

Fix & Flip Deals for Beginners

Location, Location, Location

The most important aspect of evaluating a flip deal is location, location, location. You must *know* if it's a good or bad area.

Rehab Estimate

I got 99 problems but a bad contractor ain't one. If you don't have one I feel bad for you son. Not having a bad contractor is one of the best things a REI can say. If you don't have one my best recommendation is to find a REI friendly agent and ask for referrals, then ask the referrals for REI references. Vet their professionalism and whether you trust them. You will spend a lot of time with them in serious conversations so you want mutual respect and trust. On your first few deals always get at least 2 or more estimates to compare but remember being cheap is expensive. Compare not only price but professionalism and trust.

Comps

For SFHs and 2-4 unit properties a **comparative market analysis (CMA)** is the most useful tool to estimate exit price. Simply find comparable properties to the subject property, and compare price to quality. If a comp is slightly worse quality all else the same then the subject property should sell for at least the same price if not more and vice versa. In this way you get a bracket range of exit prices.

General Search Rules

- Less than 6 months back
- Same Bed and Bath Count
- Same sqft +- 150 sq ft
- Less than ½ mile

If you get more than 5 results back, make these criteria stricter to get less than 5 results back.

Garbage In, Garbage Out

Many beginners spend too much time and place too much emphasis on the spreadsheets and not on the risks. The numbers you put on a spreadsheet are meaningless and dangerous if you don't understand the risks behind them. Spend more time questioning the risks involved and how to avoid or resolve them.

Risks

Construction

- What can go wrong during the rehab process? Can I mitigate it?
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Buying / Selling

- What happens if interest rates double?

Both can be solved by having a **margin of safety** (*Margin of Safety* by

You know now what it could sell for if rehabbed and how much it costs to rehab. The last thing needed is how much profit you want. After this you can determine what you can offer to purchase.

$$\text{Offer} = \text{Exit Price} - \text{Closing Costs} - \text{Rehab Cost} - \text{Profit}$$

A margin of safety should be included in any way that makes sense to you, whether it be by increasing rehab cost and or profit or decreasing offer price. Now you can go around making offers.