

The Rules to Flip By



Message from the Author

Prior to entering the lending business, I bought and sold 2,500 homes in California and Texas valued over \$1 billion. I communicate that fact for two important reasons:

- 1.) To share the takeaways from my experience, which can meaningfully benefit your next project, and...
- 2.) To brag shamelessly! *Trust me, I know this stuff!*

This Guide lays out simple rules to flip by. Fixing up communities and providing jobs is truly a worthwhile enterprise. It feels even more worthwhile when you accomplish these objectives while making a handsome profit!

We hope that we can assist you with your next deal—but us or not, we hope you find The Rules to Flip By useful and entertaining.

Rule #1: Everyone Loves a Pessimist

Well, maybe not everyone. But a good underwriter of potential deals is inherently pessimistic.

“November and December are a great time to sell...nobody has anything going on!”

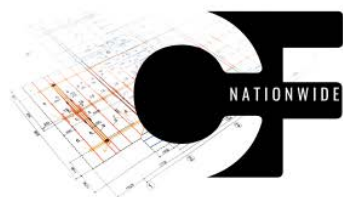
“These cast iron pipes are unbreakable!”

“Mold, what mold?”

Don't be that person! The kind of person who ignores real risk factors to get a deal done. Stay disciplined! Adopt a technically pessimistic attitude toward the acquisition process. What does that mean? It means when underwriting a deal, make negative assumptions about all unknowns. You don't have to go overboard, but beat the deal up a little and see if it still floats.



Underwriting is a process of pulling a bunch of different levers to forecast what a future result might look like. A technically pessimistic attitude makes unfavorable assumptions for all unknowns: market price appreciation/depreciation, renovation cost, renovation time, listing time, repair requests, etc. If you genuinely pull all the levers with some level of negativity, and you still like the forecasted result, you may have a deal on your hands.



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Rule #2: Good Hard Pass

There is nothing more satisfying than a **Good Hard Pass (GHP)**. The best decision is often the deal you decide not to do. The average flipper should be underwriting hundreds of deals, offering on a select group, and closing only when you are wildly in love with the flip. You should literally feel like you want to marry the flip. For a time, that's the level of commitment required.

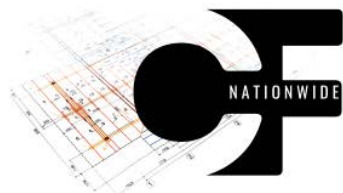
You and the flip will enter into an unholy matrimony of sawdust, cost overruns, and paint touch-ups. In many cases, you'll be alarmed to find out that some hidden issues may emerge behind the drywall of your new partner. Real issues, that in fact were not remotely apparent prior to the marriage. Not to fear, assuming you have effectively executed the **GHP** on unworthy assets, the issues will be worth working through. You'll come out the other side a better flipper and person.

....and no, for those wondering, the preceding paragraph was not about my own personal life experience. I happen to still be living the bachelor life. But since we're on the topic, if you're an eligible lady out there who knows how to use a socket wrench, crowbar, or especially a hot glue gun, hit me up!

Ok, moving on.

As you know, when you want a flip to finish right, you'll often need to be present, in-person, at the site, holding hands with your favorite tradesman. This is a time consuming endeavor and can sometimes get awkward because tradesmen don't like to hold hands. (I think that's because they're self-conscious about how rough their hands are.) The one exception is the HVAC guy—he is normally cool with it.

The point is, you can't be everywhere always, hence the importance of the **GHP**. Don't fall in love with too many flips (have some standards for Pete's sake!), and don't spread yourself too thin. If you are unsure a deal will generate a meaningful profit, make the right decision: give it a **GHP**. The number of run-down houses in need of repair is nearly as limitless as a real estate agent's desire for self-promotion. **GHP** if you're not in love—there is always the next deal!



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Rule #3: Make Money on the Buy (Not the Fix-up)

Many flippers make the strategic mistake of relying too much on the renovation to provide value and profitability to a project. **Make money on the buy**, and put yourself in a profitable position before you ever swing a hammer!

How do you do this? Don't be a sheep and drink from the same watering hole as the competition. Form unique relationships with probate attorneys, wholesalers, lenders, neighborhood leaders, and individual homeowners. Cultivate opportunities that your competition is unable or unwilling to find.

If you mine these types of acquisition opportunities, you'll eventually strike gold. Strike gold enough times, and maybe one day in the distant future, you'll be able to write your very own guide that will change the world! Dare to dream!



1. Off-Market

Basic - Mailers and phone calls.

Boss Move - Knock on doors if ya got the guts!

2. Probate

Easier to negotiate with the seller.

3. REO

We never have any of these (cough, cough), but some lenders do, and you should buy them.

4. Listing Fallout

Take advantage of seller insecurities. Sellers hate to have a deal fallout twice and will be more open to your retrade after a fallout.

5. Wholesale

These folks are hustlers. Get in their good graces and reap the rewards.



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Rule #4: If You're Not Retrading, You're Not Trying

The disgusting hoarder house is going to sell to an investor at a profitable price. The only question is whether that investor is going to be you? Well, maybe the better question is, do you want it to be you (hoarders are crazy!)? It's sad, I know. Anyway, if you want to accept the challenge of beat-down housing, please read on.

The art of the retrade is a delicate balance because you don't want to waste anybody's time. Butttttt, you'd also like to buy the deal you have under contract for tens of thousands of dollars below the existing contract price. It's quite the dilemma.

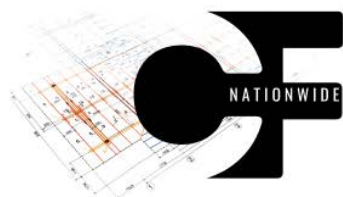
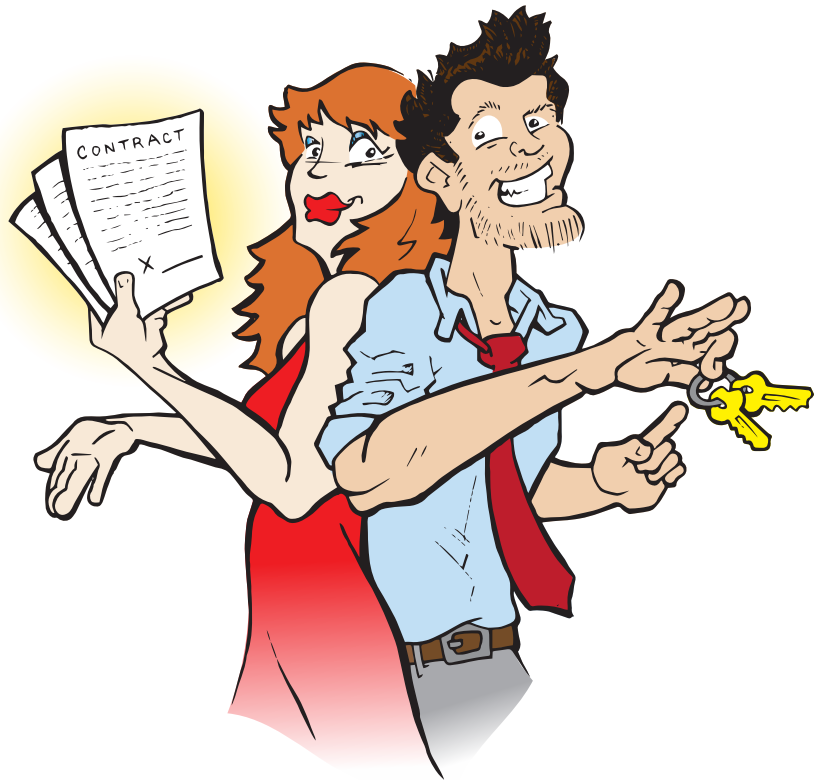
The solution – during every contract period, you should professionally inspect the house beyond the visual inspection you did prior to writing your offer. Then, logically outline the issues with the house and break down into categories the costs you'll have to incur beyond what you may have seen on your initial visual inspection. These costs were honestly not known up-front, and you need to address them. That's, you know, at least partially true.

Then begins the respectful dance with the seller on what the generous buyer (you) might agree to take upon themselves to fix, and (more importantly) what house faults the seller may need to face the music on. Getting someone to recognize their house faults is a lot like getting someone to recognize their personal faults – tread carefully!

This situation can be touch and go, so proceed with the requisite amount of respect. But never shy away from a little confrontation when flip profits are on the line! This reminds me of, "Never get involved with a Sicilian when death is on the line!" Can you name the movie? We'll waive the doc fee on your next deal if you can name it. (I just realized Google kills this promotion. No free doc fee – the promotion is off!)

So with a deft touch, you'll find that many sellers are willing to take a larger price haircut than you'd think. Some even freak out and just shave it all off Brittany Spears-style circa 2000 whatever. Those are sweet, hard-earned victories...cherish them when they come your way.

It's good to try. Be like Avis, "We Try Harder" – and **if you're not retrading, you're not trying!**



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Rule #5: Don't Give Away Your Bloody Profits!

Oh my gosh, don't get me started! I'm going to exceed my allotted number of exclamation points for all the rules on this rule alone. Those who pay 6% of their hard-earned profits to agents are, well, I won't call you names – you've suffered enough already.

I'm not even going to joke about this. **Don't give away your bloody profits!**

(Disclosure – I'm not British, but I do enjoy using the word "bloody." I think it's going to catch on domestically -- please give proper acknowledgment as the trendsetter when it happens.)

So, we agree, paying full price listings are inexcusable for experienced investors.

So, what should you do? If you are going to use an agent get a discount, or better yet...

Let's do the quick math, shall we?
(assuming you're able to find your own buyer)

$\$500,000 \text{ Sale Price} * 6\% = \$30,000$

Like I said, you've suffered enough already. **Don't give away your bloody profits!**



Conclusion

You never know when you're going to fall in love with your next flip. When lightning strikes you'll want to be prepared with a capital partner standing by. CFUND can provide a term sheet in 24 hours, requires no credit check, and no appraisal. With this unique process, CFUND borrowers can rely on the fact that our terms never change. CFUND is truly "Capital You Can Count On."

If you have a current deal please fill out our "1-minute loan application" at cfund.us or call us to discuss our loan programs and how we might be able to assist you in the future.

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