

# The Dark Reality of House Flipping

It's not as easy as home-improvement shows make it look.



BY [JENNIFER FERNANDEZ](#) MAY 27, 2020



Anyone who is as obsessed with [HGTV](#) as we are could be forgiven for indulging in fantasies of quitting your day job and reinventing yourself as a *Fixer Upper*-style home-improvement superstar. I mean, who wouldn't want to be the next [Joanna Gaines](#) or [Leanne Ford](#)? But if your reveries are quickly outpacing your reality, you might want to think twice before diving head first into the house-flipping market. Shows tend to gloss over some of the less glamorous parts of the process (hello [HVAC repair work](#)), bend the constraints of time and space (you're doing this all in a week, you say?), and price labor and materials at rates typically unseen in this century.

And did we mention that we're *this close* to entering a recession? We talked to expert house flippers to see exactly what goes into turning a home for profit, the hidden costs and dangers, and why now may *not* be the best time to try your hand at it.

# The Big Picture

There's a reason why the people best suited to house flipping are those with experience in adjacent fields—think real-estate brokers, general contractors, and designers. They have the most intimate knowledge of what it takes to build and maintain a house, both in terms of the kind of man-hours and materials charges that are involved in

major renovations, and their expertise can offset some of the costs involved in the process. Being a real-estate agent, for example, can minimize broker fees on the sell side by up to 5%; designers and contractors often source materials at wholesale rather than retail prices.

“Most flippers tend to focus on the aesthetic stuff, but flipping needs a lot of skills people don't think about,” says Christopher Totaro, a former contractor who flipped homes before becoming an agent at New York-based real-estate firm Warburg Realty. **“You have to have market knowledge in real estate and a deep understanding of the construction process, and you have to make decisions based on what *the market* wants, not what *you* want.”**

In fact, house-flipping veterans say the most common (and costly) mistake first-time fixers make is underestimating the scope of the work. “Unless the buyer is a seasoned home inspector with the ability to make quick decisions about plumbing, heating, electricity, flood plains, community-board issues, asbestos, carbon monoxide, water pressure, windows, appliances, and any number of other elements, disaster is almost guaranteed,” says Totaro's colleague Gerard Splendore. Adds Totaro, “If you're relying on a contractor to let you know if something will work, then you're in over your head.”

Industry insiders also have a better idea of the kinds of bureaucratic red tape and municipal guidelines that all too frequently hold projects up—and how to navigate around them. “I suggest visiting the town planner and reading up on city and town construction guidelines,” says San Francisco designer Alison Pickart. “You might find certain areas won’t allow work on the weekends, which could extend your construction timeline.” And, therefore, your bottom line.

## Contractors for Hire

Speaking of contractors, their reputations precede them (that is to say, show us one who completes work on time and under budget, and we’ll give you their weight in gold). Complications always crop up, deadlines come and go, and budgets rise to sometimes staggering heights. And while most flippers have at least a ballpark-figure idea of what materials may cost them, few acknowledge—let alone can accurately assess—what the manpower involved in installing those materials is in any given region.

“Real-estate developers have a keen understanding of labor costs in the market where the work is being performed,” says Pickart. “The costs in rural areas in certain states will be vastly different than in suburbs outside of major and even mid-sized cities. This is especially true if you are starting out and don’t have a crew who is incentivized to do the work at the best price for you.”

In fact, if you don’t have a crew you trust, finding one can be its own sort of nightmare, as they are notoriously hard to nail down. And the longer your project takes to start and finish, the more money you’re going to end up paying in miscellaneous costs that are completely unrelated to your repair or renovation work.

# Money, Money, Money

Most rookie house flippers take two main figures into consideration when they're weighing whether to take on a project: the price at which you buy a house and what you sell it for. But seasoned house flippers are quick to point out that there is a rainbow of numbers you need to factor into your risk-to-reward ratio.

As the owner of the property, you'll need to pay purchase costs at the get go, from title fees and appraisal costs to loan charges and mortgage payments, and perhaps even real-estate closing costs if you need to pay an agent (though the 5 to 7% broker fee is usually the responsibility of the seller which, come to think of it, will be you on the flip side). According to [Homes.com](https://www.homes.com), closing costs can total up to 2-3% of the purchase cost. There are also often overlooked holding costs, like taxes and utilities; the longer you own the house, the more you'll owe.

Then, there's the question of capital gains. If you're planning on living in your flip property during the duration of the construction, you won't be liable to pay taxes on any profits made once the house is sold. But if not, you'll be on the hook for anywhere from 10 to 37% of your earnings, depending on where you live, what you make, and how long you've held the property.

# Rolling the Dice

Knowing all of this, if you still want to flex your house-flipping muscles, there are a few things you can do to make the process a little smoother. **“Stick with a solidly built but ugly fixer,” says Pickart. “You will be so much better off if you can stick to cosmetic work alone as you learn the business.”**

But if you have your heart set on a bigger project, her advice is to “learn as much as you can about the house and neighborhood before you buy, and have a well-developed plan in terms of design, engineering, paint, lighting, and finish schedules before you begin work to help you execute in the least amount of time. Plan to be at your inspection day and take notes, paying careful attention to everything the inspectors are finding, and plan a walkthrough with your engineer and architect (if major work is required) and get as much intel from them so you know what you are up against.”

You should also think like a detective and be practical. “Look for the perfect storm,” says Totaro. “Identify an area that’s rapidly expanding and find something that is distressed to a degree that is appropriate to your skillset. Don’t buy houses that have foundations that are sinking. Start small.”

And remember that timing is as important a factor as anything else. House flipping is hard enough during times of certainty. “There is always risk in real-estate,” says Pickart. If you’re looking to jump into the industry, perhaps consider doing it next year, hopefully when the coronavirus pandemic isn’t wreaking havoc on global systems. Sure, interest rates are at an all-time low, making borrowing money to buy a house more affordable than ever, but with a record 3.3 million Americans filing for unemployment (raising the question, who’s buying?), entire industries being wiped out, and the world on the brink of a global recession, it’s perhaps a good time to stay put.

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