

Simple Investment Formulas

After Repair Value - ARV

The ARV is the market value of the subject property after it has been renovated to the Homebuyers Standards.

“Homebuyers” in this case describes the Sellers (YOU) target **Buyer**: as it pertains to resale value and the profit potential of the subject property.

Calculating the percentage of ARV in order to qualify it as a deal:

- **Formula - purchase price + repairs estimate/ARV = % of ARV**
 - **Example - purch price is \$100,000.00 & it repairs est is \$40,000.00 w expected Resale/MV of \$200,000.00**
 - **$\$100,000 + \$40,000 / \$200,000 = 0.7$ or 70%**
- Allowable limits of % of ARV are as follows
 - ARV of \$100,000 - \$200,000 **65% or Lower**
 - ARV of \$201,000 - \$300,000 **68% or Lower**
 - ARV of \$301,000 - \$400,000 **70% or Lower**
 - ARV of \$401,000 - \$500,000 **73% or Lower**
 - ARV of \$501,000 & Above **75% or Lower**

Calculating GROSS Profit

- **Formula - (ARV x .8) - (repairs estimate + purchase price) = gross profit**
 - **Example - purch price is \$100,000.00 & it repairs est is \$40,000.00 w expected Resale/MV of \$200,000.00**
 - **$(\$200,000 \times .8) - (\$40,000 + \$100,000) = \$20,000$**

Calculating RE Agent Commissions

Commissions should be negotiated prior to entering into any written agreement with a licensed real estate agent.

- **Formula - Ratified Sales Price x Commissions to Listing Broker = net commissions**
 - **Example - House listed for \$300,000 is ratified at \$290,000 and the total commission is 6% (3% to listing broker & 3% to selling broker)**
 - **$\$290,000 \times 3\% = \$8,700$**

10-Step House Flipping Checklist

- 1. Pull comparables from the MLS and other websites: No rehab project can start without a proper vision of the final product. Research your market area using the MLS or websites that pull from it (like Zillow and Redfin) to find similar properties. Or of course work with a reputable REAgent you can trust to supply and “walkthrough” the comparable review with you until you’re able to do it in your sleep. Pay attention to the number of rooms and types of features offered in comparables, as well as the listing price. Not only will this help you gather inspiration for your rehab, but it will also help ensure the finished property is in line with similar properties—a crucial factor for selling the home quickly, and for your asking price.**
- 2. Find a contractor and bring them to the property walkthrough: To hone in on a timeline and budget for your property, have your contractor walk through the property. Better yet, have a few contractors walkthrough so you can ensure you select the right person for the job. Be sure to share your expectations for the project, a note of your ideal timeline, and don’t be afraid to ask questions. The right contractor will help your project run smoothly from start to finish, making this part of the process is crucial.**
- 3. Bring essential tools like a camera and flashlight: Don’t show up to your walkthrough empty-handed. Investors should always bring a camera, flashlight, calculator, and a notepad to any property walkthrough. Take pictures as you look around, so you can reference certain rooms and areas later. Write down any potential concerns you have, as well as extra projects you would like to see completed. The more thorough you are now, the more prepared you will be in the future when the project kicks off.**
- 4. Review the exterior, paying careful attention to structural issues: Walk the perimeter of the house more than once. Keep an eye out for any cracks or issues with the foundation, as well as any exterior issues that may be present. Check the status of any fences, decks, or outdoor areas as well, as**

these will factor into the curb appeal later on. This step will help make sure all any big problems are out in the open before you start.

5. **Check interior walls for layout and cosmetic changes** If your property has a boxy layout or unnecessary rooms look for opportunities to open the space up modernizing and with our new way of Pandemic Coping & living, working, and attending school from home consider use for all space. Is there a wall between the kitchen and living room? What about any awkwardly placed closets? Be sure to consult your contractor on which walls are load-bearing. This will help guide what you can do with the property's interior.

6. **Decide what type of flooring will suit the property:** As you survey the interior, take note of the condition of the flooring. What materials are used throughout the house: tile, laminate, hardwood, or carpet? The comparable properties in that neighborhood will assist in getting an idea of what potential buyers in the area might expect. Then, price out options that will look right with what you plan to do to the space.

7. **Survey kitchen and bathroom fixtures:** Buyers will go straight for kitchens and bathrooms when touring a new property, making these crucial areas of your home. However, they can be highly expensive to renovate. To make sure your property delivers without breaking your bank, take note of any existing features that could be repurposed to fit your final look. Check the condition of any cabinetry, counters, and appliances to see what should stay. In some cases, a fresh paint job and new hardware will be enough to revamp a kitchen or bathroom, while other properties may require more significant upgrades. Every home does not require granite to sell at top value, find a quality producer of what products suit your aesthetic and the times and use your creativity to establish an expectation for longevity.

8. **Review the condition of the electrical, plumbing and HVAC systems:** Work with a professional as you survey the quality of the electrical, plumbing and HVAC systems. Then, decide which areas need to be replaced, upgraded, or simply cleaned up. This is a crucial selling point, cutting corners will come back to haunt you as your buyers appraisal requires a job done well. Do it right the 1st time.

- 9. Examine interior doors and trimming: Don't skip over the details as you finish up this house rehab checklist. Double-check the doors, trim, and hardware throughout your property for any last-minute changes. The doors should all be the same style and color, and the trim should flow when moving from room to room. Assess the condition of all the doors to make sure you don't leave anything out of your final review.**

- 10. Stage the property and get ready to sell: The most important factor when showing your property is creating a space that potential buyers can picture themselves living in. Hire a staging company or set up the property yourself (if you think you can) and create an atmosphere that feels like "home" to anyone that walks through the doors. You may not need to stage every room of the property, but key areas should be prepared for potential buyers with care & can be done so inexpensively.**