Fix and Flips Are No Longer The Flavor of the Month - Just Too Risk

Why Ground-Up Construction Could Be the Safer and More Profitable Choice for Investor/Developers

For investor/developers navigating today's real estate landscape, fix and flips may no longer be the best strategy. While they offer quick returns, the risks have increased dramatically, and the margins are thin. Ground-up construction, on the other hand—particularly in the luxury market—provides not only a more secure investment but also a significantly higher return on investment (ROI).

Here's why ground-up construction is the better path for investor/developers:

1. **Fix and Flips Have Small Margins**: Fix and flips often involve tight margins, where just a $100,000 shift in the market price of a renovated single-family home can turn a profitable project into a loss. Given how market conditions can shift unexpectedly— changes in buyer demand send the risk profile through the roof.
2. **Larger Projects Carry Less Risk—The Inverse Relationship**: Ground-up construction projects, which typically range from $500,000 to $25,000,000, are less sensitive to these market fluctuations. For example, a $100,000 shift in

market price has a far smaller impact on a project valued at $1 million to $5 million. In fact, larger deals tend to be less risky than smaller ones, making them a more stable option for investor/developers.

3. **Luxury Buyers Often Pay in Cash**: Gee, have you noticed how high the Dow is? Many luxury home buyers do not require mortgages, which removes a major source of risk for both developers and lenders. Affluent buyers are ready to purchase their dream homes for cash, drastically shortening marketing periods and reducing overall project risk.
4. **Higher ROI on Ground-Up Construction**: Your cash equity goes much further whereby the return on investment (ROI) is significantly higher for home development compared to fix and flips. New construction homes, especially in the luxury sector, offer modern designs and premium features that attract higher sale prices, leading to greater profitability for investor/developers.
5. **Lenders Prefer These Deals**: The combination of strong demand, quicker sales, and less reliance on financing makes ground-up construction projects less risky for lenders. This is why larger deals in the financing range of $500,000 to $25,000,000 are more attractive to lenders, who are eager to fund projects with greater upside and less volatility.
6. **What You Need to Succeed**: To make a ground-up construction project successful and attract lending offers, certain key factors need to be in place:

- **Entitled Land**: Your land should be entitled, meaning it's ready for development.
- **Permits**: You'll need permits either already secured or close to being approved.
- **Plans and Architect's Stamp**: A full set of plans stamped by a licensed architect.
- **Detailed Budget**: A comprehensive budget that accounts for every detail of the project.
- **Experience**: Most importantly, direct experience in real estate development is essential for navigating these complex projects and ensuring success.

Financing That Fits

At Revitalize Funding, we understand the complexities of ground-up construction and offer custom financing solutions that help investor/developers secure the capital they need. Finding the right lender for construction financing is much more difficult than fix and flip financings with a lender on every cornet. Whether you're developing homes in the $500,000 range or working on a $25,000,000 luxury project, our tailored approach can help you reduce risk and maximize profitability.

In Conclusion: The risk of fix and flips continues to grow, but investor/developers can find a safer and more profitable path through ground-up construction. By focusing on larger projects and ensuring the right elements—entitled land, permits, plans, and experience—are in place, you can increase your returns while reducing risk.

If you’re ready to explore the benefits of ground-up construction, I invite you to contact me directly to discuss your financing options.

Contact Information:

Steve Lebetkin, Revitalize Funding, LLC

Mobile: 917 709 6578

steve@revitalizefunding.com