

Are you thinking about flipping a property?

Before you start, it's crucial to understand the full financial picture. Many investors are drawn by quick profits but end up facing unexpected costs. This guide highlights five critical cost centres that can make or break your flip project.

1. Marketing and Acquisition:

This includes costs for marketing, realtor fees, wholesaler fees, and closing costs on the acquisition.

For instance, you might pay \$2,000-\$2,500 just for legal and closing costs on the acquisition.

2. Financing Costs:

This covers your debt service. Many people miscalculate by only factoring in holding costs for the renovation period, not accounting for the time needed to stage, list, and sell the property

For example, if you plan for a 4-month renovation, you should actually budget for at least 6 months of holding costs, as it can take 2-3 months to sell the property after renovations are complete.

3. Cost of Renovation:

People often underestimate these costs by not including appropriate contingencies or verifying numbers with contractors.

For example, a realtor might suggest a \$40k budget for new paint and a new kitchen, but the actual cost could end up being \$65k when all is said and done.

4. Holding Costs:

This includes property taxes, utilities, and insurance, but many overlook additional costs like security and property maintenance.

A frequent mistake is underestimating these expenses when evaluating project viability. Costs for security cameras can exceed \$100 monthly, while snow removal and lawn maintenance may be necessary to prevent liability claims. Builders risk insurance for properties under construction ranges from \$500-\$600 monthly.

5. Disposition Costs:

These are the costs associated with selling the property, including realtor commissions and closing costs.

For instance, on a \$500,000 sale, a 5% commission is \$25,000, plus another \$2,000-4,000 in closing fees, and any other concessions you may have to make to the buyers to facilitate the closing. This could total around \$30,000 or more just to close the sale.

Project Timeline

- **Underestimating renovations**

A renovation you estimate to take 8-12 weeks might actually take 4+ months when considering the drafting and permitting times as well as potential supply delays

- **Underestimating project**

When flipping, you need to factor from close to close, not just the renovation timeline.

Numbers

- **Overestimating the After Repair Value (ARV)**

You might expect to sell for \$650,000 but only get \$630,000 resulting in \$20,000 less on your profit

- **Underestimating the renovation costs**

You might project your construction costs to be \$120,000 when in reality, it was \$140,000 resulting in \$20,000 less on your profit. If your projected profit was \$40,000, then you have completed a 4 – 6 month project without compensation.

Due Diligence

- **Skipping due diligence**

Failing to invest adequate time and effort in due diligence can obscure a project's viability and potential risks. Conduct a thorough property inspection to validate your projected costs and scope, and perform comprehensive market research to confirm After Repair Values (ARV) in the neighbourhood.

Project Management

- **Relying on trades with too little management**

Poor project management can lead to costly inefficiencies and delays. Stay organized by managing contractors closely, placing supply orders well in advance, and conducting regular check-ins with all trades. Effective communication is essential to keeping your project on track.

This is why it's so **important to know your numbers** and account for all these cost centres to ensure a successful flip. Even small oversights, like an extra \$300 per month in insurance costs over 6 months, can eat up \$1,800 of your profit margin.

If you're only expecting to make \$15,000 on a flip, that's 12% of your profits gone due to a single miscalculation.

Need more guidance for a successful flip?
Book a **FREE 15-min coaching call** with our coaches
by clicking the **link** in my **bio** or send me a **DM!**

