



DEMO

First chapter only

The Ultimate House Flipping ROI Calculator

Reduce Your Risk

The Ultimate House Flipping ROI Calculator

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1

The 70% Rule Explained

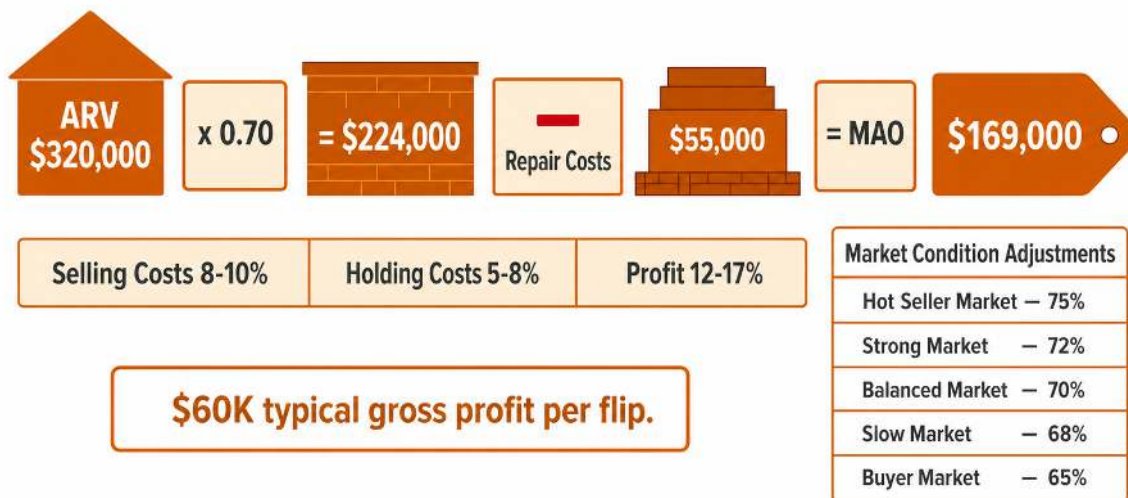


Figure 1. A \$320,000 ARV runs through the 70% rule to a \$169,000 MAO after \$55,000 repairs, with the 30% margin divided into selling costs 8-10%, holding costs 5-8%, and profit 12-17%

1.1 The Foundation of Every Flip

Every successful house flip starts with one number: the Maximum Allowable Offer (MAO). This is the highest price you can pay for a property and still make a profit after repairs, carrying costs, and selling expenses. Get this number right and the flip is profitable before you buy the first gallon of paint. Get it wrong and no amount of renovation skill will save you.

The 70% Rule is the industry standard formula for calculating MAO:

$$\text{MAO} = (\text{ARV} \times 0.70) - \text{Repair Costs}$$

ARV (After Repair Value) is what the property will sell for after renovations. **Repair Costs** are the total renovation budget. The 0.70 multiplier leaves a 30% margin to cover holding costs, selling costs, and your profit.

\$60,000

typical gross profit per house flip in the US¹—but only for flippers who buy at or below the 70% Rule threshold

1.2 Breaking Down the 30% Margin

That 30% margin is not all profit. It covers three categories:

¹ATTOM Data Solutions, "U.S. Home Flipping Report," Q3 2025.

Category	Typical %	What It Covers
Selling costs	8–10%	Agent commissions (5–6%), closing costs (2–3%), staging
Holding costs	5–8%	Mortgage payments, insurance, taxes, utilities during rehab
Profit	12–17%	Your return on investment
Total	30%	

Key Insight

The 70% Rule is a screening tool, not a precision instrument. It tells you whether a deal is worth investigating further—not whether it will be profitable to the penny. A property that fails the 70% Rule should be rejected immediately. A property that passes deserves detailed analysis (Chapters 3–5 of this book). The Rule exists to save you time by eliminating bad deals fast.

1.3 Applying the 70% Rule: A Worked Example

Property: 3-bedroom ranch in a suburban neighborhood.

1. **Estimate ARV:** Comparable sales in the neighborhood show similar renovated homes selling for \$320,000.
2. **Estimate Repair Costs:** Kitchen remodel (\$25,000), bathroom updates (\$12,000), flooring (\$8,000), paint/cosmetic (\$5,000), contingency 10% (\$5,000). Total: \$55,000.
3. **Calculate MAO:** $(\$320,000 \times 0.70) - \$55,000 = \$224,000 - \$55,000 = \$169,000$.
4. **Decision:** If the property is listed at \$175,000, it fails the 70% Rule (\$6,000 over MAO). Walk away or negotiate to \$169,000 or below.

1.4 When to Adjust the 70% Rule

The 70% Rule assumes average conditions. Adjust the multiplier based on your market:

Market Condition	Multiplier	Rationale
Hot seller's market	73–75%	Properties sell faster, lower holding costs
Average market	70%	Standard rule applies
Slow buyer's market	65–68%	Longer holding period, higher carrying costs
High-cost market (\$500K+ ARV)	65–70%	Larger absolute dollars at risk
Low-cost market (\$100K ARV)	70–75%	Smaller margins need proportionally less buffer

Pro Tip

Never adjust the 70% Rule upward because you “really like” a property or because you are tired of losing bids. Emotional attachment to a specific deal is the single most common reason new flippers overpay. The market does not care about your feelings. Run the numbers. If the numbers do not work at 70%, the deal does not work. Period.

1.5 Common 70% Rule Mistakes

1. **Using the asking price as ARV:** ARV is based on comparable *sold* prices, not listing prices.
2. **Underestimating repairs:** Add 10–20% contingency to every repair estimate. Always.

3. **Ignoring holding costs:** A flip that takes 6 months instead of 3 doubles your carrying costs.
4. **Forgetting selling costs:** Agent commissions, closing costs, and transfer taxes eat 8–10% of the sale price.
5. **Applying the rule to rentals:** The 70% Rule is for flips only. Rental properties use different metrics (cap rate, cash-on-cash return).

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