

Houses: Buy ... Fix ... SELL! Workbook

c o n t i n u i n g e d u c a t i o n



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COURSE OVERVIEW

Some houses are coal and others are diamonds in the rough. Can you tell the difference?

A multitude of foreclosed and distressed homes today have been labeled as undesirable. Are these houses beyond help or are they merely diamonds in the rough waiting for you and your client's vision? Learn how to evaluate renovation options to determine if a house will be a money maker or a money taker.

This course takes you through the process of buying a distressed property, fixing it up, and selling it for profit. You'll first look at ways to structure the acquisition, whether you are representing the buyer, the seller, or yourself. Next, you'll determine how to analyze the property's needs and costs. Comparing the costs and returns from renovating bedrooms to baths to kitchens and more will help you put your money in the right place. You'll also learn how to put together pricing models, accurate construction timelines, and a profitable exit strategy. With a solid plan in place, you'll lessen your risks and realize a greater profit by avoiding coal and discovering diamonds in the rough.

Topics Include:

- Finding the right property
- Analyzing and evaluating a potential purchase
- Financing the acquisition
- Renovation costs and profit projections
- Exit strategies



UNIT

1

FINDING THE PROPERTY

I. CONSIDERATIONS

A. Three considerations

1. Location
2. Price range—supply and demand
3. Condition

B. Location

1. Buy-fix-sell property can be
 - a. any type (such as residential, multifamily, office, retail, or industrial) and found in any market (high-end, low-end, or in-between); and
 - b. any location (such as urban, suburban, or rural).
 - (1) Older housing stock tends to create more buy-fix-sell opportunities—these properties also may require more renovation
 - (2) Central cities, first- and second-ring suburbs, older mature housing stock
 - (3) Density—leads to more opportunities
 - (4) Wide range of values and conditions
 - (5) Changing neighborhoods—rising values
 - (6) Market activity
 - (7) Other buy-fix-sell activity

C. Price range—supply and demand

1. The next factor to consider is the price at which your finished buy-fix-sell property will sell.
 - a. The market, not your renovation costs, will determine the property's value.

2. Supply and demand

- a. What price range in your market exhibits the highest demand?
- b. There is usually more demand for affordable housing.
- c. Competition
 - (1) Number of properties in your price range
 - (2) New construction in your price range
- d. Median price
 - (1) The halfway price point in the marketplace
 - (2) Average price

3. Your knowledge of the demands of a particular price range

- a. Higher-priced homes tend to demand a higher level of interior design, fit, finish, and amenities.
- b. Lower-priced homes tend to have more generic finishes.

D. Condition

1. **There are four types of condition: good, cosmetics-only, minor renovation, and major renovation.**
 - a. Good condition
 - (1) Buy, do little or nothing, and resell
 - (2) May need only to be cleaned
 - (3) Usually found as the result of *being in the right place at the right time* and of a successful marketing strategy for sourcing buy-fix-sell property
 - (4) Relatively rare occurrence

- (5) Needs little work, if any
- (6) Simply a property priced well under market value, usually because of a motivated seller (short sale, quick sale, estate settlement, etc.)

b. Cosmetics-only

- (1) This type of buy-fix-sell property probably holds the most potential for big profits.
- (2) The work can be done relatively quickly and inexpensively, and redecorating results in the highest payoff.
- (3) *Needs only cosmetics* is the primary market for buy-fix-sell, so expect competition.
- (4) *Cosmetics* essentially means *buy-redecorate-sell*.
- (5) Typical cosmetic improvements include the following:
 - (a) Clean out and clean up
 - (b) Interior patch and paint
 - (c) Carpet
 - (d) Linoleum
 - (e) Refinishing of wood floors
 - (f) New light fixtures—re-device
 - (g) Electrical cover plates
 - (h) Update kitchen
 - Appliances and range hood
 - Cabinets (reuse, refinish, replace)
 - Countertop
 - Sink
 - Flooring
 - Light fixtures

- (6) Update bath
 - (a) Sink and vanity
 - (b) Faucets (sink, tub, shower, WC valve)
 - (c) Toilet
 - (d) Refinish or replace tub
 - (e) Tub surround
 - (f) Medicine cabinet, accessories
 - (g) Fan
- (7) Light landscaping
 - (a) Pruning
 - (b) Weeding
 - (c) Planting
 - (d) Woodchips
- (8) Minor odors
- (9) New storm door (only if a standard size)
- (10) New house numbers and mailbox

UNIT

2

MINOR AND MAJOR RENOVATIONS

I. CONDITIONS: MINOR AND MAJOR RENOVATIONS

A. Condition

1. Minor renovation

- a. Almost every buy-fix-sell property has at least one significant problem—often the result of deferred maintenance.
- b. A minor renovation is a property that needs a little bit of significant work, in addition to cosmetics.
- c. To remain a minor renovation (versus a major renovation), a buy-fix-sell property would need only one or a few problems fixed.
- d. These are the type of items that may warrant a *repair or replace* (R & R) designation on municipal or private home inspections.
- e. These improvements generally cost more than they add to value, so be sure to buy the property accordingly.
- f. You make your money when you buy. Make sure the acquisition price of your buy-fix-sell property reflects the major problem.
- g. The following are examples of significant problems, which are relatively minor if only one or two items need to be addressed:
 - (1) Chimney repair (usually tuck point)
 - (2) New roof
 - (a) Re-shingle
 - (b) Re-roof
 - (c) Re-deck
 - (3) Soffit and fascia
 - (4) Gutter and downspout
 - (5) Exterior trim

- (6) Exterior doors
- (7) Storm windows
- (8) Windows (a few)
- (9) Full exterior paint
- (10) Siding repair or replacement
- (11) Tuck point foundation walls
- (12) New front or rear porch stoops
- (13) Replace small portions of some interior walls
- (14) Ceramic tile work
- (15) Tear out and replace tub surround
- (16) Replace interior doors
- (17) Update electrical panel
- (18) Replace plumbing fixtures, water heater
- (19) Replace forced air furnace or central air conditioner
- (20) Finish basement/attic (really a *major* project)

2. Major renovation (gut rehab)

- a. If a property needs several of the aforementioned improvements, it is considered a major renovation.
 - (1) These properties often need to be brought *up to code*.
 - (2) These properties may have several municipal work orders and code violations.
 - (3) Condemned properties and some foreclosures often need major rehab.
- b. The following are often a major renovation:
 - (1) Water-damaged buildings
 - (2) Storm-damaged buildings

- (3) Fire-damaged buildings
- (4) Buildings inundated with mold
- c. Sometimes, a buy-fix-sell property has previously been bought, *fixed*, and sold, but the improvements were substandard.
 - (1) Restoration can be a major rehab.
 - (2) Symptoms include the following:
 - (a) Removal of the original trim
 - (b) Paneling applied to walls
 - (c) Lowered ceilings
 - (d) Installation of low acoustical ceilings
 - (e) Sloppy painting
 - (f) Installation of cheap doors, windows, cabinets, and plumbing fixtures
- d. Restoring a single-family home that has been unprofessionally chopped up into a duplex, triplex, or multi-unit apartment.
- e. Proceed with caution on a major rehab; these buy-fix-sell properties are only for the experienced builder, remodeler, or developer.
- f. These improvements generally cost more than they add to value, so be sure to buy the property accordingly.
- g. **Remember:** You make your money when you buy.
- h. A major renovation would include several of the following:
 - (1) Replace most or all interior drywall or plaster walls (gut rehab)
 - (2) Structural work
 - (3) Sagging roof
 - (4) Sagging floors and ceilings
 - (5) Foundation wall

- (6) Redesign floor plan
- (7) Rewiring (usually requires at least partial demolition of walls or ceilings)
- (8) Remove and replace plumbing supply, waste, and vent
- (9) Replace a boiler (hot water or steam heat)
- (10) Remove old, asbestos-clad heating units
- (11) Rebuild front- or rear-covered porch
- (12) New garage
- (13) Replace all or most windows and exterior doors

II. SOURCING PROPERTY

A. Networking

1. **Once you have determined where to look, you need to contact whoever may need to know that you are buying property.**
 - a. Successful renovators know that sourcing property is the key to their business, so they often create a marketing program to locate property.
 - b. Instead of looking for property, they want property owners to contact them.
2. **Drive through neighborhoods of interest, check county records, and contact owners of particular properties**
3. **Network with other investors**
 - a. Call FSBOs selling *fixer-upper* or rental property via classified ads
4. **Wholesalers—individuals who purchase multiple properties for resale**
 - a. May offer seller financing

5. Real estate agents/brokers

- a. Network with agents/brokers
- b. Some agents/brokers specialize in buy-fix-sell, and many specialize in short sales and foreclosed property

6. Mail cards to property owners in your market area**7. Mail cards to out-of-town owners****8. Contact owners of rental property with chronic *vacancy* signs****9. Distribute flyers in your target area****10. Billboards, bus benches****11. Give everyone you meet your business card**

- a. *I buy property—any location, any condition*

12. Multiple listing service (MLS)**13. Preforeclosures (short sales)****14. Foreclosure auctions****15. REO (real estate owned) foreclosing lenders****B. Lender workout options for sellers****1. Mortgage modification requires application**

- a. Tax forms, income and expense statements, hardship letter
- b. May require intermediary mortgage counselor

2. Options for owner

- a. Repay delinquent payments
- b. Loan modification
- c. Short sale
- d. Deed in lieu of foreclosure
- e. Foreclosure

3. Buying short-sale properties

- a. A short sale occurs when a seller attempts to sell a property for an amount that is less than the mortgage(s) owed on the property.
- b. The lender(s) must approve a short sale.
 - (1) Seller markets property
 - (2) Seller accepts an offer subject to lender approval
 - (3) Lender's approval/disapproval can take days, weeks, or months
 - (4) Work with agents with short-sale experience
 - (5) Title will be *as is* and may be encumbered by liens
 - (a) Second and third mortgages
 - (b) Property tax
 - (c) Water, sewer, trash

C. Buying foreclosed properties

1. Buying at the sheriff's sale

- a. Typically need certified funds

- b. Statutory redemption period (varies from state to state)
- c. Sales conducted through a government agency
- d. Lender is often the high bidder
- e. Lender receives a sheriff's certificate
- f. Statutory redemption period begins after foreclosure sale
- g. Property owner can maintain use and control of property throughout the statutory redemption period

2. Buying REO properties

- a. Lender, lender's agent (or buyer at sheriff's sale) sells the property after the statutory redemption period
- b. All liens generally removed
- c. Check municipality for vacant, boarded, and condemned list
 - (1) May be fees and work orders associated with vacant property
- d. Make offer attractive to lender
 - (1) Fewer contingencies
 - (a) Financing
 - (b) Inspection
 - (2) Lenders may accept cash offers over higher contingent offers

3. Lender often requires a lender-specific PA

4. Lender property disclosure waivers

5. As-is addendums

6. Winterization
7. Preapproval with selling lender
8. Selection of title company

UNIT

3

**ANALYZE: LOCATION, LOT/
SITE, BUILDING, AND FINANCIAL
FEASIBILITY**

I. ANALYSIS

A. Analyze: Location, lot/site, and building

1. As with any business venture, buy-fix-sell involves risk.
 - a. Risk cannot be eliminated.
 - b. You can understand and analyze the project and, as a result, lower your risk.
2. Your analysis will eventually become an integral part of your renovation plan.
3. The key elements of the analysis include the following:
 - a. Location
 - b. Lot/site
 - c. Building/structure
4. Location
 - a. Consider the property location and answer yes or no.
 - (1) If no, remove the property from consideration.
 - (2) If yes, move on to the next step.
 - b. Ask yourself: Is it a good idea to sell a renovated property in the
 - (1) city?
 - (2) area?
 - (3) neighborhood?
 - (4) immediate surroundings (block or two radius)?

- c. Consider the adjacent properties.
- d. Once you have determined that the location is acceptable, turn your attention to the lot/site.

5. Lot/site

6. Building/structure

B. Financial feasibility

1. The key elements of a financial analysis include the following:

- a. Determining after-renovation value
- b. Acquisition costs
- c. Scope of work
- d. Construction costs
- e. Development costs (buying, owning, and selling costs)
- f. Profit targets
 - (1) Approximately 10 to 20 percent
 - (2) Flat rate: \$10,000 to \$20,000 per house
- g. Licensing issues

2. Projecting profit, acquisition price, and construction budget

After-renovation value	After-renovation value	After-renovation value
– Construction costs	– Construction costs	– Acquisition costs
– Development costs	– Development costs	– Development costs
– Acquisition costs	– Profit	– Profit
= Profit	= Acquisition price	= Construction budget

C. After-renovation value (ARV)

1. What will the property sell for upon completion?
2. Competitive market analysis
 - a. MLS—solds
 - b. Classified advertisements
 - c. Internet resources
3. After renovation, your property will be very marketable compared to other unrenovated properties on the market.
 - a. Clean
 - b. Fresh paint and finishes
 - c. Vacant—easy to show
4. The market, not your costs, will determine the price.

UNIT

4

ANALYZE: SCOPE OF WORK

I. SCOPE OF WORK

A. Considerations

1. Cost versus value of improvement.
2. The most profitable rehab properties are often those requiring the least work (cosmetics).
3. Your scope of work should have the end buyer in mind.
4. Which items or amenities will be important to a buyer?
5. Cost versus value study.
6. Predict the items that the truth-in-sale/municipal inspection, buyer's home inspection, or financing inspection will uncover, and solve those issues.
7. The scope of work will eventually lead to a construction estimate and dictate construction costs.
8. Scope of work
 - a. Site characteristics
 - (1) Shape, configuration
 - (2) Topography, soils
 - (3) Access, visibility
 - (4) Drainage
 - (a) Positive drainage (away from structure)
 - (b) No ponding
 - (5) Vegetation—grass (or lack thereof)
 - (6) Flower and landscape beds—curb appeal items only

- (7) Trees and shrubs
 - (8) Driveway and walks
 - (9) Porches and decks
 - (10) Steps and stoops—25 percent deteriorated
 - (11) Fences
- b. Garage
- (1) Slab—25 percent deteriorated
 - (2) Structure
 - (3) Fire barrier

UNIT

5

ANALYZE: EXTERIOR AND INTERIOR

I. EXTERIOR AND INTERIOR INSPECTIONS

A. Inspection

1. Exterior inspection—from the top to the bottom

- a. Chimney
- b. Roof
 - (1) Serious roof problems may show up as water stains in the attic, room ceilings, or cornice.
- c. Shingles
- d. Flashing
- e. Overhang
- f. Siding
- g. Windows and exterior door trim
- h. Windows and exterior doors
- i. Exterior foundation wall
- j. Top of foundation—six inches above grade
- k. Service wiring

II. INTERIOR: FOUNDATION AND MECHANICALS

A. Inspection

1. Interior inspection—from the bottom to the top

- a. Basement floor slab
- b. Foundation walls
 - (1) Cracks—significance depends on characteristics
 - (2) Displaced walls
- c. Structural supports
 - (1) Posts, beams, joists
 - (2) Level and square
 - (3) Added support (screw jacks)—investigate
- d. Overall condition
- e. Mechanical systems
 - (1) Plumbing—includes water supply and distribution, waste and vent, and gas lines
 - (a) Municipal water source
 - (b) Gas lines
 - (c) Water heater
 - (d) Distribution piping
 - (e) Private well
 - Professional well inspection is required in some municipalities/states
 - Septic field is subject to municipal/state inspections
 - (f) Waste, drain, vent pipes

f. Electrical

- (1) Main panel—amperage
 - (a) Breakers
- (2) Circuits
 - (a) Kitchen circuit
 - (b) Bath circuit
- (3) Distribution wiring
- (4) Outlets
- (5) Other considerations
 - (a) Switched outlet or switched light per room
 - (b) Hardwired smoke detectors with battery backup
 - Hallway of each floor or level
 - Bedrooms (could be battery)
 - (c) Ground fault circuit interrupter (GFCI) outlets in laundry, kitchen, and bath

g. Heating, ventilation, and cooling (HVAC)—type

- (1) Forced air
- (2) Gravity (octopus)
- (3) Hot water
 - (a) With pump
 - (b) Without pump (gravity)
- (4) Steam
- (5) Geothermal system
- (6) Condition
 - (a) Have the unit inspected and certified

- (b) Age
 - (c) Supply air
 - (d) Scorching
 - (e) Rusting
 - (f) Clearances
 - (g) Too warm or hot to touch
 - (h) Holes
 - (i) Water storage tank leaking
- (7) Tips and resources
- (a) Home inspection classes are helpful
 - (b) Property inspection sample checklist

UNIT

6

ANALYZE: INTERIOR

I. KITCHEN, BATH, AND LIVING AREAS

A. Inspection

1. Kitchen

- a. Ceiling
- b. Walls
- c. Floor
- d. Countertops
- e. Cabinets
- f. Sink
- g. Exhaust fan/hood
- h. Appliances
- i. Plumbing
- j. Electrical

2. Bathroom

- a. Ceiling
- b. Walls
- c. Floor
- d. Tub surround

- e. Faucets
- f. Shower
- g. Sink, toilet, and fixtures
- h. Medicine cabinet
- i. Lighting
- j. Vent
- k. Accessories

3. Inspect the following from top to bottom:

- a. Living areas (bedrooms, dining room, living room, family room)
- b. Ceiling
- c. Walls
- d. Re-device
- e. Windows
- f. Doors
- g. Closets
- h. Floor

UNIT

7

FINANCIAL ANALYSIS AND BUYING

I. ANALYZE: COST ESTIMATE

A. Property inspection checklist

1. The following is an example of a property inspection checklist:

SAMPLE PROPERTY INSPECTION CHECKLIST						
	F	D	C	F = Functional	D = Defective	C = Comment
Site						
Grading and drainage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Sidewalk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Steps	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Patio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Driveway	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Garage						
Wall structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Wall covering	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Floor slab	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Doors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Roof structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Roof covering	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Exterior Building						
Foundation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Wall siding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Windows	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Entry doors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Deck	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Roof shingles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Chimneys	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Overhangs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Structure						
Basement stairs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Foundation walls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Floor slab	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Joists	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Posts and beams	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Roof rafters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Insulation						
Basement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Wall	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Attic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Attic exhaust fans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			

	F	D	C	F = Functional D = Defective C = Comment
Electrical				
Utility service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Main panel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Sub panel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Plumbing				
Water supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Waste disposal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Drain and vent pipes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Floor drain	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Laundry tub	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Fuel supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Water Heater				
Storage tank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Vent pipe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Operating controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Heating				
Furnace	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Fire box	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Operating controls	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Vent pipe	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Cooling				
Condenser	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Compressor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Refrigerant pipes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Exterior disconnect	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Kitchen				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Plumbing fixture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Water flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Cabinets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Exhaust fan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Appliances	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Living/Dining				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

	F	D	C	F = Functional D = Defective C = Comment
Bedrooms				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Family room				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Fireplace	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Rec Room				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Fireplace	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Bath 1				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Plumbing fixture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Water flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Cabinets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Exhaust fan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Bath 2				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Plumbing fixture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Water flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Cabinets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Exhaust fan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Den				
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Heat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	F	D	C	F = Functional	D = Defective	C = Comment
Hallways/Entries						
Wall and ceiling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Floor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Window and door	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Outlets and fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
Stairs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			

B. Estimating construction costs

1. Once you have determined the scope of work, the cost of performing these improvements must be determined.
2. Cost estimation resources
 - a. Template to identify exactly what is needed
 - (1) Book: renovation cost per square foot
 - (2) Identifies all of the tasks involved in tearing out and rebuilding residential property
 - b. Pricing in real time in the specific zip code
 - (1) Free real-time electronic pricing resources available online
 - (2) Can be used to price every item individually, and following the template will help prevent missing costs
 - (3) Easy to use
 - (4) Learn-at-your-own-pace tutorial
3. These tools are vital because the profit in renovation comes from buying at the right price.
 - a. Your resale price will be dictated by the market, so any cost mistakes that you make during the renovation simply take from profit.

ESTIMATE FORM—LABOR AND MATERIALS

GENERAL CONDITIONS

Architectural fees	
Construction management fee	
Survey	
Permits	
Storage	
Snow and mow	
Supplies	
Temporary utilities	
Inspections	
Insurance	
Scaffold	
Tarpaulins	
Small tools	
Equipment rental	

SITE WORK

Clean out	
Demolition	
Building	
Site	
Selective demolition	
Ceilings	
Doors	
Flooring	
Framing	
Gutting	
Masonry	
Millwork and trim	
Roofing and siding	
Walls and partitions	
Windows	
Dumpster	
Hauling	
Brush and tree removal	
Earthwork	
Grading	
Excavation and fill	
Hauling	

Utilities

Water

Well

Sanitary

Septic

Gas

Electric

Bituminous

Fences and gates

Retaining wall

Lawns

Planting

Plant beds

Trees

Edging

CONCRETE

Sidewalk

Pavement (driveway)

Steps and stoops

Pavers

Footings

Walls

Basement slab

Slab on grade

Stairs

MASONRY

Fireplace

Brickwork

Tuck point and restoration

Cleaning

METALS

Railings

WOOD AND PLASTICS

Rough carpentry

Framing

Sheathing

Soffit and overhang

Subfloor	
Underlayment	
Finish carpentry	
Base and shoe	
Casings	
Interior moldings	
Exterior moldings	
Paneling	
Closet rod and shelf	
Cabinets	
Vanities	
Countertops	
Plastic laminate	
Railings	
Stairs	
Wood ornamentation	

THERMAL AND MOISTURE

Waterproofing and damp-proofing	
Insulation	
Vapor retarder	
Roofing	
Siding	
Flashings	
Caulking	

DOORS AND WINDOWS

Exterior doors	
Interior doors	
Wood frames	
Sliding doors	
Storm doors	
Door hardware	
Door weather stripping	
Overhead (garage) doors	
Electric opener	
Access panels	
Windows	
Storm windows	
Skylights	
Window hardware	
Mirrors	

FINISHES

Plaster	
Gypsum board	
Water-resistant gypsum	
Cement board	
Gypsum wallboard repairs	
Ceramic tile	
Acoustical ceiling	
Wood strip flooring	
Resilient flooring	
Carpet	
Exterior paint	
Interior paint	
Floor and deck paint	
Masonry paint	

SPECIALTIES

Shower door	
Tub surround (manufactured)	
Manufactured fireplace	
Fire extinguisher	
Awnings	
Mail box	
House numbers	
Doorbell	
Storage shelving	
Bath accessories	
Medicine cabinet	

EQUIPMENT

Range	
Microwave	
Dishwasher	
Range hood	
Refrigerator	
Garbage disposal	
Dehumidifier	
Clothes washer	
Dryer	
Disappearing attic ladder	

FURNISHINGS

Blinds	
Shades	
Drapery	
Appliances	

MECHANICAL—PLUMBING

Waste and vent	
Gas piping	
Water supply	
Fixtures	
Bath sink faucet	
Kitchen sink faucet	
Bathtub/shower faucet	
Utility sink faucet	
Hose bib	
Bathtubs	
Laundry sink	
Laundry hookup	
Lavatories	
Showers	
Kitchen sink	
Water closets	
Water heater	

MECHANICAL—HVAC (HEATING, VENTILATION, AND COOLING)

Boiler	
Furnace	
Chimney venting	
Air conditioner	
Radiator	
Ductwork	
Outlets/inlets	
Air exchangers	

MECHANICAL—ELECTRICAL

Outlet boxes	
Wiring	
Service panel	
Switches	
Receptacles	

Alarm systems	
Disposer hookup	
Vent/exhaust hookup	
Water heater hookup	
Furnace/boiler hookup	
Air conditioner hookup	
Thermostat	
Power (utility)	
Low voltage	
Lighting	
Interior	
Exterior	
Track	
Countertop	
Kitchen	
Sound and video	
Security	
CONSTRUCTION SUBTOTAL	\$
CONTINGENCY	
CONSTRUCTION TOTAL	\$

C. Estimating development costs

1. Development costs

- a. Additional costs to acquire, hold, and sell the property

2. Selling costs

- a. Utilities
 - (1) Heating and electric bills
- b. Commissions

3. Taxes

- a. State deed tax
- b. Income tax on sale profit
- c. Property taxes

4. Administrative costs

- a. Mileage
- b. Phone
- c. Internet
- d. Bookkeeping
- e. Accounting
- f. Office rental

5. Temporary utilities**6. Inspections****7. Boarded vacant, condemned charges****8. Loan interest****9. Staging costs****10. Advertising****11. Seller-paid points**

12. Title preparation/title insurance**13. Project maintenance (snow/mow)****14. Miscellaneous materials****DEVELOPMENT COSTS**

Interest

Insurance

Administrative/bookkeeping

Accounting

Legal

Furniture rental

Commissions

Closing

Title work

Truth-in-housing inspection

DEVELOPMENT TOTAL**TOTAL PROJECT COST**

Acquisition

Plus construction*Plus* development*Equals* total project costs

Estimated selling price

Less total project costs*Equals* gross profit*Less* tax liability*Equals* net profit**CONSIDERATIONS**

Risk?

Time?

Opportunity cost?

Work?

D. Decision

1. Make an offer?
2. Don't make an offer?

E. Scope of work

1. The scope of work becomes the *blueprint* from which a construction estimate will be produced.
2. Do the work yourself or hire a general contractor?
 - a. You need one person to manage.
3. If you are your own general contractor, do some of the work yourself and subcontract specialty work.
4. Break down the work by category.
5. Get three bids per category.

II. BUY

A. Know how to buy the project before you start looking

1. There is no sense in spending time looking for property without having the resources to buy.
2. Buy-fix-sell properties sell quickly, so be ready to write an offer.

B. Money**1. Money is needed for the following:**

- a. Acquisition financing
 - (1) Down payment
 - (2) Debt financing
- b. Construction financing
- c. Development financing

C. Sources**1. Your own cash or other people's money****2. Your own cash**

- a. Risk
- b. Opportunity cost
- c. Flexibility—your money is locked up

3. Line of credit

- a. Unsecured
- b. Secured
 - (1) Illiquid collateral
 - (2) Liquid collateral
- c. Partner's collateral

4. Credit

- a. Supplier (store) credit
- b. Credit cards

Figure 7.1
Calculating Monthly Interest Payment

Example: Calculating monthly interest payment

$$\begin{array}{r} \$50,000 \text{ borrowed} \\ \times 12\% \text{ interest} \\ \hline = \$6,000 \text{ annual interest payment} \\ \div 12 \text{ months} \\ \hline = \$500 \text{ monthly interest payment} \end{array}$$

Cash outlay example

n	Using cash	Using credit at 12% interest
0	(\$50,000)	- (\$500)
1	(\$10,000)	- (\$600)
2	(\$10,000)	- (\$700)
3	(\$10,000)	- (\$800)
4	0	- (\$800)
5	\$100,000	\$100,000
<div>\$100,000 sale proceeds - \$80,000 cash outlay = \$20,000 profit</div>		<div>\$100,000 sale proceeds - \$80,000 borrowed - \$3,400 cash outlay = \$16,600 profit</div>

5. Investor

- a. Formal partnership
 - (1) In writing
 - (2) Working partner
 - (a) Delegation of tasks
 - (b) Decision-making

- (c) Cost of money
- (d) Split profits
- (3) Finance-only partner
 - (a) Six to twelve months
 - (b) Interest
 - (c) Flat fee
 - (d) Split profits

6. *Hard money* lender

- a. About the same interest as credit cards
- b. Higher dollar amounts (collateral)
- c. Flat fee
- d. Interest

7. Seller financing

- a. Contract for deed (land contract)
- b. Generally requires a down payment
- c. Money partner buys, resells to renovator on C/D

8. Bank financing

- a. Short-term mortgages can be expensive.
 - (1) Appraisal
 - (2) Origination fees

- (3) Discount points
- (4) Closing costs
- b. Use lenders who specialize in development lending
- c. Generally requires owner equity
 - (1) Some banks will lend up to 70 to 80 percent of renovated value.
 - (2) Or, banks will lend up to 70 to 80 percent of project costs.
- d. Requires formal draws
 - (1) Submit invoices, receipts, lien waivers
 - (2) Turnaround time: funds may not be available immediately
- e. Partial lien waivers

D. Accessing the money

1. How will expenses and subcontractors be paid before receiving draw funds?

- a. Your own expenses
- b. Miscellaneous expenses paid by others
- c. Materials
- d. Subcontractors
 - (1) Small independent subcontractors are sometimes unaware of the formal process involved in bank or investor financing. They may be used to getting paid as soon as their task is finished, or at the end of the week, or as soon as they deliver an invoice.
 - (2) Have a policy, such as *invoice on Monday, paid on Friday*.

2. Draws

- a. Invoices
- b. Time sheets
- c. Percentage complete
- d. Inspections

UNIT

8

FIX AND SELL

I. FIX

A. Project management

1. Project management is about time management, jobsite supervision, and controlling costs.
2. A general contractor will handle much of this phase of the project. If you act as your own general contractor, then you have to understand and execute the following:
 - a. Do you need a contractor?
 - b. Planning
 - c. Scheduling
 - d. Hiring contractors
 - e. Supervision
 - f. Coordination
 - g. Documentation
 - h. Bookkeeping
 - i. Do you need a licensed contractor and a building permit?
 - (1) Licensing requirements vary from state to state and city to city.
 - (2) Make sure you check.
 - (3) Determining factors often include the following:
 - (a) Cost of work
 - (b) Frequency of projects
 - (c) Type of work (framing and installing sheetrock versus taping and sanding)

- j. State licensing
- k. City licensing
- l. Trade licensing
 - (1) Electrical
 - (2) Plumbing
 - (3) Heating and cooling
 - (4) Sheet metal (ductwork)
- m. Lead certification requirements—the Renovation, Repair, and Painting (RRP) Rule
 - (1) The RRP program is a federal regulatory program affecting contractors, property managers, and others who disturb lead-based paint.
 - (2) This is a two-phase program that was enacted by the Environmental Protection Agency (EPA) 2008 Lead Rule.
 - (3) This rule applies to anyone who is paid to perform work that disturbs paint in housing and child care facilities built before 1978, such as
 - (a) residential rental property owners and managers;
 - (b) general contractors; and
 - (c) special trade contractors, including
 - painters,
 - plumbers,
 - carpenters, and
 - electricians.
 - (4) This work includes activities that disturb more than six square feet of interior paint per room inside, or activities that disturb more than 20 square feet on the exterior. Generally, this work includes the following:
 - (a) Remodeling, repair, and maintenance
 - (b) Electrical

- (c) Plumbing
 - (d) Painting
 - (e) Carpentry
 - (f) Window replacement
- (5) In housing, you must distribute EPA's lead pamphlet to owners and occupants before work starts.
- (a) The pamphlet can be downloaded from the EPA's Web site: www.epa.gov/opptintr/lead/pubs/renovaterightbrochure.pdf
- (6) Obtain confirmation of the receipt of a lead pamphlet and retain the records for three years.
- (a) You can download a sample record from the EPA's Web site: www.epa.gov/opptintr/lead/pubs/samplechecklist.pdf

B. Planning

1. Preparation in advance will help you save time in the future.
2. Fine-tune your scope of work and construction estimate.
3. Know what you want—this includes specifying the products you will use.
4. Typically, a general contractor will not choose these items for you—an interior designer would.
5. Product specification

SPECIFICATIONS
(SKU #, Mfg, Color, Model, etc.)

- ☐ Paint manufacturer and colors—exterior, interior _____
Primer _____
Walls _____
Trim _____
Ceilings _____
- ☐ Floor covering _____
Carpet _____
Vinyl _____
Ceramic _____
Thresholds, transition strips _____
- ☐ Cabinets and counters _____
- ☐ Plumbing fixtures _____
Kitchen sink, faucet _____
Commode _____
Bathtub, shower, faucet _____
Vanity cabinet, sink, faucet _____
Laundry sink, faucet _____
- ☐ Bathroom accessories _____
- ☐ Medicine cabinet _____
- ☐ Exterior door, hardware _____
- ☐ Matching mailbox, house numbers _____
- ☐ Interior door (match existing) _____
- ☐ Interior door hardware (hinges, knobs, doorstops) _____
Window hardware _____

Pull handle _____

Lock _____

Hold open lock _____

☐ **Wood trim** _____

Baseboard with shoe _____

Plinths _____

Door, window trim _____

Crown molding _____

☐ **Appliances** _____

Range _____

Refrigerator _____

Range hood _____

Microwave _____

Dishwasher _____

Washer, dryer _____

☐ **Light fixtures** _____

Living room _____

Dining room _____

Halls _____

Bedrooms _____

Closets _____

Kitchen _____

• Sink area _____

• Overhead _____

• Under cabinet _____

Bathroom _____

- Overhead _____
- Exhaust fan _____
- Vanity light _____

Basement/utility _____

Exterior _____

- Entry _____
- Security _____

☐ Electrical cover plates, switch type _____

6. Determine who (you or the contractors) will be responsible for buying materials

a. If you buy the materials, draw the line somewhere. For example, if you say that you will buy the paint, then others will buy the following:

- (1) Drop cloths
- (2) Filler
- (3) Wood putty
- (4) Sanding equipment
- (5) Brushes
- (6) Cleaning supplies

b. Determine who will keep any leftover supplies and material

7. Permits and inspections

- a. Begin with the end in mind.
- b. Complete all items necessary to satisfy local building officials.

C. Scheduling

1. Time is money.
2. Your renovation has to be completed as quickly as possible.
3. Always keep your eye on the target—the finished product and the budget.
4. *Finished* means move-in ready.
 - a. Clean top to bottom (including inside of drawers and the tops of closet shelves)
 - b. All surfaces painted
 - c. All windows operable
 - d. All door hardware installed, tightened, and functional
 - e. Cover plates installed
 - f. All light fixtures operating
 - g. Appliances connected and operating

5. All projects are different and unique. In general, the order of events is as follows:

Task	N/A	Scheduled	Complete	Sub
Permit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cleanout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Crew/trash hauler	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Dumpster	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Demolition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Old mechanical systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Plumbing fixtures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cabinets and counters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wallpaper	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Walls and ceilings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Floor coverings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rough carpentry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Exterior/interior repairs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Install windows and doors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Water damage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Framing, subfloor, blocking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Roofing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Siding	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Mechanical rough-in	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Plumbing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Run supply, waste, vent pipes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Electric	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
HVAC	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Finish carpentry	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insulate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Drywall and tape	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Plaster	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tub surround	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Insulate, drywall, plaster, tub surrounds	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flooring in bath and kitchen	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kitchen and bath cabinets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Finish mechanical	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Install plumbing fixtures and faucets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lights, switches, cover plates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vent covers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Interior trim	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Paint	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sand and finish, protect wood floors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Control dust	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Hardware and accessories	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Final clean	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D. Hiring contractors

1. Be very clear about what you want done
 - a. Scope of work
 - b. Product specifications
2. Hire contractors familiar with the type of work you are doing
3. References
4. Time and material or bidding
 - a. In order to obtain bids, the scope of work should be well defined.

E. Supervision and coordination

1. Lockbox for site access
2. Plan on visiting the jobsite at least once per day
3. Be accessible for questions
4. Contractors
 - a. What needs to be done before they arrive on site?
 - b. How long will their work take?
 - c. What has to wait until they are done?
 - d. Who will clean up after them?

- e. What about quality control?
 - (1) Level of quality you desire
 - (2) Level of quality within budget constraints
- f. What about back charges?
 - (1) Damage
 - (2) Cleanup
- g. Tell people where to park (not on the grass).
- h. Security—are the materials and tools in locked tool boxes?
- i. Who is responsible for theft?
 - (1) Jobsite rule: Do not leave anything on the site that you do not want stolen.
- j. What about music/radios?
- k. What are the work hours?

F. Documentation

- 1. Have a written contract for each contractor**
- 2. Change order forms**
 - a. Amount
 - b. Work done
 - c. Your signature

Figure 8.1

Sample Change Order Form

Sample change order form

CHANGE ORDER

Contractor: State Project No.:

Address:

Federal Project No.:

Location: Contract No.:

In accordance with the terms of this Contract, you are hereby authorized and instructed to perform the Work as altered by the following provisions.

CHANGE IN CONTRACT TIME

Due to this change the Contract Time:

a. Is increased () by _____ Working Days Issued By: _____

Is decreased () by _____ Working Days Project/Resident/County Engineer Date

Is increased () by _____ Calendar Days

Is decreased () by _____ Calendar Days Approved By: _____

Asst. District Engineer Date

b. Is not changed ()

c. May be revised if the work affected Accepted By: _____

the controlling operation () Contractor's Authorized Representative Date

3. Daily visit log

- a. Who was on site?
- b. Notes regarding conversations
- c. Progress

4. Digital camera

G. Bookkeeping

- 1. Start with job budget
- 2. Track invoices and payments

3. Draws
4. Amount paid, amount left
5. Invoice payment system
 - a. Invoices received by Wednesday and paid on Friday
6. Writing checks
 - a. Track details
7. Gear to tax preparation

II. SELL

A. Considerations

1. Finished
2. Staged
3. Marketing
4. Terms
5. Profit
6. Taxes

B. Ready to sell

1. The renovation should be completely finished and clean before the *for sale* sign goes up.

2. Since the property is a renovation, it should look better than most properties on the market. However, the property will be empty, so any imperfections will tend to stand out.

- a. The home will show better if some furniture and plants are strategically placed throughout the property.

3. ***Finished*** means the following:

- a. All *punch list* items are completed.

- (1) A punch list generally is done when a contractor is nearly done. It is the final checklist of things to be completed, and it often focuses on small details.

- b. The home should be cleaned from top to bottom, including windows.

- c. All drawers and cabinets are clean.

- d. All surfaces (that were going to be painted) are painted.

- e. All windows are operable.

- f. All door hardware is installed and tight.

- g. Cover plates installed.

- h. All light fixtures operating.

- i. All debris removed.

- j. The lot should be landscaped and mowed.

4. **Staged**

- a. Complete staging

- b. At least a table and chairs for brochures and business cards

- c. Potted plants
- d. Cover any unpleasant new construction odors

5. Marketing

- a. Brochure
- b. Marketing
- c. Real estate agent

6. Terms

- a. Offering terms may help you sell the property more quickly.
- b. You will need a cooperative lender and no *due on sale* clause in your own loan documents.
- c. Early on, you will probably want cash to pay off your own financing and reap your profit.
- d. Types of terms
 - (1) Wraparound financing
 - (a) A form of financing in which the buyer makes payments to the seller, who makes payments on an underlying mortgage, which the buyer did not assume.
 - (2) Purchase money mortgage
 - (a) A form of seller financing in which the seller takes back a subordinate mortgage-backed IOU in lieu of a down payment from a buyer.
 - (3) Seller carryback
 - (a) Loan-to-value ratio (LTV)
 - (b) Lender must agree
 - (4) Contract for deed (land contract)
 - (a) A property owned free and clear sold to a buyer on an installment basis

(5) Lease (with option)

- (a) An arrangement that gives the potential buyer possession and may lock in conditions for a future sale

C. Profit

1. Generally, the quicker you sell a property, the greater your profit.
2. Interest expenses are one of your greatest soft costs.

D. Taxes

1. Profits from buy-fix-sell are generally taxed the same as ordinary income.
2. If you decide to make your buy-fix-sell property your primary residence for at least two years, you can sell and not pay any taxes on your profits up to \$250,000, or up to \$500,000 for a married couple filing jointly.
3. The tax formula is the following:
Sales price
Less cost of sale
Less acquisition cost
Less capital improvements
Less interest expense
Equals taxable profit
4. This taxable income will be added to other income for the year.
5. Profits realized from a buy-fix-sell are *not* eligible for a 1031 tax-deferred exchange.