

Iflipuflip Season 1 Episode 6

Hi everybody and welcome back to iflipuflip real estate podcast, today I want to talk about the five factors that will destroy your profit in a flip. You know in our company we do a lot of buy, fix and sell houses and actually tomorrow, I'm headed up to Chicago to meet with another investor who might do two or three houses a month in the buy, fix and sell category and there is a lot of ways you can destroy or eat up your profits inside a flip you're doing so what I want to cover what I sort of categorize as the five most common mistakes that investors are making out there that are really destroying their profits inside these buy, fix and sells or these flips that they're doing, and of course if you can avoid these mistakes of eating up your profit you only of course make more money inside your flip or buy fix and sell property. So let's go through these today, we're going to try and get through all five of them here in our podcast this afternoon.

Number one is you do not have a realistic budget, and I see investors making this mistake all the time, so they find a property and they're so eager and they so want to buy a property and fix a property up that even if they come up with a budget, they don't come up with a realistic budget. Their numbers are so far off that when they finally get into it and are flipping a property they're going to go for double or three times the amount they thought they were going to spend on their property, and a lot of times I see this because like all investors who start off they don't know construction, I didn't know about construction, I don't have a construction license, I don't have a contractor license, I didn't come up in the construction world, quoting things and bidding things out, that's not my forte but as a real estate investor I have to learn how much things cost and overall, as close as I can get to the projected budget we're going to use, of course I can bring in different contractors and get different quotes but it doesn't always work that seamlessly when you get into a property because a lot of times you can buy the property, or go and look at the property, you've got to make a decision within 20 to 30 minutes of that property hits the market, you don't have time to bring in two or three contractors for quotes on the whole thing. You don't have three or four days you sometimes only have three or four minutes to make a decision to whether you want this deal or not, so one of the things we use to at least try and get close to realistic numbers is something we created called a budget cheat sheet, and this is simply a four by six post card that our company uses that has different prices on different sizes that we can easily run through the property, look at exterior, look at the interior of the property and sort of go line by line at what we usually pay for something like this, let's say it's going to be an outside deck, well we have the three most common sizes of an exterior deck so we'll look at it and say ok, this is probably going to be a ten by twelve deck and boom, there's our price for a ten by twelve deck, of course that could go a little bit under, a

little bit over but that's a labor and materials price that we use on our budget cheat sheet. If you guys want a copy of that you can of course go to my website at andrewcordle.com and look at free stuff and there's some budget cheat sheets, you simply sign in right there and it will give you exactly what we use for our budget cheat sheet to help us have a realistic budget, and we're talking about the five mistakes investors make that eats up all their profit on a flip, and the first one is not having a budget or not having a realistic budget, the last point I want to make here and I see it all the time on forums or social media I'm involved in or different investors I'm talking to where an investor comes in and says hey, I'm going to do this property and my rehab budget is \$12,000 for this property and I immediately know that the chances of doing a \$12,000 rehab these days is so slim these days, especially on a retail property, on a rental property it's a lot more common but I have not done a \$12,000 rehab on a retail property in about 5 years. There was a time that it was very popular right after the recession, you'd get these great looking houses and you'd spend 8, 9, \$10,000 on a rehab but nowadays the average rehab were doing on a cosmetic house is 30, 35, \$40,000 on a basic rehab and of course then we go up from there, from \$150 to \$200,000 rehabs but the average we're going to be spending is right around that \$35,000 per property that we do so number one, just make sure you have a realistic budget, when you start in the conversation and say you're going to rehab a property for \$10,000, I immediately assume you do not know what you're talking about when it comes to these properties.

Next here, let's talk about problem number two that people have and this is another major problem and that's over or under improving the property and this is a mistake that investors make all the time, they either under improve the property, meaning they don't make the property nice enough and therefore where it hurts them at is when the property is for sale and they just can't get a property to sell because they just can't get under rehab, they just don't have the nicest things, they didn't do the upgrades they should have did, they didn't do those. So now they're struggling to sell the property and in the meantime it's eating up their other profits on the deal because they just don't have the money to do it and they can't sell the property.

The next thing is over improving a property, this is really where you get emotionally attached to a property and you keep going and going and you're at \$120,000 ARV price and you're deciding to put a \$600 sink faucet inside the bathroom and it's just uncalled for. The sink faucet you should be using is around the \$100 mark and instead you are over improving to the point where it's absolutely ridiculous, you've watched too many HG TV shows, too many Property Brothers and now you're over improving the property and again, let me just clarify that. The Property Brothers are improving their property according to the ARV's that they have, whereas you may be doing a property that you should not be using that material and your still using it and your over spending on your rehab budget there. So on this one just make sure you are not over

improving or under improving, this is great way for you to destroy your profit inside your flip, of course your profit is going to be eaten up if you overspend, you spend too much money on the rehab, if you under improve yes you get it done but it sits on the market for months and months because it's not up to par in that area that you're trying to sell your property in.

Number three is not managing the rehab time frame and again, such a common mistake when it comes to real estate investors is they're rehab time frame it's amazing, you'll always see well, I might do this house in four weeks and the next thing you know it's four months and they're still not done with the project and so it's very, very critical for you to keep your profit and one of the ways to do that is to keep your rehab time frame on schedule and you really have to be there as much as you can, I don't go to the projects every single day but I go every other day, at least popping in to see what's going on and really driving home these time frames and time lines of where this project should be.

If you simply take your property and hand it over to a contractor and say I hope this is done in four weeks, I'll be back once a week every other week to check on the property, you can almost guarantee your property will not be done on time. You have to stay there, you have to keep popping in, checking in, asking questions, when is this going to get done, where are we with this, where is the bathroom at, where is the kitchen at, when are the cabinets going in, you have to keep riding those contractors to make sure your project stays under the rehab timeline and at best or worst case scenario at the rehab timeline you definitely do not want to go over, and I see these rehabbers all the time, when a rehab should be taking three, four, five weeks they're spending five or six months on a rehab and all you're doing is destroying or eating away all your profit inside your flip. Make sure you have a realistic timeframe for your flip and stick with it and the only way to do that is to managing those contractors day in and day out, making sure they show up and do what they're supposed to do, not showing up every Friday to cut checks and you don't know where the project is at that time.

Let's move on to number four, the fourth way you can destroy your profit inside of your flip is by not planning for the unexpected. I can tell you guys after doing hundreds of buy and sell properties, this is one of those main things that you eat up your profit, you had no wiggle room you had no fudge factor, when you tear this wall down to open up this floor plan, and underneath or behind the wall or inside it was a HVAC duct or maybe there was mold there or a termite infestation and so you have to deal with this problem now, your budget is on such a tight limit that now you have to dig into your profits to deal with this mold problem or this asbestos problem and now you're eating up all your profits, you always have to make sure before you buy a property where you have some room or some budget set aside where if something happens you can cover the cost of it so it doesn't eat into all of your profit. Every flip we do we have our budget and we have our uh-oh budget and because this is construction and

there's no way to know what's behind every piece of drywall in this property, we always have this uh-oh budget because we're never going to face it. I can't tell you how many times I tore down walls and looked into things and found something inside the property, it just always happens, sometimes it's a \$300-\$400 fix other times it's a \$3000-\$4000 fix so you always have to be prepared for that uh-ho budget in your property so make sure you plan for that and expect it so you don't lose your profit, or your profit is destroyed inside your flip is that you don't plan for the unexpected in your rehabs that you have going on.

Lastly in this podcast today talking about number five, what destroys your profit is under or overpricing your property, you can have your property done and ready to list on the MLS and sell this property so you can make a profit, that's why we're in this business, that's why we do this, we get in we get out we make the profit on these properties, and one of the mistakes I see a lot of the time is people under or over pricing their property. So what happens is, you want to sell your property so you list it under market value and you sell it quick but you probably sold it too quick because you probably left \$5000-\$6000 on the table so you lose that money because you undervalued your property or on the other hand, you over valued the property and you think your property is the best property on the market and you think your property is the best property that's ever been flipped in America, so you put it out there and overprice your property then what happens is you're not able to sell it, the property sits on the market and you lose that same \$4000, \$5000, \$6000 just as you did if you underpriced the property so you really have to understand how to get the right price for your property, if you do not price your property correctly you lose money either way, man that's a great point there because you have to know how to pull the right ARV, the right comp on your property so you get the right price, you get the most bang for your buck, you make the most money, you sell it as fast as you can but you don't overprice or under price the property.

So again, make sure you really know how to pull an ARV, make sure you really study your comps, what has sold, apples to apples like your property, make sure your real estate agent or real estate broker has a very good understanding of what's on the market right now, who's your competition, who you're going against, what time of year it is, depending on where you live who your end buyer is, that's another crucial thing, knowing who your potential end buyer is, not every area, every pocket has the same end buyer and so we're doing different properties right now that calls for different things because we've got to know who the end buyer is so we get the most money when we lift the property so we get the most money back that we can so again, this last point here, under pricing or overpricing your property when you list your property so again I'm going to cover these five points again, the five most common factors that destroy the profit on a flip is number one, you do not have a realistic budget, again feel free to go to our website and get a budget cheat sheet we use to help you get a realistic budget for your property number two is over or undervaluing your property, you don't have enough nice

things in it or you put too little nice thing in it so your property is over or under improved
number three is not managing your rehab time frame, you've got to make sure you manage the
rehab time frame and make sure the job gets done, you have to show up to the property,
you've got to make sure the contractors there and that they're on schedule, it's your job to
manage them number four is not planning for the unexpected, things always happen, you've
got to have that extra room in your budget that's always there for every flip because you're
always going to be dealing with the unexpected in a property and lastly number five is over or
under pricing your property when your property hits the market or the MLS. If you focus on
these five things it will help you make more money inside your flips again this is the top five
things that destroy your profit inside a flip, I hope you enjoyed this podcast and I hope to see
you next time on iflipuflip real estate podcast,