BUYING TO FLIP PROPERTY BASICS

With the property boom of recent years and the popularity of TV renovation shows like The Block, increasing numbers of Victorians have bought properties to flip with varying results. Buying to flip means purchasing a property, renovating it and selling it for a profit.

Buying to flip can be lucrative when property prices are rising rapidly, but is it still a viable option in today's softer market? The answer is it can be. You will, however, need to:

- do your own research and due diligence
- be in a strong financial position
- consult a finance broker for the best finance arrangements and possible safety nets.

What should potential 'flipper' be aware of?

Buying 'the right' property
What's the right property for you to flip? The answer to that may come from research into the local area to work out exactly where good value may lie.

Ask yourself questions like:

- What are the historical values for this property and others on this street?
- How much can you spend before overcapitalising?
- Is the property attractive to the demographic of the area?
- Is the property structurally sound?
- How long are properties sitting on the market for?
- What is the area the property is in zoned for – one-level residential only or multi-level dwellings?

You'll also want to find out whether there is anything planned that could stimulate future demand. Are there any new developments – such as investments in infrastructure, or schools or shopping centres under construction – that could attract new people to the area and drive up property prices?

The costs involved in buying and selling
Property is typically not a short-term investment – it's time-consuming and expensive to buy and sell. When buying a property to flip, the following costs need to be covered:

When buying
- Loan establishment fees
- Building and pest inspection reports
- Legal fees
- Stamp duty & taxes

While renovating
• Labour and materials – if you are the builder and doing the reno yourself, you need to consider the opportunity cost of not working on projects from paying clients.
• Mortgage repayments
• Rates for holding period
• Accommodation costs (if you have to move out for a period)
• Storage costs (for any furniture)

When selling
• Marketing costs
• Real estate agent fees
• Legal fees
• Mortgage repayments and rates

Therefore, it makes sense to be in a strong financial position and be confident you can add value quickly and easily.

What are the potential risks in buying to flip?

Timing the market
Property is typically a long-term investment. So, if you're looking to make money on it in the short term, you'll usually need to add value to the asset and benefit from a rapidly rising property market. In reality, the market can cool quickly if changes to lending policies or higher interest rates come into play. These factors can be hard to predict. If you need to make a sale and your property sits on the market longer than expected, its perceived value can erode with each passing day.

Costs blowing out
Clearly you want your renovation completed as quickly and efficiently as possible but sometimes there can be costly and time-consuming surprises to address. One way to limit this is by getting a comprehensive pest and building inspection. Unfortunately, you usually won't add value through remedial work; buyers will pay a premium for lifestyle and aspiration – less so for a new roof or repairs which cannot be seen!

Some things to consider

The work that needs to be done
Flippers need to consider whether simple cosmetic improvements and good styling will be enough to entice buyers. Will a paint job, new flooring, stylish lighting, a kitchen and bathroom refresh, and some garden work be enough to showcase the property and its lifestyle potential?

Financial and tax implications
As with any project, funding is what will keep it afloat. How will you cover all the costs you incur? Will you be financially stretched to achieve your goals for the property? Can you afford to hold onto it if you can't sell it for what you'd like?

Another consideration is Capital Gains Tax (CGT). Given this will be payable on any profit you make, it may make sense to consider strategies to minimise the amount payable. These could include holding the property for at least one year to access a 50 per cent CGT discount, or selling in a low-income financial year. For more information on this, you may want to seek independent tax advice from an appropriately-qualified professional.

Advice from experts
Getting quotes from tradespeople to fully cost out the work is key to planning a renovation and running a project to budget. It may also be more efficient to get professionals to carry out the work, rather than trying to be the expert in all areas.
Likewise, it makes good sense to consult a Chocolate Money broker experienced in financing buy-to-flip acquisitions. This will help you get the right loan for your needs – such as one that offers a honeymoon period of lower repayments at the start of the loan. Getting the right loan in place can help set you up for success!