

Best Places To Flip A Home

By Matt Woolsey, Forbes.com

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In March, real estate investor Chris Knight paid \$10 million for an 8,500-square-foot, 13-bedroom mansion in [Shelter Island](#), N.Y. Two weeks later, he put it back on the market. Price tag? \$33 million.

If he pulls off the sale, no doubt he'll be in the running for flipper of the year.

Problem is, there's not much competition for the hypothetical honor.

Flipping--in which an investor buys a home, makes quick improvements and resells at a higher price--"was a rage in the housing market surge," says Anthony Sanders, a professor of real estate finance at Arizona State University. "But it is not as popular in this flat housing market."

It's easy to understand why. With prices falling quarter after quarter, the prospect of buying low and selling lower doesn't sound nearly as appealing as buying low and selling high.

Pocket Some Change

However, those looking to make a quick buck may do so in a number of markets ripe for a well-spotted flip.

Best among them is [Seattle](#). It landed atop our list based on a number of measures.

Using data from Moody's Economy.com, we looked at the nation's 40 biggest metros and calculated a market's rate of sales against inventory to determine supply and demand. Next, we looked at current and new-home construction numbers through the end of 2008, based on data from the National Association of Home Builders (NAHB). A steady increase in new-home stock makes prices more affordable. Not good news for flippers.

Next, we measured price appreciation over the last year, according to data provided by the National Association of Realtors, to get a sense of short-term market direction. Then, we mixed in Moody's figures on investor share. In a real estate market, the higher the share of investors, the more sellers outweigh buyers, which equals bad news in a bearish market.

[Seattle](#) performs well by all these measures. There is a steady stream of buyers scooping up property in the area. What's more, new-home starts there are expected to go down by about 7% through 2008; that's like sounding a dinner bell to short sellers. With already-strong price appreciation, a decrease in new-home construction helps jack up prices. A relatively low investor share of 10% is a neutral factor.

In markets like [Sacramento](#), Calif., [Seattle](#) price depreciation and a high investor share has many flippers hanging out to dry. Watching asking prices drop on flipper properties--those bought and sold within two years, according to real estate agents--has become a sport in the [Sacramento](#) real estate blogosphere. By filtering official Multiple Listing Service (MLS) data, the blog Flippers In Trouble tracks every area flipper--those who bought a home in the last two years--and reports who is trying to sell his property for less than he paid. There are currently 1,348 such sellers, a sevenfold increase from last year, the MLS confirmed. A sluggish market indeed.

[Sacramento](#) flippers may be ducking for cover, but elsewhere in California, things are looking far rosier. Both [San Francisco](#) and [Los Angeles](#) made our list, landing in slots two and eight, respectively. The [San Francisco](#) had the second fastest sales rate among the markets surveyed, good price appreciation and only a modest growth in new-home construction; the NAHB expects only 600 more housing permits in the fourth quarter of 2008 than in the first quarter of 2007, and that amount of construction isn't likely to ease prices, economists there say. For reference, in a high-growth metro like [Phoenix](#), Ariz --with a metro population almost identical to San Francisco--there are currently 35,100 new housing permits, a number expected to grow to 43,400 by the end of 2008.

Flipping 101

In markets such as these, the most successful flippers buy out those desperate to sell.

"A number of firms have popped up that will purchase a [distressed] home at a 20% to 40% [market value] discount," says Sanders. "These flipping companies then relist the home for a 30-day sale. If they can buy the home at, say, 70% of market value and put it on the market at 90% of market value, they can clear a cool 20% in 30 days."

In many of the best flipping markets-- [Seattle](#), [San Francisco](#), [Los Angeles](#) and [Boston](#), say--potential flippers use software tools like Redfin, an online brokerage house and research firm that gives potential buyers access to the MLS and then charges a fee 67% less than what the brick-and-mortar brokers demand if the research turns into a transaction--a perfect resource for a flipper to have better information and lower costs.

The markets we've identified are evidence that although most regional markets will likely continue to slump through 2007, you can still turn a profit if you pick your spots correctly.

[In Pictures: Best Places To Flip A Home](#)

5. Austin, Texas



\$175,000

This two-story stone and wood house has 1,577 square feet of interior space, three bedrooms and two-and-a-half bathrooms. Set back from the street by a large front lawn, the home also has a two-car garage and is shaded by trees.

Courtesy of JB Goodwin