The Truth About Property Investing and Flipping

And How to Make the Most Money Possible!

Let's start with the bad news. The bad news is that most new investors have a misconception about buying property for the purpose of flipping and think it's far easier than it really is. More bad news is that most investors believe foreclosed properties are their best investment for real estate flipping, and this generally isn't true. "Cheap Foreclosures" are often a misconception. However, there is a light at the end of the tunnel. If you work hard and seek out the best properties, you can not only succeed, but you can create phenomenal wealth.

What are the Misconceptions?

<u>Misconception #1</u> - <u>Banks will sell foreclosed properties REALLY cheap</u>

Many buyers mistakenly believe that foreclosed properties are bargains and that lenders will sell a foreclosed property at half or less than half the value of the property in order to quickly get the property off their books. Unfortunately, this simply isn't true. Banks and Lenders are very astute investors, and while they do not want to hold onto non-performing properties, they likewise wish to get full market value for every property in their portfolio.

Everyone has heard the story of a relative or friend who purchased a foreclosed property at 10 cents on the dollar and fixed it up. Unfortunately, most of these stories are exaggerated and the really good deals are few and far between.

When a lender forecloses on a property, the lender will have at least one local appraiser evaluate the property to determine that property's "Fair Market Value". Some lenders ***may*** sell the property at 5-15% below the "Fair Market Value" in order to dispose of the property quickly. Other lenders will hold out for the appraised value and will not accept any "low" offers.

So what is the benefit of buying these properties if you can't buy them cheaply? There are several. Again, some lenders will sell properties at 5-15% below market, which gives you immediate equity. If these properties need repairs, renovations, or reconditioning, the Fair Market Value of the property will take into consideration the cost to complete these repairs as well as a reasonable value for the buyer to have done the repairs. In other words, if the home needs painting, the appraiser may value that painting at $2000, and may reduce the Fair Market Value of the property by $3000 or $3500 because the buyer will have to go through the effort of hiring someone to make this repair. In order for you to make profit on the property, you would have to be willing to do much of the work yourself. If you were willing to paint the house, the paint and supplies might cost $350, but you'll already be ahead by $2650 to $3150 in value when you're completed.

<u>Misconception #2</u> - <u>You can double your money by fixing up a house and re-selling it</u>

While it's true, we've had clients double their initial investment in a property when they sell it, it's rare that an investor will make a killing on one property. The object is to make a good return and keep re-investing so you can build a nest egg. If you make an average of $6000 per house after all expenses, and you'd like to make $60,000 per year from your real estate investing, you must turn over 10 homes each year.

The investor may obtain the property at a much lower purchase price, if the repairs or renovations to the property are significant. As we explained, if the property needs paint, the appraiser will reduce the Fair Market Value accordingly. If the property needs carpeting, kitchen cabinets or flooring, electrical upgrades or other renovations, the appraiser will likewise reduce the value. If you, as an investor, can handle the renovations and repair the property yourself, and there are enough repairs, you can often make $5000, $10,000 or $15,000 on each property.

Additionally, homes that show "like new" will often sell for far more quickly and for more money than homes that are simply in average condition. Making a home sparkle may dramatically increase the return an investor will make on a property.

In order to make a smart buy, have your real estate professional help you determine what the Fair Market Value of the property will be "fixed up" and determine what it will cost you to repair the property and resell it. Then attempt to have your real estate professional negotiate to purchase the property lower than Fair Market Value to give you the best return possible.

Misconception #3 - HUD Properties are one of the best investments for real estate investors

While it's true that HUD foreclosures can be great investments, it's also true that they are difficult for investors to buy at the right price. The Department of Housing places these properties up for sale in a "bidding" situation where they accept bids until a certain date and then take the highest net bid to them. Any HUD authorized real estate professional can show you these properties and write your bid.

Most HUD foreclosures are initially open only to live-in owners. A non-live-in investor may not bid during these initial bid periods. If you attempt to "fool" the system by pretending to be a live-in investor, the consequences can be very severe in civil charges and fines. Many of the best properties sell during this initial offering.

Once the initial offering is over; if no offer is acceptable to HUD, the bids may be opened to investors. On HUD’s “bid” site, www.hooksvanholm.com, these properties are listed as "available to all buyers". Please keep in mind that these properties, like all foreclosures, are appraised by licensed appraisers in order to determine the property's Fair Market Value. HUD has greater latitude in their selling prices and therefore can sometimes have better buys than conventional banks.

The Best Sales - The best prices for investors are often not obtained on foreclosures, but rather from Auctions and Estate Sales where the property has not been formally appraised. Other great properties are foreclosed properties that have been on the market for a significant period of time and have been reduced in price. Many investors view foreclosed real estate when they first come on the market for sale. If the property doesn't sell initially, lenders will often lower the property prices in 30 or 60 day increments until the properties sell. Often these properties that have been on the market for a while may not be revisited by large investors.

One last note, **When you're buying to FLIP the property**: Make sure you calculate the amount of time it will take to dispose of the property once it's fixed up. Your carrying costs must be included in the costs to purchase the property. Too often investors forget the cost to maintain any credit line payments, taxes, insurance or utilities for the time period of holding the property.

Good luck in your investment search. More property flipping information and techniques can be found on our website at www.REInvestmentDigest.com .