**HOW TO FLIP A FORECLOSURE PROPERTY FROM AUCTION.COM**

Auction.com // October 3, 2019



As an investment strategy, house flipping is supposed to follow a fast-paced game plan. Under the house flipping model, property[is acquired to resell at a profit](https://www.investopedia.com/articles/mortgages-real-estate/08/house-flip.asp) with the timeframe for holding ownership limited to the shortest period possible. This is the opposite of long-term real estate investing where property is purchased for personal use or as an income-generating asset with returns realized through rent income and price appreciation over several years of holding the property. In most cases, the fix and flip investor would focus on purchasing one property, dedicating the necessary resources to cleaning up and incorporating upgrades prior to reselling at a higher price to reflect the value added by rehab efforts. It is possible to create a steady stream of income through flipping by making sure that you have a solid but realistic business plan, and you can hold fast to your defined strategy for acquiring, renovating and selling a flipped house.

**BUYING FIX-AND-FLIP PROPERTIES**

It is important that investors understand exactly how profit is generated when [flipping a property.](https://www.thestreet.com/how-to/flip-a-house-14843879)

* Buy low, and sell high. This guideline is true whether you intend to fix-and-flip or buy-and-hold. When the investment strategy is short-term, which is the case for flippers, buying at the lowest possible price point is key to generating the best returns.
* Foreclosures offer one of the best opportunities for turning a profit for real estate investors because they are sold at auctions, where the market determines the price. Often times, this price will reflect the physical condition and financial encumbrances to the property.
* In a hot market, home prices may appreciate quickly, and investors hope to buoy profits with a quick turnaround of foreclosed properties.
* Value added to a foreclosed property comes in the form of upgrades, but return on investment may be better when required renovations are limited to cosmetic rather than extensive rehab.
* The fix and flip investor would focus on reselling quickly to minimize financial exposure. The costs of holding property, which may include taxes, insurance, maintenance and security expenses, will continue to add up as long as it is in your name.

**PLANNING CONSIDERATIONS WHEN FLIPPING FORECLOSURES**

Given the fast-paced game plan, flippers have to follow a well-defined game plan for handling foreclosures.

**1. ACCESS TO CAPITAL**

Investing in real estate requires substantial capital, most of which is required upfront to finance the acquisition. Financing options may be limited for foreclosure properties especially for properties that may require extensive renovations. Aside from acquisition cost, the rehab budget is a key consideration especially when the property may need major renovations to bring it up to habitable and marketable conditions.

**2. FINANCING**

A significant number of [foreclosure properties](https://home.howstuffworks.com/real-estate/selling-home/house-flipping.htm) are sold as cash-only transactions and may not qualify for traditional financing. Buying foreclosures is also a very competitive exercise especially in hot markets, so having your capital or financing package in place may be critical to winning the bid.

**3. PRACTICING DUE DILIGENCE**

Due diligence is the responsibility of the buyer. Do your research on:

* **The neighborhood** – Find out how many properties are in some stage of foreclosure in the immediate community and in the nearby area.
* **Market trends** – Study the foreclosure rate, price trends and inventory levels for the neighborhood and the city to estimate the upside potential for flipping. Consider any socio-economic developments that may impact the market such as road construction, new businesses, business closures and in-migration.
* **The property itself** especially any factors that may affect title transfer.
* **Develop an expertise in local market conditions** by studying recent closed transactions, market conditions and other factors that may affect home prices and how quickly houses are selling in the area.

**4. ACCESS TO INVENTORY**

As a fix and flip investor, it is important to have consistent access to the foreclosure pipeline. [Auction.com](https://www.auction.com/) is the leading online marketplace for foreclosures and discounted bank-owned properties. At any given time, the site has more than 20,000 listings located in all 50 states and Puerto Rico. Access to the site is open to all investors 24/7, and each property has a dedicated page with relevant information.

**[](https://auc.tn/BlogROI)**

**FLIPPING A FORECLOSURE**

With quick and convenient access to listings of foreclosures and bank-owned properties in virtually any U.S. market, real estate investors can plan on having a steady flow of projects to maximize resource utilization.

**1. For optimum returns, define your business goals and put them in writing.**

**The 70 Percent Rule:**According to [Lending Home](https://www.lendinghome.com/blog/what-is-70-rule-in-house-flipping/), investors should count on paying about 70 percent of the ARV or after-repair value of the property after repair costs are factored in. Determine the ARV by looking at the prices of comparable properties in good condition. Find out what repairs are absolutely required to bring the property up to marketable standards. Assuming a $200,000 ARV based on comparable properties, 70 percent of this value is $140,000. With a $30,000 budget for renovation expenses, your offer price for this property should be in the neighborhood of $110,000.

The 70 percent rule is simply [a guideline](https://www.realtor.com/advice/buy/how-to-flip-a-house/), and investors should be cautious about lowball offers especially in a hot market with limited inventory and a lot of competition with other investors and home buyers.

**2. Line up your financing and cash sources.** Flipping a property requires financial preparation whether you intend to use your own cash, hard-money loans or traditional loans to acquire the property. You should also have the resources to undertake the necessary repairs, which will entail more cash, a line of credit or a construction loan.

**3.**[**Team up with a crew of reliable contractors**](https://www.lendinghome.com/blog/how-to-flip-a-house-in-8-steps/)**who can handle permitting, efficient demolition, reconstruction and repairs.** Investors who are new at flipping properties may have to rely on recommendations from family and peers to build their team, but you should build a list of dependable contractors as you go from one project to the next.

**4. Develop a marketing plan for the property long before the renovation project is completed.** Some investors may list the property before project completion to determine the level of interest. Define your exit strategy for both a rising market and a declining market, and keep your eye on your profit goals. This is part of the discipline needed when learning how to flip a foreclosure successfully.

**LONG-TERM VS. SHORT-TERM INVESTMENT STRATEGY**

Deciding between flipping a property or holding on to it as an income-generating asset in your portfolio depends on your business plan. Some investors prefer a fix-and-flip so that they can lock in the profit and move on to the next project, avoiding landlord responsibilities in the process. Browse the listings on [Auction.com](https://www.auction.com/) to find your next long-term or short-term investment.