FLIPPING HOUSES 101 eBOOK SERIES

Filling your Flipped Property

Navigating rental landscapes for your rehabbed properties.

PART 4

KIAVI

Contents

Introduction

House flipping, or fix and flip investing, typically refers to buyers who purchase distressed properties, fix them up, and then resell them for a profit. If you're just starting in fix and flip, you probably realize there's much to learn, and the process may seem overwhelming. If you're a seasoned investor, you know that in this business, you can never stop learning tips, tricks and strategies that can lend to maximized success.

Fix and Flip

Since the height of the housing crisis in 2009, the house-flipping market has experienced steady growth. In 2022, 114,706 single-family properties in the US were flipped in the first quarter alone–representing 9.6% of all home sales, or 1 in 10 transactions[1].

House flipping has also been popularized – and somewhat sensationalized – by reality television shows such as *Flip or Flop, Flip This House, Property Brothers*, and others, attracting tens of thousands of new investors to the space. But, unlike what you might see on TV, buying and flipping properties isn't as easy or straightforward as it appears.

About this eBook

Flipping Houses 101 is a series of eBooks that cover the "6 Fs"—**F**ind, **F**inance, **F**ix, **F**ill, **F**lip, and **F**un—of flipping houses. In this eBook, we examine part four—**fill**—and take a deep dive into tips and tricks for implementing a buy-and-hold (rental) strategy.

[1]ATTOM Staff, "Home Flipping Spikes across U.S. in First Quarter of 2022 but Profits Drop to 13-Year Low," ATTOM, June 23, 2022, https://www.attomdata.com/news/market-trends/flipping/attom-q1-2022-u-s-home-flipping-report/.

Part 4: Fill

“Filling” means renting out your house and filling it with tenants after you finish the rehabilitation instead of selling it immediately. This is known as a buy-and-hold strategy. This is optional—you could also sell the property unoccupied and exit the investment.

But there are several reasons, both property-specific and market-driven, to fill a house with tenants and rent the property before selling it. Let’s dive in and discover how to rent a property to explore a different avenue of investing in real estate. We’ll cover:

- **A look at the rental market**
- **Hot rental market contributors**
- **Should you sell or rent out a property?**
- **Introduction to BRRRR**
- **Let’s do the math**

A Look at the Rental Market

Investing in rental properties has long been considered a sound investment—that sentiment continues to grow as tenant demand, occupancy levels, rental income growth, and property values soar. The white-hot rental market nationwide is spurring both seasoned real estate investors and beginners to dive in headfirst.

Pandemic migration trends, influenced by remote work, changing lifestyles, and record-low interest rates, sparked a surge in demand for single-family rental (SFR) properties in 2021. Data from the Federal Reserve Bank of St. Louis indicates that the inventory of homes actively for sale in July 2023 stood at 646,698, which is 37.4% lower than the inventory at the end of 2019, which was 1,033,452.[1] Buyers continue to significantly outnumber sellers in many markets, maintaining elevated home prices.

Home price growth since 2020 has been jaw-dropping. From Q2-2020 to Q2-2023, home prices saw a remarkable increase of approximately 29%.[2] Such a swift and significant increase over a three-year span has substantial implications for potential homeowners, particularly those looking to purchase their first home. As more individuals find themselves priced out of the home-buying market, there's a shift towards renting.

Did You Know?

The average national rent was $2,395 in Q1-2023—a 19.75% increase over the same period in 2021[3]

[1] FRED, "Housing Inventory: Active Listing Count in the United States," FRED. August 29, 2023, https://fred.stlouisfed.org/series/ACTLISCOUUS

[2] FRED, "Median Sales Price of Houses Sold for the United States," FRED. August 29, 2023, https://fred.stlouisfed.org/series/MSPUS

[3] HouseCanary, "National Rental Report," Retrieved August, 2023 from https://www.housecanary.com/wp-content/uploads/2023/05/hc_rental-report_q1-2023-2.pdf

Additionally, rents all across the board have risen, but rental prices for single-family homes have really shot up in the past year. In recent years, residential real estate investors with a single-family rental property saw their:

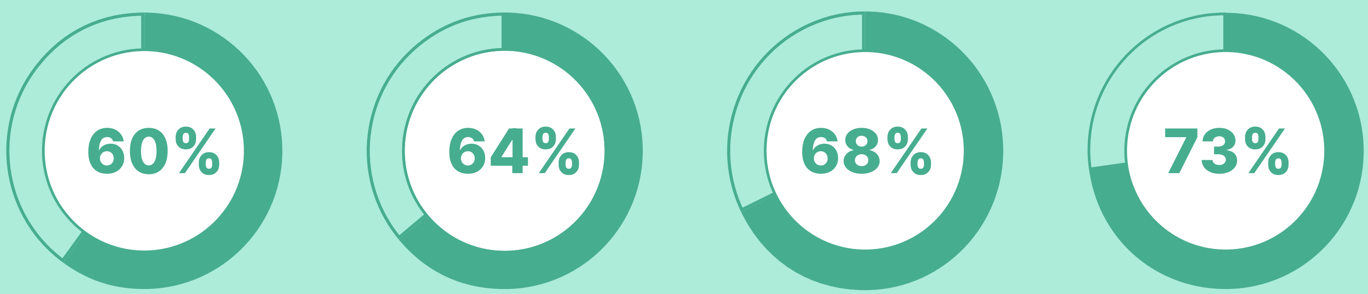
- Asset Appreciation Skyrocket
- Rent Cash Flow Increasing to Record Levels
- No Trouble Keeping Property Occupied

Hot Rental Market Contributors

Millennial Trends

Survey data from Apartment List shows that in 2022, 24.7% of millennials said they plan to “always rent” rather than buy a house. That’s nearly double the portion that said the same in 2018 (13.3%)[1].

Homeownership by Generation[1]



Millennials
age 40 in 2021

Gen Xers
when age 40

Baby Boomers
when age 40

Silents
when age 40

[1,2] Rob Warnock, “Apartment List’s 2023 Millennial Homeownership Report”, April 18, 2023, https://www.apartmentlist.com/research/millennial-homeownership-2023

Migration Trends

Due to high housing costs and a sharp increase in remote work, rental applications in rural areas rose 28% from 2020 - 2021—urban application volume rose only 10%[1].

Occupancy

SFR rents increased by 27.9% from January 2020 to mid-year 2023. Occupancy rates have remained above 95% since January 2018[2].

Potential Homebuyers Priced Out of the Market

Home sales decreased by 18.9% annually in June 2023, with the median existing home price reaching $410,200, a decline of just 0.9% compared to the all-time high from the previous year of $413,800[3].

[1] TransUnion, "Renter Migration Patterns Drive 42% Increase in Out-of-State Applicants as Renters Seek Sunnier, Rural Environments." June 22, 2022. https://newsroom.transunion.com/renter-migration-patterns-drive-42-increase-in-out-of-state-applicants-as-renters-seek-sunnier-rural-environments/

[2] US Census, "Quarterly Residential Vacancies and Homeownership, Second Quarter 2023," August 2, 2023, https://www.census.gov/housing/hvs/current/index.html

[3] CNN, "US home prices stay near record high, even as sales drop in June," July 20, 2023, https://www.cnn.com/2023/07/20/homes/existing-home-sales-june/index.html

Should You Sell or Rent?

Is a Rental Strategy Right for Your Property

Financially, several points can be made to favor renting out your house versus selling right after rehabilitation. When making this decision and learning how to become a landlord, it's crucial to cover all these bases. Let's go through them.

Tax benefits

Several tax breaks can save you money as a rental real estate investor. For example, reasonable costs of owning, operating and managing the property are often deductible, saving you quite a bit when tax time rolls around.

Contact your tax advisor before getting started to learn more about the potential tax benefits of owning rentals.

Positive cash flow

In rental investing, positive cash flow is the goal, which is when money is added to your bank account monthly from your occupied rental properties. Once you add more rental properties to your portfolio, you can earn positive cash flow without having to go to a 9 – 5 job or punch a time clock daily.

Determining the amount of positive cash flow you will receive on a rental property is basic math. You simply calculate the property's net operating income (NOI) by adding up the total rent and subtracting all expenses. The resulting number is your positive cash flow.

Appreciation and Equity

When investing in properties for rental purposes, you opt to hold on to the property for the long term. In comes appreciation—the value of real estate properties tends to increase over time.

With a good investment, you can turn a profit when you decide that it's time to sell. Every month you collect rent, the funds you receive contribute to paying down the loan's principal, thus building up your equity. Simply put, as you pay down the property's mortgage, you're also building an asset that makes up a part of your net worth—equity.

As it builds over time, equity can give you the leverage you need to buy more rental properties and increase your cash flow even more.

Passive income

When flipping a home, you'll likely go many months with no income, followed by a hefty payout upon sale. This sort of irregular cash flow can be difficult for you and your family to plan around, given the much more consistent nature of your own living expenses, bills, education costs, etc. If you rent out a property instead of selling, monthly rent from tenants provides a passive income you can rely on as long as the property is occupied.

Cash-out refinance

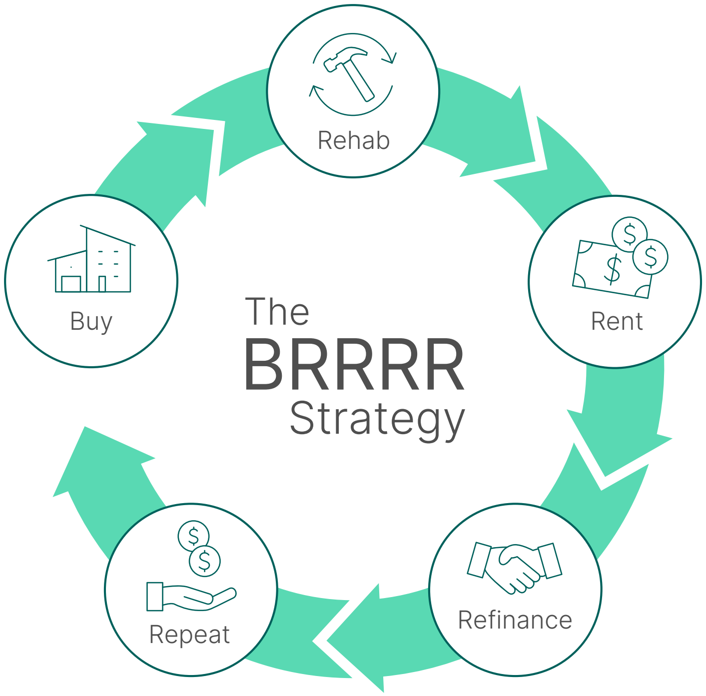
When you hold a property long enough and refinance it, lenders will use the home's value rather than the property's cost basis. When this happens, you can get most of your money out and generate an excellent return on equity, assuming your home is appreciated after you rehabilitated it.

Introduction to BRRRR

The residential real estate community is buzzing about the BRRRR strategy, which has piqued the interest of both novice and professional real estate investors alike. After all, who wouldn't be interested in the potential for a low cash out-of-pocket and high return opportunity?

So what is BRRRR exactly?

The BRRRR method, which stands for Buy, Rehab, Rent, Refinance, Repeat, is a commonly used real estate investment strategy.



Unlike the traditional method of purchasing a turn-key rental, BRRRR involves:

1. Buying a distressed property
2. Rehabbing the property
3. Renting it out
4. Doing a cash-out refinance
5. Using that cash to the process

Why BRRRR?

When done successfully, the BRRRR strategy can enable real estate investors to earn passive income while increasing their rental portfolio to experience long-term asset appreciation. Here are some reasons why this strategy is so powerful for growing a strong portfolio:

Incredible Wealth-Building Potential

BRRRR has the potential to allow investors to build huge amounts of equity without investing huge amounts of cash.

Investing for Financial Freedom

Earn a passive income while holding rental properties that will continue to appreciate in value over time.

Potential Tax Benefits

Building a rental portfolio can come with tax benefits. Consult a CPA for more information*.

Earn High-End Rents

Under the BRRRR model, the end product is a beautiful, newly-renovated home that is attractive to renters. This can both decrease vacancies and allow the investor to charge top dollar.

* A professional tax advisor should be consulted before implementing any of the options presented. Content should not be construed as legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation.

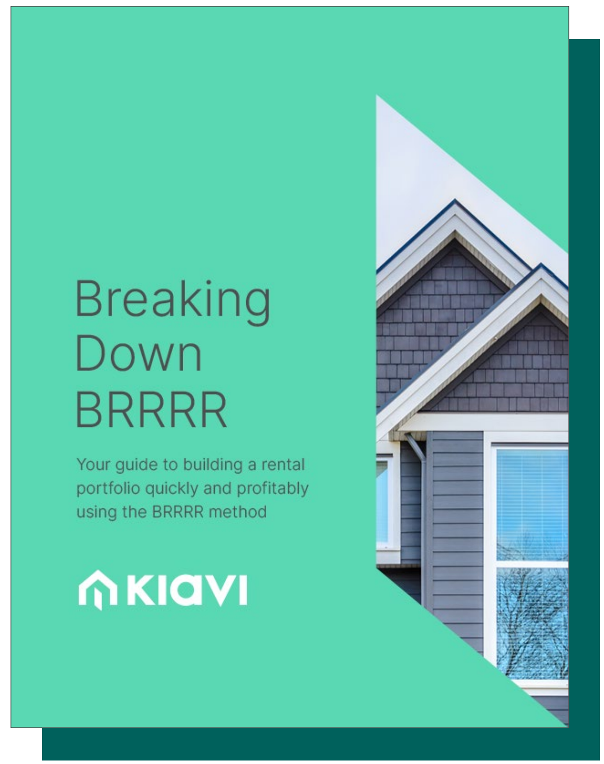
Higher Cash-on-Cash Return

One of the main benefits of BRRRR is earning cash-on-cash returns that are much higher than when using the traditional method of buying a turn-key rental. This is why the final “R” is added to BRRRR...successful investors continue to repeat the process. Below is a hypothetical example comparing the potential cash-on-cash return with the BRRRR method vs. turnkey.

Looking for More?

For more information about the BRRRR strategy, check out Kiavi’s eBook Breaking Down BRRRR. In it, you’ll get a step-by-step breakdown of the BRRRR method, insights into how it works, and a detailed example of how quickly it can help investors scale attractive returns using this strategy.

Download eBook



Let's Do the Math

After rehabilitating a property, holding and renting out your house can be substantially more profitable than selling it right away, provided you are willing to invest the time and the capital if market conditions tilt in your favor. To demonstrate, let's walk through the numbers of a hypothetical flip.

Scenario 1: Flip Immediately

In this scenario, we will buy a hypothetical $147,600 home in cash, rehabilitating and selling it at its new value.

In this case, you invested $147k of your money and increased the home's value by about $23k. After the project cost and taxes, you netted about $15k in profit or 11%.

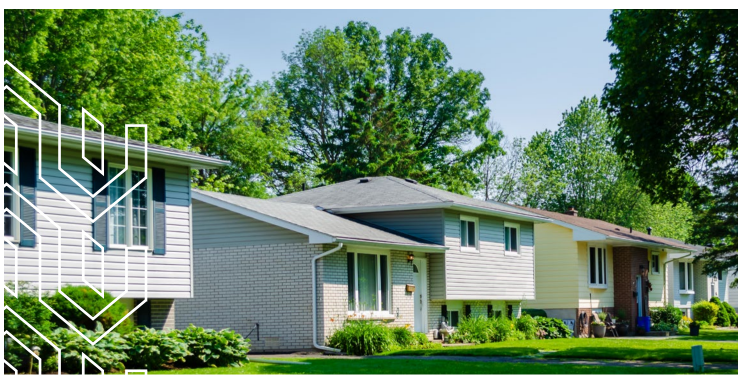
Buy the Home, Rehabilitate, and Sell	
Cost Basis	**($147,600)**
Cost to Flip	($9,000)
After Repair Value (Sale Price)	**$180,000**
Net at Flip	$23,400
Ordinary Income Tax	($7,722)
Net After Tax	**$15,678**
Profit % (15.7k / 148k)	**11%**

Scenario 2: Hold for 5 years

In this scenario, you still rehabilitate the home and increase its value by $23k. However, you do not sell it. Instead, you first:

Cash-out Refinance. As mentioned above, a cashout refinance will allow you to take advantage of the new cost of your property and pull cash out of your home's equity. Let's say you finance 65% of the property. This results in having a $63k equity position, despite having pulled out all but $31k.

Then, Rent it Out. Time to fill the property. In this case, we'll assume you can start renting out your house for $1,800 a month, or 1% of the property value per month.



Buy the Home and Rehabilitate it

Home Value	$180,000
Loan to Value	**65%**
Mortgage	$117,000
Equity	$63,400
Cash Invested	**($30,600)**

Monthly Breakdown

Gross Monthly Rent	$1,800
Mortgage Payment	($862.50)
Insurance	($100)
Property Tax	($187.50)
Turnover Cost	($100)
Maintenance	($75)
Net Monthly Rent	**$475**
Net Return	**18.6%**

Rent for 5 Years

Here's what the math looks like, assuming you have tenants for 5 years.

5 Year Breakdown

Net Rent (Monthly x 60 Months)	$28,500
Ordinary Income Tax	($9,405)
Net Rent After Tax	**$19,095**

Let's sum the proceeds from renting with the proceeds from selling to determine net profit and profit margin:

Add it All Up for Total Profits

Net at Sale	**$35,890**
Net Rent After Tax	**$19,095**
Total Income, 5 Years, After Tax	**$54,985**
Initial Investment (Original Home Price)	$147,600
Profit Margin (55k / 148k)	**37%**
Year-Over-Year-Margins (37% / 5yrs)	**7.4%**

Sell After 5 Years

After 5 years of renting, it's time to exit. We'll assume 3% home appreciation per year.

Proceeds From Sale of Property

Home Price Appreciation	3%
Price at Sale	$202,592
Cost to Sell	$10,130
Gain on Sale	$44,862
Long Term Capital Gains	($8,972)
Net at Sale	**$35,890**

In scenario 2, holding, renting out a house for 5 years, then selling nets you $55k versus your initial investment of $147k, for margins of 37%. This is $40k more than what you make by flipping immediately.

That said, it did take 5 years. In scenario 1, you can make 15k, or 11%, in one year. Scenario 2 nets you 37% over 5 years or 7.4% per year.

Adding in a Property Manager

If you don't live close enough to the property to quickly and regularly check in, resolve issues, and meet with tenants, it's much better to hire someone who can. Property management companies are businesses that handle tenant placement, maintenance, and day-to-day management and upkeep of your property in exchange for fees.

Property management companies come in all sizes, but for the highest level of service, we recommend a medium-sized company (managing 15-400 properties) that is familiar with properties similar to yours. Do your due diligence—collect references and inquire about average days to placement and turnover cost.

Responsiveness is critical, so try to get a sense of this. Do they pick up the phone? Are they responsive over email? Remember, these are people you trust to take care of your property. If a pipe or appliance springs a leak, a day or two is the difference between a minor repair and potentially thousands of dollars of damage.

Once you've found the right management company, be prepared to pay. You'll be asked to pay several fees, the three most common being a tenant placement fee, a management fee, and a maintenance surcharge.

Monthly Breakdown (managed by 3rd party)	
Gross Monthly Rent	$1,800
Mortgage Payment	($862.50)
Insurance	($100)
Property Tax	($187.50)
Turnover Cost	($100)
Maintenance	($75)
Tenant Placement Fee	($50)
Property Management Fee	($144)
Maintenance Surcharge	($15)
Net Monthly Rent, Managed	**$266**
Net Monthly Rent, Self-Managed	$475
Difference	**($209)**

Using the same house in our previous scenarios above, here's how these affect the economics of your property investment.

Comparison Over 5 Years (Self-Managed vs. Third-Party)

Managing the property yourself would net around $55k, and hiring a manager would net about $47k. That represents a difference of about $8.5k, or a 15% decrease in profit margin. Here's a fundamental question to consider: Is this money worth the peace of mind and the service you'll get from a good property manager?

5 Year Breakdown (rent 5 years, then self)	Self-Managed	3rd Party
Net Rent, 5 Years	$28,500	$15,690
Ordinary Income Tax	($9,405)	($5,267)
Net Rent After Tax	$19,095	$10,693
Home Price Appreciation	3%	3%
Price at Sale	$202,592	$202,592
Cost to Sell	($10,130)	($10,130)
Gain on Sale	$44,862	$44,862
Long Term Capital Gains	($8,972)	($8,972)
Net at Sale	$35,890	$35,890
Total Income, 5 Years	$73,362	$60,822
Total Income, 5 Years, After Tax	**$54,985**	**$46,583**

Conclusion

Congratulations on reaching the end of “Filling your Flipped Property: Navigating rental landscapes for your rehabbed properties,” the fourth installment of our Flipping Houses 101 eBook series. Throughout this journey, we’ve explored the exciting world of house flipping and the strategies that can amplify your success.

In this eBook, we delved into the concept of filling your flipped property through the lens of rental strategies. We emphasized the importance of considering alternatives beyond selling and how renting out your property can provide a steady income stream while maximizing your long-term returns. By exploring the pros and cons of selling versus renting, you better understand the buy-and-hold strategy and its potential benefits.

Furthermore, we introduced you to the BRRRR strategy—an innovative approach that involves flipping distressed properties, transforming them into rental assets, and leveraging cash-out refinancing to fund future investments. This powerful strategy allows you to build a robust real estate portfolio while optimizing your financial resources.

As you continue your real estate investment journey, we encourage you to explore the remaining eBooks in the Flipping Houses 101 series. Each installment offers unique insights and valuable knowledge to help you master the art of successful house flipping. Our upcoming eBook, “Mastering the Art of Selling Your Rehabbed Property Successfully,” will equip you with practical techniques to ensure a seamless and profitable sale of your flipped properties.

Thank you for embarking on this educational journey with Kiavi. We are honored to be your trusted partner in your real estate investment endeavors.

Since 2013, we've believed that real estate investors could benefit from the power of modern technology and tailored industry expertise. In just a few years, we've built an industry-leading team and a powerful technology platform that delivers flexibility, speed, and simplicity that our customers rely on.

Together, we've funded more than **$16+ billion** in loans, unlocked **$4.1+ billion** of value for real estate investors to help them scale their business, and completed over **65,000 projects**.

As we look to our future, we're committed to helping real estate investors revitalize the approximately $25 trillion worth of aged U.S. housing stock to provide move-in ready homes and rental housing for millions of Americans across the country.

Ready to Get Started?

Kiavi's advanced tech platform removes many traditional barriers, automates time-consuming manual steps, and provides quick approvals and true transparency throughout the entire process. We provide robust backing with expert guidance for both new investors as well as seasoned professionals.

Fix and Flip / Bridge Loans

Short-term financing for purchasing and rehabbing investment properties with high leverage, competitive terms, and fast closings.

Learn More

DSCR Rental Loans

Flexible term lengths, low rates, and easy processes to maximize monthly rental income allow you to enjoy the benefits of property appreciation.

Learn More

Rental Portfolio Loans

Consolidate 5+ properties under one low monthly payment and customizable loan to make managing your growing portfolio easy.

Learn More

Bibliography

ATTOM Staff, “Home Flipping Remains Up In 2022 Across U.S. But Gross Profits Fall To Another Low” ATTOM, March 23, 2023, https://www.attomdata.com/news/market-trends/flipping/attom-year-end-2022-u-s-home-flipping-report.

FRED, “Housing Inventory: Active Listing Count in the United States,” FRED. August 29, 2023, https://fred.stlouisfed.org/series/ACTLISCOUUS

FRED, “Median Sales Price of Houses Sold for the United States,” FRED. August 29, 2023, https://fred.stlouisfed.org/series/MSPUS

HouseCanary, “National Rental Report,” Retrieved August, 2023 from https://www.housecanary.com/wp-content/uploads/2023/05/hc_rental-report_q1-2023-2.pdf

Rob Warnock, “Apartment List’s 2023 Millennial Homeownership Report”, April 18, 2023, https://www.apartmentlist.com/research/millennial-homeownership-2023

TransUnion, “Renter Migration Patterns Drive 42% Increase in Out-of-State Applicants as Renters Seek Sunnier, Rural Environments.” June 22, 2022. https://newsroom.transunion.com/renter-migration-patterns-drive-42-increase-in-out-of-state-applicants-as-renters-seek-sunnier-rural-environments/

US Census, “Quarterly Residential Vacancies and Homeownership, Second Quarter 2023,” August 2, 2023, https://www.census.gov/housing/hvs/current/index.html

CNN, “US home prices stay near record high, even as sales drop in June,” July 20, 2023, https://www.cnn.com/2023/07/20/homes/existing-home-sales-june/index.html

575 Market Street, Suite 1600, San Francisco, CA 94105
NMLS ID 1125207 - nmlsconsumeraccess.org & Equal Housing Lender
AZ Mortgage Banker License 0926504
CA Finance Lender licensed by CA Department of Financial Protection and Innovation
Toll Free: 1 (844) 415-4663 | Kiavi.com

Revised 083023 EI