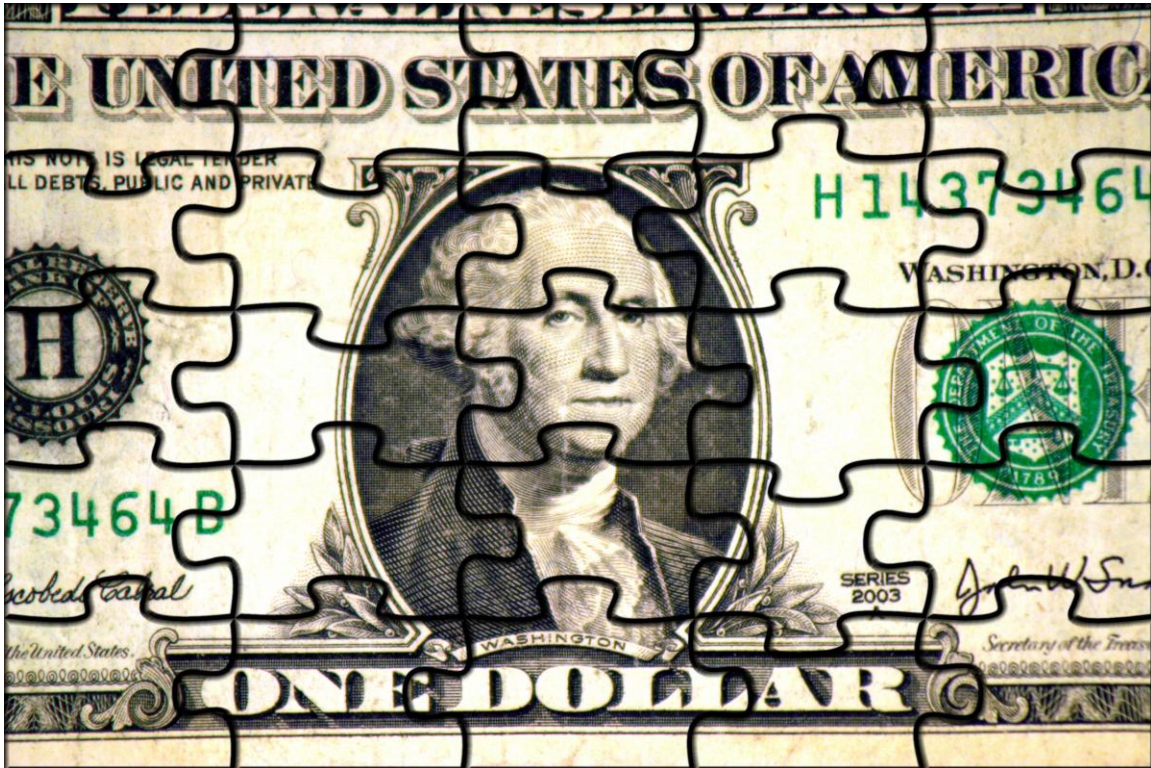


# The Ultimate Guide to Determining How Much It Costs to Flip a House



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A big question people always seem to ask about house flipping is how much it costs to flip houses.

As there are so many factors that go into buying, fixing and flipping any one house, the answer to this question really depends on a lot of factors, so it's hard to say exactly how much it would cost you on any singular flip. Depending on your market, your financing, your rehabilitation costs and many more factors, the cost can vary from tens of thousands of dollars to hundreds of thousands of dollars.

So in order to best answer the question of how much it actually costs to flip a house, let's look at all the cost components that go into house flipping.

But in order to keep all your costs in context, it's best to start with the end in mind and examine the back end first, then move forward. And we do this through the use of ARV.

## **ARV**

In order to figure out how much it will cost to flip a house, you first need to know how much money you can get for the property itself when it's finished and ready to be put on the market. When you know this magic number, all your other costs associated with the house flip will start to make a whole lot more sense.

The magical number that you base all your math on when figuring out how much a house flip will cost is called ARV or after repair value

By far, the best way to figure out ARV is simply by comparing similar properties to yours that have sold in the same area in your target market within the past 90 days. These homes are known as "comparables" or "comps".

A local realtor can help you determine this very quickly, which is one of the reasons why it's so important to formulate your own team of professionals who will help you out on all your house flips. You can also find comps by doing the research yourself using sites like Zillow, Movoto, Realtor.com and Trulia.com that can help you with this.

But it's always good to cross reference your research with the information. A good realtor gets through the Multiple Listing Service or MLS.

When determining your ARV, it's good to keep a few things in mind:

- **Sales Only:** Only look at houses sold and not ones just for sale
- **More Recent, the Better:** If possible, look to houses that have sold within the last 6 months – and ideally 90 days or less
- **No Comps? WARNING:** If you run comps that have no recent sales of similar properties, this may be a warning sign as the area may not be in demand. It could also mean that properties are just not selling because of over inflated prices.
- **Use Square Footage When Necessary:** If you simply cannot find another property similar to yours, find a similar property with similar amenities to yours, and divide the sales price by the square footage about house. Then multiply the price per square foot by the number of square feet in the property you want to flip. If all things are equal, this is fairly effective, although having really good comps is much preferred.
- **Bedrooms and Bathrooms Matter:** Adjust the price upward or downward based upon bathroom and bedroom numbers
- **Similar Lot Size:** Look for other properties that have similar lot sizes in your comps, factor in water views as well
- **Compare Amenities:** Look for updated features like newer kitchens, heating systems, roofs or new baths, then adjust upward or downward accordingly

A good realtor should be able to do all this for you, especially one who knows the market and has sold many properties in the past few years. Of course, there will always be adjustments necessary – but you can't beat the service of a great real estate agent when you're flipping houses.

## How Much It Costs to Flip a House: The List

Now that you know your ARV, now let's get into the real costs behind house flipping. This is by no means all inclusive list as your costs may vary somewhat based upon the type of market your and, the type of house that you flip, the kind of money and rates you he get when borrowing, as well as the economic conditions in your market.

### The Big One: Rehab Costs

Rehab costs in your house flip will vary widely based upon how much work needs to be done. If you're just starting out, it's probably best to start with houses that don't need extensive repairs, although these properties are more challenging to find. The best kinds of houses that we choose are the ones that nobody else wants - and are just total disasters. Any house that's just short of being condemned by the town is a great one for us to buy!

I wouldn't necessarily recommend this to the newbie house flipper, but it's a formula that's worked extremely well for me and my team for the past four years. So here's how we do it:

- Set a Budget

One of the most handy forms, you'll use it as a house flipping professional is called a budget repair form. This is simply an Excel document that itemizes each repair that needs to be done within the property itself. It's not very complicated – just have your contractor, fill it out in similar to you prior to the start of the rehab.

A budget repair form is a great way to keep track of all the repairs needed as viewed in a single snapshot. When you are buying the property itself, you probably use something similar to this her to estimate whether or not the property was a good purchase.

If you're using a general contractor, make sure he gets estimates from multiple subcontractors like electricians, plumbers, framers, roofers, finish carpenters and painters.

The final budget is what each component of the rehab must stick to in order for the project to be completed on time, on budget and inshore your proper profit margin.

- Set a Time Line for Completion

After you receive all your estimates and finalized the scope of work and pricing with each of the subcontractors, it's time to plan a time line for completion. You and your

contractor must do everything in your power to hold all the subcontractors accountable for the prices they gave you so you don't go over the budget.

When you first do the walk through evaluating all the repairs being done, ask them to make sure they don't leave anything out because you are counting on them to keep the price they quoted you and your contractor to begin with. If there are issues they had not anticipated in the original budget (and trust me, these always happen), you need to get a second estimate as quickly as possible so the budget is adhered to. If you catch this issue early enough, simply use the higher of the two numbers, and then factor it into your budget projections.

The idea here is not to try to anticipate as much as possible any and all unexpected repairs. When you're rehabbing extremely run down old houses like we do, there will be times when you run into something you didn't expect and these unanticipated repairs will cost you extra. It will happen. But the point is to try to avoid being surprised as much as possible and have a solid budget and plan to deal with it when these events do occur.

- Use a Scope of Work

You have your budget and timeline for completion and now it is time to get the rehab done. One thing that I did a lot, especially when I was first starting flipping houses, is I would have a meeting with all the subcontractors and the contractor and review the entire schedule of the repairs and discuss the best order for everyone. This really does help to get all the subcontractors to work together so the project ultimately goes as smoothly as possible.

At this meeting with all the subcontractors set the best logistical order for all to work. Set a schedule with dates and give to all the subs and tell them both you and your contractor expect everyone to meet the dates that they helped determine. Further, make sure each subcontractor has all the other subcontractors' cell phone numbers so they can communicate with each other independently of you and your general contractor. Also make everyone on the rehab team sure is kept up-to-date on any changes or delays in the project. Any major changes to the schedule should go through your general contractor, or you.

For example, you don't want the framing crew telling the electrician they didn't get done in time and tell electrician to come back the following week. Any kind of changing to the overall schedule is strictly forbidden without your general contractors, approval. Even though the framing crew may have had the best intentions, they just cost you a week delay, which will mess all the other subcontractors who come in after the electrician. As you'll see when we get into the "soft costs" section of this guide, time is money – and the more time you spend on the rehab of your project, the more money it costs you.

This is why it's so important for all the subcontractors to be held accountable for their time and scope of work as they've outlined in their initial work order. And it's up to you and your general contractor to make sure everyone does what they've promised - and most importantly that they do it on time and on schedule. The more the subcontractor schedule gets altered or delayed, the more it costs you.

The main idea here is to get your flip rehabbed as quickly as possible without sacrificing any quality – so you can get the rehabbed, on, put it on the market and sell it as quickly as possible. Then move on to the next one and repeat the process over and over again.

We try not to take more than 2 months on our most extensive rehabs. Some take a little bit longer and some take a little less. Of course, this largely depends on the extent of the rehab work. If you're doing a total gut job, then you'll have more time on the rehab and most likely a higher rehab cost.

Setting up this meeting with your subcontractors in your general contractors is especially important when you're first starting out. I no longer do this because I work with two or three general contractors who I've done many projects with and I trust them in their judgment. So in these cases, I am far less involved. But trust me; I still get involved very quickly when I have to.

As far as scheduling the work of the subcontractors, one tip I still use to this day in all my rehabs is to start the rehab work on the exterior of the house as soon as possible. This way you may be able to get some interest in the property by people who are driving by. I've actually closed a house flip. I have used this strategy on more than one occasion to save me thousands of dollars on the real estate broker's fee.

### **Financing Costs**

It's simple: the longer you own property, the more finance costs you will have. This is why it's so vitally important for the rehab to go as smoothly as possible. As we stated before, time is money. The longer the rehab takes, the longer the house stays on the market unsold once it's completed - and the more money it costs you. And the largest cost is typically your financing.

To give you an idea of your possible finance carrying costs once the rehab is completed, is to look at the average days on the market from your comps. This may help to determine how long you may need to carry your house flip when it's ready for sale. However, one of the best ways to sell the house as fast as possible is to price it slightly below market or to even accept a lower price when it's necessary.

So if you're flipping a house with no money and carrying a loan amount of \$1,000/month from your lender, then for every month your house stays on the market,

your financing charges will cost you \$1000. If you look at your comps and see that the average days on market is 120, then you'll want to put in an additional \$4000 in your cost projections.

After you get a view house flips under your belt, you'll start to get a level of familiarity and will be able to determine how quickly you can sell.

- Banks

Additionally, the cost of your money will vary based upon your lender. If you have excellent credit and have finance your flip through a bank, your financing cost will likely be far less than if you went with private money, or even hard money. If you get financing through a bank, you may pay with four, five or even 6% on the money you borrowed.

So for example, if you borrowed \$100,000 from a traditional lender like a bank and got a rate of 5%. And then let's say it took you six months from close to close, your financing costs would be \$2500. For every month longer that it takes to sell the property, it costs you \$417 extra per month.

- Private Money

If you finance your house flip with a hard money lender, you can expect to pay anywhere between 14 and as high as 20%. You'll likely pay four to even six points on top of that as well. Many new house flippers use hard money lenders all the time - and they are a great source of financing when you're first starting out. In my opinion, there are better place to get your money and at better rates, but you have to start somewhere.

The cost of hard money lenders may be a bit restrictive for the starting house flipper, but depending on the situation, they may be useful – but there are risks to be aware of.

As an example on a \$100,000 loan at 18% and five points, if it took you 6 months from close to close, your interest would be \$9,000 and \$5,000 for 5 points. All in, that's over \$14,000 in financing costs. Additionally, for each extra month you hold the property above the six months it costs you an additional \$1500 in finance costs to your hard money lender per month.

Although this sounds like an exorbitant cost, if you correctly factor those financing costs into your house flipping formulas from the start, you still shouldn't have a problem making a good profit. In fact, on one of my most successful house flips, I used a hard money lender to finance a large part of the deal and still made well over \$56,000 in profit.

Just make sure you factor all these costs into your formulas and appropriately estimate how long you will hold and control the property for prior to sale.

### **Carrying Costs**

Although you can figure these out in the ARV portion using average item on market for financing costs, you also need to determine other kinds of carrying costs including:

- Property Tax
- Electric, Gas, Water
- Insurance
- Condo Fees and Association Fees

When determining costs, the longer you carry that property or house in your name, the more of these carrying costs you'll have.

For example, in Massachusetts, property taxes are paid quarterly. In almost all of our flips, we project six months from close to close. And in the case of property taxes, we are trying like hell to avoid paying that third tax payment. We usually factor in the first two an ad in the third just to be safe, but the quicker you can rehab and sell the less property taxes will cost you on your flip.

When it comes to carrying costs or any other costs, prepare for the worst and expect the best. If you're extremely conservative and "worst-case" in all your estimates and you still end up making money, then the property will likely be a real winner for you.

### **Realtor's Fees**

When the property actually provides on the market, you'll probably have a realtor's commission payment to pay. However, this usually comes out of the income from the purchase of the real-estate property or house. This is usually 5 to 6%.

So if you are flip sells for \$250,000, at a 5% commission, you'll owe the realtor \$12,500 at the closing. Obviously, this cost is more the higher the price range and less, the lower the price range.

Although 5 to 6% of the sale price is like a lot to give up, I encourage you to use a good real estate agent to help you sell all your house flips. This is largely because a good one will help you sell the property much faster than you could on your own, saving you money on your soft costs like financing and carrying costs mentioned above.



Ideally, while your real estate agent is marketing, showing, doing open houses and ultimately working as hard as possible to sell your flip, you should be leveraging your time and actively pursuing your next flip.

### **Estimating House Flip Costs: Conclusion**

Your costs will vary from project to project; however all the costs outlined here will most likely determine about 95% of your overall costs. In some cases, you will have more costs because of the market that you're in. If you flip condominiums and not single-family properties, you'll always have to deal with the condo fee as part of your overall cost. In your market, these are just the cost of doing business.

But at the end of the day, as long as you factor each and every cost into all your formulas and strictly adhere to the 70% rule when buying, regardless of costs, there is a very high likelihood that you'll make a solid profit.

However, if you break the rules, do lots of "eraser math" on your projections, then you could see your profits quickly go up in smoke. No matter what though, the costs that are outlined here in this guide should help answer that question of how much it costs to flip houses.