

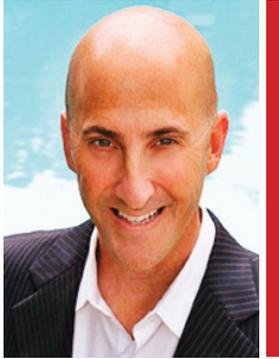
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Focus on Flipping in 2014

By ANTHONY MARGULEAS
Special to the Palisadian-Post

Did you know that Los Angeles ranks second highest in the number of home “flips” in any area of the country for all metro areas? Flipping is defined as a home being purchased and subsequently sold again within 12 months.

RealtyTrac, which compiles housing data, recently released its U.S. Home Flipping Report showing that 26,947 single-family homes were flipped nationwide in the third quarter of 2014. Some of those flips were right here in Pacific Palisades.

Although home flipping is at lowest level since 2009, the average gross profits have climbed to a record high. Investors averaged a gross profit of \$75,990 per flip on homes flipped in the third quarter of 2014, which accounted for a 36 percent gross return on the initial investment.

Before you go out and start flipping houses it is important to note this does not include rehab costs and other expenses. The net profit is much lower.

We work with several clients who flip homes, however, there seem to be more developers tearing down homes rather than flipping them here in the Palisades.

Flippers face a lot of competition from developers who plan on tearing down a home. Because developers plan to tear down homes they purchase, they

usually waive their inspection contingencies, which can be appealing to sellers.

Which kinds of homes are the best to flip?

Typically homes that are already a decent size and don't need much square footage added are the best to flip since they can be done quickly, sometimes in as little as a couple of months.

The ideal type of home to flip is one where only cosmetic upgrades are required – painting, flooring, landscaping and so forth.

When you need to add square footage, it can add several months to the process. The key to a successful flip is to lower your carrying costs and to get the property fixed up as quickly as possible.

We have seen inexperienced flippers get emotionally attached to a property and install items as if they were going to live in the home themselves.

Novice flippers also may not realize how much more costly a longer project can be. For example, each month a property is undergoing renovations, it incurs interest on the construction loan, equity line and more.

Even if you paid cash for the home there is a loss because you are unable to use those funds for other projects that may come up.

Other pitfalls we have seen include flippers whose sense of style may not be in tune with what is appealing to the general population of Palisades buyers.

A flipper may renovate a home to fit

their own unique personal style, but this may not resonate with buyers.

It is very important to identify which styles of homes are selling quickly or selling over the asking price and replicate what works.

In addition, buyers are very savvy and with all the information currently available online, they can easily find out how much someone paid for a home a few months ago. And if buyers sense someone just added some paint and carpet and is now asking \$200,000 more than what they paid for a home, they will not buy it.

Buyers want to see real value added to a property to justify the higher price. Be aware also that most buyers want a home in move-in condition.

As with all real estate, location, location, location is always the rule. In the Palisades this means that the best homes to flip are close to the **Village in the Alphabet Streets, Huntington, Via De La Paz or El Medio Bluffs** area.

Anthony Marguleas founded Amalfi Estates 20 years ago and has reviewed 2,000 contracts. For 12 years he has taught at UCLA to over 1,500 students covering contracts and negotiations. He co-authored California Real Estate Client Strategies and published 150 articles. He has sold \$600 million in properties and was selected by The WSJ as one of the top 250 agents in the country out of one million agents. He can be reached at 310-293-9280, www.amalfiestates.com.