

Art of the 'flip' enticing

By Linda Rawls, Palm Beach Post Staff Writer

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Adam Raizin recently paid \$145,000 for a house on O Street in Lake Worth.

He sold it for \$172,000 in a week or two, he says, but thinks he could easily have gotten \$225,000 or \$250,000 if he had painted and landscaped.

"I'd rather get in and get out," said Raizin, 41. "I sell for a little bit less. If other houses on the block are selling for \$199,000, I sell for \$195,000."

The Lake Worth resident, who buys and resells three or four properties a year, is part of a growing wave of real estate speculators lured by soaring property value and rock-bottom interest rates.

Their dream is to pocket profits from the purchase and quick resale of residential properties, often called flipping.

Experts caution that the real estate boom soon could be over, with interest rates likely to rise and a dire shortage of homes to buy and flip.

"I'd like to say that, yes, 100 percent of the people doing this can make money, but let's face it -- someone will be left holding the bag," said Randy Bianchi, owner of Paradise Properties in West Palm Beach.

Once the domain of professionals, flipping has attracted scores of often-inexperienced investors in hot real estate markets like Palm Beach County and the Treasure Coast looking to profit from quick sales.

"The market allowed people who have never been able to do this to buy a second home for an investment, to flip it," Bianchi said.

People like 25-year-old Patrick Gambale, who didn't even own a home until October. He has two luxury condominiums under contract and is studying for his real estate license.

"Real estate has really blossomed here in Palm Beach County," said Gambale, a salesman for a financial publisher. "The value of my home has

gone up \$50,000 or \$60,000 just since I bought it. I thought I'd take advantage of that and see if I can make some money."

He's far from alone. For instance, of 15 sales in the pricey Olympia subdivision in Wellington during the first six months of this year, nine were resales of homes that had been bought an average of only 10 months earlier. In that short period, the homes resold for increases that ranged from \$20,760 to \$148,710, with an average increase of \$68,254, according to property records.

No sign of slowing

Soaring property value lies at the heart of this dream of short-term windfalls. In Palm Beach County, home prices have skyrocketed 72 percent in five years, according to the Office of Federal Housing Enterprise Oversight. Prices have jumped 66 percent on the Treasure Coast during the same time.

The torrid appreciation rate is continuing despite a rise interest rates, which usually cools demand and stabilizes prices. In Palm Beach County, for example, the median price of a used home in May, the latest figure available, was \$290,200, up 29 percent over May 2003, according to the Florida Association of Realtors.

Or consider the Treasure Coast's Port St. Lucie -- the nation's second-fastest-growing city, thanks to an unprecedented residential building boom -- where property value last year rose 40 percent, nearly twice as much as any other large city in Florida history.

Martin and St. Lucie counties overall continue their steady home-price gains, with the median rising in May to \$187,800, a 31 percent increase over May 2003, according to the state Realtor group. (The median is the midpoint at which half the homes sold cost more, half cost less.)

The other fuel being thrown on the house-flipping fire is low interest rates.

Last summer, home mortgages plunged to their lowest rate since Dwight Eisenhower occupied the White House -- 5.2 percent for a 30-year fixed-rate mortgage. They're expected to remain below 7 percent this year and to average 7.3 percent in 2005, still attractive enough to keep the market vibrant.

According to mortgage giant Freddie Mac, the 30-year fixed-rate mortgage averaged 6 percent last week -- the fourth straight week of declines. Such rates not only have made monthly mortgage payments more affordable, they've also sparked a flurry of cash-out refinancing that has put large sums of the green stuff into homeowners' pockets.

Disillusioned with the stock market, many of these people turned to real estate, and in Palm Beach County and the Treasure Coast -- two of the hottest housing markets in the nation -- opportunity beckoned.

Two ways to make money

There are basically two ways to make money flipping residential property.

"The first is when you buy at a discount," said Cheryl Linck, director of business development for Illustrated Properties in Palm Beach Gardens. "You find a handicapped property and remove the handicap -- fix it up -- and resell it.

"The other way is to bet on the future. You buy a property at today's value -- a resale or new construction -- and sell it tomorrow, hopefully at an appreciated amount."

Many of the recent turn-around sales at Olympia were preconstruction contracts that were flipped, said Douglas Rill, president of Century 21 America's Choice.

"I have three offices, and our Wellington office gets more buy-and-flip than anywhere else," Rill said, "especially along the 441 corridor, because there's so much new construction going up."

But flipping is not limited to Palm Beach County's fast-growing western communities.

"It's become a huge factor in all subdivision housing," said Brad Hunter, director of consulting for Metrostudy in Boca Raton. "People are buying preconstruction and looking for a quick sale. The majority of them are ordinary people who know somebody who knows somebody who made \$100,000 in a flip, and they decided to jump on the bandwagon."

Developers, however, are cracking down on flipping.

First of all, multiple contracts for a single sale create more paperwork for them. They are also cognizant that the hot market won't last forever. If an investor holding a lot of contracts defaults, it can put the development in jeopardy. Moreover, too much house-flipping can have a negative effect on communities.

"People who are flipping aren't making emotional decisions," Century 21's Rill said. "They're making financial decisions, and because of that they may not get as many upgrades, for instance. They may not get fancy exteriors. If they can't sell, they may have to rent, which is generally less desirable."

Condos not immune

Flippers also have flocked to the condominium construction boom. Of the 3,500 new units being built in downtown West Palm Beach, as many as 40 percent have been bought by investors, analysts say, many buyers holding multiple contracts. While some might hold their units as long-term investments, many hope for a fast sale -- and profit -- by the time the condos are ready for occupancy.

Condo developers, however, also have taken steps to squelch flipping. The Related Cos., whose local projects include The Slade and The Prado in West Palm Beach, The Moorings at Lantana and Marina Village in Boynton Beach, limits customers to two units.

"We've also got very strict provisions that they cannot assign a contract without our approval," said Barbara Salk, Related's vice president of development.

Older condos, of course, have no preconstruction contract issues, and they are especially hot now -- when you can find them -- especially along Flagler Drive, said Bianchi of Paradise Properties.

"We get calls on specific buildings now," Bianchi said.

"In Placido Mar, Palm Beach House and La Fontana, for instance, those prices per square foot have been going up, up, up, and there's no inventory left," he said. "Three years ago they would have sat on the market for six months. If I had five Placido Mars I could sell them tomorrow."

Finding the needle

Buying single-family fixer-uppers is popular, as well, but the supply of homes is at its lowest in years. Finding properties at a discount can be difficult if you're an amateur.

"Don't you know every single Realtor is out there looking, and there are 11,000 Realtors in our MLS?" Illustrated Properties' Linck said, referring to the Multiple Listing Service of homes on the market. "It's like looking for a needle in a haystack."

But finding that needle is exactly what's required to make a profit on a "fix and flip," experts agree -- and that's hard to do when a for-sale sign can prompt three or four full-price offers in a matter of days.

"It's hard to buy things at 30 percent to 35 percent under market, which is where you need to buy to make money once you've paid for the carrying costs," Century 21's Rill said.

If you're persistent and don't get greedy, however, Lake Worth's Raizin insists it's possible to find homes for sale at a discount, and to make money fixing and flipping them.

"I look at 20, 30, 40 houses," Raizin said.

"I drive around with contracts in my car," he said. "You cannot steal in slow motion. If a good deal is there, seize the day and grab it. I have everything filled out except the figures."

Raizin, who generally uses other investors' money to buy, said he splits an average of \$30,000 to \$60,000 on each flip. That might sound like easy money, but it's not, he said.

"You have to eat, sleep and drink the market," he said. "I don't have cable. I don't take weekends off. Every day is a Monday to me. I love the art of the deal."