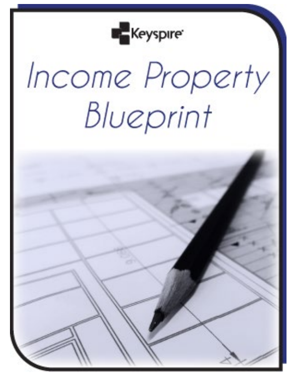
Module 4 – Lesson 10

Flip -

Active Approach



RESULT

Week 51

So far, you've learned about three different strategies to see results: a basic Buy and Hold, a Flip, and a Flip to Yourself: Passive Approach. This week, we're going to look at a Flip to Yourself: Active Approach.

The Flip to Yourself: Active Approach scenario is a strategy that combines both the Flip and the Buy and Hold strategies. You're purchasing a property to complete a Flip but then you're refinancing after a short period of time to access the appreciation you've put into it.

We've included the example Michael uses in this week's video. Review the numbers as you follow along the video and be sure to complete the activities below.

Flip to Yourself: Active Approach Example
You purchase an income property, complete renovations in 4 months, and then Flip to Yourself.

- Property value: $350,000
- Down Payment: 20%
- Amortization: 30 years
- Mortgage Term: 1 Year
- Interest Rate: 4%
- Market Appreciation Rate: 3.0%
- Renovation Investment: $40,000
- Monthly Carrying Cost: $1,035
- After Repair Value: $422,000
- Time Horizon: 4 months

Month	Market Value 3%	Mortgage Amount	Cash Flow	Principal Recapture	Passive Appreciation	Active Appreciation
0	$350,000	$280,000	$0.00	$0.00	$0.00	$0.00
1	$350,875	$279,594.20	$0.00	$405.80	$875	$0.00
4	$422,000	$278,368.72	$0.00	$1,631.28	$2,625	??

- To calculate monthly passive appreciation = $\dfrac{\textbf{Market Value x 3\%}}{\textbf{12 months}}$
- Cash Flow = $0 because property is currently under renovations and not rented out

- What is the Active Appreciation (AA) at month 4 when renovations are complete?
  Every situation is different but to calculate the AA, you need to add in any expenses you incurred during the Flip. Did you borrow funds? These costs will also need to be accounted for here. Market Value (or After Repair Value, ARV) at month 4 is determined by an appraiser or the professional opinion of your real estate agent.

  AA = ARV - Purchase Price - Closing Costs - Rehab Costs - Carrying Costs - Refinance Fee

  AA = $422,000 - $350,000 - $1,200 - $40,000 - $4,140 - $500

  AA = $26,160

- How does this translate into Active Appreciation Return on Investment (AA ROI)?

  AA ROI = $\dfrac{\text{Return}}{\text{Capital Invested (Down payment + Closing Costs + Rehab Costs + Carrying Costs + Refinance Fees)}}$

  AA ROI = $\dfrac{\$26{,}160}{\$70{,}000 + \$1{,}200 + \$40{,}000 + \$4{,}140 + \$500}$

  AA ROI = $\dfrac{\$26{,}160}{\$115{,}840}$

  AA ROI = 22.6%

- What is the annualized Active Appreciation Return on Investment (AA ROI)?

  AA ROI = $\dfrac{22.6}{\text{4 months}}$ X 12 months

  AA ROI = 67.8%

- What do these numbers mean?
  As an investor, you made $26,160 in four months (67.8% annualized return on the capital you invested).

  As you know, there are 4 Ways to Win, and this AA ROI includes only Active Appreciation. We could add in the Principal Recapture and Passive Appreciation which would increase the ROI slightly. Again, since the property was not rented out during the renovation, there is no Cash Flow.

What if your Flip goes over time and over budget?

When running your numbers, consider be sure to have a contingency built in. Your project may go over time and over budget so you want to be as prepared as you possibly can to account for the extra costs.

1. **Ask the community!**

Ask your community:

- Have you ever completed a project that went over time and over budget?
- Did you have a contingency plan?
- How was your ROI impacted?
- What would you plan differently for your next renovation?

2. **Practice this strategy using your own numbers!**

What would your financial projection be when you use your own numbers?

- Property value
- Down Payment:
- Amortization:
- Mortgage Term:
- Interest Rate:
- Market Appreciation Rate:
- Renovation Investment:
- Monthly Carrying Cost:
- After Repair Value:
- Time Horizon: