BackSpace

By Neil Pierson

The fix-and-flip market still has some fast track ahead

Loan originators don't have in-house fortune tellers for any aspect of business, but prudent business practices still require them to make projections about market trends, including the future of fix-and-flip investment properties.

"I wish I had a crystal ball — and no one does," says Demetry Vyzis, principal and managing director at Veristone Capital. "I think we're still fairly bullish on the safety that exists in the marketplace." Vyzis adds, however, that even though he expects values will continue to appreciate in some markets, he also suspects that there's not much more room for home values to keep going up.

Attom Data Solutions' 2016 Year-End U.S. Home Flipping Report shows that several metropolitan areas this past year saw home flips comprise at least 7 percent of total sales. That included markets like Miami; Las Vegas; and Memphis, Tenn.

Memphis, in fact, is earning a reputation as the home-flipping capital of the country. It had five of the nation's top 10 zip codes for flipping rates, all between 24 percent and 31 percent. The city also topped all U.S. metro areas in the overall rate last year, with home flips representing 11.7 percent of total sales.

Growth areas

Nationwide, more than 193,000 properties were flipped during 2016, the most in 10 years. About one-third of those required financing, meaning big business for originators like Tyler Stone, president of Capstone Financial, a private lender based in Scottsdale, Ariz.

Stone sees a healthy home-flip market in his backyard of Phoenix, which last year had an 8 percent flip rate for all sales, including multiple pockets of the city where the rate was above 14 percent. Investors still do simple flips involving new paint, carpet and appliances, he says, but they are also going into older neighborhoods to tear down and replace homes built in the 1950s, 1960s and 1970s.

"People are buying old houses with eight-foot ceilings, floor plans that aren't really functional for today's market … and they are just scraping those houses and building brand-new houses there — higher ceilings, bigger master bathrooms and larger kitchens, those kinds of things," Stone says.

Helpful resources for flippers include what Daren Blomquist terms "web portals," or online investment sites, like HomeUnion, Roofstock and Investability — which help connect people to out-of-state properties. Blomquist, the senior vice president of communications at Attom Data Solutions, says investors from California or New York, for example, are often less confident they will get good returns if they buy properties close to home. But areas like Memphis have large numbers of fixer-uppers with low price points, he says.

"The flipper is the middle man who comes in, fixes up the property, gets it in rent-ready condition and then sells it to an investor who's going to rent it out," Blomquist says. "That's part of the cycle we're seeing in those areas."

Stone warns that out-of-state flipping can be risky for individuals and small companies that have less knowledge of the local market. "For those people, I would say, stick in your closest one or two counties," he says.

Low inventory

Western U.S. markets like Boise, Idaho; Portland, Oregon.; Denver and Seattle have areas where flips are a solid, if unspectacular, part of the real estate world. Vyzis says there are two key factors driving the home-flip market — inventory and price. The number of homes in sellable or rentable condition in many markets, however, has bottomed out, he explains. "I don't think we've ever seen inventory levels as low as they are right now," he adds.

Blomquist says low inventory can be a favorable condition for flippers who remain in the market because it also helps to drive home sales and appreciation. Between the first and second quarters of 2016, home-flip sales figures jumped 14 percent. That was more than enough to offset a slow third quarter and produce the best flipping market in a decade.

"I do think the third quarter is more indicative of an anomaly," Blomquist says. "The second and fourth quarters are more indicative of the trend we're seeing."

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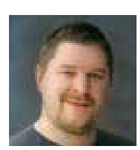

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What's next

The market may be approaching a peak, however. Stone expects 2017 to be another strong year but, based on macroeconomic studies, he thinks 2018 and 2019 could be marked by a minor recession. Rising interest rates and fewer government regulations may not have much of a short-term impact, Vyzis suggests. He says the bottom line is that supply and demand will dictate sales figures. And, right now, certain markets are short on supply, he notes.

"A lot of the REO (real estate-owned) inventories [have] burned off," Vyzis says. "There's fewer foreclosure transactions because of those same factors. There's less product that's readily available or right in front of the face of the investor. They're having to become more creative with how they find product, how they find on-market stuff and, potentially, off-market deals."

Still, Stone thinks some metro areas are flying under the radar in the home-flip market. Detroit is a prime example. Much of its central core had double-digit flip rates in 2016 and manufacturing companies seem to be returning to the city in droves.

"Houses are still super cheap," Stone says, "but then there's nice areas of Detroit, too, so we're seeing a lot of loan requests for Detroit and the leading edge of some good economic indicators there."

Shawn Miller, CEO of 5 Arch Funding, says Los Angeles is an example of a city with a high inventory of properties more than 30 years old. Flippers "will immediately garner significant attention" when they renovate those homes because of short supplies of quality affordable housing.

He has found millennials are increasingly moving to city centers as places to live, work and be close to entertainment. Flippers can help turn around the "distress" that's prevalent in those areas and narrow the gap between higher- and lower-end properties.

"Bringing those two markets together is really what we're trying to do," Miller says. ■