

Part 1

The Basics

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What Is a Fix and Flip?

In this chapter, Ian talks about the fix-and-flip basics and how he came to understand it's not an easy path to wealth.

To put it in simple terms, a fix and flip is the process of:

- buying a property at the right price;
- adding value through renovations; and
- exiting the property with a profit.

You'll notice that I did not say “sell the property,” and the reason for this is that you won't always sell the property, although selling is one exit strategy I regularly use.

Adding Value

People often get into this game to “get rich.” Oftentimes they even think they'll be able to “get rich quick.” The truth is that *if* you're able to create wealth at this, it will be a direct result of how much value you add—value to your end user, value to renters, value to investors, value to lenders, and even value to your spouse and children. These are all necessary to create a successful life as a fix-and-flip investor. The creation of wealth is always a by-product of providing value.

Fixing and flipping, probably more than any other method of real estate investing, is the art of creating value and of problem solving. If you can solve a problem, then you're on your way to adding value.

When you go into a nice neighbourhood in a high-demand town, you're starting in the right place. From the beginning, you're working with a product that people will want. Now, you take a house that has been neglected, it's an eyesore, and it doesn't fit into

its surroundings, and you've got something even better. You already know that people will pay a certain amount of money for a certain type of house in a certain neighbourhood in a certain town or city. So all you have to do is *be the solution* by providing that type of property. The raw material is the house that has been neglected, and your skill and expertise are the catalyst for turning that undervalued property into something of value. You are *adding value* by taking that property and bringing it up to the standard of the neighbourhood.

The world is in desperate need of people who can add real value. The economic collapse and uncertainty in much of the world, especially the United States, is a perfect example of the creation of false value. People believed that false value was real value. Eventually the movie ended and the acting stopped. All that false value was wiped out and along with it the savings of a lot of hard-working people. Be a creator of real value and you will do very well at the flipping game.

What's the Trick?

People often ask me, "What's the trick to flipping houses?" The reality is that there is no big trick or secret to it. There are a million small tricks that you will learn as you go along, but there is no single big trick.

People often get hung up on the money. They think they need a ton of money to get going in the business. Money doesn't hurt, but it's definitely not the key ingredient. In fact, if you start with a bunch of money but no skill, you'll probably end up with no money! You're better off looking at this as a game of skill rather than a money game.

There is a simple truth to this business that you may have heard elsewhere before: there is a lot more money out there looking for the right deal than there are deals looking for money.

Now, if you have the deals but no money, you'll need the skill in presenting that deal to get the money. You'll also need the skill to find the deals, and a certain set of skills to pull off the renovation aspect. I could list off a bunch of skills that make this business work (and I will below), but the fact is that it's skill, not money, that makes this business work.

Focus on having or finding the skills necessary in order to successfully flip houses, and the money will come. If you focus on the money instead, you will have a harder time finding the money.

There's a good chance you will have to use your own money to start off, but if your goal is to fix and flip regularly, you will find that money will be attracted to you. This is the truth for both Mark and me. We have a harder time finding the deals than the money, but the money comes because we bring the deals.

Fixing and Flipping Is about Putting on Hats

To do a flip successfully you need to focus on skill rather than money, but you don't need to have *all* the necessary skills in order to do a flip. However, you will need to supplement your own skills by leveraging the skills of others.

I don't personally possess all the necessary skills to do a flip myself, so I utilize other people's skills in order to do the job that I need done.

What the successful fix and flipper does is put on a few different hats to pull off a flip successfully. Putting on hats just means you're employing skills (your own and others'—in which case, you have to put on the management hat) to do the very unique job of fixing and flipping a house. Some of the hats include:

- **Deal Finding:** This is the skill of sourcing a property and purchasing it. You need to know if you can buy it at a low enough price and exit it at a high enough price.
- **Project Management:** You have to manage a team whose members have their own special capabilities and skills. You have to understand your team and work to keep your team motivated and working well together. You also have to take care of the planning and scope of work necessary to complete the job. This is all under the banner of project management.
- **Analyzing Your Exit Plan:** You need to be able to analyze the deal that's in front of you and know what your exit strategies are. You have to know which one is Exit Plan A, Exit Plan B, and Exit Plan C. Then you have to have the skill and knowledge to execute your exit.
- **Financing:** This one forms a part of deal finding and analyzing your exit, but knowing how and where to get the money is a skill unto itself.
- **Design:** This is the skill of knowing what will truly raise the value of the property. It's also the skill of doing the renovations in such a way that your costs will not

kill your profitability. The design hat is integrated with the project management hat to a large degree because only the skill of project management will allow you to carry out the design aspect with any success.

Everyone Wants to Be a House Flipper

Whenever I'm in the company of a real estate crowd, I'm always amazed at how many people really want to be house flippers, or so they say. Flipping houses conjures up something romantic about buying and restoring a property for a large profit and the independence of being your own boss. I've actually seen people post photos online of themselves holding their big cheques. (I find this funny because a big cheque at the end of a job doesn't mean a big profit; there are still the bills to pay at the end of the job, after all!)

But the problem is that most people don't know what flipping houses is all about. In truth, there is nothing glamorous about the business at all. Just like any business, it takes commitment and determination, and the right blend of knowledge and skills to make it work.

My experience tells me that this business is not as easy as it seems. In spite of the fact that the definition provided at the beginning of this chapter is quite a simple one, and in spite of the fact that perhaps it's simple to grasp the concept that adding value is all you have to do to be successful at this business, the reality is that many people are not successful. Simple and easy are two different things. Often the simplest things to do are the hardest. Some people can't say the simple words "I love you" to their loved ones. Simple does not equal easy.

Take, for example, a guy I know who was trying to get into flipping. I'll call him Paul, although that's not his real name. He got into the flipping business with the best of intentions, and he even had a skill background that I highly respect. He was a renovator! Of all the skill sets to take into the house-flipping business, I think this is one of the best.

The problem with his first flip was that he couldn't get past the fact that he didn't have to take responsibility for what was behind the walls. In spite of the fact that he doesn't have X-ray vision, and he couldn't possibly know what was behind the walls, he still felt an obligation that if he was going to put his name to the flip, that he had to take responsibility for what was behind the walls.

Please don't misunderstand me here. If you know there is a problem behind a wall (mould, electrical, etc.) you absolutely have to fix it before you can sell it. In fact, not only is not doing it highly unethical, it's also illegal.

What I do mean to say is that you don't go ripping out walls when it's not necessary! Paul couldn't get past the fact that without him pulling apart the place, there was no way to know for certain that everything was up to snuff.

The lesson here is that flipping a house is about renovating what must be renovated at the lowest possible cost to you. It's not about having absolutely everything perfect so that your overactive imagination can rest.

Don't be like Paul! Please understand that although the definition of flipping seems very simple, it actually requires you to employ a bunch of different skill sets, or at least have a team that can employ their skill sets toward your cause. Paul had all the abilities and tools to do the job well, but he wasn't able to employ his "flipping muscle" to override his "renovator muscle." His renovator instinct took over and he overbuilt—and overspent—on this particular flip.

Don't Get Discouraged!

Paul is a wonderful guy and a very talented renovator, but only time will tell if he's a flipper or a speculator (see the next chapter for a discussion of the difference). In the example I gave, he made a critical error, and it caused his project to suffer. But if Paul is able to use that experience to learn and then change some of his behaviours, he will be fine. If he doesn't, or if he throws up his arms and gives up, he'll never receive the benefit of that lesson.

I learned the same lessons as I got better and better at fixing and flipping houses, and so can Paul. The same words will apply to you as you develop your skills and learn how to employ them.

The Fix-and-Flip Success Formula

Fixing and flipping is an art that involves a) creation, and b) fixing a problem (that someone else created), specifically the problem of a house that has zero curb appeal. As a fix-and-flip investor, it's your modus operandi to make money solving that problem and creating

something beautiful in the process. A well-renovated house that's ready to fulfill a family's dream is a beautiful thing, and I hope you never forget that.

When you add enough value through your work and expertise, you'll make a profit and have the recipe for a winning investment strategy. But there's a hidden risk to fixing and flipping. People often get deluded about what it means to be a fix and flipper, and they actually don't know how to do it. They often throw themselves in without getting the fundamental piece first and foremost. The most common mistakes people make are: a) overspending on the purchase of a fix-and-flip project; and b) overspending on the renovation of a project.

Fixing and flipping is a formula that takes practice to perfect, and you can improve at it just like I did over the many years that I've been working at it.