

INVESTOR'S GUIDE TO

# *Rehabbing Properties*

*An introductory guide and how to do it.*

Hybrid Construction, LLC

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# Introduction

*Not for the faint of heart.*

The long and short of rehabbing properties, in a nutshell, is this: **buy low, add value, and make a profit.**

The most attractive benefit of rehabbing properties is the profit rehabs can yield. Wholesaling allows quick cash with little risk. Rehabbing a property and “flipping it” requires an increase in risk, but increases your potential return.

Because there is an increased risk associated with rehabbing properties you must have the knowledge, skills, systems, and training under your belt to gain the confidence of a successful and profitable rehabber. Investors just beginning in the rehabbing business, should ALWAYS start out with projects needing minimal work to get your feet wet. Your first rehab should NEVER be a full gut! Although a full-gut property is alluring because the profits can be HUGE, it's very unwise to get in over your head...you can lose your shirt, or worse get your shirt ripped off your back.



CHAPTER ONE

*The 70% Rule*



# The 70% Rule

## *Doing the Math.*

### **The 70% Rule**

The 70% rule is used by investors to quickly determine the maximum price one should pay for a property based on the after repair value (ARV). Though most often used by house flippers, the 70% rule can actually be used for any strategy when you want to find a good deal.

**The 70% rule says that you should only pay 70% of what the after repair value is, less the repair costs.**

For example: A home which, after being fixed up, should sell for approximately \$200,000, needs approximately \$35,000 worth of work. Using the 70% rule, a person should multiply \$200,000 by 70% to get \$140,000 - and then subtract the \$35,000 in repairs. The most a person should pay for this property, therefore, should be \$105,000



## CHAPTER TWO

# *After Repair Value*



# After Repair Value

## What is ARV?

In order to figure out your house flipping costs, you first need to know how much money you can get for the property itself when it's finished and ready to be put on the market. When you know this magic number, all your other costs associated with the house flip will start to make a whole lot more sense.

In the magical number that you base all your math on when figuring out how much a house flip will cost is called ARV or after repair value.

By far, the best way to figure out ARV is simply by comparing similar properties to yours that have sold in the same area in your target market within the past 90 days. These homes are known as "comparables" or "comps".

## Rules to Follow

When determining your ARV, it's good to keep a few things in mind:

- **Sales Only:** Only look at houses sold and not ones just for sale
- **More Recent, the Better:** If possible, look to houses that have sold within the last 6 months – and ideally 90 days or less
- **No Comps? WARNING:** If you run comps that have no recent sales of similar properties, this may be a warning sign as the area may not be in demand. It could also mean that properties are just not selling because of over inflated prices.
- **Use Square Footage When Necessary:** If you simply cannot find another property similar to yours, find a similar property with similar amenities to yours, and divide the sales price by the square footage about house. Then multiply the price per square foot by the number of square feet in the property you want to flip. If all things are equal, this is fairly effective, although having really good comps is much preferred.
- **Bedrooms and Bathrooms Matter:** Adjust the price upward or downward based upon bathroom and bedroom numbers.
- **Similar Lot Size:** Look for other properties that have similar lot sizes in your comps, factor in water views as well.
- **Compare Amenities:** Look for updated features like newer kitchens, heating systems, roofs or new baths, then adjust upward or downward accordingly.





CHAPTER THREE

*Estimating Costs*



# Estimating Costs

*Spreadsheets can be fun.*

Rehab costs in your rehab will vary widely based upon how much work needs to be done. If you're just starting out, it's probably best to start with houses that don't need extensive repairs, although these properties are more challenging to find. The best kinds of houses are the ones that nobody else wants – and are total disasters. Any house just short of being condemned is a great one to buy!

## **Budget Repair Form**

One of the most handy forms you'll use is called a budget repair form. This is simply an Excel document that itemizes each repair that needs to be done within the property itself. It's not very complicated – just have your contractor fill it out in similar to you prior to the start of the rehab. A budget repair form is a great way to keep track of all the repairs needed as viewed in a snapshot.

If you're using a general contractor, make sure he gets estimates from multiple subcontractors like electricians, plumbers, framers, roofers, finish carpenters and painters. The final budget is what each component of the rehab must stick to in order for the project to be completed on time, on budget and inshore your proper profit margin.



## Sample Cost Estimating Spreadsheet:

PURCHASE COSTS:			LABOR	PRICE
Purchase Price	(\$48,000.00)		INTERIOR	
Inspection(s)	(\$400.00)		Demo	\$250.00
Appraisal(s)	(\$450.00)		Interior Carpentry	
Survey(s)	(\$275.00)		Framing	\$0.00
Lender Fees/Costs	(\$2,000.00)		Door Replacement	\$250.00
Closing Costs	(\$1,000.00)		Window Replacement	\$800.00
Other	\$0.00		Other Carpentry	\$200.00
Total:	-\$52,125.00		Drywall Replacement & Repair	\$150.00
			Plumbing	
REHAB COSTS:			Rough	\$150.00
Labor (from page 2)	(\$26,100.00)		Finish	\$550.00
Materials (from page 2)	(\$7,300.00)		Electrical	
Total:	-\$33,400.00		Rough	\$100.00
			Finish	\$450.00
HOLDING COSTS:			HVAC	
Mortgage Payments	(\$900.00)		Rough	\$0.00
Property Taxes	(\$600.00)		Finish	\$1,450.00
Insurance	(\$300.00)		Painting	\$3,600.00
Utilities	(\$600.00)		Flooring	
Lawn Care	(\$150.00)		Carpet	\$600.00
Other	\$0.00		Hardwood	\$250.00
Total:	-\$2,550.00		Tile	\$0.00
			Vinyl	\$400.00
SELLING COSTS			Kitchen	
Selling Price	\$130,000.00		Cabinet Installation	\$2,900.00
Commission To Agents	(\$7,800.00)		Countertop Installation	\$550.00
Buyer Home Warranty	(\$500.00)		Appliances Installation	\$250.00
Buyer Termite Letter	(\$50.00)		Trim Work	\$150.00
Buyer's Closing Costs	(\$7,800.00)		House Cleaning	\$150.00
Seller's Closing Costs	(\$200.00)			
Total:	\$113,650.00		EXTERIOR	
			Roofing	
PROFIT:	\$25,575.00		Roof Maintenance	\$0.00
			Roof Replacement	\$4,500.00
			Soffits/Fascia	\$300.00
			Gutters	\$1,600.00
			Exterior Carpentry	
			Siding	\$600.00
			Exterior Trim	\$250.00
			Decks	\$2,700.00
			Landscaping	\$1,600.00
			Termite Inspection/Treatment	\$700.00
			Garage Doors	\$650.00
			Foundation/Structural	\$0.00
			TOTAL:	\$26,100.00



CHAPTER FOUR

*Rehabbing Basics*



# Rehabbing Basics

## *How to stay on track*

### **Scope of Work**

After you have done a thorough walk through and determined which repairs are necessary, the Scope of Work is the single most important document you can have in your arsenal. This will detail exactly what needs to happen and sequence of events in order to complete your renovation. It will also determine your costs for labor & materials and keep everyone on the same page. The more time you spend planning the Scope of Work and the Critical Path, the better.

### **Identify the “Critical Path”**

The critical path is the longest path that ultimately leads to the project’s completion and helps to figure out the best steps to take to finish a job efficiently. It is a list of activities you need to complete before the job is done. Once the critical path is identified, you can see the dependencies of how tasks interact with each other. Tasks tend to be dependent on each other—you can’t start part C until you’re done with A and B. These are called “sequential” activities. There are also “parallel” activities, where contractors can work on a part of the job without compromising another task. Break out a chart of these tasks and specify how long each will take, whether they’re sequential or parallel to another task, and what they’re dependent on.

## **Sample “Critical Path” Renovation Steps:**

- Install lockbox
- Turn on utilities
- Permits (if necessary)
- Roof (repairs or new if necessary)
- Cover windows
- Trashout
- Demo
- Rough-in (electric/plumbing/HVAC)
- Framing
- Drywall
- Kitchen cabinets
- Trim-out (Electrical/Plumbing)
- Paint
- New flooring/baseboards
- Install appliances
- Punch list



CHAPTER FIVE

*WHEN TO HIRE A  
GENERAL  
CONTRACTOR*



# When to hire a GC

*Or do it yourself.*

## **What is a Residential General Contractor?**

A residential general contractor is a home remodeling professional who organizes and executes larger remodeling projects.

A home improvement contractor is usually tasked with smaller, though no less important items, such as installing new windows, flooring, cabinets, siding, landscaping, etc. A good way to think of a residential general contractor is that he is in charge of home improvement contractors, or what are referred to in the field as “subcontractors”.

## **When to Hire Residential Contractors**

Most people don't realize the average kitchen remodel takes 5-6 weeks to complete. Not to mention that to complete the remodel you'll probably need an electrician, a plumber, a countertop contractor, a cabinet contractor, a flooring pro, a painter, and someone to install the appliances. That's a lot of people.

The brilliance of a residential general contractor is that he not only coordinates all these professionals and schedules them so that they are not in each other's way, but he also knows what a good price is on their labor charges where the average homeowner will not.



## Rules to Follow

We have often found that many people hire a residential general contractor when they don't really need one, and on the flip side of that, there are people who don't hire them when they should.

Here are some quick rules of thumb:

- If the job is going to take more than a week, hire a GC.
- If the job requires several different pros to complete, hire a GC.
- If the job requires a few permits, hire a GC.

Contractors also have one big advantage you don't: They've done it before. From initial planning to final cleanup, contractors manage workflow like conductors manage orchestras. They understand the structure of the composition, they cue different players when it's their turn to take the lead, and they probably have experience with at least a few tools of the trade. If you've done your homework and hired well, your general contractor will keep the work flowing and the crews busy throughout the entire course of the project.

In the end, it's up to you to decide if your job warrants a general contractor or if you can handle to project yourself. But a general contractor could take some of the worry and stress out of the job for you, so when it's done, you can sit back and enjoy the work.

# *Thank You!*

If you are a real estate investor in the Tampa area, we encourage you to contact us and let us help you maximize your return on your investment.

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