The Simple 6-Step Process for Estimating Rehab Costs

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One of the hardest parts of leveling up your real estate investment skills is learning how to properly estimate rehab costs. Watching a seasoned investor look at a run-down properly and quickly cite a $75,000 renovation budget feels almost like a magic trick. They arrived at that number *how*? Do they have a secret computer in their brain? But it turns out that estimating rehab costs is actually simple—as long as you take time to learn the basics.

There are a few reasons why learning to quickly estimate rehab costs is so important for newbie investors. By understanding potential expenses, you can arrive at an accurate maximum allowable offer. No smart investment starts by paying too much! Begin each fix and flip or [buy and hold](https://www.biggerpockets.com/guides/buy-and-hold-rental-property?itm_source=ibl&itm_medium=auto&itm_campaign=guide) purchase with rehab projections—before you buy. This ensures you won't be underwater immediately after signing the closing papers.

Additionally, wholesalers with a strong understanding of the expected rehab costs can more accurately present the information to their cash buyer.

The Simple 6-Step Process to Estimating Rehab Costs

Here it is: the “magic” process that any experienced home flipper should follow. Estimating renovation projects accurately and quickly requires following these six steps. Our methodology is simple, and won’t take too much time. Before you know it, you’ll be all budgeted and ready for your own successful rehab projects.

1. Understand your buyer and the neighborhood

Before you start calculating rehab costs, understand what the final product will look like. Some high-end remodels take months—cosmetic renovations take just days. What level of finish are you (or your wholesale buyer) aiming for? A luxury kitchen, a simple IKEA set-up, or just a cabinet paint job? Do you need to add a master bathroom, or will your potential buyer or renter be satisfied with a new half-bath?

If you’re not sure, take a look around the neighborhood. Attend open houses, if any nearby properties are for sale. What’s the standard? Renovating either above *or* below the area’s standard can cost you big time.

In an inexpensive neighborhood, money spent on top-of-the-line finishes is wasted. Buyers won't pay extra just because you put in luxe kitchen upgrades, like a six-burner stove. But in expensive neighborhoods, homes with below-market finishes will linger longer on the [MLS](https://www.biggerpockets.com/rei/glossary/multiple-listing-service-mls?itm_source=ibl&itm_medium=auto&itm_campaign=glossary).

Therefore, if the home is in a working-class neighborhood with mostly working-class [rentals](https://www.biggerpockets.com/blog/how-to-rent-your-house?itm_source=ibl&itm_medium=auto&itm_campaign=opt), you don't need to spend hundreds of thousands on a rehab.

2. Tour the property thoroughly

Next, with a good understanding of how you want the finished product to look, walk through the property very slowly. Take a lot of photos or record a video on your phone so you can easily recall the condition later. Trust me, you won’t remember it all!

Look out for any big problems, like a roof in need of repair, cracked foundation, mold, HVAC issues, and termites. These rehab tasks can quickly destroy even the most detailed budget if not initially factored in. Plus, you can’t truly understand the renovation scope if you don’t know *all* the issues. So be detailed here—you won’t regret it.

If you're buying directly from the seller or in a [wholesaling](https://www.biggerpockets.com/blog/ultimate-beginners-guide-real-estate-wholesaling?itm_source=ibl&itm_medium=auto&itm_campaign=opt) situation, the seller might be home. Let them know you will be taking pictures, but they're only for analysis. You won't be making the photos public. Don't make them feel like you are invading their privacy.

3. Write down the problems

While you are still on-site at the property, go room by room and write down its condition, as well as any needed repairs. For example, if you walk into the living room and see carpet that looks and smells like dog urine, write down “replace carpet in living room.” Also, jot down a quick estimate regarding the size of the room. (It doesn’t need to be exact; just make your best guess.)

Take a look at the exterior of the home, as well, and pay attention to any big issues, such as the condition of the roof, siding, and any outbuildings.

This list creates an initial scope of work—a handy frame of reference for visualizing your renovation costs.

4. Condense your list into one of 25 categories

Next, take your comprehensive list of repairs and classify each one into one of the following 25 categories, which encompass all of investment property renovation. For example, if the living room and bedrooms need carpet and the kitchen needs vinyl, group all of them together and include them under “flooring.”

Exterior components

* Roof
* Gutters, soffit, and fascia
* Siding
* Exterior painting
* Decks and porches
* Concrete
* Garage
* Landscaping
* Septic
* Foundation

Interior components

* Demolition
* Plumbing
* Electrical
* HVAC
* Framing
* Insulation
* Sheetrock
* Carpentry
* Interior painting
* Cabinets and countertops
* Flooring

General components

* Permits
* Mold
* Termites
* Miscellaneous

5. Determine a rehab price for each category

Once you have your 25 categories spelled out, it’s time for the most difficult part: estimating the rehab amount for each category. However, breaking everything down into the basic components of a renovation makes estimating rehab costs much easier. Remember how overwhelming the project as a whole felt at the beginning? Looking only at flooring, or decking, or septic feels much more manageable.

Let’s return to the flooring estimate. We may determine we’ll need approximately 1,000 square feet of carpet and another 500 square feet of vinyl. With that information, we can call up a local flooring or big-box store and ask what they charge for the flooring we need. Multiply the quantity by the unit prices to fully understand how much this aspect of a property will cost.

Speaking of big-box stores—I recommend spending a lot of time in them in the beginning of your investment career. How much do materials cost for the most common repairs? Learn categories like flooring, paint, cabinets, counters, and appliances intimately. The more rehabs you manage, the quicker you’ll know how to get the biggest bang for your buck. You’ll also be able to quickly price out upgrade options, if relevant in the surrounding neighborhood.

For a rough estimate on labor cost in labor, double the price of the materials. Again, this provides just a rough estimate, but I find it to be fairly accurate. If you work with a [contractor](https://www.biggerpockets.com/contractors), they can provide you with updated costs for each rehab task. And after doing multiple renovations, you should be able to quickly budget for common renovations. Once you've priced one leaky toilet, you've priced them all! (Barring, of course, major systemic problems.)

Consider creating a database of each repair cost, including final receipts, quotes, and any other details that can help you pull accurate prices later.

6. When in doubt, ask for help

Don’t be afraid to ask for help. You can do this in a few different ways:

* [Visit the BiggerPockets Forums](https://www.biggerpockets.com/forums) and ask people what *they* are paying. This is an incredibly useful tool, giving you an inside look at what other investors are spending. Have any rehab questions? Our members can answer.
* Ask a local contractor for help.Although you may need to pay them for their time, the cost of an hour or two of in-house consulting would be a valuable investment. Many wholesalers actually include a detailed, line-by-line bid from a licensed contractor when they present to a cash buyer. I highly recommend doing that, even if you’re rehabbing for a flip or rental. The contractor will likely offer the bid for free, because you (or the cash buyer) are likely to use them for the job.
* Ask a local real estate investor to come with you*.* Estimating rehab costs quickly is an important skill to have, so consider working on your first deal or two with someone who has been around the block and can share their knowledge.

Whether this is your first rehab project or your one hundredth, following this six-step strategy ensures you understand the scope of work and necessary budget—before swinging a single sledgehammer. Are you ready for your next renovation or investment deal? Get out there and start searching.