Flipping Property for Profit

Purchasing a property is investing in an appreciating asset

Flipping property for profit

There are diamonds in the rough - you just need to find them!

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BEFORE
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Flipping property for profit

Definition of flipping a property:

Flipping properties is using your creativity and entrepreneurship to purchase a property at the lowest possible price, in an excellent location, with a view to renovating and selling at a profit (Fix and Flip). It is done as soon as possible, without taking occupation.

Some properties can be flipped by buying a bargain and selling high without much renovation required. This could be a property that needs to be sold urgently, due to the sellers facing divorce, pending foreclosure, urgent relocation or illness.

Flipping properties is considering the potential returns as well as the potential capital growth on an asset.

Some flippers occupy the property. Fix and Fix which saves on additional bond or rental fees, whilst reducing vandalism and security risks.

Others fix and flip for rental opportunities.

Training Objectives:

- Generate product knowledge and clear understanding of the property market
- Create awareness on how to generate and grow personal financial portfolio
- Know the availability of supporting resources
- Step-by-step information-sharing on benefits, risks and opportunities
- Equip delegates with a detailed guideline from start to finish on flipping properties
- Encourage fledgling entrepreneurs to take the leap
- Address and answer frequently asked questions

Training Benefits:

- Opportunities to increase personal financial portfolio: Delegates can make informed decision on property selection, correct location, market trends and opportunities.
- Understanding the various purchasing platforms: Included are normal property sales, urgent sales eg divorce, bank distress sales, late estates, repossessions and auctions.

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Training benefits continued ……

- **Property flipping can be a lucrative investment:** Success includes care, strategy and research
- **Ensures awareness of the risks:** This includes latent defects on the property, hidden costs, due diligence on future plans for the surrounding area, mandatory disclosures, residing tenants and impact of lease agreements on the property.
- **Practical tools on how to get started:** Business plan, a budget, determine a team needed, evaluate locations/properties and do research on the area.
- **Confidence boosting for fledgling property flippers**: The step-by-step guidelines will include projected costs, legal requirements, mandatory documentation, how to qualify for a mortgage bond and information on capital gains tax.
- **It promotes creativity:** Flippers get to be creative through finding the 'ONE', renovating, staging and selling it at a profit!

Risks when flipping properties:

- **Unpredictable market conditions**: The pandemic is a clear example of unpredictability in the market. However, always remember that people have to live somewhere and there will always be ways to find that bargain and flip it. Just monitor your costs closely!
- **Regulatory hurdles:** Some regulations can severely impact on flipping a property, especially if a property is purchased but has been made a heritage site, which means you may not do any alterations or renovations.
- **Poor team support:** Each team member is an integral part of the whole. Your success automatically results in their success!
- **Financial challenges:** Follow the recommended 70% guideline to control costs and generate your profits.
- **Unforeseen expenses:** Renovations can be costly and unless closely managed, they can escalate and deprive the flipper of hard earned profits.
- **Failing to understand the local real estate market:** Artistic and creative individuals who want to do property flipping need to ensure that they understand the real estate market and what the buyer's are demanding in certain areas, the flipper must meet. If the neighbourhood has loads of schools in the area and buyers are looking for alternative power supply and security, then focus on those 2 as the top need and selling point. Let the rest be cosmetic.
- **Steer clear of certain areas where properties are situated:** In my experience buyers generally do not like large blocks of flats close to them, where everyone can watch them from their windows whilst in the garden. People want privacy. Avoid open ground next door or across the road, as buyers are nervous about security breaches and possible illegal squatters swarming in and taking up occupation. Avoid being close to liquor stores, shebeens or any outlet that sells liquor as the foot pedestrian can appear more malevolent than is the case.

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Bond purchases:

- **First-time buyers bonds:** Financial institutions are addressing the demand for first time buyers, who have not been able to accumulate a large amount of capital in the form of savings. These bonds vary from 100% up to 110% to cover conveyancing and bond costs. The interest rate may be higher, but it does assist first time buyers to own a property. The bond repayment period between 20 – 30 years. Assisting Government programmes have made home ownership more realistic.
- **Residential bonds**: Residential bonds are basic and flexible and dependant on the purchaser. The highest bond made available is 100%, with repayment period between 20-30 years. Some offer an option of a loan account linked to their bond as a line of credit (based on bond equity). May feature variable interest rate, a fixed interest rate, or a combination i.e. variable bond rate. A deposit of 10 - 20% to offset the risk, depending on the financial profile of purchaser may be required.
- **Pre-approved bonds**: The financial institution consider credit records, income, monthly expenses, financial profile and then in terms of the National Credit Act, they calculate affordability before issuing a bond pre-approval.
- **Variable interest rate bond:** This is linked to the prime lending rate. So when the interest rate goes down, so will your monthly payment and if it goes up, then so will your payments. This will impact on your total bond amount owed.
- **Buy-to-let Bond**: This is for the purchasing of a second property with a view to renting it out.

Attempt to improve your credit score:

Credit scores that are excellent usually range from 800 and higher. So to gauge on the interest rate offered will depend heavily on the credit score, and expenses and in general proper management of finances.

Historically banks would determine the risks, the credit worthiness of applicants and make an informed decision on the information they have and possibly the relationship they may have had with the said bank. However, with advanced technology and the introduction of the Credit Act, the banks are heavily fined for over-lending and failing to comply with the Credit Bureau's specific guidelines on lending monies.

So with this in mind, below are areas they look at and consider before making a bond offer. (This is based on a natural person/s).

- Gross monthly earnings, additional income from overtime and bonuses.
- Budget on Expenses and Earnings (this is to determine how much of your disposable income is available to repay a monthly bond).
- Any additional income i.e. monthly annuity, rental income from tenants etc.

Types of properties:

Full-title ownership: Is the most common type of property ownership. Owners can do anything to the property including renovating, expanding, and subdividing. However, the repairs and maintenance can be costly and permits and permissions must be obtained for making any changes.

Sectional-title ownership: Is becoming more popular, due to higher security, lower costs and being able to share the common property which could include a communal gym, swimming pool and gardens. Permission must be obtained from the Body Corporate for should the owner want to make any changes or renovations. All sectional title schemes have a set of conduct rules that the residents must adhered to. Levies must be paid for the maintenance and repairs of the common property which could include insurance and security costs. The disadvantages of this is that if some owners fail to pay the levies, the rest of the owners will have to carry the burden or risk the complex becoming run down.

Long-term rental: The right to use a property for a set period of time (usually 99 years). The leasehold rental is usually a lot lower than a bond repayment, but the property remains the landlords. Leaseholders cannot make any changes or alterations to the property without permission.

Home Owners Association: HOAs can be a group of home owners in a boomed off area where they will be liable for security fees, upkeep, gardens etc. They will be liable to adhere to rules and regulations, payment of fees to ensure property values are enhanced and creates a sense of community among residents. The fees or costs are low and are usually payable per annum.

The following properties can be purchased:

- Stand-alone houses
- A flat, apartment or penthouse (holiday accommodations)
- Duplex and Simplex
- Farm, vacant land and small holdings
- Commercial properties

Is there money to be made when flipping a property?

Flippers '70%' rule of thumb:

Although this is a vey loose guideline, many flippers use this as a yardstick. So what does it mean?

Take the cost of the property (including transfer and bond costs), include the renovation expenses, other costs and agent's commission and it should be 70% or less.

Flippers, remember that properties are all different, but the principal is the same. IT'S BUSINESS!!

EXAMPLE

- Say there's a unit in a good, well run complex up for sale on an auction and based on the pics, it's awful inside..
- According to the Deeds Office the historic sales for the size and type of units in that complex and surrounding complexes is on average R1 million.
- This unit in the complex has been damaged due to inconsiderate and dirty tenants. They have finally been evicted and now the seller needs to urgently sell!
- The Unit is empty! Dirty! Ugly! Smelly!! But Perfect!!
- Assuming you have done your homework and based on your calculations you will need to do new floor tiles throughout, repaint walls, deep clean kitchen, deep clean the stove. (*Nice to have would be a stunning Light fighting but not included in these costs)*. So the projected costs would be approximately R28 000.
- Calculation is 70% on R1.m = R700 000 – R28 000 = R672 000
- So your offer should be R672 000 (including bond and conveyancing costs).
- However, you may offer more and if it's really stunning then R1.050 000 asking price would be acceptable and the banks will approve the bond based on the improvements.

Building an Effective Flipping Team:

Getting started flipping houses is not for the faint-hearted. Your first one will be a learning curve, but the next project will give you more and more confidence. (remember everyone started with the first one).

Having a supporting team with a 'can do attitude' and ready for a challenge cannot be over-emphasised, they can make or break the project. This automatically places pressure on the flipper to find the best.

It's important that they are paid for services rendered and do not form part of a pay role. The positive spin is if the team sees the results, that means more project and everyone wins!.

What do I mean? So let's take an estate agent for example. He won't necessary form part of sourcing a house for you, as you will probably go the route of properties up for auction or a late estate (remember you are looing for bargains). The agent will supply a report of what you can get for a property, he will investigate the neighbourhood (if applicable the street) and future developments. (You may have to pay him for that info as he pays to pull the info). However, this estate agent will make excellent commission once he sells the property.

- Always hire professionals, the best recommendations are referrals you can contact.
- The team must consist of reliable and competent electricians, plumbers, painters, handymen and landscapers. Depending on the size of the project and the deadline you may consider a project manager on site. The teams mentioned will be paid for quotes accepted and paid for.
- A business administrator to assist with keeping track of the expenses, invoices and quotes. This may be a partner who bought the house with you and if not then work out what is in the best interest of the job at the lowest cost.
- An attorney to draw up contracts and I personally recommend using one who is also an expert with conveyancing process, has a good relationship with the municipalities and with the Deeds Office.

Consider these recommendations on managing a team:

- Communicate, communicate, communicate! I have always found watsapp group chats cut through the confusion, especially when it comes to who had the property's keys last, or 'I don't remember you saying that'. It's wonderful, quick and everyone knows what's going down.
- There will be conflict, don't hope it will sort it's self out. Address it as it arises, be empathic, approachable and also take it seriously! "(NO pun intended, but a house divided collapses, you need this team to work cohesively.
- Never compromise and accept shoddy work. Just simply say, do it over!
- Recognise and Reward openly and CELEBRATE SUCCESSES!

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The Purchaser

For most households, purchasing a home is likely to be the most significant investment that they will make in their lifetime. Most want to buy a home that they can just move into. Let's

In this section we will be looking at the purchasing of a property from the flipper's point of view.

Who may purchase a property?

There are 4 main ways in which a home can be purchased in South Africa:

- Natural person
- Closed Corporation
- Trusts
- (Pty) Ltd.

The law recognises various types of persons:

1. The first is a 'natural person' which is an individual/s who can purchase a property and conduct business in their own name.
2. The second is a 'juristic person', which is a legal entity, such as a company, trust or close corporation.

Natural Person:

1. This is by far the most common option and it means the home will be registered in your name as an individual without representing any other legal entity.
2. When purchasing a property as a 'natural person', transfer duty will be paid according to a sliding scale depending on the purchase price of the home.
3. Natural Persons who purchase property together are jointly and severally liable for any creditors.
4. If legal action is taken against one of the owners it affects the other owners as well.
5. A benefit of purchasing as an individual is that paying Capital Gains Tax (CGT) can be avoided provided the property is the owner's primary residence.

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Non Residents:

- Non residents purchasing in SA must have a valid passport, permanent residence permit, any valid visa, or an endorsement in their passport.
- If they are not in the country to sign the transfer or bond documents, they can sign them at the Notary Public, or at the South African embassy.
- If they wish to apply for a bond, the banks may only offer a 50% bond to reduce perceived risks and the balance must be paid by the purchaser.

(Pty) Ltd:

- A private company that purchases a property will pay transfer duty at the same rate as a natural person.
- A significant benefit of owning property through a private company is that this type of ownership can accommodate up to 50 shareholders.
- Most financial institutions will insist that shareholders sign personal surety in respect of any loans made by the them to the private company.

Trust:

- A trust is established by a founder or settlor, trustees and beneficiaries and that person is referred to as the founder or settlor.
- They will appoint trustees in terms of the Trust Deed who will manage the affairs of the trust for the benefit of the beneficiaries that are named.
- A trust will not form a part of an individual's estate when they pass away, which means that the estate will benefit from not paying estate duty.
- All repairs/maintenance, as well as other bills eg water and rates, will be for the trust's account.

Closed Corporations (CC):

- The 2008 Companies Act phased out many closed corporations. Existing ones could exist until deregistered, dissolved or converted to a private co.
- Closed Corporations face the same transfer duty, Capital Gains Tax and tax implications as companies.
- A close corporation is a separate legal entity and are managed by members, with ownership restricted to a maximum of 10 natural persons.
- The financial statements must be prepared by an accounting officer
- There is no need to provide audited financials, which greatly reduces administration fees.

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Types of Purchasing Options:

Cash Purchase:

- The benefit for a cash buyer is that it is so much more attractive to the seller, as there is no need to wait an additional 4 to 6 weeks for the bond to be finalised, with a sudden surprise resulted in the bond being declined.
- So to prepare for the cash offer, ensure that your money is in one central place eg bank, insurance co, attorney, or pensions fund.
- Obtain a letter as proof from the source who has the funds to present to the agent as proof of monies. which makes your offer 'gold'.
- Bear in mind that you will save on all bond costs and will only need to pay for the transfer costs.
- On the offer to purchase contract ensure that you stipulate when the money will be transferred into the conveyancer's trust fund. It may be 7 days or in some instances 32 days. Be specific so that you are not in breach of your contract and possibly loose the property. (so err on the side of caution).
- If the cash is from a property you have sold, but the sale has not been finalised, then the agent handling this offer must includes this sale is subject to the successful sale of the buyer's property. This will also protect you from potential liability costs.

Home Loans/bonds:

- A home loan is when a financial institution, usually a bank, lends you the money you need to cover the purchase of your home. They may offer a 90% bond and the 10% would be you deposit.
- The bond repayments would be monthly and would include a portion of the loan together with the interest rate as agreed with the bank. Payment terms can be between 20 to 30 years and in some instances if the purchaser is over 50 then they can tailor make it to a 10 year term).l
- In the past banks would rely on their own information, the history they have with the bond applicant (for example a car purchase) and based on that they would have the discretion to make an informed decision. However, since the introduction of the National Credit Act, financial institutions are kept on a tight guideline on what is allowed and what is not and if they fail to comply they will pay heavy fines.
- Do not assume that since you have been with a bank for 20 years and bought al your cars and had loans with them, that they will automatically welcome you with the best possible interest rate. In the past this was true, but sadly no more!
- Factors such as your credit score and the size of your deposit determine whether the bank is likely to grant you a home loan, and how high your interest rates will be.

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Bond purchase continued …

- **First-time buyers bonds:** Banks are addressing the demand for first time buyers, who have not been able to accumulate a large amount of capital in the form of savings. These bonds vary from 100% up to 110% to cover conveyancing and bond costs. The interest rate may be higher, but it does assist first time buyers to own a property. The bond repayment period between 20 – 30 years. Assisting Government programmes have made home ownership more realistic.
- **Pre-approved Bond**: The financial institution consider credit records, income, monthly expenses, financial profile and then in terms of the National Credit Act, they calculate affordability before issuing a bond pre-approval.
- **Residential Bonds**: Ordinary residential bonds are basic and flexible and is dependant on the purchaser. The highest bond made available is 100%, with bond repayment period between 20 – 30 years. Some are offered an option of a loan account linked to their bond as a line of credit (based on bond equity). Ordinary bonds can feature a variable interest rate, a fixed interest rate, or a combination thereof, known as a variable bond rate. Most banks will require a deposit of 10 to 20% to offset the risk, depending on the financial profile of purchaser..
- **Fixed rate bonds**: This is to allow homeowners an option of managing the risk of unplanned future interest rate hikes. This bond type will usually be secured higher than prime lending rate. However, banks will consider the purchasers financial profile and may offer some below-prime interest rate.
- **Variable Interest Rate Bond** This is linked to the prime lending rate. So when the interest rate goes down, so will your monthly payment and if it goes up, then so will your payments. This will impact on your total bond amount owed.
- **Buy-to-let Bond**: This is for the purchasing of a second property with a view to renting it out.

Legal documents required when making an offer:

Each person involved in the offer needs to supply the following documents.

- Copy of ID or Passport
- Latest proof of residence (municipal utility bills)
- Marriage certificate or ANC (if applicable)
- Tax reference number
- Work visa (if applicable)
- Divorce decree (if applicable).
- Other documents for example - application as self-employed, on behalf of a 3rd party, applying on behalf of a company etc..

The auction environment:

There are so many ways and resources for finding auctions. They can range from newspapers, sheriff reminders, various property websites as well as auction websites. They can be done on site, or via technologies or at the sheriff's property. (plus other options).

Property auctions can be exciting, promising and many hope for that elusive bargain to beat all bargains. However, bargains are not guaranteed, but in my experience I have seen awesome properties going way below comparable market price and uninformed bidders bid without realising they may need to pay outstanding municipal bills and other unknown costs that ultimately becomes a 'lemon'.

An online Key Account Officer will relay online bids to the Auctioneer at site, and online bidders will bid against floor bidders who are at the auction, as well as other online bidders. So you can place an "auto-bid" or you can bid live over the computer in real time.

Once you find the property, ask the auctioneer for copies of the title deed, the site diagram, the property plans and zoning certificates.

- Advantages of buying a property on auction:
- The buyer may feel more at ease knowing that the bidders who lost to his bid are prepared to pay almost the same amount for the property. The buyer can feel assured that he did not overpay for the property.
- An auction eliminates lengthy negotiation periods , with buyer knowing the seller was serious about selling and not just testing the market.
- In terms of an auction agreement, the seller is contractually obligated to transfer title of the property to the highest bidder in an absolute auction, and to the highest bidder that meets or exceeds the reserve price in an auction with reserve.
- These properties are sold as 'voetstoots', or 'as is'. The buyer will be responsible to pay a deposit amount immediately to the Sheriff of the Court which is usually 10% of the Purchase price and he will also be responsible to pay the Sheriff's commission, any outstanding monies owed to the Municipality and Body Corporate or HOA, if applicable, regarding the rates, taxes and levy amounts during the transfer process.
- Be careful NOT to discuss anything about the property on auction with any potential buyer or the owner (if they are in attendance).

Types of auctions

Voluntary auctions: Most voluntary auctions are there for the benefit of the seller, with a high reserves and premiums quickly.

Bank auctions: The final bid will be at the discretion of the bank to accept. Bidders can get excellent deals from these auctions – but do your research.

Sherriff auction: After a lengthy legal process, the owner is handed over to the sheriff by a court of law, with the property being put on auction.

Property in possession: These auctions are generally not great, as there may be hidden costs/high reserve amount. But check them out.

How do auctions work?

- The auctioneer handles the bidding process and will start with a price. The interested parties will bid against the biding price and the person with the final highest bid usually gets the property. (usually through the word 'SOLD' by the auctioneer)
- In some instances there may be a party chasing up the price (like the bank) .
- There may also be a reserve, minimum price that the auctioneer may accept.

What do you need to do to participate in an auction?

- You will need to register to become a bidder.
- You may require to pay a fee to participate in the bidding, but that is the auctioneers option.
- You may receive a bidders card or paddle with a sales catalogue
- The sales catalogue will indicate the conditions of sale, copies of the title deeds, site plans, zoning certificates, lease agreements and rental schedules.
- You may be required to pay a deposit (usually 10% of the deal).

There are diamonds in the rough - you just need to find them!

Before bidding at an auction, remember the following……

- ALWAYS make a point of asking the auctioneer questions about hidden costs, what the bidder has to pay, if the property is occupied. (The earlier you get there, the more likely you will get their attention).
- If you are purchasing the property with a partner or spouse, they need to be there if documents need to be signed.
- Always do your research upfront and arrive fully informed on price, location, quality of the property and possible renovation costs.
- Have your pre-qualification bond, you and your partner's FICA documents (ID, proof of funds for deposit and costs as well as proof of address).
- Attend a number of auctions as an observer, to get a feel for the process and how the bidding works.
- Ask the auctioneer ahead of time what documents you will need to sign after you have successfully bid on a property and study them carefully so that there are no surprises when you bid on a property.
- Know exactly what the costs will be required the day of the auction. This includes pre-arranged funding (eg bond or proof of funds if cash). This could include other required costs, auctioneer fees and deposit.
- Be aware that there is no buyer's remorse at an auction – if you default you will be liable for costs.
- At an auction the property is sold *voetstoots* which means the seller is not liable for any defects.
- Do not get emotional and let pride take over when bidding. Keep it strictly a business decision
- Make sure if someone is living in the property and who they are, as you may have to consider eviction costs if they are tenants or illegals.

Property Bargains are out there – just find them!

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Legal documents required continued……

Natural persons: Each one involved in the offer needs to supply the following documents.

- Copy of ID or Passport
- Latest proof of residence (municipal utility bills)
- Marriage certificate or ANC (if applicable)
- Tax reference number
- Work visa (if applicable)
- Divorce decree (if applicable).
- Other documents for example - application as self-employed, on behalf of a 3rd party, applying on behalf of a company etc.

Trusts -Buying a House in a Trust Already in Existence

- A copy of the Trust Deed
- A resolution by the trustees advising who may sign the home loan or pre-approval application and property purchasing documents

Companies and Closed Corporations:

- Copies of the company's financial statements
- In most instances, financial institutions will request a full set of financials, i.e. a balance sheet, income statements signed by an auditor.
- Details of the directors/members
- The founding statement of the close corporation.
- A closed corporation certificate/company certificate
- A resolution by the directors/members of the CC or company stipulating who may sign the home loan for the purchasers of the property.

Offer to Purchase Contracts

The offer to purchase – or OTP – is a legally binding contract between a buyer and seller that contains all the conditions attached to the purchase of a house. I would recommend if possible that the OTP is looked at by a conveyancer before signing, but this is not always possible.

- Setting out the sale agreement, the OTP can be accepted, declined or left to lapse by the seller. There are instances where the seller makes a counter offer which is then presented to the purchaser and if accepted this agreement is signed and the sales moves forward.
- Included in the offer must contain the buyer's and seller's details correctly, the agreed to purchase price, that the property description is accurate especially the erf number.
- Payment method - cash , 100% bond, or deposit and the balance being a mortgage bond. There are other methods, but not applicable.
- The date of occupation and any agreed upon occupational rental amount. (with regards to occupational rent, it is unwise for flippers to take early occupation as usually the seller will not allow any renovations or repairs done before the property is transferred into the buyer's name).
- Any special conditions are included and accurate;
- A thorough list of defects has been included;
- Any and all fixtures are clearly laid out.

Permanent fittings (fixtures): Forms part of the property but it can get confusing and it is wise to include them in on the OTP contract, to prevent confusion later on. Please bear in mind that what the agent says will not be considered legal, so if it's not in writing it's not regarded as contractual. So the agent must include in the contract the following fixtures are included in the sale, the safe, all the blinds and the generator.

- Shelving. air conditioners and ceiling fans, installed safes, pool equipment, children's playground, portable sandpit and jungle gym Portable fountain, garden lights, garden wall fixtures, bar installation and pot plant displays, Wendy house or garden shed
- Blinds, pelmets and tailor made curtain rails, a mobile kitchen Island, solar heating system, generator and other sources of power eg. Generation..

Offer to Purchase continued….

A buyer may request almost anything to be included in the OTP contract. (I recommend that Flippers try to get the curtains for security reasons especially at night).

What to include when signing an offer to purchase contract: The by-laws are clear that is it a legal requirement for sellers to complete a full defect disclosure form. This includes latent and patent defects. Latent defects are defects one can see, like a crack in a wall. A patent defect is what cannot be seen eg no working geyser in the cottage or leaking roof. The purchaser needs to see this before signing the OTP.

A purchaser has the right to request on the OTP a subject to the sale based on an independent inspector (cost will be the sellers).

Due diligence is needed by asking for the following documents: Defect disclosure on the property, latest copy of the levies account (if applicable), latest copy of the municipal rates and taxes, latest copy of home owner's association, complex conduct rules, complex latest financials and minutes of the meetings. (there are some banks that have blacklisted complexes and immediately reject the bond application citing rejected due to complex).Latest approved house plans is a must!

Costs incurred by the Seller:

The seller is liable for agents commission and it ranges between 5 to 7.5% (Plus VAT), payable on transfer.

The seller needs to inform his bank at least 3 months in advance of his intention to sell, as he may be penalised depending on his contract.

The seller may also be expected to comply with the Offer to Purchase contract if he has agreed to repair something on behalf of the purchaser.

A buyer may request almost anything to be included in the OTP contract. (I recommend that Flippers try to get the curtains for security reasons especially at night).

The seller will be liable for municipal rates and taxes and utilities until the property registers. If applicable levies as well.

In 2011, the City of Cape Town Municipality passed a new water by-law which requires that all sellers of properties within its jurisdiction must furnish a water certificate to the municipality before transfer of ownership can take place.

Certificate of Compliances (COC): The seller is liable for any repair costs and the Certificate of Compliance for the following:

- The electrical COC must meet the regulations to the Occupational Health and Safety Act (OHSA). Only registered electrical contractors may perform electrical work and issue the certificate.
- The electrical fence certificate is governed by the Electrical Machinery Regulations, in terms of OHSA, to ensure that the installation is safe.
- Installation of a liquid gas appliance (built-in gas fires, braais, stove and hot water systems) must have a COC issued. The certificate may only be issued by an authorised person registered with the Liquefied Petroleum Gas Safety Association of Southern Africa (LPGAS).

There are diamonds in the rough - you just need to find them!

Costs incurred by the Purchaser continued:

- Although sellers select the conveyancers, the purchaser is liable for the costs of conveyancing which must be paid to the conveyancers. So on average for a R1m property, the conveyancing will be approximately R24 000.
- Bond costs are dependant on the financial institution and their appointed attorney who occasionally offer 50% to sweeten the deal.
- Should the purchaser request to have an inspector do a full inspection of the house as a subject to the sale, he will pay.

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Budget:

- The budget will consist of a number of factors for the property and they can easily start climbing if not closely monitored.
- Gross flipping profit is the difference between the purchase price and the flipping profit (excluding costs incurred, which experts estimate as between 20 percent and 33 percent of a property's after-repair value).
- The budget will depend on the type of property you wish to flip. Included in the budget would be the cost of the property (most investors will consider properties that are being sold via auctions, bank distress sales and estate late properties).
- Other expenses could include outstanding municipal costs, auctioneer fees, insurance and levies.
- You need to budget for transfer costs which is based on the property price and if you are applying for a bond then include bond costs.
- Cost of renovations, security fees if necessary.
- Garden clean-up, with deep cleaning the paving and inside the garage.
- Costs of “Staging” the home when it comes time to market and sell it.
- There will be costs that are not negotiable and costs that I call “nice to have”.
- Initially as a ‘newby’ Flipper don’t overextend your line of credit and go big. Slow and steady and then you will eventually be at a stage where you can buy a great bargain with structural renovations needed and still make a very healthy profit.
- If you can do some of the renovations yourself, it’s worth it.
- Remember that rent is paid in advance, but bonds in arrears. Depending when the property registers you could get up to 40 days of work before having to pay the first bond. Time is your enemy – so work fast.
- The budget is crucial to being on top of your project.

There are diamonds in the rough - you just need to find them!

Business Plan:

- **Investment options:** When you are considering short to longer-term investment options, there are essentially three key factors to bear in mind: RISK, RETURN and GOWTH.
- **What is a good profit?** The 70% rule as an investor is that the price of the property, the costs plus the renovation expenses, should not be more than 70% with the balance for profit and miscellaneous costs.
- **Business Objectives:** Determine your objectives. This could be fix and flip, or fix and rent out. You may choose to move in and renovate overtime.
- **Purchasing strategy**: What is the purchasing strategy? Investigate the various purchasing options, ranging from property websites, auctions, late estates, bank distress sales and repo’s.
- **Financial Plan:** House flippers must calculate the following costs – property costs, renovation expenses, bond costs, financing costs and desired profit. The main goal is the cosmetic renovations rather than the costly structural goals. Your financial plan is closely linked to house cost, renovations, goals and profit margin.
- **Marketing strategy and implementation**: How are you going to market the property and what is your strategy. Who will you use to sell the property? Determine the strategy which may include show houses, property websites, market value etc.(staging choice will impact costs).
- **Managing the team dynamics**: This includes the rolls and responsibility of the renovating team, the legal team, the security (if applicable), the sales agent and the sub=contractors.
- **Timeframe:** This is critical when it comes to fixing and flipping. Costs escalate when delays take place once the property is in the new owners name. Breakdown in bite sizes who needs to be done.
- **Meet the neighbours:** Make an effort to introduce yourself and explain why there may be strangers on the property. Take their mobile number and give them yours. Get onto the CPF Group Chat. Assure them that the people around have been checked and verified and you will take no nonsense should they infringe on the neighbours peace of mind and property. Chatty neighbours have a wealth of knowledge too keen to share, so tap into it.

There are diamonds in the rough - you just need to find them!

Location

- Location!   Location!   Location! This is the most crucial decision one can make when flipping properties.
- Basically flippers - make an offer on a property in a good location, that needs some work (that's where you find your bargains).
- Most purchasers opt to save for a deposit, bond costs and transfer fees. Once they have the funds, they then apply for a pre qualified bond from a financial institution or bond originator. They will take the best and highest offer, but want a home with no work needed. HENCE the need for PROPERTY FLIPPERS!
- Do your homework and go for areas with low crime rate, good public transport, close proximity to primary and high schools and an active CPF.
- A good estate agent can help with current trends, purchaser's demands and average sales over the last 2 years.
- In property flipping, select a property with good 'bones' and the worst looking in a great location.
- In my experience the demand for high security is still top of mind for purchasers.
- Beware of open ground close by, entrance and exit at peak traffic times. It makes a big difference when families need to get the kids to school and get themselves to work.
- Although public parks are great for the kids, not a good location for a property. (too many vandals around and there goes the neighbourhood).

Flipping property for profit

Renovations:

Before making a final decision on the purchase of the property, you need to consider the following when it comes to renovations:

- **Remove, replace and repair:** Firstly, to ensure you are meeting the potential buyers needs, remove, replace, or repair the things that are off putting. Elements of a house that are relatively simple to transform include, floors, walls, roof, cabinets, countertops, and the garden.
- **Cosmetic changes:** The key is to spend around 15% of the value of the property on renovations. **Keep it crisp, clean, and comfy. In my experience c**lients would opt for a large walk-in shower than a bath, if space is an issue.
- **Structural changes:** Keep in mind that extensive work and mounting costs will be incurred when structural repairs changes are needed.
- **Follow neighbourhood trends**: If a number of older homes in the area lack sufficient number of bathrooms eg. if you've got a four-bedroom, one-bath home, it's certainly going to pay to add a second bathroom.
- **Beware of overcapitalisation:** If the properties in that location is R1.5m, then know what is a deal breaker for potential buyers. It could be high walls and electric fence, perhaps a granny flat or swimming pool. Try to meet those requirements to make it marketable and easier to sell.
- **The 70% rule:** In real estate market will give you a ballpark figure for a ceiling price on any property offers. Remain conservative and cautious with your repair costs.
- **Keep invoices and slips on all expenses paid out:** This is to present to SARS should capital gains tax be a reality.
- **Sectional-title properties:** Be fully aware of what the complex will allow. Usually they do not allow any alterations or upgrades outside the unit. However, it is acceptable to make alternations and improvements inside the unit eg upgrade a kitchen and the bathrooms.
- **Stand-alone houses:** check the title deeds and ensure the structure is in accordance with the approved plans.
- **Potential buyer's needs** Although some flippers love colour, it is unwise to paint the walls anything other than a light acceptable colour eg grey, creams or whites. However, if it's a penthouse or modern flat suitable for a young couple and it's situated close to campuses, theatres and the art world, then ultra modern, edgy and loads of glass and mirrors will be the demand.
- **Small requires innovate ideas for storage:** For small units or properties, storage is always a challenge. There are some great innovative storage solutions to be considered, as it's relatively inexpensive, but a great selling point.

There are diamonds in the rough - you just need to find them!

Renovations continued …..

- **Micro-manage the process:** In every business the 'hands-on' manager gets the work done properly. Be prepared to monitor, manage and be on site as frequently as possible. This will prevent shrinkage (pilfering), slowing down of labour and speeds up the process.
- **Ensure proper professional help:** Unless you are a professional in renovating a property and can do it yourself, rather use the professionals as sub-contractors to do damp proofing, or roof repairs etc.
- **Never underestimate the curb appeal for buyers**: It's relatively inexpensive, adds to the value of the house and brings out the WOW FACTOR. We will review some before and after pics.
- **Consider these upgrades**: To enhance the property and for a quick sale consider installing alternative power sources eg. gas stove, gas geyser, solar power or even a generator. Safety features like electric fence, automated gate, internal security door, sensor lights etc..
- **Beautiful front doors:** A stunning front door may be expensive, but they are so appreciated by potential buyers.
- **Poolside perfection:** **Nothing is** worse than a green pool – so make sure it is blue, clean and leaf free. Make sure that your pool area is neat – power clean poolside paving and make sure loungers are clean and sporting bright new cushions. Create 'hot spots' so people can imagine sitting there. You could strategically place a well-stocked drinks trolley next to loungers and roll up a few beach towels for extra effect.
- **Rule of thumb is great natural lighting:** Allow natural light to work some magic in your house and make it seem bigger and more inviting. Using mirrors in smaller rooms creates the illusion of space. Replace any outdated light fittings – or add down lighters in dark spots to complement existing lighting. Don't forget all important exterior lighting both along drive ways or beside gates or doors. There are some lovely solar options available that can be used to fill any gaps.

There are diamonds in the rough – you just need to find them!

Selling Strategy

Target Market:

Selling a renovated property as quickly as possible is the driving force to excellent profits. The longer it stays on the property websites, it costs. The agent selling the property is the key player and must have the following attributes:

Team agent

- Exhibit excellent training, experience and knowledge of the neighbourhood and have a good relationship with other agents within the industry.
- He should be a full status agent with a current PPRA licence made available to the seller.
- A history of his successful sales also known as a 'brag' book should be shown to the seller. The agent must have the ability to build a rapport in seconds with strangers. That's how you sell houses!
- Even the best cutting edge marketing material is of little value if the agent doesn't have a comprehensive marketing plan to ensure your property ads reach as many potential buyers as possible.
- They need to be friendly, professional and able to ensure the maximum market exposure to attract the right buyers and achieve the highest possible price.
- Ensure that the selling agent uses HD (high density) photographs and 3D virtual tours.
- Comprehensive **Social Media** marketing on social platforms where there is a large following includes Facebook, Instagram, Twitter and Linkedin.
- Today is fast moving and the need for speed. Buyers do not want to physically drive from house to house for view potential properties. What they want is to view all the features, layout and flow on property websites, thus giving them the best possible ability to view.

Daily discipline

- Personal and professional discipline must not be overlooked. His ability to arrive on time for viewing appointments speaks to his discipline. This also applies to dress code and personal conduct.

Integrity

- Honesty, integrity and awareness of FIC Acts, POPI Acts amongst other legal requirements will avoid all dodgy transactions and money laundering.

There are diamonds in the rough - you just need to find them!

Selling Strategy continued ……

In-depth knowledge of the real estate industry

- The real estate industry is both local and international. Agents must have knowledge of both local and international requirements needed by FIC, National Credit Bureau and banks.
- In a global village, there are mounting purchasers wanting to buy a home in South Africa. The agent must understand and be up to date on new legislation the government has passed as law and ensure that the legal requirements are met.
- The country also continues to record increased foreign interest in property. This means an estate agent must have very good awareness of the local, national and regional housing markets.

Financial knowledge

- A successful estate agent must clearly understand financial matters and be knowledgeable about the industry
- He need to know types of financing institutions, differentiate financing options, understand impact of interest rates on property transaction.
- Must know the legal documentation required should be a company, CC or natural persons putting in an offer

Rules and regulations which vary between areas

- Different geographical areas in South Africa are governed by different municipal bylaws and property regulations. An estate agent must know the local rules and regulations to avoid getting in trouble with the law.
- The agent must also be aware of mandatory Certificate of Compliances as required between regions.

Persistent and hard worker

- Very few property deals are closed in a short space of time.
- A successful estate agent not only needs to be hard working, but also persistent in his dealings by continuing to track all leads and remain consistent in the sales approach, even if he needs to share the sale with another agent and share the commission.

The property flipper must bear the following in mind when selling the property:

- When potential buyers come to view, let the agent do his thing. Walking with them prevents the agent from overcoming objections and allowing the clients to ask questions with ease.
- Ensure that the property is seen in the best possible light so don't let the agent show the property in winter after 5pm as it's cold and dark.
- Always keep the pool clean and sparkling, pool equipment packed away and other unsightly buckets and mops.
- If possible have a few sweets set out in a glass bowl, kids love to eat candy and think happy thoughts of the home.
- Ensure all the lights are on and the place looks welcoming and inviting.
- The property should smell nice (and NOT like toilet spray). Yankee candles are expensive but great smelling.
- It's not a good idea for the agent to arrive at the same time as the buyers arrive and everyone is trying to open up the place and cannot find the keys etc. Remember the first impression sticks!
- Try to keep the lawn green, the flowers well maintained and leaves and debris swept away.
- The agent must have an activity list of all buyers who come through the property, to prevent double claims on commission should another agent be selling. (this is just a precautionary measure).
- Never talk about offers or what you will accept, that is the agent's job! (verbal offers are not legal on fixed properties).
- Never, ever give early occupation to the buyer unless the buyer has deposited the full cash amount on the property into your conveyancers trust fund. (And even then we do find that buyer's become unreasonable about a few issues in the house and expect it to be repaired etc. or they start to delay the sales process).

Capital Gains Tax

Capital Gains Tax (CGT) is calculated on the profit (income) made when ownership of a capital asset (like properties) is transferred, either in the form of a sale, an inheritance, gifts or donations.

While the tax applies to any legal persona, including individuals, companies and trusts, many will avoid having to pay this tax on the sale of their primary home, as it is only payable **when an individual makes of R2 million profit.**

Can the taxable income be reduces? Yes, expenses may be deducted from rental

- All capital improvements to the property like renovations to floors, kitchens and any other repairs.
- Legal costs and agent's commission can be used as a deduction too.
- Ensure that you keep records and invoices for all of these costs.
- Bear in mind that normal maintenance cannot be claimed.

These factors are used to calculate the tax:

- **The capital gain** (calculate this by subtracting the base cost of the property, which includes incurred costs such as renovations, transfer costs and attorney fees, from the amount you sold it for.
- **The inclusion rate** (only 40% of the capital gain will be taxed if you're an individual, and 80% if it's a company or trust selling the property).
- **The tax rate.** The more you earn, the higher your marginal tax rate. As of February 2022, the marginal tax rate can range from 18% to 45% depending on your income.
- So your capital gains tax = **capital gain x 40% inclusion rate x marginal tax rate.**
- Some things are excluded from capital gains tax
- Remember that you have to make a R2 million profit to be liable for CGT.

There are diamonds in the rough - you just need to find them!

Staging

Home staging is the act of preparing a home, making it as appealing as possible to potential buyers. This involves designing and decorating to get the sale!

- Property industry research shows that empty properties tend to sit on the market longer than homes that are professionally staged. By staging your home, you will increase its chances of being sold. The average selling time for properties on the market is approximately 45 days, however with professional home staging, many homes have been sold on the first day at the seller's asking price
- Staging is going that extra mile in making the property look attractive, neat and clean and should ensure it gets sold quicker than other properties in the same area but have clutter, damages and damp or are in an empty house.
- Selling an empty property can be daunting, as most people cannot visualise a property as a home without props or as we say "staging'.
- Strategically place plants and art in certain areas to make the home more visually appealing. Last but not least, you need to ensure that the environment is kept as neat and tidy as possible. Be sure to give the home a clean sweep, and if the home has a garden, make sure it is in pristine condition.
- Professional home stagers have extensive knowledge and skills relating to interior design. Finer details to do with decor will therefore be taken care of.
- Flippers should aim to have stunning light fittings, neutral walls and natural light, which is great. However, for that wow factor, it needs staging to bring in pops of colour to seal the deal.
- Even in a tough economic climate exacerbated by the COVID-19 pandemic, it is possible for agents to still make a speedy sale when a property has been lovingly and strategically staged.
- Developers have been using staging for years. In essence the buyer sees a beautiful staged home, then purchase on site the same. (sometimes it still has to be built and other times it's ready to move in). However, they do not see the empty property, just the beautiful staged one where all the beds fit, the bathroom is stunning and the kitchen has pops of colour and lounge has cushions and pictures strategically displayed for maximum impact.
- I have an arsenal of staging equipment that make an empty property an inviting and beautiful home. Here are some before and after pictures to give you an idea of what can be used.
- Here are some before and after pictures.

There are diamonds in the rough - you just need to find them!

Before – just an empty wall

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There are diamonds in the rough - you just need to find them!

Flipping property for profit

Flipping property for profit

Flipping properties successfully

There are diamonds in the rough – you just need to find them!

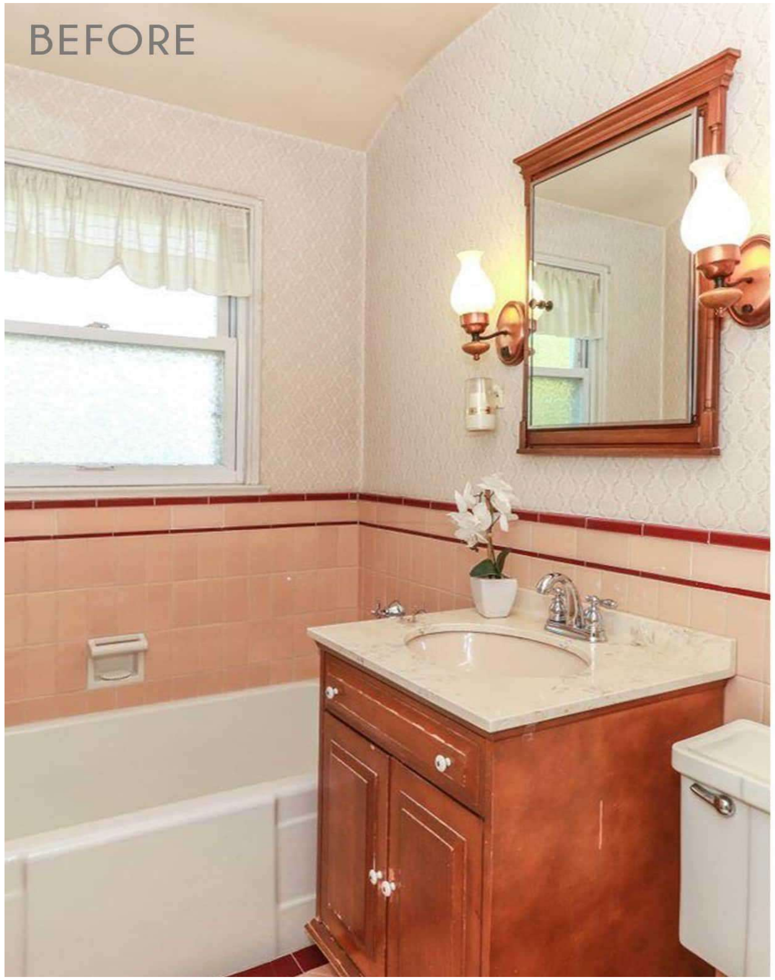
Flipping property for profit

There are diamonds in the rough – you just need to find them!


BEFORE
AFTER
Simple MADE Pretty

There are diamonds in the rough - you just need to find them!

Flipping property for profit



Flipping property for profit

Flipping property for profit

Frequently asked Questions:

- **How long does the whole process take to be property owner?** It can take between 4 to 5 weeks if a cash deal. Bond deals will take approximately 10 weeks, but it is dependant on the speed of the municipal offices, the speed of the managing agent if it's a sub-title and if you have been bond pre-approved. Then it could be about 2 months.
- **Do I can interest on the monies I deposit into the conveyancer's trust fund?** Yes, but make sure you complete a form or send an email instructing the attorney's you expect interest on the deposit. (The sum must be more than R50 000 to qualify)
- **Can I start renovating as soon as possible**? Yes, but only once it is in your name. (You cannot take early occupation to do the renovations, the property is not in your name.)
- **Who or what is the managing agent at a complex:** **The managing agent is independent of the complex and his main responsibility it to assist the chairperson with making decisions in line with sectional title law and the impact on the members and the scheme. The important function is billing, collection and debt collection of levies and the payment of expenses of the complex.**
- **What does the Body Corporate do**? The body corporate is responsible for the maintenance, upkeep and cost of repairs to the common property. Enforces and maintains the sectional by-laws and resolved any arising conflicts within the complex.
- **Can the bank stop the bond offer and if so how soon after approval?** The banks reserve the right to withdraw their offer up until transfer. So don't change your financial status at all. Don't open new accounts, apply for personal loans or buy a car. It changes your financial profile and they may have to withdraw in terms of the National Credit Act.
- **Who will communicate the selling process:** With all the technology of today, communication is easy and must be part of the service. Conveyancers should advise you weekly and the sales agent even more than that. Insist on it!!
- **What is the limit of not paying transfer fees**? The amount was increased from R1m to R1.m
- **Do I get the Title Deed when it registers in my name?** The banks will keep the Title Deed until the bond has been fully paid up. If you pay cash then you are entitled to the Title Deeds document. (Keep it safe, it's very valuable).