

Flip This House - A New Strategy

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A look at how to flip a house in truly depressed areas.
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The television program, "Flip This House" was very popular for a while. Each episode usually followed a new investor or couple as they bought a fixer upper, renovated it and sold it - hopefully for a profit. That strategy worked well when prices of homes were still rising rapidly.

{bot_wrgoogle}If you watched the program, though, you saw that the process can be very stressful. There are always unexpected challenges involved in real estate investing, and this is especially true with homes that need a lot of work. But buying, repairing and selling a fixer upper is just one of the ways people flip a house.

Another strategy is the true "flip" in which you never own the home. The idea here is to make a low offer on a home that needs help and, once the offer is accepted, sell the contract. This involves writing the offer in such a way that you have the right to assign it to somebody else. You also have to be sure that the property has a lot of potential, so you can get paid say \$5,000 or more and still leave plenty of profit for the investor who will actually fix and sell the house.

The advantage of this strategy is that you risk almost no money of your own, unless you can't complete the transaction and you lose your earnest money or "good faith" deposit. Most investors who do this have found ways around even that potential risk. The downside is that like the former plan, this works best when home values are going up rapidly - something we may not see again for a while.

So how do you flip this house now, when times are tough? How do you do it even in the worst of areas, where houses are sitting empty and prices have plummeted? You use a different strategy altogether - one that is especially effective in the poorest neighborhoods.

You may not know this, but there are places where houses are selling for a few thousand dollars. Look around the country and you'll find these pockets of "real estate poverty." Try towns in Kansas or Oklahoma, for example. For the sake of this explanation, we'll look at Detroit, Michigan, where many homes sell for less than a thousand dollars.

You read that right, by the way. As I write this (2009) there are homes listed for as little as \$25. In fact, I just checked and found a duplex for \$99. There were dozens for a few hundred dollars or less. As you might guess, these are in terrible neighborhoods.

This new strategy starts with cheap houses where people still live and rent. The idea is to buy a home for say \$2,000 cash, and then sell it for \$12,000 to any renter in the area who has a job. You do nothing to the house at all, selling it strictly "as is." What you provide for the buyer is cheap financing with almost nothing down.

From the renter's perspective, this is an opportunity to buy for less than the cost of rent. Prospective buyers may be paying \$400 per month for rent on the same block as your house, and you can sell to them for payments of \$200 per month. Of course you will have some defaults, even with payments this low. But if you are risking only a few thousand on each home and quadrupling your investment (not counting interest) on those that work, you can afford to do a few foreclosures - and then immediately resell the house the same way.

According to my research, several investors are using this strategy. As long as you have the cash, and you can sell for a great profit and still finance the deal for the buyer with lower-than-rent payments, it is a workable strategy. Even a home that you buy for \$30,000 might be sold for \$45,000 and still be cheaper than rent for the new owner. A quick clean-up might help, but the fact that you can quickly sell the house as-is (and without risking too much) makes this a more attractive plan than the stressful "flip this house" strategy from the television program.

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