

Flipping 101

FEATURE | The heady days of quick flips are mostly gone, but nimble – and gutsy – investors continue to pocket hefty profits on quick residential and commercial transactions

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In May of this year, an investment group led by **Ozzie Jurock** of Vancouver made a \$1.2 million profit on a rental townhouse complex the group bought and flipped in Phoenix, Arizona.

In Vancouver, a handful of investors who bought \$1 million-plus condominiums in the Olympic Village complex last year flipped the units within months, some pocketing profits of \$500,000 or more.

In Burnaby, an 83,500-square-foot commercial building on Kingsway Avenue was put under contract in April for \$26.5 million, but the buyer made a fast profit by selling the contract to a new buyer in May for \$27.5 million. "The buyer made a quick \$1 million before he even closed on the property," noted **David Eger**, senior director and general manager, research, valuation and advisory, with **Altus Group** of Vancouver, which monitored the sale.

Generally, flipping real estate refers to buying and selling a property within six months or less. In some cases, as the latter example above illustrates, flipping refers to the tying up of a

property and selling the contract prior to the closing dates and even prior to the subject removal date if possible.

This kind of flip, though, can be problematic because when the original vendor figures out what is going on, he can try to frustrate the sale through delays of documents or not granting access for appraisals, for instance, notes **Terry Harding** of **NAI Commercial** in Vancouver.

Still, he said, it is possible for nimble buyers to flip for profit if the deal is right.

Harding recently sold a Burnaby apartment rental building for \$158,000; he believes it is now worth \$220,000 per door.

"Most parties will say to flip a building you need to buy very cheaply," Harding said. "This obviously helps, but adding income, fixing up or buying in a rapidly improving area can also add value quickly. In my opinion the best way for a short-term gain is to identify an area that has not yet made the rapid price jump which other areas have. This could be due to lack of sales or an area in transition."

Pick a market

Harding believes North



Vancouver condominiums have been the traditional buy-and-flip product, but average resale condo prices have been flat for the past six months. | HUFFINGTON POST

Vancouver is an example of such a multi-family market.

"I think [North Vancouver] is the best place to buy as the rents are higher than Marpole [south Vancouver] and Metrotown [Burnaby] and yet those other two areas are about \$215,000 to \$220,000 per unit and North Van is \$200,000. I think North Van is ready to make the jump by \$20,000 per unit if someone were to buy now and wait a year or less."

Harding notes that prices can change quickly. In New Westminster, he notes, apartment building had been selling last year for \$100,000 per unit, but five buildings that sold since January have all been priced at more than \$129,000 per apartment.

Jurock, who admits his Real Estate Action Group's recent flip in Phoenix was a bit of a timely fluke, argues that it shows that taking action is the best advice when trying to make quick profits.

Take action

"The No.1 requirement to flip has nothing to do with the market but has to do with you: it's guts," said Jurock. "You have to step up to the plate. People will say, 'I saw it, I knew it was great, I did my research, but I didn't move and someone else got it.' They're human beings; they act on emotions. It's not all clear numbers."

The traditional flip in Vancouver has been condominiums. During the peak days a decade ago, some buyers would purchase off the developer's plans and then flip the condominium before it was even finished.

Others would buy, wait six months or so, and then sell for a profit.

This is much tougher to do today, judging from recent sales statistics from the **Real Estate Board of Greater Vancouver**.

For instance, the benchmark price for a typical resale

condominium in Greater Vancouver has increased just 2.6 per cent in the past six months, and in some areas, such as Burnaby East, Tsawwassen and West Vancouver, condo prices are the same or lower than six months ago.

Flipping challenges

Changes in the mortgage market that restrict **Canada Mortgage and Housing Corp.** mortgage insurance on second properties and a closer look at flipping and capital gains by **Canada Revenue Agency** have also helped to cool condominium flipping.

"If you are buying a pre-built condo and your intention is to sell it the day it opens up, you're now in the business of buying and selling real estate and that is not a capital increase – that is an act of business," noted Kelowna tax adviser **Ken Davidson**. "Revenue Canada is starting to crack down on these cases." ■