

ARKAD CAPITAL



ARKAD CAPITAL'S GUIDE TO REHABBING

USING SHORT-TERM FINANCING TO MAXIMIZE ROI & OPTIMIZE LEVERAGE

2019

"SOME PEOPLE LOOK FOR A BEAUTIFUL PLACE. OTHERS MAKE A PLACE BEAUTIFUL." - HAZRAT INAYAT KHAN

REAL ESTATE MARKET

Factors Influencing Best Places to Flip Houses in 2019

- Growth Cities
- Where Most Motivated Sellers Are
- Where You Can Do a Great Job
- Supply & Demand
- Where You Have Synergy
- Where You Enjoy it



US Real Estate Market Overview

The US accounts for 18% of global real estate market value

US market forecasted to value \$974.3 Billion by 2023, a 21.4% increase from 2018

The average median sales price of a new home sold in the US increased 1.8% in November 2018

For existing homes, the median price increased 2.9% in December 2018 to \$253,600

The number of investment properties on which financing was used has continued to increase

NEW JERSEY'S REAL ESTATE MARKET



New Jersey's real estate market is a commuter hub due to its proximity to the job markets of New City and Philadelphia. It is the most densely populated state in the US with a consistent demand for housing, making it a sellers market.

The market has gone up in 2019, the average cost of a house is \$327,700 which have increased 3.2% over last 12 months. Home values are expected to rise another 1% over the next 12 months. Single-family homes are expected to rise in 2020 due to high demand. However, the luxury home market has declined due to the Tax Cuts and Jobs Act.

Newark's median home value rose 11.9% the last 12 months. It's forecasted to rise an additional 6.5% the next 12 months.

Elizabeth's median home value rose 13.7% the last 12 months and forecasted to rise another 8.5%.

NJ's Five Hottest Markets:

1. **Weehawken** – median home value \$780,200 (up 5.8%)
2. **Belmar** – median home value \$580,500 (up 3.9%)
3. **Lake Como** – median home value \$426,400 (up 7.9%)
4. **Asbury Park** – median home value \$365,600 (up 8.3%)
5. **Carlstadt** – median home value \$413,600 (up 3.4%)

TAKING YOUR FIX-AND-FLIP TO THE NEXT LEVEL

There is a great profit potential of non-owner-occupied investment properties you can take advantage of as the fix-and-flip sector continues to thrive nationwide.

According to RealtyTrac, the average return on investment for U.S. house flips grew from 35% in 2015 to 48% in 2017 with many markets averaging well over 100% ROI.

It may be challenging to find funds to expand your proven business model, however many are referring to private lending to fund multiple projects.

Fix-and-Flip financing also known as “hard money” or “private lending” gives investors like you the flexibility and agility needed to quickly execute purchase contracts, compete at foreclosure auctions, close cash-only deals and fund construction.

Looking to scale up your volume, snap up quick deals and increase your ROI , short term fix-and-flip financing may be the right choice for you.



FIX-AND-FLIP FINANCING TIPS

FREQUENTLY ASKED QUESTIONS

- Q. Borrowing money means more project overhead. Won't that lower ROI?**
A. Fast, reliable funding opens new doors of opportunity and greater access to bargain properties. In an industry where "cash is king," the savvy fix-and-flip investor will find the cost of borrowed capital can be well worth the leverage benefits
- Q. I need funds right away. Can I really get a fix-and-flip loan in a matter of days?**
A. Yes. While a conventional loan takes up to 45 days to fund, a reputable private lender can fund a qualified borrower's loan in 5-10 days.
- Q. What is fix-and-flip financing and how is it different from a standard bank loan?**
A. Fix-and-flip or "private direct" financing is a short-term loan secured by real estate. Sometimes referred to as "hard money," these loans are funded by private investors and typically feature higher interest rates (and lower qualifying restrictions) compared to bank loans. The borrower makes monthly interest-only payments followed by a balloon payment at the end of the term when the rehabbed property is sold.
- Q. Aren't private loans expensive?**
A. A private direct loan typically carries a higher interest rate than a conventional bank loan, but it also comes with benefits a bank loan doesn't — higher leverage, funding for renovations, easy qualifying and no red tape. An experienced flier with a successful track record who needs cash in hand in under 2 weeks can offset the cost of a private direct loan with the enhanced ability to compete for bargain properties — as well as faster project turn-around times.

KEY BENEFITS OF A FIX-AND-FLIP LOAN

- ✓ Fast Funding (5-10 days)
- ✓ Streamlined Application Process for Rapid Approval & Terms
- ✓ Better Leverage Potential Means More Deals to Scale Your Business

FACTORS THAT IMPACT REHAB COSTS

- Location
- Contractors
- Level to Finish
- Specifics of Property
- Time of Year
- Building Codes

METHODS

- Estimate by Square Footage
- Estimate by Room Costs
- Estimate by Breakdown

ESTIMATING YOUR REHAB COSTS

Estimating your rehab costs is a vital step to any fix-and-flip project. It's important to not estimate your costs too low or too high. There are many factors and components that will impact the costs of your project. To help estimate your costs as best as possible, creating a scope of work will lay out the costs in detail.

A scope of work is an essential document that lists the projects to be completed on a rehab property in careful detail. A SOW brings together everything from work details, schedules, terms, and expected outcomes. Consider it a map that can guide the completion of your project.

MAJOR PROPERTY COMPONENTS

EXTERIOR COMPONENTS

- Roof
- Gutters
- Siding
- Exterior Painting
- Decks/Porches
- Concrete
- Garage
- Landscaping
- Septic
- Foundation



INTERIOR COMPONENTS

- Demo
- Plumbing
- Electrical
- HVAC
- Framing
- Insulation
- Sheetrock
- Carpentry
- Interior Painting
- Cabinets/Countertops
- Flooring



GENERAL COMPONENTS

- Permits
- Mold
- Termites
- Miscellaneous





You are an experienced fix-and-flip investor with a distressed single-family home under contract for \$180,000. You are seeking financing to purchase, rehab and sell the property.

PROJECT PROFILE

Your capital reserves:	\$50k
Your credit score:	620
Property purchase price:	\$180k
Estimate of repairs:	\$40k
After-repair value (ARV):	\$280k



You apply for a fix-and-flip loan from a reputable private lender and get approved for **\$187,000**

Loan Approval for Distressed Properties & Lower Credit Scores

A private direct lender specializing in fix-and-flip financing recognizes the potential After-Repair Value (ARV) of distressed property and can quickly approve and disburse the funds you need to purchase and rehab the property you have under contract. This access to fast financing is critical when the ability to quickly close a sale can set the investor's offer apart from other buyers.

With a 650 credit score, a conventional bank loan is not a likely financing option for a flip project like yours. Before even considering the value and condition of his subject property, a conventional bank will regard your credit worthiness as the main priority in their lending decision.

Unlike a bank, a private fix-and-flip lender can approve a borrower with credit challenges because the underlying property serves as security for the loan. Subject to approval, additional real estate the borrower owns can also be used to secure a private fix-and-flip loan.

Arkad Capital has funded more than many short-term loans, the majority of them to borrowers with less than perfect credit and on properties in need of repair.



You buy the property, spend \$40k on renovations and list the property for sale



Your rehabbed property sells for **\$295,000** netting over **\$40,000** in PROFIT (after closing and loan costs)

FIX-AND-FLIP FINANCING

SINGLE PROJECT EXAMPLE

LEVERAGE POTENTIAL



You purchase **2** homes with **\$600,000** and rehab and sell them to yield a net profit of **\$90K** (**15% ROI**)

- OR -

USING FIX-AND-FLIP FINANCING TO LEVERAGE YOUR \$600K



You purchase and rehab **9** houses snapping up bargains you would have missed out on before. After loan and closing costs you average **\$35K** profit per flip and net a total of **\$315K** for a **52% ROI**



You have capital reserves of \$600K from savings and other liquid assets. In your market, you can only afford to buy and rehab two houses using your own cash. Averaging \$45K profit per flip, you net \$90K for a 15% return on investment.

Loan Approval for Distressed Properties & Lower Credit Scores

Experienced fix-and-flip investors who use their cash reserves to finance a few projects a year, know the frustration of missing out on multiple real estate bargains due to capital constraints.

Leveraging cash out on hand with borrowed capital can yield great results for a savvy fix-and-flip investor, but it is critical to choose a reputable lender with the expertise, in house technology and customer service tea that can support your goals.

With an investment scenario like the one mentioned above, an Arkad Capital account executive, lead loan processor, and loan servicing team work closely with the borrower to streamline the application and approval process, expedite multiple fundings, provide expert feedback and support the borrower in exponentially growing their business.

Most of Arkad Capital customers are repeat borrowers, who appreciate the efficiency, expertise, flexibility, and customer service that comes with Arkad Capital financing.

FIX-AND-FLIP FINANCING

A CAPITAL LEVERAGE EXAMPLE