

A FLIPPING GOOD IDEA

PROPERTY FLIPPING – BUYING A HOUSE AND RESELLING IT FOR PROFIT – HAS BECOME POPULAR IN SOUTH AFRICA AND ELSEWHERE. IS IT VIABLE, AND WHAT ARE THE SECRETS TO FLIPPING SUCCESS?

BY SYLVIA WALKER

You've probably driven past that neglected house at the end of your street a thousand times and thought how much fun it would be to fix it up – and make a bit of extra money on the side. But daydreaming is easy – doing is a different ball game. And with so much money at stake, flipping a house isn't for the faint-hearted. Buying too high, spending too much on renovating or taking too long to sell are all potential rookie mistakes, and if you don't get it right the first time, it'll be a very short-lived career!

'Invest time before you invest money,' says Hennie Meyer from Big Pond Property in Pretoria. 'It's not as easy as it seems. People think because they've done some home renovations and love watching HGTV, they know how to flip.'

With more than 30 flips under its belt, this family-owned business is built on a solid combination of real-estate and construction knowledge. 'Many people just see the fun side – the design and construction aspects – but the real-estate element is crucial,' Hennie says.

So, what do the pros advise?

RULE #1 **BUY RIGHT**

In property, you make money when you buy, not when you sell – so buying at the right price is crucial. Here, there is no substitute for real-estate knowledge. You need to know the area, the market and the final expected selling price. Then deduct the renovation costs, holding costs and selling costs, and if you can make a decent profit, you have a deal!

'There are no fixed rules when determining how much to pay for

a property,' says Hennie, who hunts for properties that are dilapidated but located in the same street where houses are sold for double the price. 'It's all about knowing your area well and knowing what you can afford to pay to make a decent profit.' As a rough rule of thumb, he tries to buy at 50% of the final market value and then spends another 25% on costs, leaving a final profit of 25%.

Time is money, so the longer you own the property, the higher the holding costs, which include bond repayments, rates and utilities. Focus on properties with a high turnover rate – usually middle- and lower-priced properties – so you can be sure of a fast sale.

RULE #2 **RENO FOR RESALE**

Home style trends change all the time, creating new opportunities. 'Successful flipping is all about reimagining and updating spaces from old and outdated to fresh and new,' says Jason Lee, author of the best-seller *Making Money out of Property in South Africa*. 'For example, in my grandparents' era, kitchens were closed off and tucked



away at the back of the house. Now, kitchens are open-plan and the hub of the house.'

You also need to have a passion for design, and YouTube, TikTok and websites like Houzz are jam-packed with ideas. But don't get carried away and overspend. Design and construction need to work together: there's no point designing elaborate spaces that will cost a fortune to construct. Reliable contractors are also crucial – inferior contractors can cause you endless stress and cost you money.

Your design needs to be both appealing and marketable. 'Know your market, and the finishes that they will be happy to pay for,' Jason says.

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RULE #3 **FIND THE RIGHT PROPERTIES**

Start in your own neighbourhood. You know the area well, so it will be

easier to spot those money-making gems. Build a network with local estate agents – let them know what you're looking for so they can bring you new listings for a quick sale.

It's all about timing. As awful as it may sound, one person's tragedy is another's blessing. 'Death, divorce and insolvency are all terrible things for people to go through,

After a makeover, the property made the investor a handsome profit.



After



Before

but they are great opportunities for savvy property investors,' says Jason. When others are fearful, you must be bold. 'When inflation and interest rates are rising, it's a great time to buy low, so you can sell high when they start falling.'

'You can also be proactive and knock on doors if you see a property you think could be flipped,' says Steve Baron from Flipping Johannesburg. He is an accountant turned full-time property flipper. He admits to being obsessive about finding ideal properties, mapping out areas and setting up property alerts so he can jump quickly when a good deal comes along.

Ideally, you want to be aware of a property before it's even advertised. 'With bargain property deals, there are often a few offers on the table, so you need to be able to move quickly,' Steve advises. 'Make your offer terms as favourable as possible. Sometimes an owner may decide to look at cash offers only,

This property was ripe for flipping, and a savvy property investor saw its potential.

so having your financing in place means you can move fast.'

It also helps to build long-term relationships with estate agents. After you have renovated, ask the same estate agent who brought you the deal to sell the property. 'The more deals you do, the more they will bring you,' Jason says.

RULE #4 SHOW ME THE MONEY

You'll need cash to get going – either your own or by roping in

some investors. This could be a barrier to entry, Steve says, as getting bank funding isn't easy unless you have a full-time salary. If you start out part-time, do a few flips and build up some capital and a track record. Banks may then be more willing to lend you money if you decide to become a full-time flipper.

Use cash for renovations and other expenses such as transfer and holding costs. 'You also need to build in a contingency, as it's easy to go over budget,' he warns. 'To be safe, you have to stick to the budget. It's incredibly stressful if you don't have enough cash to finish the job.'



After

Design inspiration and a judicious use of funding transformed this dull property into an investment winner.



Before

Top tips

- When you start, work within a 5 km radius of your home.
- Don't get too excited and overspend.
- You must have a keen interest in design and property.
- Freestanding houses are the most profitable, as you can alter the exterior to add value.
- Avoid townhouses and flats, as the profit margin after renovation is generally slim.
- Buy materials that are on special offer to keep costs down.
- An expected profit margin of R50 000 or less is too risky.

If you buy the property with bank finance, you'll have to make bond repayments, which will add to your holding costs.

Try to obtain the biggest amount possible – the less of your own money you use, the greater the return on your cash, Hennie says. 'Apply to all the major banks. Just because a property is derelict, it doesn't mean you can't get financing. A bank may finance it because they know that the value will increase.'

RULE #5 TRACK THE TAX

You'll pay tax on your profit, so it's crucial to keep accurate records of all your expenses, as these are tax-deductible. Hennie suggests opening a separate bank account for each property that you're flipping. Ask a tax consultant or an accountant for guidance before you start.

READY TO FLIP?

With a little passion, a lot of research and some cash or funding, it's possible to tackle that property in your street – even if it's a side hustle and you make R100 000 for a few months' work. And although 'success' is measured in terms of profit, you're also creating a beautiful space for someone to live in – 'the best feeling ever', Steve says. ❖

COSTS TO TAKE INTO ACCOUNT

When you buy

- Property purchase price
- Transfer costs
- Auctioneer's commission

Holding costs (while you are renovating)

- Rates
- Utilities
- Bond repayments, if financed

Renovation costs

Selling costs

- Estate agent fees
- Compliance certificates
- Bond cancellation costs
- Bond penalty costs

PHOTOGRAPHS: GALLO IMAGES/GETTY IMAGES; COURTESY OF BIG POND PROPERTY