

# Home improvement

## Flipping has potential, risks

By DORI ZINN

Bankrate.com  
Tribune News Service

Tune in to HGTV on any given day, and you'll come across programs where smiling people transform eyesore properties into jaw-droppingly beautiful homes. Sometimes these magicians are professional real estate investors, sometimes they're just ordinary individuals — but they almost always resell the newly renovated property for a tidy profit.

Welcome to the lucrative world of flipping houses. According to real estate data firm ATTOM, nearly 68,000 U.S. homes were flipped in the first quarter of 2024 alone — that's one out of every 12 homes sold. What's more, ATTOM data shows that the flippers typically earned a gross profit of more than 30% on each transaction.

Of course, house flipping in real life is almost never as easy as it looks on TV. If you're interested in giving it a try, here's a guide to flipping houses for beginners.

### What is house flipping?

House flipping is when someone buys a property, holds on to it for a short time and then sells it for a higher price. The quick-turnaround resale is why it's called a "flip." So instead of buying a home to live in as a residence, you're buying it as an investment — in effect, speculating in it as you would a stock.

Sometimes, flipping houses means you buy a fixer-upper and renovate it to make it market-ready; other times, it means just holding the property until the market shifts and you can sell it for more than you paid for it. Either way, the goal is to buy low and sell high, earning a profit in a relatively short amount of time (usually within a few months to a year).

See **Flipping** page 2



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Kitchens are generally the most expensive rooms in a house to renovate, but they also bring the highest return on investment. According to real estate data firm ATTOM, one out of every dozen homes sold in the first quarter of 2024 were flipped.

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# Planning, expectations are project keys

By GARY M. SINGER  
South Florida Sun Sentinel  
Tribune News Service

**Q:** We plan on fully remodeling our kitchen and having some other work done on our home. What can we do to make sure the process goes smoothly? — Ted

**A:** Planning properly and having reasonable expectations is essential when getting into any major project.

When hiring contractors and

drawing up plans, try to be very specific about what you expect so that the result looks like what you intended. This

will help ensure that what you had in mind matches what the contractors are doing.

Renovations are complex

enough without fundamental misunderstandings.

The contract and plans should be as detailed as possi-

ble, listing specific materials and the model numbers of the appliances. Make sure the contract has a timeline that includes penalties for missed deadlines.

Since some delays are inevitable, make sure the deadlines are reasonable.

Read and understand the contract, including its fine print, so everyone is on the same page.

See Keys page 4

*Being specific about desires is essential to having a successful result*

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The amount of time needed to get a house resale-ready will depend on how extensive the required repairs and upgrades are. House flippers should make sure they have ample time to get the work done and handle other required details such as home inspections.

## Flipping ...

Continued from page 1  
House flippers need a lot of money on hand for the upfront costs of purchasing, carrying and renovating the home, and they have to budget very carefully to make sure they don't spend more than they'll be able to earn back in resale. They also need a team of trusted contractors and service providers at the ready to get any needed work done as quickly as possible.

### Pros and cons

There are many rewards associated with house flipping, but there are serious risks, too.

**Pros**  
—Potential for big profits: The typical gross profit (the difference between the median purchase price paid by investors and the median resale price) for house flips was \$72,375 in the first quarter of 2024, according to ATTOM. That's a very nice amount for a short-term job, to be sure, but keep in mind the high levels of spending required to get there.

—Improving neighborhoods: Flipping houses can help turn around property values in areas where neglected or derelict homes are dragging down prices. "Most of the houses I buy are in a distressed condition or coming from a distressed seller," says Matt Aitchison, a real estate investor and host of the podcast The 6 Figure Flipper. "The ability to truly solve someone's problem while making a significant profit that can be used to build wealth is an amazing thing that I love about flipping."

—Diversify your investments: Investing in different types of assets is often considered a good way to reduce risk. As an alternative to stocks and bonds, real estate is one of the

most popular long-term investments: Adding real estate to your investment portfolio can help diversify your holdings, and flipping properties lets you cash in those investments.

**Cons**  
—Potential for big financial losses: There's no reward without risk. House flipping comes with a lot of pressure to buy wisely and move quickly. If your property sits on the market, you're responsible for paying all of its costs, including the mortgage payment (if you've financed it), property taxes, homeowners insurance and homeowners association dues. "It can be financially draining," Aitchison says. For this reason, it's important that you have some capital set aside in case your flip is a flop.

—Likelihood of significant problems: Finding a home that can be bought cheaply enough to flip for a profit can be tricky. Flippers could be looking at much higher-than-anticipated costs if unexpected issues arise. "What if you open things up and you find asbestos? Mold? Termites?" says Amanda Pi of Pi Home Solutions in Ridgewood, New Jersey. "There are tons of different things you could find when you do renovations."

—Possible legal issues: If you buy a home that turns out to have title issues, or the buyer finds issues you didn't fix or address appropriately, there's always the potential for lawsuits. Having a solid team looking out for your interests is important, says Aitchison: "(I've) seen a lot of lawsuits on both sides. Having a great real estate attorney is part of having the right team members in place."

**How to flip**  
—Set a budget: House flipping is expensive, and

the first step is to make sure you have your finances in order. If you're a first-time flipper, whatever amount you think is enough probably isn't, says Pi. Don't go in conservatively — she suggests multiplying your current budget by five. If you'll be financing the purchase, make sure you're preapproved for a mortgage before you start looking.

—Find a property: Next, look for properties that fit your finances. Browse through foreclosures, auctions and short sales to see what best matches up with your budget and renovation ability. A local real estate agent who has experience working with flippers can help you find properties that will give you the best return on your investment. (However, you may have to pay them a commission fee, which will eat into your profits.)

—Make an offer: When you find the right property, it's time to make an offer. Professional flippers often consider a home's after-repair value to help them determine how much to bid — and keep in mind that in popular markets, you may well be bidding against these pros. You might want to have multiple properties in mind in case you're outbid on your first choice.

—Set a timeline: Once you've bought a home, the clock starts ticking. The amount of time you'll need to get it resale-ready will depend on how extensive the required repairs and upgrades are. Whether it's one month or six, give yourself enough time to get the work done, and factor in time for building inspections (if needed).

—Hire a contractor: Unless you've got the chops (and time) to handle repairs and renovations yourself, you'll want to hire reputable tradespeople.

See Flipping page 4

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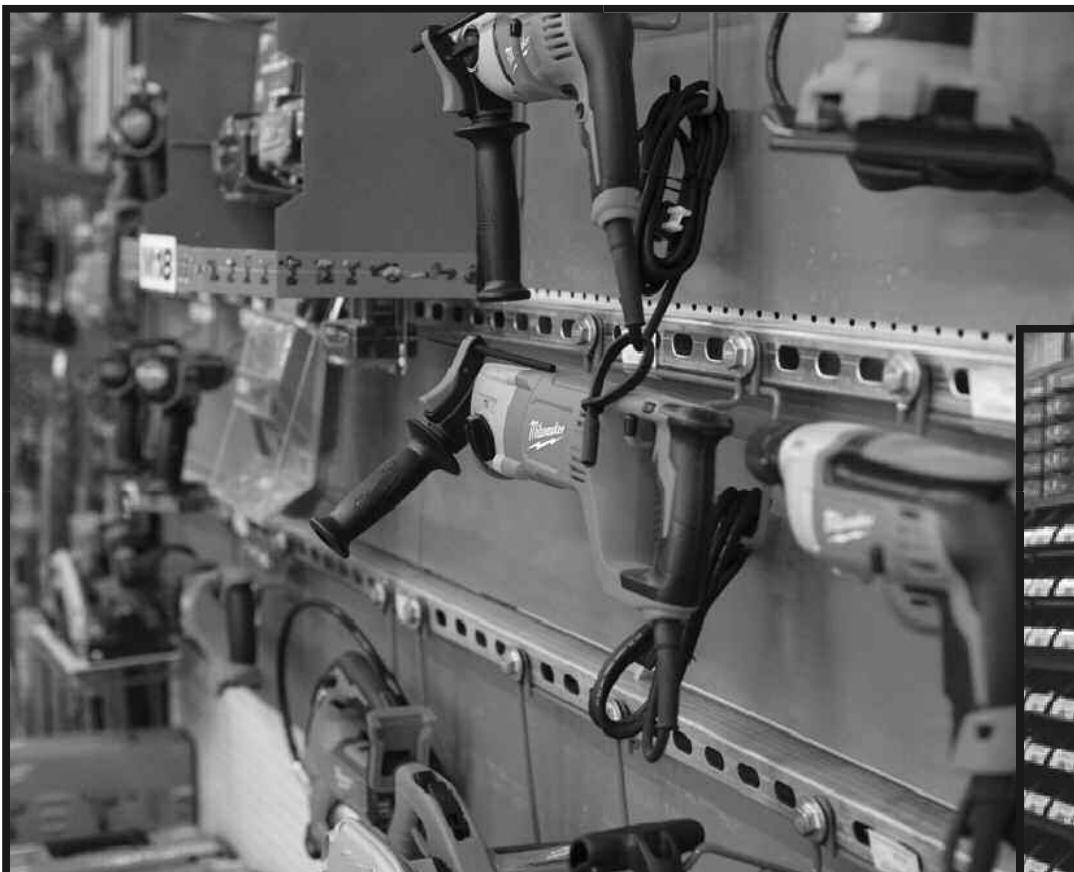
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## Steps can reduce the risk of fire

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A person's home should be a safe haven. Too often, however, there may be dangers lurking in a home that can compromise the safety of residents.

Electrical fires are no joke. The Hartford insurance company says electrical failure or malfunctions account for almost 34,000 home fires per year. The National Fire Protection Association says they can contribute to 440 deaths and \$1.3 billion in direct property damage annually.

Older homes may be most vulnerable to electrical fires, as such structures were not designed to handle the demands of modern living. The insurance experts at Nationwide say half of all homes in the United States have electrical systems that were installed before garage door openers, high-tech coffee makers, and many computers became must-have items. And the Electrical Safety Foundation International says homes built before 1973 with overloaded electrical systems pose a number of safety threats.

Overloaded circuits are not the only contributor to electrical fires. Damaged wiring character-

ized by worn, frayed or loose wires can cause fires. Malfunctioning appliances or those improperly maintained also can create home fires. Another contributor is poorly installed extension cords and power strips, as well as faulty outlets and switches around homes.

Homeowners can take various steps to reduce the risk of electrical fires at home.

- Install arc fault circuit interrupters. AFCIs are special types of circuit breakers that help prevent fires caused by nicked or frayed wiring. An AFCI gets tripped and cuts off power when an electrical problem is detected before a fire can start. In 2022, the National Electric Code started requiring AFCIs in bedrooms, and by 2017 they have been mandated throughout homes.

- Conduct a home electrical inspection. All homes more than 40 years old should be inspected to ensure their electrical systems can handle modern demands, says Nationwide. A qualified electrician can make recommendations regarding replacing breakers and suggest other modifications to improve safety.

- Utilize a monitor. Ting from

Whisker Labs monitors a home's electrical network using a smart plug-in sensor that is designed to detect hazards. The company indicates micro-arcs and sparks that develop are precursors to electrical fires.

- Turn to automatic shut-offs. Homeowners can utilize appliances and additional devices that automatically shut off after a set period of time. This can reduce the risk of overheating.

- Rely on timers or smart devices. Timers and smart home devices can give homeowners control of electrical components like appliances or lights from a remote area. This enables users to turn an appliance on or off to reduce overheating or avoid additional risk factors for electrical fires.

- Don't go DIY. Choosing to work with a professional electrician rather than doing electrical work oneself can help reduce electrical fire risk considerably. Electricians know how to work on electrical systems safely to prevent damage to wires and components, and also safeguard themselves against shock.

Risk for electrical fires at home can be reduced with technology and other strategies.



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Electrical failures or malfunctions account for more than 30,000 house fires each year. Older homes may be most vulnerable to electrical fires, as such structures were not designed to handle the demands of modern living.

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## Flipping ...

Continued from page 2

Some contractors have full teams to work on all areas of the home, but not all. Check licenses and references before you commit to anyone, and also make sure their quotes are in line with your budget and they can meet your timeline.

- Sell your property: After all updates have been made, it's time to put your property up for sale. A real estate agent can help you price and market the home (though again, you'll likely have to pay them a commission). If you make a profit, congratulations — you can put the money toward buying your next flip!

### Common mistakes

While there is financial opportunity in flipping houses, don't get into it without significant capital, guidance and preparation. Here are some common mistakes to avoid.

- Not having enough money: Keep to what you can afford. Not every project is a TV-worthy transformation with a giant payday; some flips can be modest clean-and-repair jobs that help you gain experience and confidence. "Everything adds up quickly, and contractors (can) take advantage if you're a novice," says Pi.

- Thinking it's easy: While you don't need a license to flip homes, it's not as

simple and fun as TV shows portray it. "It takes time and money, and (you) shouldn't go in blindfolded," Pi says. "There are lots of amateurs. They get burned and lose a lot of money."

- Not building the right team: It's crucial to work with experienced, reputable people, Pi says. Your team might include a more experienced mentor, a real estate agent, a contractor, a home inspector, an attorney and even an accountant.

- Not giving it your full attention: Flipping houses is much more difficult when you also have a regular day job. "It's not a good side-hustle," Pi says. "If issues come up on-site, someone needs to be there. If you're going to do it, do it full time."

### Bottom line

When it comes to flipping houses, it's easy to be blinded by the potential for huge profits. But before jumping into a project, be sure you can afford a potential loss. Even if the renovations go perfectly according to plan, the real estate market can be volatile, and high interest rates mean there are fewer buyers out there who can afford a home purchase. Save your future self by keeping a solid emergency savings fund in case you lose money, and be sure you have a trustworthy team to work with before you buy.

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## Keys ...

Continued from page 2

Stay involved in the project as it progresses, keeping in mind the careful balance between participating and getting in the way. Check the plans before they are submitted to your municipality to ensure they match the contract.

While your contractor will pick the subcontractors, you are responsible for ensuring they get paid, so find out who they are. If your contract calls for progress payments, get proof that the subcontractors have been paid for their work. You can write a joint check to your general contractor and the sub if your payment will be used to pay them.

As the general contractor is finishing up, have the results independently inspected so that all defects can be resolved.

Before you make the final payment, check that your general contractor got the proper municipal inspections and closed the permits so that you do not have a problem when selling your home years later.

You can significantly lower the risk of something going wrong by being thorough, attentive, and ensuring the contract is adhered to.

That said, you should also have reasonable expectations, as nothing goes exactly as planned.

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*Singer is a Florida attorney and board-certified as an expert in real estate law by the Florida Bar. He frequently consults on general real estate matters and trends in Florida with various companies across the nation. Send him questions online at [sunsentinel.com/askpro](http://sunsentinel.com/askpro).*

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