

I'm not a robot

































\$1,200/yr. Property taxes: Property taxes vary depending on where you live. For the research, you'll have to pay and plan accordingly. Elena's property taxes for a year are 1% of her purchase price, or \$2,350. Utilities: While owning a house, you're responsible for paying for water/sewer/garbage, and electricity. Contact your local utility companies and get cost estimates. Let's assume Elena's utilities come to \$200/mo. Homeowners association fees (HOAs): There will be HOA fees if the neighborhood or condominium has an HOA. Read the HOA bylaws carefully. Some neighborhoods have strict property requirements, including paint colors, lawn care regulations, and noise restrictions. Let's assume Elena's unit has an HOA. Let's assume her fees are \$150/mo. Keeping all this in mind, let's assume Elena holds her property for four months or ? of the year: Holding CostsExpenseAmountRenovation costs\$40,000Renovation interest rate\$1,067(40,000 x .08) / 3Hard money loan interest\$6,267(188,000 x .10) / 3Homeowner's insurance\$400(\$1,200 / 3)Property taxes\$783(2,350 / 3)Utilities\$800(\$100 x 4)HOAs\$600(\$150 x 4)Total holding costs:\$49,917 Commissions: Real estate commission is usually around 6% of the property's sale price. That may sound like a lot, but given everything they do, it's well worth it! Closing costs: Closing costs include title insurance, attorney fees, recording fees, transfer taxes, and more. Like buyers, sellers can expect to pay between 2% and 6% of the total price in closing costs. We'll assume Elena is paying 3% again. Selling CostsExpenseAmountCommissions\$24,000(\$400,000 x .06)Closing costs\$12,000(\$400,000 x .03)Total selling costs:\$36,000 Identifying all your expenses is a lot to take in. However, it's necessary to do the math to determine how much you'll walk away with at the end of a sale. Let's add all the costs together and subject from the ARV to determine Elena's net profit for this flip: Net ProfitItemAmountARV\$400,000Total purchase costs\$243,850Total holding costs\$49,917Total selling costs\$36,000Total net profit:\$70,233 After adding everything together, Elena's net profit is \$70,233. If Elena flipped and fixed just two homes with these margins, she'll make six figures before taxes for the whole year! A good investment begins with a solid plan built upon solid math. Quickly and efficiently analyze a potential real estate investment using BiggiePockets' investment calculators. We're here to help you maximize your profit while lowering your risk—no matter your strategy. When you flip a home, getting a traditional mortgage isn't a great option for most investors. While you have some traditional loan options, such as renovation and construction loans, you're usually better off with a short-term loan. Traditional mortgages are bound by the guidelines of Fannie Mae and Freddie Mac, which are government-sponsored enterprises that purchase real estate notes from lenders. If traditional lenders want to sell a note, they have to abide by Fannie and Freddie's rules, and many distressed properties (the best ones to fix and flip) fail to meet these requirements. That said, your main options include: A hard money loan is a short-term loan you can get from private lenders or individuals, instead of conventional lenders, such as banks and credit unions. Hard money loans accept physical assets as collateral, instead of focusing on your financial history. This collateral is usually the property you're buying, other real estate properties you own, or something else that's tangible and of equivalent value. Keep in mind that, because a tangible asset(s) is involved, your hard money lender can take ownership of them if you default on your loan. A key benefit of hard money loans is that they are secured loans that require you to jump through fewer hoops. Traditional loans have a rigorous approval process that can take a month or longer, while you can get approval for a hard money loan and receive cash-in-hand in just a couple days. Time is money when it comes to flipping houses, so real estate investors often have to move quickly. Also, because hard money loans are short-term (repayment periods often range between 3mos and 1yr), they usually have higher interest rates. In 2022, hard money loan rates are usually around 10% - 12%. Private lenders can be pretty much anyone with extra capital and an interest in investing with you. They can be another real estate investor, your former college roommate, a loved one, an angel investor, etc. Private money loans require even fewer hoops to jump through than hard money loans, and they can be even greater in flexibility. The only true limits are the confines of the law. Bridge loans help you "bridge" the gap between when you need funding and when you secure permanent financing. They are usually more common when you're simultaneously buying and selling a home, but they can also finance your fixing and flipping endeavor. Terms can vary greatly, but most bridge loans share the following characteristics: Loan terms typically range between 6mos - 12mos You need at least 20% equity in your home You need good credit Interest rates range between the prime rate (the lowest rate you can borrow commercially) and the prime rate +2% Portfolio lenders are smaller banks that don't work with Fannie, Freddie, or some other major institution. These banks can define their own lending criteria. In other words, they can lend to anyone they want. That said, most portfolio lenders will still care about your financial situation (they won't want to see a bankruptcy, foreclosure, or large unpaid debts on your credit), but they'll also consider your real estate experience and the specific deal you're trying to get financed. Many portfolio lenders are experts in evaluating investment deals, so if they're confident the investment is solid, they'll be less concerned about the borrower defaulting on the loan. They have already verified that the property value will cover the balance of the loan. Portfolio lenders also aren't in the business of foreclosing on real estate, so they aren't hoping you'll default on your loan. HELOCs act as a second mortgage and are typically used for repairing and renovating your home. However, they can also be useful in other financial situations, like financing a fix and flip. HELOCs usually offer longer repayment periods, better rates, and lower closing costs than bridge loans. Be sure to read the fine print before taking out a HELOC, since some come with prepayment fees. Home equity loans allow you to borrow against your current home's equity, using it as collateral. These loans offer longer-term financing, and you can often get one at a lower interest rate compared to a hard money loan. HGTV shows can lead you to believe that a house flip is easy and glamorous. It's not. You have to do your research to know if you're buying and selling at the right price. The repairs needed require physical labor, and you'll need the right team of people to do aspects of the flip you can't. Also, if things go wrong, you could lose money instead of turning a profit. Here are ten strategies to help you make the most of your flip: Much of your first flip will be a learning experience. Don't make newbie mistakes on a luxury property. Look for homes with lower price points to start. They're easier to maintain, and much easier to sell. Also, when something inevitably goes wrong, it won't hurt your pocketbook as much as if you were flipping a small mansion. House flipping is a numbers game. If your potential buy breaks the 70% rule, it's not worth it. When you pay too much, you can lose money on a property. Even if you see amazing potential in a fixer-upper, you have to remain objective. Sometimes, your dream flip just isn't worth the financial risk. Be conservative when estimating how much you think things will cost. Expect your renovation budget to be higher than anticipated, your hold time will be longer than planned, and your sale price may be lower than desired—just in case. Not even the most experienced house flippers can accurately predict these factors, so expect that things may cost more than you anticipate. The mantra of real estate especially holds true when flipping houses. Look for distressed homes in popular or up-and-coming neighborhoods. In our house hacking guide, we tell hackers that they should buy homes in neighborhoods they'd want to (or could want to) live in. The same advice rings true here. Zillow, Redfin, and other popular sites that use the multiple listing service (MLS) can get highly competitive, especially if you're looking in a popular area. You can still score an amazing deal, but these shouldn't be the only channels to use. Look for email lists for properties via wholesale and auctions, search for pre-foreclosures, and befriend real estate agents constantly eyeing the market. Speaking of competitors, look at other competing properties in your area. Do they have vinyl floors or hardwood? Do they have cheap countertops or granite? Do they have white appliances or stainless steel? You want your products to be as nice as your competitors, with one or two extras to make your unit more desirable. Having the nicest house in the neighborhood might be a point of pride, but it won't optimize your profits. Not only does over-renovating eat into your gains, but most buyers aren't willing to pay for the nicest property in the area. That said, never skimp on quality in a renovation, either. If a prospective buyer sees you cut a corner, they will assume you've also cut others. Strike a balance between putting out a quality product without overspending. Motivated sellers are another amazing, often underutilized channel. Run campaigns through direct mail, Google, social media, and/or email marketing with targeted ads that'll engage sellers. You can avoid bidding wars with other flippers, and score amazing deals—especially when you find sellers that want to be done owning a property. In many cases, this is great for relationship building and your personal brand. If you can really help someone, they're likely to let others know how. If marketing isn't your forte, hire an experienced team to help! You can renovate the most immaculate kitchen anyone has ever seen, but if your lawn is patchy, yellowing, or diseased, many potential buyers won't step through the front door. Curb appeal is critical, so maintain your lawn right from day one. Soil, sod, weeds—do whatever you need to do to ensure your property's exterior is as beautiful as its interior. Damaged lawns can take a month or two to bounce back, so don't make tending to it an afterthought. Remember your power team? Put them to work! The money you'll save by outsourcing projects that you're not proficient in can make a huge difference. If you don't already have a network of agents, general contractors, electricians, painters, etc., it's time to build one. You shouldn't invest \$20,000 in a stock because you like the name. You do rigorous research, and learn as much as you before making a big financial decision. Approach investing in real estate the same way. Here are a few helpful sources to get you started: Have an exit plan in place before purchasing a fixer-upper. You can do this by: Having perspective buyers in mind Working with a real estate agent who has buyers in mind Planning to sell the property to another investor You can also hold onto the property, rent it out, and enjoy a stream of passive income. If you go this route and take out a loan, we recommend switching to a conventional mortgage to reduce your interest rate. When you sell, take the net profit and knowledge you gained—but don't forget that you owe taxes on those net gains. As a house flipper, you're buying and selling a commodity—just like if you were selling furniture, clothing, or cars. You'll likely pay the same percentage in taxes as if those gains came from income from a full-time job or another type of business. You'll likely have to pay an additional 15% in self-employment taxes on at least part of your income. We highly recommend consulting with a qualified accountant or CPA who can help you structure your business in a way that allows you to pay the least taxes possible. Even after paying taxes, if you followed the 70% rule like Elena did in the example we used, you're going to make a good return. You can use profits to look for another property to invest in. The experience you gain when house flipping is invaluable. The better you get, the more money you can make. Are you ready to start house flipping? Check out some of our other helpful resources below!