The Fix and Flip Guide

> Flipping lives and dies on the buy price. Here is how the 70% rule protects your margin and which costs quietly eat a flipper profit.

A house flip can look like easy money on television, but the profit is decided the day you buy, not the day you sell. Overpay at the start and no amount of granite countertops will save the deal. This guide covers the rule that keeps flippers disciplined and the costs that catch beginners out.

The 70% rule sets your ceiling

The 70 percent rule is how experienced flippers protect their margin. It says do not pay more than 70 percent of the after-repair value, minus the repair budget. The after-repair value, or ARV, is what the finished home should sell for, estimated from recent sales of similar renovated homes nearby.

Work an example. A property that should sell for 300,000 dollars once fixed, with a 40,000 dollar repair budget. Seventy percent of 300,000 is 210,000, minus the 40,000 in repairs, leaves a maximum offer of 170,000 dollars. That 30 percent the rule holds back is not all profit. It has to absorb holding costs, selling costs, and financing before anything is left for you.

The costs beginners forget

New flippers budget for the purchase and the rehab, then get surprised by everything else. Holding costs pile up while you own the property, including loan interest, property tax, insurance, and utilities. Selling costs, led by the agent commission, often run 6 to 7 percent of the sale price. Financing costs, like points on a hard-money loan, come off the top too.

Stay with the example. Buy at 165,000, a touch under the maximum, spend 40,000 on repairs, 8,000 on holding, 21,000 on selling at 7 percent of the 300,000 sale, and 10,000 on financing. That is 244,000 dollars of total cost. Sell at 300,000 and the profit is 56,000 dollars, a 22.95 percent return on the cost you sank in. The Fix and Flip calculator lays out each of these lines so nothing gets missed.

What can go wrong

Every number in a flip can move against you. Repairs run over once the walls are open. The home sits longer than planned and holding costs climb. Or the after-repair value comes in soft because the market cooled while you renovated. Any one of these can turn a healthy margin thin, and two at once can erase it.

This is why the rule builds in a cushion and why paying under the maximum offer matters. Stress test a deal by lowering the after-repair value and raising the repair budget, and watch how fast the profit shrinks. A flip that only works if everything goes right is a flip that usually loses money.

Flip or hold?

A flip is a short, active project that generates a lump sum and a tax bill at ordinary rates, since a quick sale is not a long-term capital gain. A rental held long term generates cash flow, loan paydown, appreciation, and tax advantages, but ties up your money.

The BRRRR method is a middle path. You renovate like a flipper but keep the property, refinancing to pull your cash back out and rent it. If you find yourself drawn to the renovation upside but hate paying the flip tax bill, compare a flip against a BRRRR on the same property before you commit.

Key takeaway. Your profit is set at purchase. Respect the 70% rule, budget every cost including holding and selling, and stay disciplined on the offer.

Assumptions

- The 70% rule caps the offer at 70 percent of the after-repair value minus the repair budget, leaving room for costs and profit.
- After-repair value, repair budget, holding, selling, and financing costs are estimates the flipper supplies. A sale at the after-repair value is assumed.

Sources

- Consumer Financial Protection Bureau, mortgages