jumped 42 percent in the third quarter for homes priced between $1 million and $2 million, and 350 percent for $2 million-to-$5 million properties, according to RealtyTrac. More than three-quarters of all high-end flips were in five markets: the New York metropolitan area and Los Angeles, San Francisco, San Jose and San Diego in California.

The more expensive houses made up 3 percent of U.S. home flips in the quarter, according to RealtyTrac.

Lin He, 46, is renovating a half-dozen homes in Orange County, California, where prices last month jumped 22 percent from a year earlier, according to DataQuick. He plans to list the houses for $700,000 to $1.6 million.

He, who was previously buying houses for as little as $100,000, shifted two years ago to the higher-end market, where the rewards are greater, as are the risks, he said.

In May, he purchased a single-family home in Huntington Beach for $610,000 from a woman who lived there for 40 years and was retiring to Palm Springs. He invested $100,000 to remodel the property, moving walls and adding marble floors and "his" and "hers" walk-in closets. It's now listed for $899,000.

Real Money

"I've never lost money but I've lost quite a few nights of sleep," he said. "I can spend some real money to make some real improvements, which allows me to make more money."

On average, high-end homes in the third quarter were flipped for 14 percent more than the purchase price, which indicates "they are adding value in some way and not just turning around and reselling the property," Blomquist said.

In Brooklyn, New York, where tight inventories fueled a 15 percent increase in prices in the second quarter, investors began flipping properties in the gentrifying neighborhoods of Crown Heights, Bushwick and Bedford-Stuyvesant, reselling them within nine months for at least $200,000 more than they paid, said Julian Cover, owner of Cover Realty NYC. Those neighborhoods have surged in popularity as buyers get priced out of Manhattan and the borough's more exclusive neighborhoods.

"Within the last year it has been happening with more frequency," Cover said. "One of the reasons is that a lot of the older owners cannot find a relative to sell their property to so the developers come in and pay below market prices. They put in minimal work and, nine months later, they have sold it."

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