

Flipping Transactions Increase, Profits Do Not

By: Jann Swanson | Fri, Sep 17 2021, 1:19 PM

The number of homes flipped by investors grew by 3.5 percent in the second quarter of the year. **It was the first increase in more than a year.**

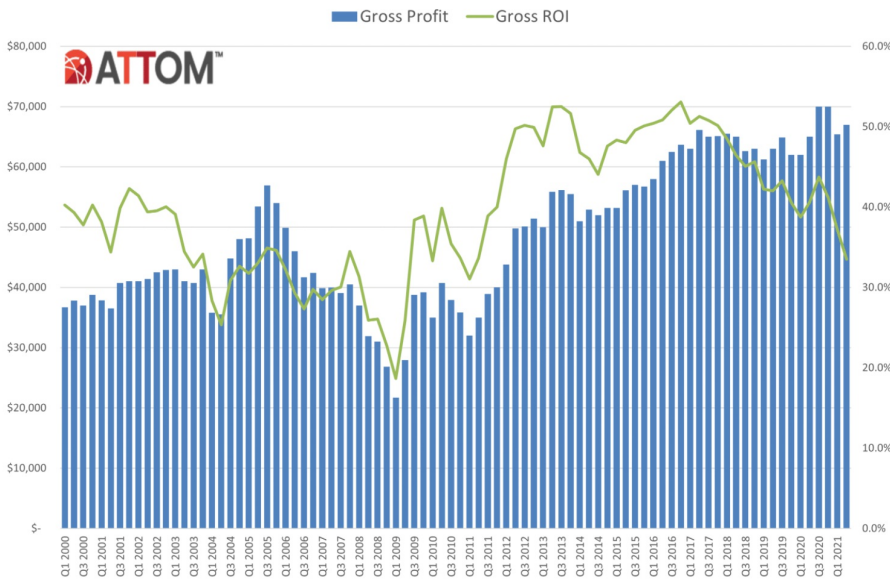
ATTOM says its second quarter *U.S. Home Flipping Report* shows that 79,733 single-family homes and condominiums in the United States were flipped during that period. Those transactions represented 4.9 percent of all home sales, or one in 20 transactions compared to one in every 29 sales in the first quarter. Flips were down 6.8 percent from one in 15 transactions in the second quarter of 2020. The recent number was lower than the flipping rate through most of the last decade.

ATTOM defines a flip as an arms-length transaction involving a single-family home or condo that occurred within 12 months of a previous arms-length transaction on the same property.

The gross profit, selling price less acquisition price, nationwide rose from a median of \$65,400 in the first quarter to \$67,000, a 2.4 percent gain and was 3.1 percent higher than a year earlier. However, the flipping profit gross margin or return on investment (ROI) dipped to a 10-year low. That measure includes the rehab and other costs which typically run between 20 percent and one-third of the after repair value.

ATTOM said the \$67,000 profit translated into a 33.5 percent ROI compared to the original acquisition price. The figure was 37.2 percent in Q1 and 40.6 percent in the second quarter of 2020. It was the lowest ROI since the first quarter of 2011, when the housing market had yet to start recovering from the Great Recession's price slump. The 7.1 percentage point drop year-over-year was also the **largest since mid-2014**. ATTOM said margins declined in the most recent period as prices on flipped homes rose more slowly than they had when investors originally bought the properties.

Home Flipping Profit Trends



Specifically, the median **price of homes flipped in the second quarter of 2021 soared to an all-time high of \$267,000**, 10.6 percent appreciation from \$241,400 in the first quarter and 18.7 percent from \$225,000 a year earlier. The annual gain was the biggest price spike for flipped properties since 2005, and the quarterly gain topped all improvements since at least 2000, but those run-ups did not surpass the increases investors were absorbing when they bought those homes. Those gaps were 13.6 percent for the quarter and 25 percent on an annual basis, as prices rose more on purchase than resale and led to the decline in profit margins.

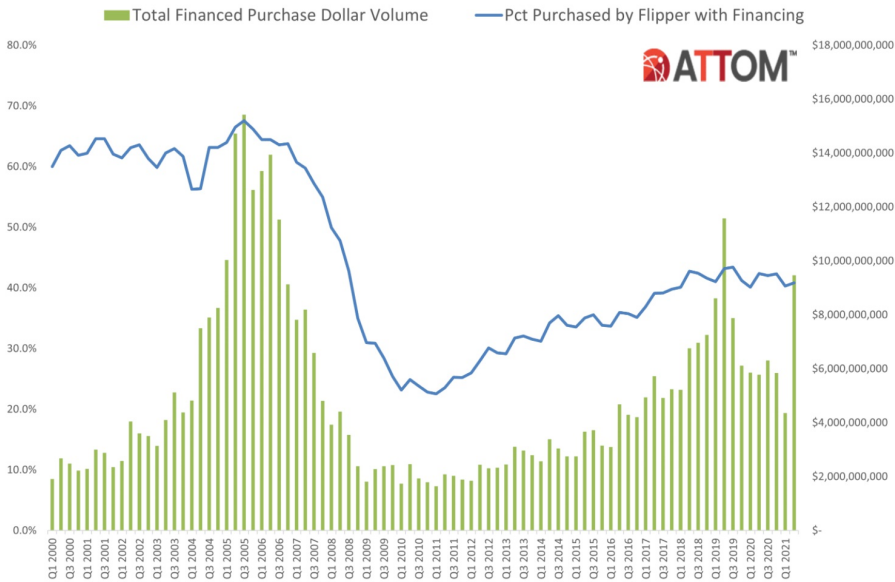
"Home flipping rebounded during the second quarter. But profits sure didn't, as the typical home flip around the country netted the smallest return on investment in a decade," said Todd Teta, chief product officer at ATTOM. "However, it's not like home flipping has become a losing proposition. A 33 percent profit on a short-term investment remained pretty decent, even after renovation and holding expenses. But with a

few more periods like the second quarter of this year, **investors may need to reframe how they look at these deals.**"

The rate of flipping rose in 144 of the 182 local markets tracked (79 percent). The highest rates were in Savannah, Georgia where they accounted for 9.5 percent of all home sales; Fort Wayne, Indiana (9.3 percent); and Canton, Ohio (9 percent.)

Cash purchases by investors dipped to 59.2 percent in the second quarter from 59.7 percent in Q1 but was up from 57.6 percent a year earlier. Investors financed 40.8 percent of sales.

Fix-and-Flip Financing Trends



Home flippers who sold properties in the second quarter of 2021 took an average of 147 days to complete the transactions, the lowest level since the third quarter of 2010. The latest number was down from an average of 156 in the first quarter of 2021 and 183 in the second quarter of 2020.

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