

# Renovation Fact Sheet

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## Introduction

Renovating property is a proven way of making money. However, there are also many traps to avoid. This article explains how the strategy works, and the key pitfalls that you should avoid.

## Renovating Explained

When renovating, the key to success is to always add more in perceived value than actual cost. The difference will be your profit margin. For example, if a reno costs \$20,000 to complete but adds \$30,000 to the perceived value of the property, your profit margin will be \$10,000.

Many investors buy, renovate and hope to sell for a profit. This hit-and-miss approach is dangerous, because if you overestimate what a renovated property will sell for then your profit may be compromised or you could even make a loss.

A better approach is to be more strategic by trying to gain clarity on the 'critical unknowns', which in the case of renovating, are:

1. The cost to complete the reno; and
2. The end sales price

### Investing Tip:

You'll make a profit so long as add more perceived value than actual cost.

Often property is bought and renovated on a 'best case' scenario, meaning the cost is under-estimated (we'll be able to do it cheap) while the end sales price is over-estimated (it will sell fast and for top dollar).

## Cost To Complete

Cost control is a critical success factor for all renovators.

If you are just starting out then we recommended making your offer conditional upon a building inspection to the purchaser's satisfaction. Make sure you are there when the inspection is completed, and be sure to ask questions about how much it will cost to renovate the areas you plan to target.

Anything that requires alteration to the structure of a house will be expensive, as is work done to wet areas that need to be weatherproofed. Again, if you are new to renovating then it is wise to stick to cosmetic upgrades where the surface is made over but the structure behind it is left alone.

For example, a cost effective way to renovate kitchens is to leave the shell of the cabinetry and replace the tiles, bench tops and appliances (oven, rangehood, taps etc). The alternative of ripping out the kitchen and starting afresh will be significantly more expensive.

## **End Sales Prices**

Knowing what your renovated property might sell for is a matter of doing plenty of inspections, keeping an eye on what properties are selling for, and asking agents for an appraisal of the value of the property if you were to do a quick reno and put it straight back on the market.

## **Know Your End Game**

It's important to gain clarity on what financial outcome you want (i.e. your end game) from your reno before you start. For example, while it's common to renovate and sell, you might also like to renovate to increase the rent, or renovate to add equity which is then accessed by refinancing (rather than selling).

Your choice of desired end outcome will impact your reno budget and which areas you target to improve. For example, re-carpeting costs about the same of polishing the floorboards, but if you plan to renovate and rent then polishing the floorboards might be the smarter option as carpet stains and wears more easily.

## **Target Market**

To sell or rent to your post-renovated property, it must present as a more appealing place to live to the renter or purchaser than where s/he is currently residing.

### **Investing Tip:**

Until retirement, the normal pattern for people is to improve their lifestyle by trading up to better (i.e. more expensive) houses.

Therefore, maximum value can be added by identifying who will be buying (or renting) the dwelling, and then renovating so as to improve the use or appeal of the property for that person.

### **Investing Tip:**

What you want or think isn't as important as what the person who is buying the property off you wants or thinks.

For example: if your target market is empty nesters, avoid buying properties with steep slopes or stairs. No matter how pretty the property, there is a lack of functionality because as you get older it is harder to walk up and down stairs.

Aside from what physical renovation works are completed, attention should be given to the area the property is located too. Different people like to live in different areas, so your renovation should be targeted to the majority of people who want to live in the area and sensitive to how much they can afford to pay.

For example – renovating a one bedroom unit may be problematic as those who live in such dwellings usually have less money to spend and so there is a cap on how much they can pay. This necessitates a fairly basic reno as it will be easy to overspend.

## What To Renovate

The more emotional a buyer is about a property, the more s/he will pay to live there. Generally speaking, because women buy homes and men by houses, you will achieve a higher sales price by targeting areas that women are less forgiving about pay close attention to (e.g. kitchen, bathroom, bedrooms) than catering for the male need (big garage or shed, theatre room, study).

<b>Areas That Are Known To Add More Value</b>	<b>Areas That Known To Add Little Value</b>
<ul style="list-style-type: none"> <li>✓ Kitchens</li> <li>✓ Bathrooms</li> <li>✓ Living rooms</li> <li>✓ Bedrooms</li> </ul>	<ul style="list-style-type: none"> <li>✗ Sheds</li> <li>✗ Studies</li> <li>✗ Spare bedrooms</li> <li>✗ Laundries</li> <li>✗ Carports / Garages</li> </ul>

## What To Avoid

You will be unlikely to recover the full cost of renovating anything that cannot be seen, or items that are seen as mod-cons or else simply taken for granted. Examples of things you probably want to avoid include:

- Replacing the fencing
- Replacing the hot water system
- Fixing or replacing the roof
- Major rewiring
- Major replumbing
- Major replastering
- Moving the location of rooms
- Restumping or replacing floorboards
- Adding water tanks or garden watering systems
- Adding solar systems
- Water tanks

## Tips For Beginners

It can be easy to dramatically improve the cosmetic appeal of a property without spending big bucks. Examples of cost effective improvements include:

- Get rid of clutter
- Re-painting
- Replacing benchtops and cupboard doors
- New shower screens
- New taps and door knobs
- Neatly landscape the gardens
- Plant annuals in the garden that are in flower, it adds colour
- Nice letterbox (including number)
- Front door & Doorbell
- Porch lights
- Remove stains from concrete
- No cars parked in driveway

## Icing On The Cake

Don't make the mistake of spending money on the renovation but forgetting to leave reserves for:

1. Staging the property – meaning having furniture and other items in the property to provide a suggested way of living in the home. <More information on staging>. The power of staging can be contrasted in the two photos below.

### Investing Tip:

Avoid selling vacant houses. Buyers lack vision and pay less for properties that lack emotion.



2. The marketing campaign – it would be a shame to have a lovely renovated house that couldn't be effectively marketed.

## Case Study

Here's a case study (Macarthur St, Ballarat), of a real life reno contributed by experts Dean & Elise Parker.



**Front - Before**



**Front - After**

The **goal** of this Ballarat renovation project was to buy, renovate and sell the property within a short time frame of 6 months and to make a profit of over \$40,000.

The **location** of the very untidy 100-year-old period weatherboard property on stumps was in the sought after lake precinct area; in fact, it was only metres from Ballarat's iconic Lake Wendouree. This end of town is not only desirable, it is expensive in comparison to the median and it also has a heritage listed area with many period homes.

The property was in dire need of an advanced renovation to bring it back to life. Originally a 5-bedroom, 1-bathroom, 1-living room home, the aim was to transform it into a 3-bedroom, 2-bathroom home with two spacious living rooms and a generous outdoor entertaining area.



**Kitchen - Before**



**Kitchen - After**

In order to control labour costs and keep the project to its time frame, we took an active DIY role, while also using trades where required as the renovation was extensive.

The identified **risks** of this renovation project included:

- a large variance in prices within a small area
- meeting the needs and desires of our potential purchaser - we had to be confident we knew what our target market wanted
- the requirement for structural changes, thereby increasing the chance of a cost blowout if we hit any hurdles.

**Budgeted numbers**

	<b>Budget</b>
Purchase price	\$280,000
+ Acquisition costs	\$14,000
+ Renovation costs	\$95,400
+ Holding costs	\$13,800
+ Selling costs	\$13,560
<b>+ Desired profit</b>	<b>\$48,240</b>
= Required selling price	\$465,000

The key to securing this renovation property and to the ultimate success of the project was using our Quick Deal Analysis formula and identifying that a profit above \$40,000 was possible and knowing that a selling price above \$465,000 was required to obtain that profit.

Identifying this information triggered us to do a full renovation costing of the property before we purchased. This is imperative as it dramatically reduces the risks and leaves no stone unturned to protect our profit, which of course is the aim of the game.

### Actual numbers

	<b>Actual</b>
Purchase price	\$280,000
+ Acquisition costs	\$14,814
+ Renovation costs	\$98,930
+ Holding costs	\$15,160
+ Selling costs	\$15,620
<b>= Total</b>	<b>\$424,524</b>
Selling price	\$469,000
<b>= Actual profit</b>	<b>\$44,476</b>

This renovation included the removal of walls, so a licensed builder was required to guarantee the work.

You will see that the budgeted and actual numbers are very close despite a renovation of just under \$100,000 being undertaken on this property. This is a direct result of completing thorough due diligence and having a system to profit.

This project highlighted the need to always source materials at heavily discounted rates and to select a good selling agent, not just a good real estate agency. It confirmed that our systems are so important to lock in with a high degree of certainty the profit before the renovation starts.

Looking at the before and after photos, you can see how we transformed this very untidy and almost unlivable ugly duckling into a desirable and comfortable home for our purchasers.

The structural photos show where we removed walls to create an open plan kitchen meals area, and also add an ensuite and WIR to the master bedroom.

### Final Words

While renovating is a great way to make quick cash profits, there are many pitfalls for unwitting investors. Before investing in property, make sure you invest in your yourself by getting appropriate training from an experienced source.

### Further Information

While this fact sheet has been a good start, if you're serious about renovating property then it's wise to spend a small amount of money to get educated on how to make large sums of money.

'The Complete Reno System' is hands-down the best resource on the market for investors. Written by Dean and Elise Parker who have bought more than \$15,000,000 worth of property, it provides a step-by-step system for making the most money for the least risk. Included are:

- A 214 page written manual containing
- Six case studies that explain how to apply the knowledge in real life
- 17 checklists (over 70 pages)
- 6 Video DVDs
- 5 Audio CDs
- A Data CD that contains every checklist

Better yet, through affiliation with this website Dean & Elise are willing to give you a significant \$150 discount.

To redeem your discount please email: [admin@propertyinvesting.com](mailto:admin@propertyinvesting.com)