

Generating Profits From Real Estate Property Flips

Real estate speculating fundamentals

Let me start by stating the obvious. Buying low and selling high is the objective of just about any savvy investor or speculator, whether s/he is dealing in the stock market, auto sales or real estate. That having been said, real estate speculating (ultimately that is what property flips are) involves a process which the speculator/investor must be thoroughly familiar with, based on practical experience or some combination of extensive study, licensed real estate sales and property evaluation.

Traditionally, real estate speculation required a substantial monetary investment so that the investor would have the best chance to be successful. This is because the process involved purchasing the property, often without the ability to obtain financing due to property condition ("as-is all cash" purchase); paying for repairs or rehabilitation to bring the property into top market condition for resale; marketing the property (advertising, broker's commissions, etc.); and absorbing any reduction in asking price due to lower-than-expected appraised value. This process, however, is not to be described as a flip in its truest form.

Flipping is a term used primarily in the United States to describe purchasing a revenue-generating asset and quickly reselling (or "flipping") it for profit. The key word being "quickly". Though flipping can apply to any asset, the term is most often applied to real estate and initial public offerings. For the purpose of this article, "flipping" will be discussed as it relates to real estate transactions.

Components of a real estate flip

Anyone familiar with the business of real estate, knows that it is governed by certain industry-specific elements such as "Contracts of Sale", "Property Appraisal Reports", "Title (Abstracts of Title) Reports", "Mortgage Financing", "Deeds", "surveys" and other less important items. Each of the items listed above is provided by specialist or professional who is thoroughly familiar with it. Therefore, as a real estate investor or speculator, you must be prepared to interact with some of these practitioners, in addition to having some knowledge of their areas of expertise.

Building relationships with "Real Estate Attorneys", "Real Estate Brokers", "Real Estate Appraisers", "Title and Abstract Companies", "Mortgage Companies", "Builders" and "General Contractors", among others, can be very helpful in putting together your real estate property flips in the best possible way. Very seldom, if ever, is a real estate transaction consummated without a contract of sale. This document must therefore be the centerpiece of any real estate transaction, including a real estate property flip. In fact, it is the way in which many standard real estate contracts are prepared that substantiates the real estate property flip.

The term "Assignee", found on most real estate contracts of sale (purchase agreements in

some states), refers to an individual who purchases a given contract from the buyer in a real estate transaction along with all the rights and warranties of that buyer. So the first thing an investor must do if s/he intends to flip a real estate property is to acquire a signed contract of sale at an agreed-upon price – preferably below market value – from the property owner / seller. But this is only the first meaningful step in the real estate property flip; but it can be jeopardized if the second step has not been thought through carefully and put into place.

Putting the real estate flip deal together

Even before obtaining the signed contract of sale, the investor would have had to determine a reasonable "as-is" value and purchase price, as well as a reasonable after-repaired value and resale price. But the single most important thing the investor must have had, in order to make the flip work, is a buyer who is qualified to buy the property at a bargain price (for the buyer), but would still generate an acceptable profit for the investor. This is where the foundation of a real estate property flip transaction is established, and it has to be done right if the remainder of the deal is going to work.