

Letter From the Editor

Happy March/Spring! We want to welcome Patrick and Morgan Johnson to the Clear Sky Financial family! We also want to thank all of you who increased your positions with us!

February was an average month for us historically. We closed four loans, two in Virginia/Maryland. They were all first trusts. We have a lot of deal flow in the pipeline, but because of short sale delays, lien payoff delays, and other delays, these loans have been pushed off until the March time frame. March will be in the double-digit range for number of loans.

CHUCKLE'S CORNER

There is a very easy way to return from a casino with a small fortune: go there with a large one.
~Jack Yelton

Food for Thought

We have launched a weekly podcast called *Basement Tales*. We will have 19 or 20 episodes out by the time you receive this newsletter. It is a podcast on various real estate investing subjects based around stories that have happened to us in the past. Below are links to our podcast.

You can access *Basement Tales* on

<https://podcasts.apple.com/us/podcast/basement-tales/id1541056033>

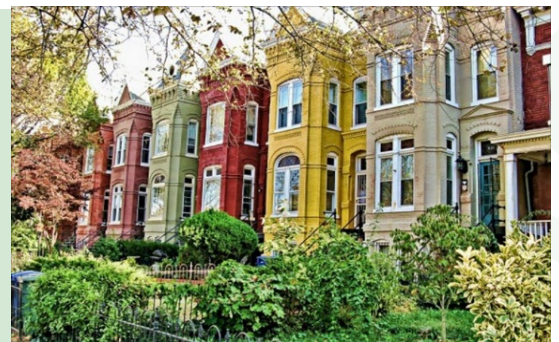
or

https://www.youtube.com/channel/UC0R91IRsAuntHsXN9ygf_Q

IF YOU LISTEN TO THE PODCASTS, PLEASE LEAVE US A REVIEW!

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How Much Do House Flippers Make?

How much do house flippers make? That is a fairly common question, with a variety of answers. Let us quickly review some of the factors that might affect how that question is answered. How do you define profit? There are two different types of profit: gross profit and net profit. Gross profit is just a simple calculation of sale price minus purchase price. Unfortunately, fix/flip TV shows glamorize the gross profits. This could not be anything further from the truth. But as we all know, investors incur costs in flipping a house. There are business costs, buying costs, rehab costs, loan costs, holding costs, and selling costs. All those things impact an investor's bottom line, which is called the *net* profit. We are just concerned about the *net* profit!

In its simplest form, house flipping is just a math problem. You make your money on the buy! We will further define the costs associated with flipping houses, but more importantly we will categorize the costs into variable costs and static costs. A variable cost is one that you cannot put an exact number on because it is moving. A static cost is fixed by nature. Money making in house flipping boils down to how well you can execute and control your variable costs.

Business Costs (Variable)

These are not costs incurred for one specific deal, but those related to keeping the real estate investing (REI) business going. Some examples of business costs are the costs associated with finding prospective deals, advertising, networking, and banking. This is usually not deal specific but is an expense nonetheless. The more money you spend on advertising, the more deals you will get!

Buying Costs (Static)

Those unfamiliar with house flipping may not realize that at the base of the transaction is, in fact, the purchase of a home. So there are costs associated with that. These are called buying costs. This might include inspections, recording fees, title company fees (lenders/owners title insurance, title abstracts, etc.), attorney fees, taxes, insurance (hazard), wholesaler fees, wire fees, courier fees, and more.

Rehab Costs (Variable)

These costs are the ones most people, whether they are house flippers or not, recognize as having an impact on the profits that flippers realize. Rehab costs are the building materials and labor that go into the renovation of a property. It is especially important to find a good contractor who can generate a budget and stick to it. Most contractors will build in a 10% cost overrun. This is helpful because even though you might pay a little more, it will keep this cost as static as possible and help to avoid the *costly* change order.

Loan Costs (Static)

These costs are all costs associated with getting a loan to buy a fix/flip. There are many types of loans for the rehabber—hard money, soft money, mortgage, etc. Loan costs include origination points, application fees, document processing fees, appraisal or broker price opinions (BPO), and more. When house flipping profit figures are discussed, these costs may or may not be disclosed, so make sure your lender discloses all these fees before moving forward with the loan. Another cost associated with the loan is obviously the interest rate. We will talk more about this in the next paragraph section.

Holding Costs (Variable)

Besides the rehab costs, these are the most important costs for you to get a handle on. The holding costs include ongoing costs such as loan repayment, property taxes, insurance, utilities, HOA/condo dues, etc. It is especially important for you to execute your flip on a timely basis. Keep in mind that the quicker you flip out of a house, the fewer holding costs you have to pay and the higher your profit. One of the *most* important things that you need to focus on is the prepayment clause from your lender. You only want to use lenders that do not have a prepayment penalty.

Selling Costs (Static)

When you go to sell the house, you will incur costs associated with the sell transaction. These costs include realtor fees, title fees, attorney fees, transfer fees, buyer subsidy, etc. These costs are pretty much standard, and you can understand these costs before entering into the purchase.

What Can you Expect on Your House Flip?

If you have never flipped a house before, it can be easy to get stars in your eyes and focus only on the profit. Here are a few tips to help you keep your focus and have realistic expectations.

1. When looking for prospective deals, you should look for all the ways/reasons that it might *not* be profitable. This way you will have a good idea of the risks to your deal and whether to even pursue it. Of course, you cannot expect to remove all the risk, because the risk is what makes the profit possible. But looking at it without rose-colored glasses is something many novice investors fall prey to.
2. Markets vary. Some areas have far more of the deeply discounted properties required to make house flipping work than others. You may need to expand your search area or expect lower margins.
3. Consider wholesaling before actually completing a house flip. That way you can get comfortable with the first part of the transaction, finding and evaluating the property, before you take on the whole fix and flip project.

Sam's Corner

Finding the Best Deals in a Seller's Market – Patience and Grinding Analysis

March was a good month for Clear Sky loan originations. It required a heroic level of effort to weed through all of the deals that we are seeing to identify the ones that are solid. We are seeing a surge in deals to evaluate. Many of the deals that we pass up involve participants who don't have a successful track record, have overinflated after repair values, or understated repair budgets. Loan brokers are passing these weak deals between hard money lenders looking for anyone who will close them. What we are seeing is a surge in desperate investors and flippers who can't find inventory to purchase since it is a seller's market. The eviction and foreclosure moratoriums have virtually eliminated distressed product coming to market. Any individual seller is in a great position to just put a sign in their yard and get the maximum market value for their property.

Where are the good deals? They are ones that provide a unique benefit to the seller or have a lot of value added to the upside by improving the property. Some sellers still don't want a lot of foot traffic in their home because of the risks of the pandemic. A fast cash close to these sellers adds a lot of value to the transaction. A lot of good value purchases are being identified in the outer suburbs of the DC housing market. Homes that you might not be able to see from the road, in counties like Charles County, MD, or Culpepper, VA, provide good opportunities for flippers. We are also seeing contractors who have entered the home flipping space so they can control their own projects. Those buyers make great borrowers. A contractor who is doing their own flip is extremely focused on cost control, quality, and speed to completion.

The armchair auction buyers who would just do basic research into a home and show up at an auction to make a purchase are out of business in this kind of market. The remaining participants are people working really hard to add value to assets and those who are willing to do anything in the hope of making a profit. We work to exclusively associate ourselves with borrowers who are adding value. Our work on the front end of the lending process pays off in the long run. Borrowers who can bring their project to completion in a timely manner are in a great position in this market. Even with slightly rising interest rates and increases in inventory once the moratoriums lift, the DC metro market has sufficient demand to sustain prices for the next two quarters.

February Deals



14500 Lloyd Ct.



3116 Summit Crossing



706 Southern Hills Dr.



23293 Hilltop Drive