

Strategy for home flipping becoming more complicated

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Flipping homes “used to be like putting lipstick on a pig,” according to Mount Pleasant ReMax Realtor Bob Ramella. Investors would buy a house, give it a good paint job, sell it for a higher price and move on.

But Ramella, who has been in real estate for 11 years, said successfully flipping a home in the Lowcountry’s market now takes a lot more work than picking up a few paintbrushes. Adding more square footage, installing a new roof, buying new cabinets and bringing in granite countertops are usually required. Walls are often removed to make rooms bigger and the electrical work is frequently updated.

About 70% of Ramella’s real estate business involves homes to be renovated and resold. He attends practically every foreclosure sale in Charleston County and spends the majority of his time researching properties to decide whether \$40,000 to \$80,000 worth of renovating is worth his client’s time and will produce a large profit.

“There are usually between 15 and 20 people there representing clients at foreclosure sales,” Ramella said. “A couple of years ago, there were maybe three, if that.”



Photo/File

In South Carolina, 3.2% of all single-family home sales were flips during the first quarter of 2014, according to data from a RealtyTrac report. That’s down from 9% in the first quarter of 2013.

But those flips can bring in a sizable profit. The average purchase price in South Carolina during the first quarter for a home was \$128,731, and the average flipped price was \$166,843. That made the average gross profit roughly \$38,000,

according to RealtyTrac.

In Charleston County, the average profit was \$59,138. Ramella said the key is to find the right neighborhood.

“The concept is to take a property and bring it up so that it’s on par with the neighborhood or above it, something we could take to the market and be proud of,” he said.

There are about 20 neighborhoods in Charleston that Ramella considers to be

“hotter than a firecracker,” which makes reselling homes there easier. He also takes into consideration whether the home is in a flood zone, which would add an expense for the buyer. The home’s floor plan is important too, he said.

“Probably 70% of the properties we walk into need a new kitchen, they need new bathrooms, rooms are chopped up

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so they need to be opened," he said. "It's helpful to have some architect friends."

Once the home is renovated and listed for sale, Ramella said he's seen many in the Lowcountry receive offers within a day.

He said one of his clients spent about \$60,000 renovating a three-bedroom, two-bathroom brick ranch on James Island.

"It was absolutely beautiful when he was done with it. We listed it on a Tuesday evening and in less than 24 hours we had an offer for the full price plus \$5,000," he said. It closed 22 days later. Ramella said the average time on the market for his clients during the past two years has been between 17 and 18 days.

The RealtyTrac report found that flips across the country during the first quarter of 2014 took about 100 days on average, which is up from 92 days in the previous quarter and 79 days in the first quarter of 2013.

About 58% of all flipped properties in the United States were three-bedroom homes, while 21% were four-bedroom homes and 17% were two-bedroom homes, the report said.

"Slowing home price appreciation early this year in many of the most popular flipping markets put some investors in danger of flying too close to the sun," said Daren Blomquist, vice president at



RealtyTrac, in a statement. "But investors appear to have recalibrated their flipping strategy, accounting for the slower home price appreciation, even if that means fewer flips."

Blomquist said the new strategy is another good sign that "this housing recovery is behaving much more rationally than the last housing boom, which was built largely on unfounded speculation rather than fact-based calculations."

Anna Gruenloh, a Realtor and broker associate with The Cassina Group in Charleston, said the current local real estate market makes it easy to sell flipped properties. She said the hard part is finding a home to buy to flip at a reasonable

price to make the numbers work.

"We saw a couple of properties on the market for \$80,000 and one ended up selling for \$200,000 because it got about 40 offers," Gruenloh said.

The College of Charleston graduate has been in real estate for 10 years and with The Cassina Group since January.

The Avondale and Wagener Terrace neighborhoods are some of the most difficult spots to find deals but some of the easiest for a quick turnaround, Gruenloh said.

When she is looking for a home to flip, Gruenloh said she thinks it's important not to buy a property that has "anything funky about it that can't be overcome."

"If it's near an interstate or has low ceilings, stay away from those. It's going to be harder to sell them and it will compromise the price," she said.

If a property is difficult to resell, Gruenloh said renting it out remains a viable option.

"It's a good way to make money if you hold onto them. Even if the market tanks, the longer you hold onto a property, the better chance you have of its value going up eventually," she said.

Both Gruenloh and Ramella said investors who get into the home-flipping business can't think about properties the same way they think about homes they intend to live in.

"If you buy right, you can always make a profit. But you can't get emotional. It's just a number," Ramella said. "If the numbers don't work out then you have to move on even if you like the property."

Gruenloh said she advises clients to follow a formula with an average model of 30% profit within six months.

"You put in the formula the purchase price, renovation price, price to carry the home for the time you'll own it and subtract that from the expected resale price," she said. "If circumstances change, you adjust. With real estate you can always hold it and keep improving it so that you can control your losses." ■

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