



Fix and Flip - Case Study

How to create more than 100% Cash-on-Cash Returns

Expectation:

We started looking for a short term Fix and Flip opportunity with a turnaround time of maximum six months. We found a 1600sf, 3 bedrooms, 2 baths, 1 carport bank owned property built in 1967 that looked promising – ask price \$89,000.00.

- **Location:** Phoenix Arizona, about 3 minutes from a major freeway and about 10 minutes from downtown Phoenix
- **Community:** Nice neighborhood with older homes, the houses show pride of ownership, and the street the property is on, has a peaceful and clean feel to it.
- **Comparables:** There are 2 closed comps in the same subdivision that would suggest the subject property is worth about \$150,000.00 after repairs. The active and pending properties support that figure.
- **Economic environment:** The market shows signs of stabilization within this price range do to a government tax incentive for first time home buyers, and somewhat easy to qualify FHA guidelines for owner occupant buyers.

Project Numbers:

We did our home work, put in our offer at \$70,000.00, and settled for a purchase price of \$78,000.00. After we got our bids in, our projections looked like this;

Sale Price	\$150,000.00
Purchase Price	\$78,000.00
Down Payment 20%	\$15,600.00
Hard Money Loan 80%	\$62,200.00
Cost of Hard Money Loan 3%	\$2,340
Interest 6mo @ 18%	\$5,616.00
Remodeling Costs	\$15,000.00
Commissions 10%	\$15,000.00
Closing Cost	\$1,500.00
Miscellaneous Costs 5%	\$7,500.00
Total Net Profit	\$25,044.00
Cash Needed	\$38,556.00
Cash on Cash Return	65.46%
Annualized Return	130.93%

Scope of work:

Demolition	\$820.00
Paining, interior, exterior, doors, porch concrete	\$4,170.00
Carpet	\$1,510.00
Electrical	\$730.00
Plumbing	\$1,110.00
HVAC Service and Repair	\$1,095.00
Landscaping	\$980.00
Roof, repair leak	\$300.00
General repairs	\$4,825.00
Cleaning Service	\$400.00
Termite Treatment	\$460.00
Total	\$16,400.00

Time Line Goal:

2-3 weeks to close on the purchase, 2-3 weeks to fix, 6 weeks to get an offer, and 4 weeks to close on the sale.

Exit Strategy:

Plan A – Sell it straight out for top dollar.

Plan B – Sell by way of a short term lease option (6 months).

Plan C – Lease it long term until the market allows you to sell for big bucks.

Results:

On the purchase we closed in 15 days, it took 23 days to fix up. Next we put the property for sale at \$160,000.00 to test the market. Believe it or not 8 days later we got a full price offer. The buyer was asking us to contribute 3% toward their closing cost, and 45 days to close escrow. The buyer was getting a VA loan – this seemed way to long for us but the buyer's loan officer assured us it could not be done faster (Wells Fargo Hmm). We signed the papers and opened escrow.

The buyer's inspector ripped our house apart as any good inspector always does and we ended up deducting \$3,500.00 from the sale price in lieu of repairs. Next the appraisal came in at \$148,000.00.... bummer. At this point we had to make the decision, whether to move forward or not. Given that a VA appraisal is tattooed to the property for six months we decided to adjust the price again and move forward. 91 days later we recorded the sale. Here are our actual figures;

Offer Price	\$160,000.00
Adjustment for Appraisal	\$12,000.00
Adjustment in Lieu of Repairs	\$3,500.00
Sale Price	\$144,500.00
Purchase Price	\$78,000.00
Down Payment 20%	\$15,600.00
Hard Money Loan 80%	\$62,200.00
Cost of Hard Money Loan 3%	\$2,340
Interest 3mo @ 18%	\$2,808.00
Remodeling Costs	\$15,000.00
Commissions 10%	\$14,450.00
Closing Cost (purchase and sale)	\$2,200.00
Over Budget Cost	\$1,400.00
Buyers Closing Cost 3%	\$4,335.00
Total Net Profit	\$23,967.00
Cash Used	\$37,148.00
Cash on Cash Return	64.52%
Annualized Return	258.07%

Lessons Learned:

Everything went as expected until we got a full price offer, this was better than expected. Next, the low appraisal shattered our feelings of being on top of the world :(The truth is we expected it but had hoped for the best.

Overall this was a great project and we are off to our next one :)

Good luck!

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As an investor himself, as well as a licensed Realtor®, Dimitri has over a decade of real estate experience. Dimitri's specialties include primary residences, second homes, investment properties, commercial properties and land. He has been recognized for being a Multi-million Dollar Producer, and is an accomplished Realtor® committed to superior results for his clients.

"Strive not to be a success but rather to be of value" Albert Einstein