

What is House Flipping?

House flipping is the process of buying a house and then selling it at a profit within the shortest time manageable. An investor is aiming to make a good sum of profit within a very short period of time, thus the word flipping.

What is the Difference from Real Estate Investing?

Buy and hold real estate investment (oftentimes termed “land lording”) on the other hand, means buying a house or property, holding it for a period of time thereby creating cash flow through rental income. The buy and hold real estate investor may at some point in time sell that property at a profit or he may keep it forever.

How to Start?

Rule #1: Research

If there's one thing that is critical to your success in flipping houses, it's doing exhaustive research on the geographic areas prior to implementing your flipping plan. If you buy a property in a run-down area with little historical price appreciation, then your target buyer is going to most likely offer below market price.

Rule #2: Network

The fastest way to get your foot in the door flipping houses is to get to know other real estate investor in your own area. When you are first starting, it's important to know what you know, but even more important to know people who know.

Rule #3: Find Investors

Without someone to lend you money for the purchase of the house, you'll have a difficult time getting your house flipping career started. You can find investors at REIA meetings, networking groups and chambers of commerce. You can also find investors by asking friends, family, neighbors and business associates.

Rule #4: Start building your fix and flip team

This is an area where many people that are new to real estate investing are not so sure about. Fixing and flipping is not a solitary endeavor. Although the reality shows may make you think that it is, building a competent house flipping team is essential to your long-term success flipping houses.

Rule#5: Start locating properly

Your real estate agent on your house flipping team is likely the best resource for you to locate good property deals, but you need to be careful. Real estate agents make money by buying and selling property – not by turning a profit on your house flips. It's extremely important to educate yourself and talk to them about your plan for buying properties and how you're going to fix and flip them.

Rule #6: Analyze the deal

One of the best ways to determine the value of a property is to compare it to other properties that have sold in that neighborhood that are similar to the property that you are thinking about buying. This is what is referred to as “comps”.

Rule#7: Make the offer

It stands to reason that you can't fix and flip a property unless you actually buy it. This is where fear really manifests itself. This is where the rubber meets the road and you need to overcome that fear and actually make an offer,

Rule#8: Manage the rehab process

Just like when you bought the property using a formula to control your purchase, controlling your rehab costs is just as important. Using general contractors is a great way to manage the rehab if you can afford them.

Rule #9: Sell your property

You've worked hard and now it's time to realize the profits. This is where all your hard work really pays off.

Essential House Flipping Tips

Tip #1: Remember ARV

ARV (or after repair value) is the price you sell a property for when you've completed the rehab. Make sure you revisit the ARV with your real estate agent before you put the house in the market to make sure the ARV is still current. If the market has changed, you may need to adjust ARV up or down.

Tip# 2: Use the 70% Rule

To make sure you profit on every deal, take your ARV and multiply it by 70%. Then deduct the cost of your repairs. What you have left over is your MAO (or maximum allowed offer) – this is the maximum price you should pay for the property. Always stick to the 70% Rule!