

FLIP IT IN 5

(Steps, that is...)

So, you're planning to renovate your investment property. You purchased it at a bargain price and, although it needs a bit of work, you plan to resell it at a tidy profit. Generally, the completion of a few well-selected remodeling projects will add significant value to your property.

However, you'll need to take a few things into consideration.

Local real estate agent and seasoned renovator Ginny Van Oostrom-Willett of Madison's Algin Realty, and renovations specialist Vanessa Reilly of Atlanta's Domo Realty weigh in on the do's and don'ts of a successful fix-it-and-flip-it project.

WRITTEN BY TRACEY BUCKALEW



From YIKES....



...to YES in 5 steps.

Those who follow the real estate market—even fleetingly—easily understand that houses with upgrades (such as new carpet, paint, countertops, or appliances) can command a higher price than does a comparable home with a dated interior. Starting with the blank slate of an empty house can be exciting (yet overwhelming) when choosing which improvements will result in the most value for the cost and effort.

Initially, it may seem obvious that popular upgrades such as granite countertops, tile showers, or thick crown molding would result in an automatically higher sale price, but what if none of the other houses in the neighborhood have those improvements? House flipping is more than simply choosing projects that you find to be aesthetically pleasing. It's crucial to consider the price points and condition of the other homes in the immediate neighborhood. Over-improving the property will ensure that your beautiful upgrades fail to pay for themselves.

1. MONEY MATTERS

Real estate investment can be expensive. And while no money/low down payment financing deals seem abundant, legitimate programs can be hard to find. Once you've found a lender you're confident in, remember you'll be paying interest on that loan daily. Every penny spent on interest will need to be earned back on the property resale.

"As an investor, traditional 'mortgage financing' is not available," explains Algin Realty's Ginny Van Oostrom-Willett. "You will have to seek short term financing, which means higher interest rates. Additionally you will need to include origination fees, appraisal fees, and other items that will be included in the *loan origination costs* charged by your lender to secure the financing."

Financing your own project through a nest egg, self directed IRA, or inheritance? Using cash does eliminate interest on borrowed loans. That's a plus. From that money you saved in interest, deduct the "holding" costs. Property taxes, utilities, insurance, yard maintenance, and Realtor fees (if you're hiring outside assistance for marketing) must be factored in along with the cost of renovation. Then when the property sells (hopefully at a profit), Uncle Sam will collect a Capital Gains Tax that is levied when an investor sells an asset for more than he paid for it. Oh, yes. Buckle in folks, it can be a bumpy ride.

In order to yield the most profit, do the math at the beginning. Know what you can afford to spend on the purchase of the property and the cost of labor and materials for the renovation. Be precise, and be inclusive of a year's worth of taxes, utilities, insurance, and general maintenance. Got your number? Compare that against comparable sales in your target neighborhood. Still in the black? Look for a home within your price range, and **STICK TO YOUR BUDGET.**

2. EDUCATE YOURSELF

Know that the real estate value is predictable within a community, and that it is unreasonable to think you'll be able to purchase a \$50,000 home in a \$100,000 neighborhood, and resell at \$200,000. That being said, there are more factors to consider. Set yourself up for success, and research fair-market value for comparable properties in that area and build a plan to renovate up to (or only slightly over) that price point.

"A local Realtor can give you a good idea of 'fair market value' subject to the completion of your project...and the best thing is, they will do it for free!"

~ Ginny

Researching the neighborhood to determine the average sales price, as well as the top-dollar price will help you determine your profit margin. If you recognize a good deal in an up-and-coming neighborhood, you may want to consider renting it for a year or so until the community expands. Conversely, if the sales in your area enjoy a short time on the market, you may choose to do a less intensive renovation to take advantage of the competitive climate.

**Who is Your Target Buyer?
...Renovate with them in mind.**

What makes the neighborhood attractive to a buyer? Ginny recommends introducing yourself to the current neighbors. “Let them know what you are doing, and ask why they love the community. They will be helpful in helping you determine your target demographic.”

“Everyone wants to pick their own neighbor. And if they feel you are improving the neighborhood, they will be sure to tell potential homebuyers how great you are and the neighborhood is, when they stop by to look. Use the neighbors as your ‘welcome wagon.’”

~Ginny

If it boasts a great school district, your buyer will likely be a family with young children. Families enjoy communal spaces, so focus some of your attention toward making the common areas (kitchen and family room) open, attractive, and inviting. Be sure there are enough bathrooms, and utilize the Jack-and-Jill concept when needed.

Homes in a community of older residents will generally be more attractive to those with restricted

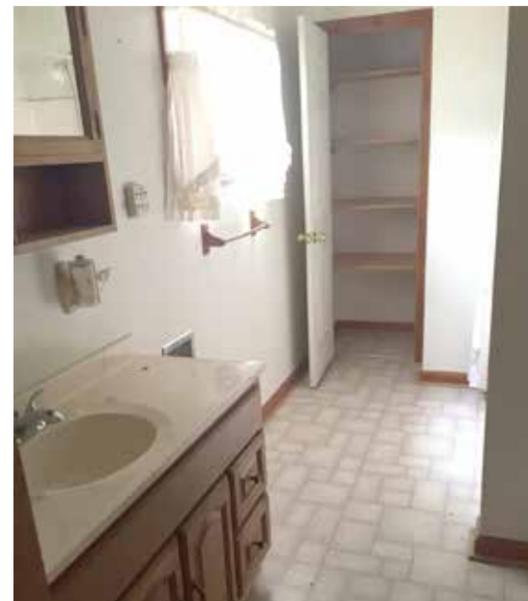
mobility if the residence is situated on one main level, so you may want to pass over a home with multiple levels. Stairways or tight spaces will need to be widened and outdoor maintenance kept to a minimum. Trade grass for patio space.

Is the home in an area that would be desirable to first-time buyers? Remember that upgrades are often a matter of personal preference. Focus on projects that make the property functional as well as attractive (the basics), but leave the personal touches to the new homeowner. They’ll want to put an individual spin on their first home.

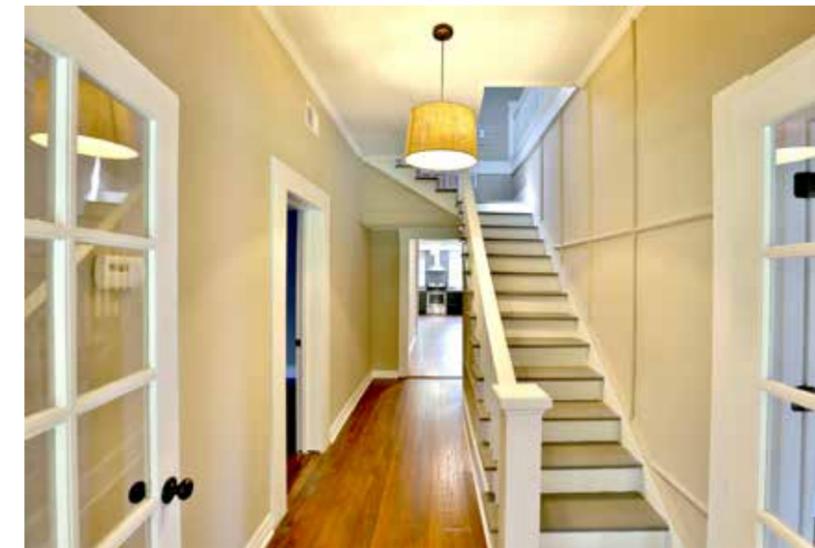
3. THE TO-DO LIST

“Get a good home inspector to go over the home prior to purchase if possible, and get to know that home inside and out,” insists Ginny. “All non-working mechanicals and code violations need to be repaired. This also includes plumbing leaks, water intrusion, electrical issues, and rodent intrusion. This is important so that the new buyer feels comfortable in paying ‘top dollar’ for the house. A good inspection on the ‘sell’ side means a happy homebuyer.”

Due diligence cannot be underrated. “Talk to the neighbors, if possible about the property and any past ‘situations,’” advises Vanessa Reilly of Domo Realty. “And always get a survey,” she adds. “I once bought a house to which I’d planned to build an addition. We were in such a hurry to renovate and close that I failed to get a survey. Had I done my due diligence, I’d have known there was a creek setback line which prevented any kind of new construction or add-ons to the property. It was a hard lesson to learn.”



Hardwood floors and remodeled kitchen and baths updated this aged farmhouse. Ginny’s choice of paint color and new lighting added a fresh look with irresistible appeal.



Photos courtesy of Algin Realty

The Common-Sense Basics

“These will also be a requirement of the new homebuyer’s lender!”

~ Ginny

Add features that bring the property up to the standard of other homes in the area, i.e., a dry basement or crawl space, solid walls and floors, a good HVAC system, or a roof that doesn’t leak.

In an upscale neighborhood, your list would be amended to include things that are common to that neighborhood, such as solid surface counters, tiled showers, hardwood floors, tiled backsplash, upgraded lighting packages, finished basements, or a certain number of bathroom/bedroom ratio.

It’s important to realize that making these renovations doesn’t add substantial value to the property over and above the simple assurance that your property will at least be as valuable as others in the same neighborhood.

Boost Curb Appeal

A home that is visually pleasing will entice prospective buyers to investigate your property. Relatively simple fixes with a large visual impact, new appliances, paint or carpet yield a big bang for the buck,

“An inexpensive element that is always a success is outdoor living space.

Add a small flagstone patio or a small firepit and make the backyard scream buy me!”

~ Ginny

as does a nice green lawn or pretty landscaping.

Additionally, pleasant aromas such as freshly baked bread, pies or cookies have also been shown to have noticeably positive effects on perceived value. Ginny agrees. “First impressions are everything, so the better the house looks and ‘feels’ the higher the offer. And remember...never put a house on the market before it is ready!”

Easy Added Value

Needless to say, projects that can be counted on to add considerable value to any home are a good choice. Updated kitchens, bathrooms or windows are some of the most popular renovations and among those considered to be money well spent. Along with the addition of actual living space or new siding, most of the cost needed to make these types of improvements can be recovered at resale.

“Every buyer wants an ‘open floor plan.’ It’s a MUST in today’s market.”

~ Vanessa

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Want vs. Need

Here’s where whittling down the project list gets tricky. Unless every other house in the neighborhood has a hot tub, your potential buyer may not be willing to pay more for the pleasure of that luxury. Stick to tried-and-true amenities that fit into the demographic of your neighborhood.

4. LABOR

Not intimidated by DIY? That’s good! Sweat equity is what yields the most profit. If you’ve got a good handle on the basics of laying carpet, changing plumbing, hanging drywall, or installing a bathroom tub, your skill set will maximize the profit margin. If your overall plan includes the hiring of professionals to do the work, the chance your venture will yield a profitable result will be significantly reduced.

“For bigger projects, don’t forget to pull a permit, if needed. This is important for resale, and an inspector check if you’ve got one!”

~ Ginny

“There are all types of ‘little projects’ you can do yourself that are cost effective and add major impact,” adds Ginny. “Distressed cabinets, adding an old wood accent wall, using barn doors... these ideas are hot today.”



Photos courtesy of Domo Realty



Vanessa loves renovating Mid-Century Modern homes. Give her a 1960s ranch with vaulted ceilings, and she’ll turn it into a showpiece. For her, Modern and Mid-Century Modern design is more appealing, simple and streamlined. Vanessa’s motto: Less is more.

Although she appreciates traditional design, she has always been drawn to the clean lines and open spaces of the modern movement. “It gives me peace of mind,” Vanessa begins. “Close your eyes and picture alabaster white walls and big picture windows. Ready? Now repeat after me: ‘Oommm...’ Namaste.”

5. PATIENCE, PLEASE.

Realize that it may take months to find and purchase the right property, and that the renovation itself (including inspections and any repairs/adjustments that may be needed), along with the time it takes to sell, is not for anyone in a time crunch. Add a significant amount of time for commuting and meeting with buyers, if you'll be handling that yourself.

“Good work isn't cheap and cheap work is NOT good. If you try to go cheap in the beginning to save time or to save a dollar, you'll lose that same dollar in decreased value, or in having to redo the work at the end.”

~Vanessa

If a sub-contractor is needed to complete a project, resist the urge to hire the first one. Review bids and references from multiple sources.

Vanessa agrees on

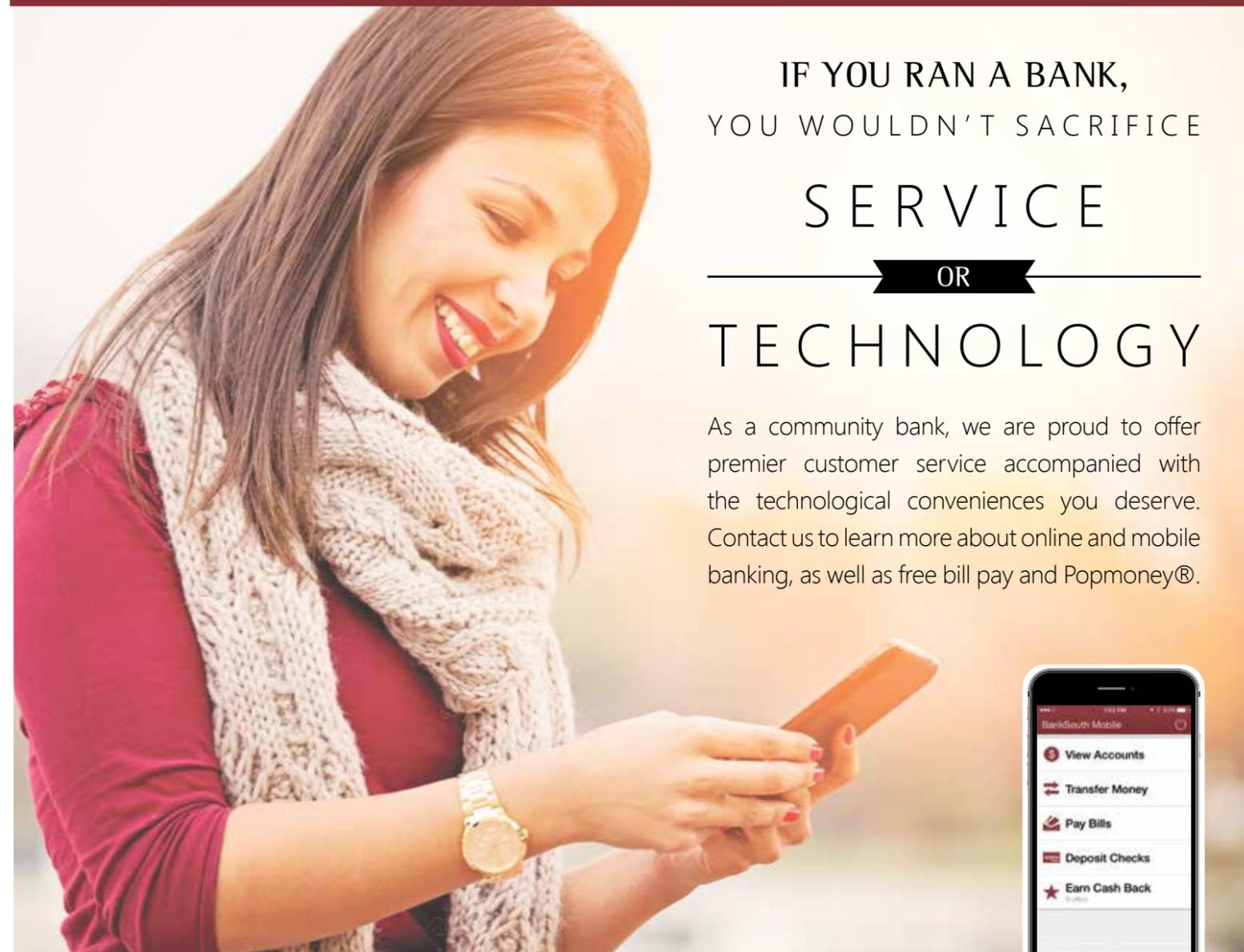
the value of choosing the right individuals. “Every renovation has it's mistakes, but I think the biggest way to avoid time consuming and expensive errors is by aligning yourself with honest, good sub-contractors who will do the job right the first time.”

Finally, be reasonable with time frame at which you believe you'll sell the property. Selling houses takes time. In this, as with most things, the old adage that good things come to those who wait holds true.

Be precise, be informed, and be patient. Your reward will be the satisfaction of a job well executed, as well as a tidy profit.



Photos courtesy of Domo Realty



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YOU WOULDN'T SACRIFICE
SERVICE
OR
TECHNOLOGY

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