NEW GENERATION OF INVESTORS REWRITING THE FIX-AND-FLIP PLAYBOOK

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A kinder, gentler fix-and-flip philosophy is proving to be successful for a new generation of real estate investors operating in a low-inventory housing market still reeling from the recent foreclosure crisis — created in part by irresponsible house flipping.

Recent trends in home flipping provide evidence of this emerging flipping philosophy. In the first quarter of 2014, 3.7 percent of all U.S. single family home sales were homes that were flipped — meaning they had been purchased and resold within a six-month window. That was down from 6.5 percent of all home sales in the first quarter of 2013.

At the same time, the average gross profit for a property flipped in the first quarter was $55,574, a 30 percent return on the average purchase price. That was up from a $51,805 average gross profit representing a 28 percent return a year ago.

The combination of rising returns on home flipping and a smaller share of flips indicates that, by and large, flippers are behaving responsibly and rationally, making savvy decisions that get them the best returns even if that means completing fewer flips.

Not Your Father's Flipper

Maria Giordano was happily employed as a nurse when she decided to jump into the home flipping business full-time a year and a half ago — after three years of studying the market in her hometown of Phoenix and some encouragement from her husband, who thought she would be good as a real estate investor.

Turns out he was right.

Giordano and her husband were in the process of flipping their 22nd house in April, a journey that began with the purchase of a bank-owned property in serious need of life support.

"That property needed everything," she recalled, noting that her father, a longtime investor himself, thought she was getting in over her head when he saw the property's inspection report that listed nearly every item as substandard. "If you looked up you could see the sky. But we were so naïve.

“We had such a margin in this particular property, short of it burning down … I don’t think we could have lost money on it,” Giordano added, claiming that first flipping experience got her hooked on a new career in healing homes.

“I kind of became a rehab junkie ever since,” she said, noting she grew up pouring concrete with her brothers in the Midwest during summers to help with her parents’ real estate investing business. “The core of our business is fixing and flipping houses. To me it’s kind of like the house is my new patient. (I am) bringing it to life and putting a family in that new house.”

Giordano’s use of the words “new house” is no mistake when referring to her rehabs. Her philosophy is to give each property an extensive makeover that makes it look and feel like a new home even it was built several decades ago.

“I am one of those flippers who is not just replacing paint and carpet,” she said, adding she hires a designer to help guide her rehab. “(I am) doing a really modern look that 80 percent of the buyers in our market are wanting.”

Giordano said her typical fix and flip is a home built in the 1960s or 1970s, but she also does extensive rehab on newer homes built in the 1980s and 1990s.

“Even if it’s a house that was built in the 1990s, I’m gutting the master bath, usually the hallway bath, taking out walls, really changing the floor plan,” she said, noting she intentionally rehabs to accommodate the “modern palette” of the majority of buyers in today’s market. One example of that is her consistent inclusion of white shaker style cabinets in the kitchen — a popular amenity for buyers in Phoenix.

“Even if the cabinets are great, I still know I’m going to rip them out and donate them,” Giordano said. “I’m giving that brand-new-house feel in that older home.

“I know a lot of people like these older neighborhoods,” she continued. “So really you’re giving someone the look of a brand new house in an older neighborhood.”

But that rehab-like-new philosophy can come with a hefty price tag.

Giordano said she typically spends between $35,000 and $45,000 on rehab for properties that will eventually sell around $250,000. But it’s not uncommon to go over that budget given her above-and-beyond philosophy. For example, the property she is in the midst of flipping, which she purchased for $150,000, is close to costing $60,000 in rehab. She plans to list it for $295,000, but her “low” sell price is $280,000.

Adding in an additional 12 percent in holding and listing costs, she will still come out of the deal with a nice profit.

"I always make my number high because I never don't want to make my numbers," she said, adding that the primary source of funding for her flips is private money and she is "more careful with other people's money than my own."

Family-Style Flipping
Arthur Botting is also well over-budget for rehab costs on his second home flip since becoming a full-time real estate investor operating in the Los Angeles area about a year and a half ago.

Botting and his wife, **Jennifer Laske**, work together on their flips. He focuses mostly on acquisition while she takes over project management for the rehab phase. The couple's infant daughter sitting in her car seat is a regular fixture on the flipping site, and a favorite of the construction crew according to Laske, who walked through the couple's second property flip, explaining the changes made.

"Our expectation when we started was just to rip up the floors, repaint everything and make it look beautiful," said Laske, who set her daughter's car seat down to show some of the changes made to the house. "But as we started tearing pieces away … we kept finding more problems, more problems, more problems. Putting lipstick on the problem wasn't going to end us up with a beautiful house."

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