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A Tale of Two House Flips

By Cathy Tyson



Exterior of Ruth Court home in Lafayette before remodel. Photos Cathy Tyson

There used to be shows on cable television highlighting the process of flipping a house: buy a fixer-upper at a low price, do some improvements and sell quickly - making a profit on the deal. That was back in the day when it seemed like real estate prices in California, and elsewhere could never go down and there were actual buyers with, cough, bank-approved financing. The \$64,000 question these days is, has California's roller coaster real estate market hit bottom and can a contractor looking to quickly turn over a house make money on it?

According to Fannie Mae, the largest U.S. mortgage buyer, home prices will probably start to gain in the third quarter of 2011. Dean Okamura, a realtor with Pacific Union in Orinda, agrees, "2010 was better than 2009 for the most part, values are not falling as rapidly as they were, but there is still a ton of Short Sales and a few REO's out there - both drag values south." He feels that good locations and values sell quickly and the market is picking up volume. Local home sale data demonstrate just that, for example in 2010 - 271 homes sold in Lafayette, compared to just 206 in 2009. Moraga saw a similar gain from 124 in 2009 to 167 in 2010, Orinda went from 166 sales in 2009 to 182 in 2010.

Is it possible to buy low and sell high? Two Lamorinda contractors are attempting to do that very thing - and are willing to take the risk to, hopefully, get the reward.

Contractor Robert Vallentyne purchased a very distressed property on La Espiral in Orinda. Carolyn Lacy and Stan Wahl got in at the ground level on a home that had been declared a nuisance on Ruth Court in Lafayette. They had hoped to turn it around quickly, but a number of liens on the property stalled the project for months.

Vallentyne worked his way through the construction management program at Cal State Sacramento while a young single parent. He enjoys transforming "the worst home in the neighborhood to the best." He describes the house on La Espiral as rotting away and the subject of numerous complaints. He purchased the property just before foreclosure with the help of some family members. By taking advantage of the lower area they more than doubled the square footage from 1800 square feet to 4000. The new "flipped" incarnation is completely different than the prior home. It now has five bedrooms, 3 plus baths, a wine cellar and a very spacious laundry room.

With three bedrooms and two bathrooms the house on Ruth Court that contractor Stan Wahl and partner Carolyn Lacy bought has approximately 1750 square feet. Wahl estimates the remodeling process will be complete in March. There were quite a few complicated liens on the property that had to be addressed before construction started. Wahl describes that process as, "herding cats." Wahl has completed six flips over the last two years and managed to make a profit every time, "it pays the bills" he said. Once the homes are all fixed up, "they sell quickly," he added.

"Our specialty is locating distressed homes in the Lamorinda area that can be thoroughly rehabilitated and put back on the market for a quick sale, slightly below market (price) so a family can enjoy the home, the neighborhood and the city," said Lacy. She hopes the scheduled replacement of the street this year happens sooner rather than later because, "it definitely needs it."

Contractor Jerry Isaacs of Moraga Remodel and Construction advises caution in house flipping: "While houses can be bought at very low prices, the possible profit factors still remain the same -and in fact are, in my opinion, even riskier than before. The carrying costs plus the remodeling costs and commissions are pretty much the same, and when the house is done and ready, there are just not very many buyers out there."

He continues to look at "fixer-uppers" but says nearly every single one pencils out as barely break even, "We can buy cheap, but we have to sell cheap." Jerry's advice: "If folks have the money to remodel, I believe now is a great time. We are all bidding jobs for less money than we have in years - the competition has become brutal. It's a perfect time for a first time buyer, or, families that want to stay put for a while."

Rob Olson, an experienced realtor also with Pacific Union, believes that flipping is more dangerous these days; the market is completely different than what it was from 2000 - 2005. Profitability depends on the amount of work needed, "Cosmetic fixer is the best way to go today. A partial tear down and major improvements can get expensive fast," said Olson.

He recommends buying the worst house in a great neighborhood at a low price for a successful flip. "It can be worthwhile; you can definitely increase the value of a property by sprucing it up - with paint, updating the kitchen and bathrooms, replacing windows - you should get your money out and then some."



Current view of Ruth Court house, construction should be completed in March.



Original La Espiral home in Orinda before flip. Photo provided



Reach the reporter at: cathy@lamorindaweekly.com

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