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Home flipping frenzy returns to Southland real estate market

With Southern California home prices rising in a fast-paced recovery, home flippers have returned to the market in force.

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By Cale Ottens
July 29, 2013 | 5:00 a.m.

Like most real estate agents, Tarek El Moussa saw much of his livelihood evaporate in the housing bust.

But with prices beaten down, El Moussa also started seeing bargains everywhere. He bought a Santa Ana condo for \$115,000 in 2010, made modest renovations and flipped it for a \$35,000 profit. Last year, he repeated the process 20 times and this year expects to flip 50 homes.

"I absolutely loved it," El Moussa said about that first house flip. "I made a good profit, and I saw the opportunity to do it not only once, but do it over and over."

With Southland home prices rising in a fast-paced recovery, home flippers have returned to the market in force. In May, investors flipped 1,377 homes — a level not seen since the height of the housing boom, when investors turned over 1,394 homes in June 2005, according to real estate research firm DataQuick. The firm defines flipping as buying and reselling a home within six months.

The frenzy has brought new interest in home flippers as celebrities, after earlier TV reality shows featuring them went the way of the housing market. "Flip this House," on A&E, was canceled in 2009. Bravo's "Flipping Out" first aired in 2007 but switched gears after the second season to focus on interior design. El Moussa has turned his experience into a new show, "Flip or Flop," which premiered on HGTV in April.

After the crash, experts — in hindsight — pointed to get-rich-quick home flipping as a missed warning sign before the housing bubble burst. But whether the return of flipping constitutes cause for alarm remains a murkier question.

Many housing experts and economists say it may simply signal a healthy recovery — a quick bounce back from prices that had dropped sharply. Others see it as a sign that fast-rising markets may again be getting overheated. In Southern California, the median price has seen year-over-year increases of

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more than 20% in every month so far this year, according to DataQuick, hitting a record 28% in June.

"No matter how you look at it, flipping levels are high in a historical context," said DataQuick spokesman Andrew LePage. "If the rate shot up from here, then I think that does become a warning sign."

The return of flipping to pre-recession levels surprised Richard Green, director of the USC Lusk Center for Real Estate.

"Back then, you could buy a house without any money down," Green said. "When people failed to repay their loans, it led to a cascading effect."

Bankers have since tightened access to credit considerably. That means investors are putting their own money at risk, which gives Green some comfort that the flipping resurgence doesn't necessarily signal a new round of irrational investing.

"If people are acquiring houses with very low down payments, then I would be very worried," he said.

Investors in Los Angeles County flipped 419 homes in June, about 150 fewer than the peak. Orange County investors flipped 133 homes last month, down about 60 from the peak in that county. But San Diego County investors recently broke housing-boom records, flipping 301 houses in May.

Across the region, the ratio of homes flipped to total sales has already surpassed pre-recession levels, the data show. The peak ratio broke records this year, when the rate of homes flipped sat at 7% in February. The rate was 5.6% for June.

Scott Mednick recently bought a fixer-upper home in Mission Viejo for \$389,000. After investing \$60,000 on renovations, he sold it for \$545,000 — netting nearly \$100,000.

When prices and sales were slow, from 2007 to 2009, would-be investors were hesitant to jump into a market they didn't understand, said Mednick, president of the Orange County Investors Club, an education and networking group for real estate investors.

"Now I think there's a frenzy that's going on," he said.

The number of Southern California home flips declined slightly in June, to 1,194. But the figure has hovered above 1,000 for the last 11 consecutive months, compared with fewer than 200 during low points of the recession.

Large profits are attainable, Mednick said, but only with hard work and hard-won market intelligence. Beginning investors have to be flexible and willing to work all over the region to be successful, he said.

"You've got to go where the deals are," he said.

Lin He, who has been flipping homes since 2009, said home investing involves big risks — the whims of the market can quickly put you out of business. To compete, He said he takes on more complicated projects than a typical investor and often invests more money. Still, He expects home prices to rise for an additional three to five years.

Mednick was slightly less optimistic, predicting the price run-up would last two to three years. More and more beginning investors, he said, will jump into the market as prices continue to rise.

"But there will be a point when it gets so hot that a lot of the big investors will be pulling back," he said.

For now, flipping is back on investors' radar screen — and the TV screen, He said.

"It never occurred to me that flipping a house is part of pop culture," He said. "That's crazy to me."

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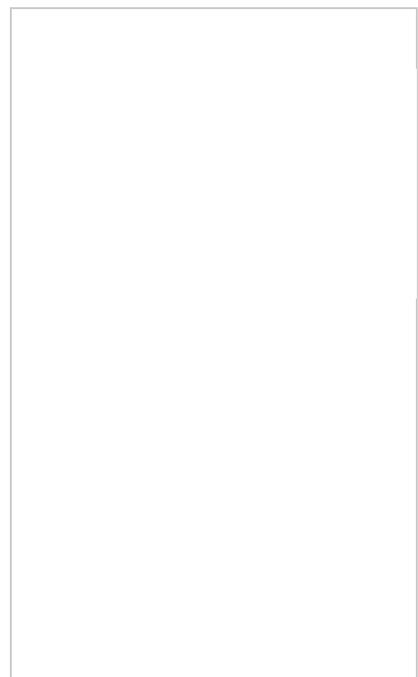
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bschutteng96 at 9:53 PM July 30, 2013

Seriously there needs to be some type of regulation on this. Especially in areas like Orange County and LA. Average price of a home in these areas is 500k. I don't understand how they expect people to live. Even if you made 65K a year, which I think is safe to say is way above the poverty line, and with a hefty down payment you still couldn't qualify for a home in these areas.

tymharman at 11:54 AM July 30, 2013

Real Estate is about 1 thinglocation. If yoy want a chep house move out of state or to Riverside or Palmdale. It's called free enterprise and no I have never flipped a property.

edkrunk at 11:38 AM July 30, 2013

And don't follow get-rich-quick advice from the likes of Robert Kiyosaki, "Rich Dad, Poor Dad." Tom Vu was another clown during the late 80s, early 90s. (thick Vietnamese accent) "You want to be rich...you poor because you too lazy..come to my seminar and I teach you how to make money. Look at me now, I got 1/2 nekked women flanking me, got boats, cars, mansions...eat the best pho thai everyday...you too lazy if you no come to my seminar!!!!"

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