

Identifying Exit Strategies: Realistic Outtakes

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Today's real estate market offers a variety of choices to the potential investor. Among these, for most Americans saddled with credit card debt and other expense laden items, the most attractive of the investment options is 'flipping', or reselling a house for a substantial profit, post – renovation. This technique is popularized by shows such as 'Flip That House' or 'Property Ladder.' But, as we can see, there is a dangerous double edged sword associated with flipping a home that can prove to have disastrous consequences for a would – be investor.

The problem with 'flipping' homes is that a new investor approaches the project with the mindset of 'getting out', that is, by succeeding only when transfer of title has taken place and the investor no longer carries the liability of the debt service and the asset. Ideally, flipping exits occur when a retail buyer purchases the home for their primary residence. Yet, when this doesn't take place(which is more often than not), the inexperienced investor is put into a quandary of 'well, what do I do now?' Yet, the experienced investor doesn't have these problems. Why?

In a word, the experienced investor has what the inexperienced investor does not – alternate exit strategies.

In a nutshell, if you as an investor are unwilling to put a property into your personal portfolio, then you should not be willing to purchase it with the idea of trying to resell it to another buyer. 'But tastes are different', one might say. And that is true. Yet everyone, including people who are looking for a primary residence, want a good deal. And, they generally can tell the difference between a well – built home and one which has been given a veneer of paint and stainless steel appliances. What the key is here is that in order to 'flip' a house one must have the experience and resources to renovate a home properly, and this only comes with the experience of renovating many homes. A proverbial Catch – 22, if you will. And to this end the inexperienced investor falls short. But, since more times than not we will be unable to sell houses on the retail market fast enough to our liking, what alternatives do we have, if in fact we have any?

Maybe that retail home has not sold quickly enough, but all is certainly not lost. Consider these alternatives that you could explore while controlling a valuable piece of real estate:

- Lease purchasing the home
- Using the home as a rental property for cash flow, tax benefits, and appreciation
- Turning the home into a rooming house for substantial positive cash flow(great in college areas)
- Placing a tenant in the home and then selling it to an investor
- Living in the home while trying to sell it

It has been said that when you change the way you look at things, the things you look at change. This is true in many ways, but never more than when you are looking at the home that you bought with the best intentions of ‘flipping’, but now which simply brings more invoices each month. Is it really an albatross? Only you can decide.

When my business partner Ryan Hinricher and I look at purchasing investment homes, we always look at a variety of exit strategies, and you should too. Having a flexible series of exits allows your investment to become more malleable and able to provide you more profit in a situation where a new investor might feel that all is lost.