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Flipping Houses

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1. Commit to the Flip

The first step in any real estate adventure is to commit. So many people want to get into house flipping and get really excited, but they don't actually commit to going the distance. House flipping is not a hobby – it's a business that can affect your financial future (either positively or negatively). Decide you are going to do this and you are 100% committed to learning everything you need to learn to get there. Then, and only then, should you move on to step two.

2. Educate Yourself on Flipping Houses

Step two is to get educated. Although education is a lifelong pursuit, it's also necessary to do before jumping into a house flip. I am suggesting you take your education seriously and buckle down to learn the basics.

You don't need to know absolutely everything in order to start flipping houses, but I'd advocate getting really good at the basics.

3. Educate Yourself on the Flipping Math

Without the right math going into a flip, you'll never get the right money coming out of it. **Understanding the math is the #1 most important trait in a successful flip,** because the math determines how much you should pay, how much you should put into it, and how much you expect to get out.

4. Market Research

Next, you are going to want to take a look at the market and decide where the best place to flip will be. In some areas, $200,000 for a home would be absurdly cheap, where in other areas this $200,000 would be absurdly expensive. Every market is different, so you need to have a good handle on the market you plan to flip in. Ask yourself these questions:

- How much are average homes selling for?
- How much are bank REOs selling for?
- How fast are properties selling?
- What areas seem to be selling the fastest?
- What property types/size/layouts seem to be selling the fastest?

Do a thorough job of understanding and honing in on your local market.

5. Arrange Your Flip Financing

There are a lot of different strategies you can use to finance your next house flip. Here's a few of the more common methods:

- **All Cash** – if you have the cash in your bank account, you can simply write the check. This is obviously the easiest solution, but for most folks, this is not likely.
- **Conventional Financing** – Some people utilize a normal bank loan to flip houses, but this can be difficult if the house is not in great shape (most banks won't lend on unfinished homes.)
- **Home Equity Loans/Lines** – If you have a large amount of equity in your personal home, you may be able to tap into this equity in the form of a "home equity loan or line of credit." If you are interested in more of these strategies, talk to your local bank or credit union.
- **Hard Money Lenders**- A hard money lender is a private individual or company that lends on high risk loans (like flips) and charge high fees and interest to get the money. Hard money loans are ideal on flips, because they typically have only a one year or less maturity date.
- **Partners/Private Money -** If you know people who have money to lend, they may be interested in partnering or lending their cash at a certain interest rate. Private money can be one of the cheapest sources for funds, though raising private money can be difficult and legally-cumbersome.
- **Combination -** Finally, you can mix and match nearly all of the above methods to finance your next flip.

You have a lot of different options, but you'll need to pick one in order to move on. Finalize whatever source you plan on using BEFORE shopping for your investment property. Try to get a loan commitment if you plan on using any of the loans listed above, so when you find a property, you can quickly jump on it. In today's hot market, speed is key in getting a great deal.

6. Find a Real Estate Agent

At this point, you understand what makes a good deal a good deal, have the financing lined up, and you are ready to rock. However, you don't need to do it all yourself – there is one member of your team you definitely need to find: a Real Estate Agent. Why? BECAUSE THEY ARE FREE.

Yep, your seller is going to pay the agent, so why not use one? The agent can open doors, write up offers, get you comparable sales (so you know what properties are really worth) and so much more. Again, agents are free so it only makes sense to find a good one – especially an investor-friendly agent. If you just call the agent who listed the property – you'll be dealing with the seller's agent who has a legal obligation to get you to pay the most possible. Do you really want that person helping you? Nope. Find a good agent.

7. Define Your Prospective Deal

Before you start randomly looking at properties, you first need to funnel all the possible choices down to some specifics. This is when the Education and Market Research come in handy. You want to flip houses that people want to buy – so what kind of homes are they buying, and where? Let your Agent know this stuff, get a list of all the possibilities, and have them set you up with some Automatic Emails when properties that fit your requirements come on the market. Specifically, define for yourself the following information:

- What location will you flip in?
- What is the most you'll pay?
- What is the least you'll pay?
- What is the minimum/maximum number of bedrooms?

You should now have some specific criteria to begin filtering through all the properties on the market- mostly automatically. Keep in mind, however, that sometimes a 2 bedroom home could become a 3 bedroom or a 1 bath house could become a 2 bath – so keep your criteria a little liberal.

8. Start Analyzing Potential Deals

This is a really important step in the process, so don't skip it. It's time to take everything you've learned and start doing some deal analysis on real-live properties!

This game is largely a number's game: every property has a price that makes it a great deal. Your job: find that sweet spot. So actually get out some paper and start analyzing some real life flips.

Your goal is to find properties that are close. For example, if you run the numbers and decide that you could pay $100,000 for a particular house, and it's listed at $275,000 – you could probably just skip that one. However, if it was listed at $140,000 for the past 4 months… they might go down to $100,000. If it's at $105,000 – you probably have an easy deal to put together.

Analyzing at least 20 deals before you submit a single offer.

You need to be extremely confident in your ability to judge the potential of a property. Do your best to make assumptions about the rehab costs and other potential expenses. It's more important to understand the *process* of analyzing these deals than actually knowing the exact values. This way, when you get a real potential deal across your desk, you'll know what to do.

9. Driving for Dollars

In addition to looking on the MLS, it's not a bad idea either to get in your car and start driving – looking for deals.

In the real estate investing industry, we often call this "driving for dollars." You are usually looking for properties that are vacant or need some serious cosmetic help. Often times, if you can find the owners (through public records) you'll find them very willing to sell for a great deal.

10. Find the Perfect House for Flipping

After walking through and analyzing dozens of properties, talking with your agent about what you want, and getting everything prepared… you are eventually going to find the perfect potential flip house. You may find one right away, or it may take you months to find the perfect property. Don't worry so much about the time it takes – *focus on finding the best deal possible.* You don't want your anxiousness getting in the way of your financial future, so be patient and stick to the criteria you created.
At this point, there is a very important lesson you need to understand:

Don't let emotion take over the deal.
It's inevitable that you are going to be excited. After all, you've put a lot of work into this thing and you *really* want to see it come together. However, this is no time to toss out everything you've learned so far. So be calm, stick to your numbers, and get ready for the real excitement to start.

Once The Flip Home is Found and Under Contract

11. Get the House Inspected

One of the first tasks to do once the property is under contract is to hire a professional inspector to come through and look at the property. Unless you are a contractor yourself, this is not a place to cut corners and try to save some money. A qualified, licensed home inspector can tell you a lot about the property you are about to buy – including the things you probably wouldn't notice yourself, such as the condition of the wiring, plumbing, roof, and more.

A home inspection typically runs between $300 and $600 for a typical single family home, and higher for multifamily properties. Again, *this is no place to skimp.*

A home inspector's job is to find problems, so don't be scared when you get a 20 page list of problems.

12. Create Your Scope of Work

Creating your scope of work means making a detailed list of everything that needs to be completed on the project in order to get it ready to sell.

Although this step could be completed before the offer is accepted, only do a "light" version so I don't waste time on deals that won't ever happen so instead, Wait until after the property inspection. Another benefit of this is that the property inspection will essentially give you a detailed scope of work that you can work off of.

If you are not comfortable with doing the work yourself, be sure to bring a qualified contractor with you to bid out these tasks. You don't want to buy the property and suddenly realize your to-do list is much more expensive than anticipated. This is the fastest way to lose a lot of money and fail at your house flipping business.

13. Find Great Contractors

This step could actually be done at any place earlier in this process, but now is as good of time as any. If work is needed on the properties, and you don't plan to do that work yourself, it's time to find some dependable contractors. Success can be found when you approach it like a business by proactively seeking out the best contractors.
Always get multiple bids from different contractors to ensure you are getting a good deal

14. Finish Your Due Diligence

There are a number of tasks you'll need to complete during your due diligence period. For example, during this time you will want to:

- Make sure utilities have been paid and there are no outstanding debts.
- Sign various disclosure documents from the Title and Escrow company as they are sent to you
- Open up a checking account and order checks
- Purchase property hazard insurance and (if needed) flood insurance
- Schedule your contractors to get started.

It's also important during this period to determine your schedule for getting the flip completed. As the person in charge of running the flip, you need to ensure work is getting done quickly – which means planning the different phases of the flip with your contractors to ensure there are no "dead days" where nothing gets done.

15. Close on the House

Finally, all your work is about to pay off – but it's not the end of the journey yet – it's just the beginning!

Your Title and Escrow company will schedule a time for you to come in and sign paperwork. Depending on what your state's tradition is, you may or may not actually sit down with the seller at the closing table. At this time, the money from your lender (or your checking account) will be wired to the Title and Escrow company who will be responsible for making sure the correct amount is paid to each party.

Finally, the Title and Escrow company will send the deed to the county to be recorded and the property ownership will officially pass on to you! Congratulations – you are now an investment property owner! Now, it's time to get to work…

16. Manage the Rehab

Hopefully during the due diligence period you arranged and organized all of this. Your contractor should be ready to get in on day one and knock out the punch list of tasks needed to get the property ready to re-sell.

Your job (unless you hire a project manager) is to ensure the contractors are getting the work done that they are supposed to, when they are supposed to be done. Contractors are notorious for taking significantly longer than they originally said, and without pressure from you, they'll take even longer.

17. Manage the Financials

You'll also need to ensure bills are being paid, including the utilities, contractors, supplies, and other expenses as they add up. Keeping a close eye on the bills will also help ensure you stay in budget. This is by far one of the most frustrating parts of house flipping if you are not prepared. The main piece of advice I have here is this: be organized. Seriously, you'll thank me later if you go overboard on the organization during the phase. There may be hundreds of receipts, bids, documents, and more floating around, but take a few moments every single day to organize them and enter them into a spreadsheet so you can keep track of your spending.

Please don't underestimate the need for systems and organizations in your house flipping business.

18. Make Your Final Punch List

Finally, when all the contractors have finished their work, I usually find it's time to jump in myself and create a "final punch list" of things that a contractor may have forgetten.

No matter how good the contractor is, they will forget some small details. It's your job to go in, create a punch list, and get those things knocked out as quickly as possible.

And don't pay the contractor until this is all done!

19. Consider Staging

Staging is the practice of placing furniture, wall art, knick knacks, and other objects throughout the home to make it look more "lived-in." Although it may seem counter-intuitive, most real estate experts agree that a staged home simply sells much faster and for more money than one that is un-staged.

Although you could hire a professional staging company to fill your flip with furniture and more, you could also save money by heading to your local furniture rental company (the "rent to own" ones) and having them stage the home for you for several months.

If you have a tight budget, consider just installing curtains (you can get cheap ones from places like Target or WalMart) and some cheap house plants from Lowes or Home Depot can do wonders.

20. List the Home on the MLS

Finally, the property is finished and it looks FANTASTIC. It's time to see what all the work has been for – and it's time to list the home for sale. Although you could list it "For Sale By Owner" – most investors choose to list the home with a real estate agent and place it on the MLS for maximum exposure.

You will sign an agreement with a listing agent that spells out:

- The sale price
- The agent commission
- How long the listing will last
- and more.

Before actually listing the home, your agent will likely look at the comparable properties in the neighborhood that have recently sold and come up with a great listing price. Although you looked at the comps when you started the whole process, the real estate market may have changed, so be sure to re-evaluate to make sure you are listing at a competitive price.

21. Have Your Agent Keep Tabs

While the home is on the market, there is not a ton of things you personally can do, besides maintaining the cleanliness of the home and answering questions when they come up.

However, your agent can do quite a bit during this time, so make sure they are! Ask for weekly reports (or better yet, have a phone conversation about the progress at least once per week) and make sure your agent is keeping your property a priority.

22. Get an Offer- Don't Celebrate Yet!

Finally, an offer! It may feel like time to break out the champagne, but don't yet!

In my experience, 50% of offers never turn into sales, so don't count your chickens before they hatch.

Instead, look at the offer for what it is: a business proposal. How does it look, financially? Are they offering enough – or are they sending you a low-ball offer? What about contingencies? Are the pre-approved for a loan? Do they appear to be serious?

Instead of celebrating, sit down and go over the offer with a magnifying glass (figuratively) and talk about it with your spouse, your agent, your partner, and whoever else "needs to know."

23. Negotiate a Fair Price

Chances are – you are not going to simply accept the offer presented (though, there is no rule that says you can't.) Instead, you'll probably want to "counter" the offer with one that is better for yourself. Most buyers and sellers in a real estate expect a little back-and-forth, so don't be afraid to counter with a slightly higher number – most times people won't run for the hills.

The paperwork may go back and forth a few times, and in the end you'll either have a signed deal … or the agreement will simply fail and you'll both go your own ways. Hopefully, however, you find success and can move on.

24. Allow Buyers to Do Their Due Diligence

Just as you had to do your due diligence when you *bought* the property, now your buyer will do the same. During this time, your buyer will probably hire a professional inspector to walk through the property and find every problem they can.
I'll offer the same advice here as I did earlier: an inspector's job is to find *every* problem. Even after a complete rehab, the buyer will likely get back several pages of problems that you will need to address. The buyer will probably ask you to fix the majority of those problems, and the choice is yours as to whether or not you will. If you don't – they may walk away from the deal, so consider each repair carefully and do what you can to keep the deal together.

25. Close on the Sale, Pay Taxes, and Move On

Finally, on the day of closing (or several days before) you will sit down at a big table and sign the closing documents at the Title company. Be sure to look over this paperwork carefully and inspect it for mistakes – which can be common. If you find any errors, immediately address them with the closing agent.

The Title and Escrow company will handle all the payments, accepting the incoming funds from the buyer and paying off the loans that you have on the property, giving you a cashier's check (or wiring your bank payment) for the difference.

One final note about these funds … they are not all yours to keep. Instead, any profit you make needs to be shared with the government when tax time comes. House flipping is generally considered “active” income and therefore taxed at the highest levels. However, with good tax planning, you can often avoid a good portion of the taxes due so be sure to seek out a qualified tax professional BEFORE selling your flip.

Finally, take your profit and sink it into the next flip or use it as cash infusion to buy rental properties or to buy real estate notes. House flipping can be a lot of fun – but it IS active income, so continue to build up your passive income at the same time to build real wealth.