**House flipping: 5 tips for big returns**

Diana Olick | @DianaOlick

Home prices are rising at a fast clip, and for-sale listings are still very low. That makes flipping a house more competitive than ever today, but it also mean potentially record returns for investors.

If you're ready to put in the work, there is certainly good money to be made. Just be smart, as emotion-free as possible and get ready for a real estate ride like no other. And no, it's not as easy as it looks on TV.

1. Do the math

Figure out what you can spend on both the house and the renovation, down to the last dollar, and include how much risk you are prepared to take.

 Price out the cost of carrying a short-term loan (if you need one), taxes, utilities and maintenance on the home for up to a year. Price out your material costs and labor.

 Look at comparable sales in the market to see what the likely sale price will be and don't expect a penny over. Once you have a financial plan in front of you, with a reasonable margin for risk, begin shopping for homes that meet that budget.

 Don't let a huge fixer-upper with potentially larger returns muddle your math.

2. Know your market

Is this an already established area with rising prices? Is it a transitional neighborhood with good potential that may not be quite "there" yet?

Is this an area with good schools that will attract families? Is this a community popular with retirees?

Knowing your market will help you to choose the most desirable home and it should help you know what your profit margin will be.

Every neighborhood has a not-to-exceed price. Know what that is. Doing your homework on recent sales and average days on market can give you an idea of how long to hold the property before flipping.

 Perhaps you want to rent it for a year or two until the neighborhood really takes off, or do a quick renovation because the neighborhood is very competitive.

3. Know your buyer and renovate with that buyer in mind

If this is a neighborhood with good schools, then your buyer is a young family.

Older homes may not have the open kitchen/family room that these buyers demand. Spend your money making the family space open and inviting.

Make sure there are enough bathrooms for kids and invest in a Jack and Jill vanity in the hallway bath. Finish the basement if possible. Don't focus too much on the master suite, but make sure mom and dad do have their own bathroom.

 If this is a retirement area, look for a home with just one main level or a ranch style. If there are stairways, open them up and widen tight spaces.

 Make sure the home is easily accessible from the street—no big stairways up to the front door. And turn the yard into a patio for a maintenance-free outdoors.

4. Educate your buyer

You put in the work—make a list. Disclose every system that was replaced, from HVAC to electrical and any structural problems that were repaired.

Take a snapshot of a new roof. Note which windows are new. List new appliances and fixtures and present a binder with all instruction booklets and warranties.

Display instructions next to any new "smart home" features, like security, sound system and lighting controls. Let buyers know every detail of how this charming historic home is updated to today's standards.

5. Don't overprice

It's tempting to look at your renovation, love what you've done, factor in all the sweat equity and overvalue the home.

Remember, your buyer likely didn't see it when you started. They didn't know the kitchen was disgusting and the basement stunk.

They have no idea how much stress you went through. They see the finished product only, and they have been shopping the market, touring the comparable homes.

Every neighborhood has a general price point, and you need to stay within it. Underpricing slightly could result in multiple offers and a final sale price above asking.

Better than having all your hard work sit on the market for months.