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JUMBO JUNGLE

Where House Flippers Can Get Financing

Traditional mortgage lenders and crowdfunding firms are increasingly willing to put up funds

ILLUSTRATION: CHRIS GASH

By **ROBYN A. FRIEDMAN**

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Until recently, home flippers—investors who buy houses to improve and resell for a quick profit—had few options for financing. Now, traditional lenders and crowdfunding firms are increasingly willing to put up the money.

Luxury-home flips can be lucrative, but risky. “With one flip, you could make the same amount that you could with 10 deals of a lower-end property,” says Daren Blomquist, senior vice president of Attom Data Solutions, an Irvine, Calif.-based real-estate data provider. “But you’re putting many more eggs in one basket and counting on that one property to deliver.”

Jeff Pintar, founder of Pintar Investment Co. in San Juan Capistrano, Calif., is one of the most active luxury flippers in the nation, according to Attom Data. Last year, Mr. Pintar says he purchased 65 homes priced at $500,000 or more, and he’s averaging returns on equity of about 12% to 15% per flip.

Mr. Pintar, 47, says he uses multiple sources for financing. He has established business

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lines of credit at local banks with about a 5% interest rate that he can draw against to acquire homes. He also works with private-investment companies, which he says charge higher rates but are able to respond quickly. “The banks have trouble keeping up with the pace that we need,” says Mr. Pintar.

Many small-scale home flippers still rely on so-called hard-money loans—short-term, high-interest loans provided by private investors. David Dweck, a hard-money lender from Boca Raton, Fla., will finance up to 60% of the estimated after-repair value of homes purchased for over $500,000. That means if a house costs $600,000 but will be worth $750,000 after repairs, Mr. Dweck will lend up to $450,000, with the flipper putting down $150,000 in cash.

“Most people can’t walk into a bank and get a loan for one of these deals,” says Mr. Dweck, who also flips homes. His terms: an interest rate of between 11% and 14%, with two to four points—a point is equal to 1% of the mortgage amount—and up to one year to repay the loan.

Another source of capital for luxury flippers: crowdfunding, where the funds to finance a deal are raised through the contributions of a large number of people, usually via the internet. “The biggest benefit we offer is flexibility and a national focus,” says Nav Athwal, chief executive officer of RealtyShares, a San Francisco-based company that finances investment properties in 35 states. Funds come from more than 38,000 high-net-worth individuals who invest in a specific transaction for as little as $5,000.

RealtyShares funds up to 70% of the estimated after-repair value of a property in as little as 10 days. Interest rates vary from 8% to 11%, with the average loan term on luxury flips

Here are some things luxury flippers should consider.

• **The numbers are critical**. Make sure your budget is realistic and your contractor has a record of finishing on time. Luxury flips take more time than lower-cost ones—an average of 208 days, compared with 181 days for all flips, according to Attom Data. A delay of just days can bring additional costs that will eat into profits, so make sure your budget includes reserves for contingencies, such as delays in getting construction permits.

• **Details count.** Luxury buyers are demanding when it comes to high-end finishes. Hire a good designer and pay attention to the details when renovating a property. Factor in the cost of luxury upgrades a buyer will expect.

• **Beware of defaulting.** Like banks, hard-money lenders and crowdfunders secure their loans with a mortgage on the property you're flipping. If you default, they can foreclose on that mortgage. They may also report your failure to pay to the credit bureaus, which can affect your credit score.

12 months. RealtyShares also does preferred-equity deals, where they take a partnership interest in the property and benefit from both the interest paid and the potential upside of the transaction.