

The devil in the details

Renovating might look easy on television, but most of the work is done before you pick up a sledgehammer or a paintbrush, as **Patrick Bright** explains

► **PROPERTY GUIDE 2011**

You can't just go out and buy any old property in any old suburb, renovate it and make a massive profit. If only it was that easy! No, renovating for profit is more like painting: the preparation is 80% of the work.

Most of the preparation you need to do is research: identifying suburbs with the greatest profit potential, researching property values, brushing up on design and decorating, and selecting a team of quality tradespeople.

Targeting suburbs

Where do you start looking for a property to buy? Rather than looking all over town, my advice is to confine your search to one to three top suburbs. It all comes back to the renovation profit formula: Your renovation profit margin equals the renovated value of the property minus the purchase price and renovation costs.

When you use the formula to assess a property you need to be fairly certain about the renovated value of the property and that certainty only comes after you've inspected a lot of comparable renovated properties in the same suburb. In the real estate industry we call this comparative market analysis or "CMA" for short.

The key word is "comparable". Unless you've physically inspected a lot of similar properties in similar locations (i.e. comparable properties), there's no



way you'll be able to make an informed estimate of the value of a property after it's renovated.

Inspecting a lot of properties in a suburb gives you a good gut feel for the local market. You'll know what unrenovated properties sell for and what renovated properties sell for. It's really the only way you'll know a good deal when you see it.

You also have to limit your search to a manageable area that you can cover easily and get to know intimately. So ideally the suburbs should be neighbouring or at least close to each other. It's much more efficient to concentrate your search within a three or four kilometre radius so you don't waste time driving back and forth across town.

Suburbs with upside

If you plan to hold onto the property after you renovate it then there's another factor you need to take into consideration: capital growth. Some suburbs have better potential for capital growth than others.

I'm always looking for suburbs with upside. By upside I mean factors that will lead to above average capital growth. I look for something that's going to make properties in that suburb become more desirable, and thus more valuable, in the next five to 10 years.

It could be that the suburb is being upgraded by the local council, new transport and infrastructure is being built, renovators are fixing up run down properties, or any improvement »

that will make it a more convenient and desirable place to live.

Gentrification occurs when renovators start to move into older, run-down suburbs and start fixing properties up. Sometimes the trend will be started by industrial sites being rezoned and developers converting them to housing. Once the trendy cafes start opening you know the suburb is on the up and up. The sooner you spot this happening the better. By the time you read about a suburb being talked up as the next "hot spot" in the paper, a property magazine or on a website, you're most likely too late.

Where to buy

If you're searching for property to renovate and hold, you should target capital cities. Cities are being constantly upgraded with new roads, shopping centres and transport links, so there are plenty of opportunities for finding areas with upside.

From the research reports I have read it's pretty clear the "inner and middle rings" of capital cities have enjoyed the most consistent and strongest capital growth over time. This is mostly due to supply and demand because people prefer to live closer to their work and urban amenities and are willing to pay to do so both in purchase price and in rent.

Investing in property in regional

areas can work and I have done it myself. However, it's a riskier proposition (particularly if the population is below 25,000 or there are less than a dozen major employers in the region). That's because regional areas have narrower economic bases. For example, if a mine or factory closes, the resulting unemployment can devastate the local economy. That's not good for a property's capital growth or rental yield.

Inspect 100 properties

My advice is to physically inspect 100 properties that fit your criteria. Inspect both unrenovated and renovated properties. It will take a good deal of effort and several weekends of driving around, but it's a worthwhile investment of your time.

During this research stage you will:

- Get to know the price difference between renovated and unrenovated properties
- Find out which streets to avoid and the unique pockets that get higher prices
- Understand the value of desirable features: parking, views, proximity to shops, schools, parks and public transport, etc.
- Get lots of ideas for improvements you can make to the property you buy.

Don't stop until you've seen 100 properties. The more you inspect, the more developed your intuition for whether a particular property has potential or not.

Preparing for design and decoration

When you're not inspecting properties (on Sundays, for example) you need to start preparing for the actual renovation phase. You see, design and decoration is about making a series of choices based on budget and style considerations and if you've never done it before it's easy to feel overwhelmed by the almost limitless options.

For example, here are just a few design issues you'll have to consider if you're re-doing a bathroom...

Which layout will make best use of the space? What colour scheme is best? Small or large floor tiles? Or should you go with a polished concrete floor? What colour and style should the basins, baths and toilets be? Vanity or wall-hung basin? Single or double basin? Shower, bath or both? Swing panel or sliding shower screen? What colour, shape and size should the wall tiles be? Do you tile halfway up the wall or all the way to the ceiling? What style of tapware?

Confused yet? And that's just one room! Don't worry. If you spend some time researching and planning your renovation before you start, you'll soon »



work out what looks good, how much things cost, and the cheapest places to buy fittings and fixtures. So when you exchange contracts on a property you'll be able to hit the ground running.

The most important point to remember is you're renovating for your prospective tenants and buyers, not yourself. So don't let your personal tastes cloud your judgment. You want the renovated property to appeal to the masses not to the few.

"You want the renovated property to appeal to the masses, not the few"

Start by looking at renovated properties for sale in the real estate section of the newspaper or on real estate websites. Create a look book of cuttings. Add in anything that takes your fancy from newspaper supplements, design magazines and home decorating and renovation websites.

Go to home shows and start visiting showrooms and warehouses. Ask a lot of questions. Find out how much different styles of carpet cost, which tiles and colours work best for small spaces, the different frameless shower screen options, and so on. Think about colour schemes and combinations of finishes that work well together. Start renovating properties in your mind's eye.

All this research will save you a lot of time and stress later on.

Assembling your renovation team

You don't have to wait until you've bought a property to start putting your renovation team together either. Do it as soon as possible. It should include a building and pest inspector, builder, plumber, electrician, tiler, brickie, carpenter, plasterer, painter, floor sander and a handyperson.

Finding high quality tradespeople

isn't easy. The best way to increase your chances of getting good work done is to get referrals and references. Ask your family, friends and work colleagues if they've used anyone they're happy to recommend. Good tradespeople also often have a network of other quality tradespeople they work with.

Failing that, you'll have to resort to trial and error. Check out the classifieds in the local paper or use Google. There are now a number of online services that connect renovators with builders. You post your project details on the website and the appropriate tradies contact you to arrange to do a quote.

When you choose tradies and builders make sure they're people you like and respect. They should be punctual, enthusiastic, friendly, and return your calls. Don't be afraid to ask for references and pictures of past work.

Should you DIY?

Should you do any of the renovating work yourself? Legally you can do everything except the structural, electrical and plumbing work. In the past I did a lot of renovation work myself. That was because I was a qualified carpenter, had a limited renovation budget and was in a hurry to grow my wealth. So it made sense for me at the time.

However does it make sense for you? Maybe, but before you pick up a paint scraper ask yourself, do you have the necessary skills to do the work to a high standard? Most people can tell the difference between DIY and a professional finish and even if they can't, if they order a building inspection I'm pretty sure the inspector will tip them off.

You also need to consider if you can do the work as quickly as a qualified tradesperson and if you have the time because the longer it takes to complete the renovation the more you'll pay in holding costs. Any money you save by not hiring qualified trades people can easily be lost in interest costs and loss

of rent as your renovation drags on and on.

If you're considering doing some or all of the work yourself it's usually because you want to save money, which is a reasonable thought. However it's not difficult to employ professionals to do the work and still make a healthy profit.

In fact, clients regularly engage my renovation project management team to look after their renovations and they make healthy profits without doing any project management themselves, let alone getting their hands dirty. Many of them live interstate or overseas and don't even visit the property themselves, before or after the renovation. Talk about being completely hands off!

The big money in renovating is in finding the right property, buying well, and planning and executing a renovation that matches the desires of the target market, not in swinging a hammer.

You also have to weigh up the opportunity cost of doing the work yourself. How much is your time worth? It may be better spent looking for your next renovation project? **W**

This is an edited extract from Patrick Bright's latest book, The Insider's Guide to Renovating for Profit, available from epspropertysearch.com.au or any good book store.

