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# Flipping Houses

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**Ralph R. Roberts**

House-Flipping Expert and Author  
of *Foreclosure Investing for Dummies*  
with Joe Kraynak and Kyle Roberts



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**by Ralph R. Roberts**  
**Foreclosure expert and author of**  
***Foreclosure For Dummies***  
**with Joe Kraynak**

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## Flipping Houses For Dummies®, 4th Edition

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, [www.wiley.com](http://www.wiley.com)

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Published simultaneously in Canada

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Library of Congress Control Number: 2022931228

ISBN: 978-1-119-86101-0; ISBN: 978-1-119-86102-7 (ebk); ISBN: 978-1-119-86103-4 (ebk)

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# Introduction

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**M**aybe you know somebody who buys and sells houses and makes as much money on a single transaction as you earn in a year. Or perhaps you caught an episode of one of those house flipping TV shows that demonstrate just how easy it is to buy a house for \$250,000, fix it up for another \$75,000, and sell it for a half million bucks in a matter of days. Now, you want in on the action. You want your slice of that capitalistic cannoli.

But where do you start? You can't imagine where you'd be able to get your mitts on the cash you'd need to finance a flip. You have no idea where to start looking for undervalued properties, and even if you could find a suitable house to flip, your expertise in the field of home repairs is limited to plunging the toilet. Surely you're not qualified to invest in the complicated world of real estate.

Well, it's time to stop all the negative self-talk and start reading *Flipping Houses For Dummies*. I started out with \$900 that my grandmother gave me in the early 1970s. From the ripe old age of 19 to the present day, I've flipped one house after another and earned millions of dollars along the way. It wasn't easy. Some of my flips actually flopped. I didn't profit from every transaction. I did, however, have a plan in place and the sticktoitism (pronounced stick-to-it-ism) to successfully execute it. By following through, I was able to succeed, and so can you. (By the way, *sticktoitism* describes the determination and dogged perseverance required to build wealth in real estate. I could use *sticktoitiveness*, which actually appears in the dictionary, but I like my word better.)

## About This Book

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Unlike other books, TV shows, and late-night-TV gurus, this book doesn't promise an easy, risk-free way to score quick cash by flipping houses. Instead, it takes an honest look at the practice of flipping houses.

In this book, I reveal what I've learned in more than 40 years of flipping houses and working with buyers, sellers, and other real estate investors and professionals. I show you how to do everything from building a team and securing the cash you need to finance your venture to finding undervalued homes and negotiating

the price and terms that improve your chances of selling at a profit. I guide you through making renovation decisions that promise to deliver the most bang for your buck, and I show you how to spruce up a home to draw in more potential buyers and drive up the price.

I don't want to see you get in over your head or blow your entire life savings on a failed real estate investment, so throughout this book I provide plenty of time- and money-saving tips, cautions to help you avoid catastrophe, and pointers to keep your projects within budget and on schedule. I steer you clear of risky, unethical, and illegal ventures and encourage you to wade in slowly and remain well within your comfort zone. After you successfully flip a few easy properties, you quickly become aware of when you're ready to take on bigger projects, and by that time, you'll no longer need my advice.

My goal is to help you decide whether house flipping is for you, and, if it is, I provide you with the knowledge and insight you need to succeed. Flipping houses can be one of the most rewarding and profitable ways to invest your time and money. This book shows you how to do it right, minimize risks, and maximize your potential profit.

Although I encourage you to read every single word of this book from start to finish, you're welcome to skip around to acquire your knowledge on a need-to-know basis and to completely skip the sidebars (in shaded boxes). Although the sidebars may be too fascinating to ignore, they're not essential.

One brief note: Within this book, you may note that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it's noted in the text, pretending as though the line break doesn't exist. If you're reading this as an e-book, you've got it easy — just tap the web address to be taken directly to the web page.

## Foolish Assumptions

If you're reading this book, I assume you're a homeowner. I wouldn't buy a car from a salesperson who didn't drive, and I wouldn't buy a house from someone who rents an apartment. When you own your own place, you pick up some street smarts about the value of a home, its emotional effect on people, its value as an investment, and the work required to properly maintain it. If you're not a homeowner, sell this book and put the proceeds toward a down payment on a house. Come back in a couple of years. I'll be waiting for you.

Other foolish assumptions I've made include

- » **You're of sound mind and body.** You can be a little flighty and out of shape, but if you can't make rational decisions or talk coherently on the phone, or you don't have the physical strength and energy to get off the couch, house flipping may not be for you.
- » **You're interested in residential, not commercial, property.** Assuming you're new to this house flipping thing, focus on the type of property you would buy as a homeowner. Later, when you're more experienced, you can venture into the world of commercial real estate.
- » **You're prepared to learn from your mistakes (and mine).** I can't guarantee that you'll profit from your first flip, but I can guarantee that you'll make mistakes. Consider them an essential part of your education. This book was made possible by all the mistakes I've made. Without those mistakes, I'd have little wisdom to impart. The more you take away from the mistakes I made, the fewer mistakes you have to make yourself.
- » **You want to flip properties legitimately.** Con artists often flip properties to scam buyers and lenders. I'm not a con artist, and I denounce illegal, unethical flipping. By flipping legitimately, you stand to earn much more than a low-life con artist ever will, and you keep your reputation and integrity intact.

## Icons Used in This Book

Throughout this book, icons in the margins highlight different types of information that call out for your attention. Here are the icons you'll see and a brief description of each.



REMEMBER

I want you to remember everything you read in this book, but if you can't quite do that, then remember the important points flagged with this icon.



TIP

Tips provide insider insight. When you're looking for a better, faster way to do something, check out these tips.



WARNING

"Whoa!" When you're buying and fixing up a house, it's easy to get a little carried away and blow your entire budget on garden gnomes. Before you get too carried away or engage in any riskier-than-average house flipping endeavor, read the text marked with this icon for advice on when and how to proceed with caution.

# Beyond the Book

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In addition to the abundance of information and guidance on flipping houses that I provide in this book, you also get access to even more help and information online. Go to [www.dummies.com](http://www.dummies.com) and search for “Flipping Houses For Dummies Cheat Sheet” for a free cheat sheet that accompanies this book. It includes a checklist for revamping a quick-flip property, offers tips for financing flips, and more.

# Where to Go from Here

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Think of this book as an all-you-can-eat buffet. You can grab a plate, start at the beginning, and read one chapter right after another, or you can dip into any chapter and pile your plate high with the information it contains.

If you're looking for a quick overview of house flipping, check out Chapter 1. Before you even start house hunting, check out Chapter 3 to discover how to build a strong support network and Chapter 4 to find out how to finance your flip — you need cash and plenty of it to flip a house. Chapter 11 helps you determine how much you can afford to pay for a property to increase your odds of walking away with a profit. And the chapters in Part 3 are indispensable for helping you track down potentially profitable properties and negotiate the purchase price and terms. Wherever you choose to start, you'll find plenty of useful information and guidance.



# 1 Getting Started with House Flipping

## IN THIS PART . . .

Get up to speed in a hurry on the process of flipping houses.

Flip houses the right way and avoid fraudulent flipping schemes.

Find out whether you have what it takes to flip houses in terms of time, money, and mindset.

Explore a variety of house flipping strategies ranging from buy-fix-and-sell to buy-hold-and-lease.

Build a dream team of real estate professionals, lenders, and contractors to expedite your flips and cover your back.

Get your mitts on some cash to finance your flips by using your own and other people's money (OPM).

#### IN THIS CHAPTER

- » Understanding the concept of flipping houses and appreciating its challenges
- » Flipping the right way — legally and ethically
- » Developing a winning strategy and the right connections
- » Marketing and staging a house to maximize your profit

## Chapter **1**

# Brushing Up on the Basics

*Progress always involves risk. You can't steal second base and keep your foot on first.*

—FRED WILCOX

**F**lipping sounds easy. You can flip a pancake. You can flip a coin. Without too much effort, you can even flip out. Flipping a house, though, requires a level of knowledge, expertise, and sticktoitism unrivaled by any of these mindless tasks. It requires access to cash, and lots of it. It demands time, energy, vision, attention to detail, and the ability and desire to network with everyone — from buyers and sellers to real estate professionals, contractors, and lenders.

In this chapter, I offer a broad overview of what flipping houses is all about. I introduce the overall strategy of flipping houses — buy low, renovate, and sell a property at fair market value to earn a fair market profit. I also reveal the difference between flipping the right way — legally and ethically — and flipping the wrong way — ripping off buyers, sellers, and lenders for a quick wad of cash.

# Grasping the Concept of Flipping

In investment circles, the secret to success is cliché: Buy low, sell high. This same principle applies to flipping houses. To succeed, you buy a house substantially below market value, repair and renovate the property, and then turn around and sell it at market value — for a profit that makes it worth your time and effort. That three-step process — buy, fix, sell — certainly sounds easy enough, but each step carries with it a host of unique challenges, as I point out in the following sections.

## Spotting distressed properties

Homeowners don't exactly line up around the block waiting to sell their homes for less than they're worth. As a house flipper, your job is to hunt for the homes in your area that are *dontwanners*, as in "The owners don't want 'er." These orphan homes usually appear bedraggled: The yard looks like a weedy wasteland, the gutters are hanging off like false eyelashes the morning after a party, the paint is peeling, and the interior is trashed. These properties are often referred to as *distressed*, and their appearance indicates that their owners are distressed as well — their dream home has become a nightmare.

When homeowners need to shed the burden of a home they can no longer afford or simply no longer want, they may not have the time or resources to repair and renovate it, place it on the market, and wait for months or even a year for a buyer to make a reasonable offer. In such cases, they're often willing to sell at a greatly reduced price to a serious buyer who has the financial resources to close the deal. How do you discover opportunities like this? In Part 2, I point out several techniques for discovering distressed properties and their distressed owners.

## Doing your homework

Flipping houses is a risky venture, but you can minimize risk and maximize profit by doing your homework:

- » **Research the property.** If you're buying a property in foreclosure, probate, bankruptcy, or a similar situation, research the property carefully to make sure you know what you're buying. Research includes a visit to the property and to the register of deeds office to research the title and other key documents. See Chapter 9 for details.
- » **Estimate costs of repairs and renovations.** Knowing how much you likely need to spend to make the property market-ready is the key to knowing how much you can afford to pay for the property and still earn a profit. In Chapter 10, I explain how to inspect a property with an eye for repairs and renovations and estimate the rehab costs.

- » **Calculate the maximum purchase price.** Before you make an offer on a property, you need to calculate the most you can pay for it to earn the desired profit *after* costs, including closing costs, renovation expenses, *holding costs* (interest, insurance, property taxes, utilities, and maintenance), and agent commissions. In Chapter 11, I walk you through the calculations.
- » **Negotiate the price and terms in your favor.** The maximum amount you can afford to pay for a property probably isn't the amount you *want* to pay — you want to pay as little as possible. In Chapter 12, I help you discover various strategies and techniques to negotiate a better price and terms.

## Making a few minor (or major) alterations

When you buy a house at a bargain basement price, it usually requires some tender loving care to make it marketable. In some cases, a thorough cleaning, a fresh coat of paint (inside and out), and new carpeting do the trick. In a matter of days or a couple of weeks, and with a small investment, you can often boost the value of a home just by making it *look* and *smell* brand-new again.

Not all homes are created equal. Other houses require more extensive renovations. You may be able to convert unused attic or porch space into a bedroom; knock out a wall or two to combine the kitchen, dining room, and living room into a great room; install new windows; or even build a second story. In today's technology-centric world, you can measure the house and build a 3D rendering of your property on a computer. Some companies, like landscapers or cabinet wholesalers, are also willing to help you maximize your home's square footage by plugging measurements into a system that generates multiple floor plan options that make the best use of your space. In Part 4, I explain how to assemble and manage a rehab team to do everything from quick-flip cosmetic jobs to extensive renovations and provide plenty of tips to stay on budget.



WARNING

Avoid the temptation to over-improve a property. You may be able to convert a \$100,000 house into a \$1 million mansion, but a buyer who wants a \$1 million mansion will buy a house in a neighborhood with million-dollar homes.

## Reselling your rehabbed property

“You make your money when you buy” is a guiding principle in the realm of real estate investing. But you realize your profit only after selling the house. Assuming that you purchase the property at the right price, avoid overspending on repairs and renovations, and flip in a relatively stable market, you should have no trouble selling the house at a profit by pricing it at or near market value. (See Part 5 for details.)



TIP

To sell the house quickly at a fair price, set a price that's competitive with the prices of comparable houses in the same neighborhood. If the asking price is too high, *holding costs* will chip away at your profit over time.

## Flipping Legally and Ethically

In September 2001, the US Department of Housing and Urban Development (HUD) released FR (Final Rule)-4615 Prohibition of Property Flipping, which made “flipping” illegal.

So why am I writing a book that promotes this illegal activity? Because I'm writing about *legal* flipping, not *illegal* flipping. The word *flip* has a double meaning, as the following sections reveal.

### Flipping illegally

Criminal minds have invented countless ways to milk the real estate industry, and one way is to flip houses. This sinister type of house flipping typically relies on some form of fraud — lying or misrepresenting information. In some cases, the con artists team up with crooked appraisers who artificially inflate home values and then sell overpriced homes to ill-informed buyers.

Another way con artists scam the system via flipping is to build a team of buyers, none of whom intends to own the property for any length of time. They buy homes from one another, increasing the price with each sale. False appraisals or crooked appraisers make the price hikes look legitimate, and corrupt loan officers often expedite the loan approval process. As the value of the property increases on paper, the amount of equity in the property increases. The final buyer takes out a whopping loan to pay the previous owner and then defaults on the loan. The team splits the proceeds, sticking the lender with the bill and leaving a legacy of foreclosures and vacancies.



WARNING

The dark side of flipping destroys credit ratings, raises interest rates, and ruins neighborhoods. Over the long haul, it threatens to squash the American dream of homeownership. It's unethical, immoral, and illegal. And it's not what this book is about.

### Flipping legally: Buy, fix, sell

Flipping the *right* way is a perfectly legitimate strategy for making money in real estate. You buy a property below market value, fix it up, and sell it for more than