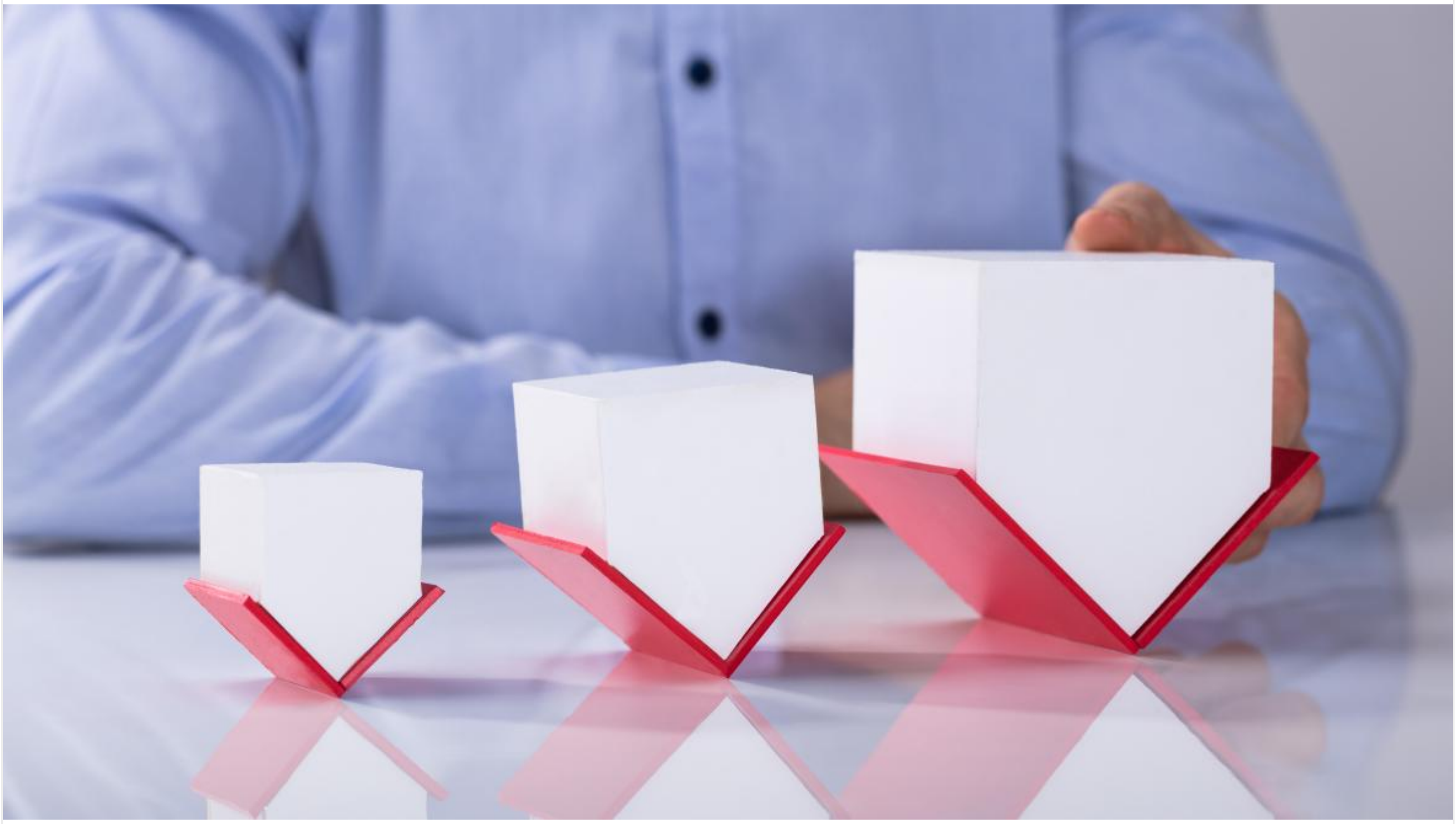
How to flip a house

What you need to know to buy a property and sell it for a quick return



While the rate of house flipping is at its highest, it remains a risky business
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Martina Lees Friday November 27 2020, 12.01am, The Times

Property investors are flipping out. The rate at which they buy and sell — or "flip" — homes for a quick return is at its highest since the financial crisis.

Despite the pandemic, the proportion of homes flipped in 2020 is on track to rise to a 13-year high of 2.5 per cent (23,000 properties), with the average gross profit up a quarter compared with last year — to a record £41,000, according to the estate agency Hamptons International.

Increased taxes and red tape have pushed some landlords away from buy-to-let, in which they rent out homes long term, to buy-to-sell. It's a risky business, so how do you successfully flip a home?

Choose the right house

"Look to do a flip in an area with strong residential demand. In some areas, people tend to rent more rather than buy. Don't go into cheap areas expecting to flip — the exit might only be another investor and then you won't make money," says Rob Bence, a developer and host of *The Property Podcast*.

Ask local estate agents which areas and types of homes sell the fastest. Target what has the widest appeal. Often these are three-bedroom houses, which attract families and downsizers.

Steer clear of flats: those in modern buildings are at risk of becoming unmortgageable because of the building safety scandal, and lockdown has increased demand for gardens, which many flats lack. Only 5 per cent of flipped homes bought and sold since the housing market reopened in May were flats, down from 20 per cent in 2019, Hamptons found.

Top of the flip chart for the sixth year running is Burnley, Lancashire, where these transactions accounted for 8.2 per cent of sales in 2020. Of Burnley's flipped homes, 81 per cent were bought for £40,000 or less. "It's one of the few places where investors can purchase a home without paying any stamp duty," says Aneisha Beveridge, head of research at Hamptons. The typical Burnley flip is a £38,000 terrace, sold for about £20,000 more — a 44 per cent gross profit.

Six of the top ten places for flips in 2020 are in the north of England, where prices are lower. Hotspots include Rutland, County Durham and Middlesbrough. "In prime central London, flipping no longer works or, if it does, it's more luck than judgment," says Richard Rogerson, chief executive of RFR Property advisers. "At the higher end of the market it will take about five years to recover your stamp duty."

In Burnley, Lancashire, flipped homes have accounted for 8.2 per cent of sales in 2020
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Do the sums

Just because a property is run-down doesn't mean it's a good flip. The figures must work. Beware of "deal bias" to adjust numbers so the deal works, Bence says. "You've got to be realistic with your numbers."

To work out what to pay, start with how much you can sell it for once done up. Search sold prices on Rightmove or Zoopla to see what similar homes have sold for nearby. Then deduct all costs — refurbishment, financing, stamp duty, legal fees, surveys, utilities, insurance and estate agent sale fees — and your desired profit. Experienced investors aim for a 20 per cent net return on the cash they invest, to leave a margin if things go awry. What's left is your maximum purchase price.

Finance your flip

Buying with cash is best, but what if you can't? Lenders frown on using buy-to-let mortgages for flips. You may get away with it once, but they will likely refuse to lend if you have a pattern of repaying long-term mortgages within a few months.

Bridging loans are designed to be repaid quickly. You need a deposit of at least 30 per cent. Some providers lend on the end value, so can include refurbishment costs. However, costs add up quickly, with rates from 0.65 per cent to 1 per cent a month, plus fees that start at 2 per cent of the loan. "Typically there is a minimum term of one to three months, with most lenders not charging any exit fees," says Tomer Aboody, director of MT Finance, the property lender. "It's always worth going via an independent broker who can advise on the cost and the reliability of the lender. Cheapest doesn't necessarily mean the best."

Bence warns: "Using bridging on your first project should be treated with caution. You're more likely to make mistakes. If you've got your numbers wrong or you're just unlucky, you could find yourself in trouble." Set a bridging term for longer than you think you will need it, he adds. “Projects always take longer.”

81 per cent of Burnley’s flipped homes were bought for £40,000 or less
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Refurbish to sell

Understand whom you hope to sell to and cater for them. “A lot of people get too emotional and personal with flips, making decisions based on what they prefer. The more you can detach yourself, the better you’ll do,” Bence says. “You might want to put in a cheaper kitchen to help your numbers, but is it a market where a cheap kitchen is fine? It might hinder a sale.” You’re likely to spend more on refurbishing to sell than to let.

Price realistically

Set a price at the bottom end of what you think you can get. “Realistic guide prices as opposed to ambitious fixed asking prices are the order of the day," says Marc Schneiderman, director of Arlington Residential, an estate agency. Four of his last six sales had "sensible guide prices" that sparked competitive bidding and drove up the price.

Style the home to sell the lifestyle. If you plan to flip more properties it's worth buying furniture and accessories you can re-use, or renting them from a home staging company.

Plan for tax

Unlike a buy-to-let sale, a flip won't benefit from your annual capital gains tax allowance of £12,300. Because the taxman views it as "trading", income tax is payable if the home is owned in the individual's name, says Heather Powell, a partner at the tax advisory company Blick Rothenberg.

If you set up a company to buy the property, corporation tax at 19 per cent is due — and then income tax on profits you withdraw from the company, Powell adds. "There is a lot of case law on this, including one where a 'developer' claimed his girlfriend had kicked him out of their home and that he was living in the property he was doing up. She got pregnant during the project, which was used as evidence that he had not 'lived' in the property being