

Strategies for Successful

FIX & FLIPS





There is no sure-fire recipe for success in real estate investment, as there is always an element of risk. But there are some strategies that can make success more likely than not when it comes to fix & flips.



Determine if setting up an LLC makes sense.

Most of our borrowers choose to set up a Limited Liability Company (LLC) to purchase their investment property. Whether or not this is advisable for each individual investor is something he/she should discuss with his/her business advisors and/or attorney. There should be a further exploration of whether it makes sense for each individual investment property to be purchased through its own LLC, with each named after the address of the property being purchased.



Make sure to ask your prospective lender the right questions.

If you are a real estate investor who is looking for a hard money loan, there are plenty of options to choose from. There are a lot of good lenders out there, but there are also some bad apples. We have a [guide](#) that can be downloaded from our website that provides a list of questions to ask your prospective lender, and what their responses should be. These questions include:

- ❓ Are you a lender or a broker?
- ❓ Do you have references that you can provide to me?
- ❓ How long have you been in business?
- ❓ How long does it take to get a term sheet?
- ❓ What fees will I have to pay?
- ❓ Is there a pre-payment penalty?
- ❓ Do you require an appraisal?
- ❓ How quickly can you close?
- ❓ Can I use any contractor that I want for my fix & flip?
- ❓ Does a third party perform draw inspections?
- ❓ How long does it take to receive funds from a draw?
- ❓ Are there any other services that you provide to your borrowers?

Building a good team is one factor that will promote success, and that includes the choice of lender.



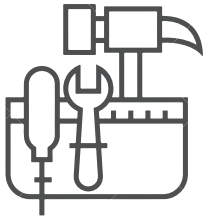


Know the local market, inside and out.

If the geography in which you plan to invest is not your own neighborhood, it is essential that it be one with which you are intimately familiar. If you do not have the inside knowledge of the neighborhood, it makes sense to start with what data is publicly available. For Baltimore City, an example of a site that provides information on different neighborhoods is [Live Baltimore](#). Another site is the [Baltimore Neighborhood Indicators Alliance](#), who strives to provide “meaningful, accurate and open data at the community level.”

Publicly available information will not be sufficient though, as that data often lags the current market conditions. For example, in July 2020, the Long & Foster “Market Minute” focusing on the Baltimore City Housing Market was from May 2020. This is no fault of Long & Foster’s; it is simply a matter of when that data is aggregated and becomes available for analysis.

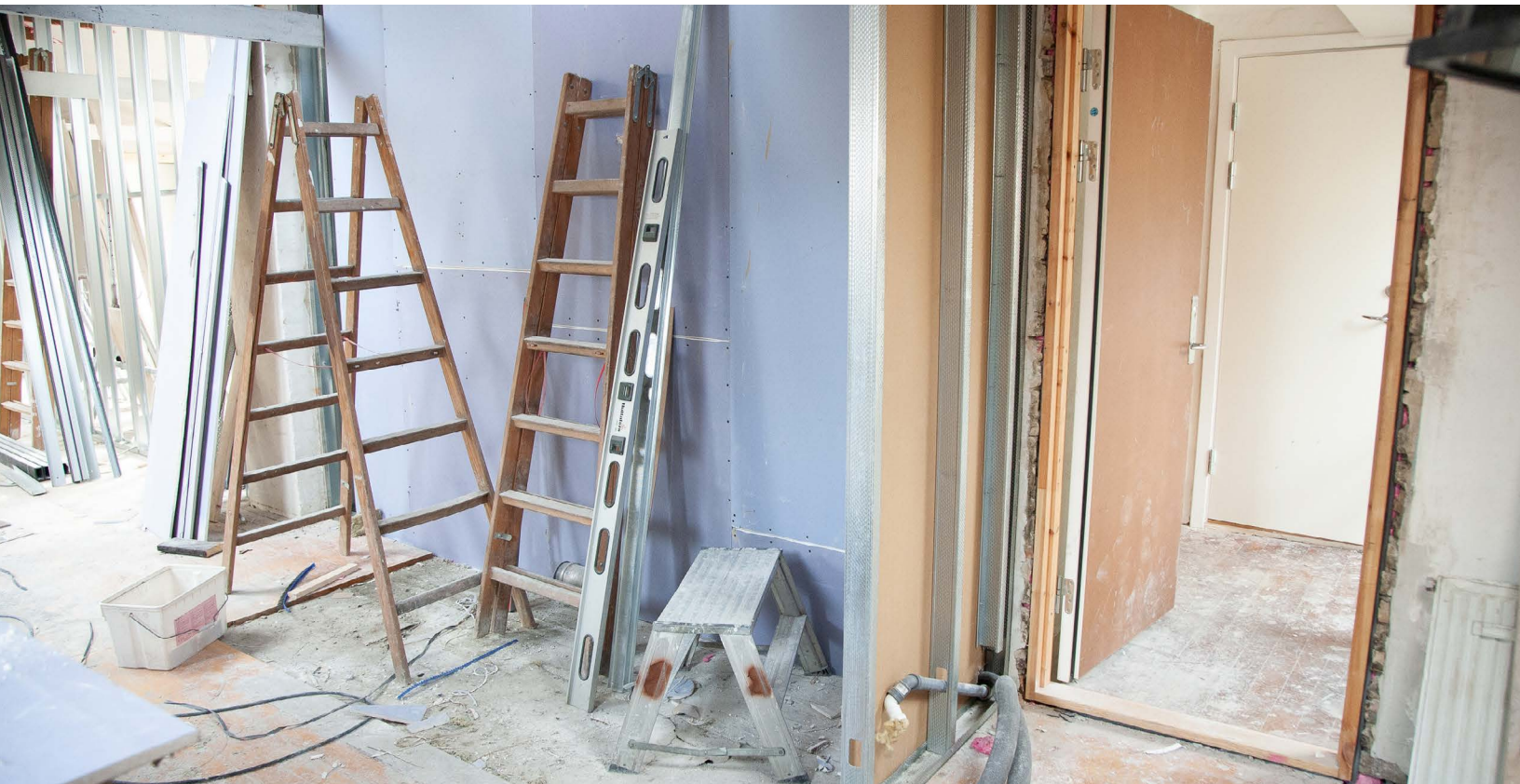
Investors should speak to neighborhood residents personally to get a feel for the sales prospects. Walking the neighborhood is obviously one way to connect with residents. Other ways are using an app like [Nextdoor](#) or joining a public Facebook group for the neighborhood in question. Investors should scour community websites and local news to further develop their knowledge of the target geography.



Select your contractor carefully.

If the real estate investment requires the work of a contractor (meaning that the purchaser himself is not a contractor), then it is critical that the contractor be selected carefully. We devoted a previous [blog post](#) to this very subject. Your contractor should meet the following requirements:

- ☑ The contractor must be **licensed, bonded, and insured**. This information will be confirmed—you cannot just take someone’s word on this. There is far too much risk associated with going any other route. The homeowner will end up holding the bag if the project does not meet code, if a worker is injured on the homeowner’s property, etc. The homeowner will also assume liability for payment to subcontractors. It may be tempting to hire someone who is unlicensed but comes highly recommended—but the potential pitfalls far outweigh any cost savings. Maryland’s Department of Labor provides a home improvement [public query](#) that enables members of the general public to check to ensure that a prospective contractor has an active license. The state of Maryland requires that only Maryland Home Improvement Commission (MHIC) licensed contractors enter into contracts with homeowners to perform home improvement work.



- ✔ Ask for **references** if the person is not someone you have worked with before and call those references. Ask at least the following questions of the references:
 - ❓ Did the contractor perform the work within the budget?
 - ❓ Did the contractor perform quality work?
 - ❓ Did the contractor meet the timing requirements?
 - ❓ Did the contractor use subcontractors with whom he has experience?
- ✔ Ask to see **photos** of the contractor's past work. This mitigates the risk that the references provided are not being forthcoming regarding any negative experiences.
- ✔ Check for any negative **reviews**. While you certainly cannot make everyone happy, a negative review should be the exception rather than the norm. Note also that anyone may check a contractor's complaint history by calling the state of Maryland's Home Improvement Commission, Monday-Friday, 8:30 a.m. - 4:30 p.m., at the following telephone numbers: 1-888-218-5925 (toll free) or 410-230-6309 (Baltimore area), or by sending an e-mail to DLOPLMHIC-LABOR@maryland.gov. Complaints closed within the last three fiscal years are reportable to the public.
- ✔ Make sure that the contractor will commit to being easily accessible to the project owner. All too often, calls from project owners to their contractors go unanswered or are not answered promptly.
- ✔ Make sure the contractor is someone whose team has specialties—someone on the team is particularly skilled with painting, someone on the team is particularly skilled with floor installation, etc.
- ✔ Make sure the contractor is someone who does not take too many jobs at the same time (those who do end up being pulled in too many different directions and deadlines tend to become far too fluid).



Know what packs a punch—and what does not—when it comes to fix & flips.

We have a separate [guide](#) that focuses exclusively on best practices and common pitfalls when it comes to the renovation work for a fix & flip. Best practices include, but are not limited to, the following:

- ✔ Make sure that there is sufficient light; a brightly lit room feels more open, warmer—and even more clean (no worries about hidden problems in dark corners).
- ✔ Use a professional tile layer—this is not a place to try a DIY project. A professional tile job can really transform a space from something mediocre to something with a special appeal.
- ✔ Kitchen cabinetry needs to use quality materials and should feature colors that are currently trendy—such as mix-n-match with lighter colors on top and darker colors on the bottom.
- ✔ Accent work—whether it be a wall, or trim—can be particularly visually appealing to a prospective buyer and is a low-cost investment.
- ✔ If the house has only 1.5 bathrooms and the half bath needs to be renovated anyway, considering converting it into a full bath. The cost of doing so may be outweighed by the price the seller can attract with two full bathrooms versus 1.5.
- ✔ Consider incorporating wellness and/or “smart” features.
- ✔ Paint colors, aside from accent work, should generally be neutral. Pops of visual appeal can be added by bold flooring tile or a bold backsplash.
- ✔ The rise in WFH acceptability means there is more of a need for space that is truly usable as a home office—space that offers privacy, storage, and good lighting.
- ✔ Do not ignore the exterior. Sometimes homeowners pour their energy (and budget) into the interior of the home without having given consideration to the exterior. This means that they may overlook safety issues (e.g., uneven walkway, precariously hanging tree branches, etc.) and/or major aesthetic turnoffs, like an unkept yard, surfaces in need of power washing, etc.



Do not underestimate the importance of staging.

When the renovation work has been completed in a fix & flip, the seller has an opportunity to “stage” the home for sale—meaning that they can fill it with furniture and décor items for the purpose of allowing prospective buyers to envision how the house could look once they move in. Many investors choose to hire professional stagers who are skilled at transforming an empty room into an appealing space. Not all buyers are able to envision how an empty space might otherwise look and feel, so staging before photos are taken and before the home is shown to prospective buyers is critical. It is also critical that the home be staged in such a way that it has the broadest appeal without appearing too plain vanilla.

Some sellers do not have the budget to hire a professional stager. We previously published a [blog post](#) on how to stage a home in Baltimore without breaking the bank that can help such sellers navigate the staging process on their own.

It goes without saying that the staging should ensure that the space feels open, welcoming, and uncluttered (but not too spartan).



Learn from other people's mistakes.

Whether you are a seasoned investor or a newbie, there is always knowledge to be gained by networking with others. Joining a local networking group or online forum is one way to share experiences and the lessons learned from those experiences. One option in Baltimore for a local networking group is the [Baltimore Real Estate Investors Association](#). Another option is the [Maryland Real Estate Investors Association](#). Yet another option is [The Associated's Real Estate Industry Group \(REIG\)](#). Other groups are listed by BiggerPockets [here](#). There are also many options online. For example, you can join the Maryland Investors Network, which is a private group on Facebook to which you can request admittance. [BiggerPockets](#) is also a robust online resource for questions and answers related to REI.





Build a good team.

We have already discussed the importance of making informed selections of lenders and contractors. It is just as important that the other professionals who will be involved in the fix & flip process are vetted as carefully. That includes business advisors, anyone involved in staging the property, the person who will photograph the property for the listing, the agent who will list the property, plus others. You should ask each person for references, you should call those references, you should ask to see examples of the person's previous work yourself, you should check the public domain for reviews, etc.

Once a solid team is in place, that team can be retained moving forward and only tweaked when necessary. Having the right team in place also means that the fix & flip process becomes slightly more formulaic moving forward—meaning, for example, that it will be easier to predict how long the contractor's work will take.

Using these strategies will not guarantee success but will contribute to making success more likely.



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