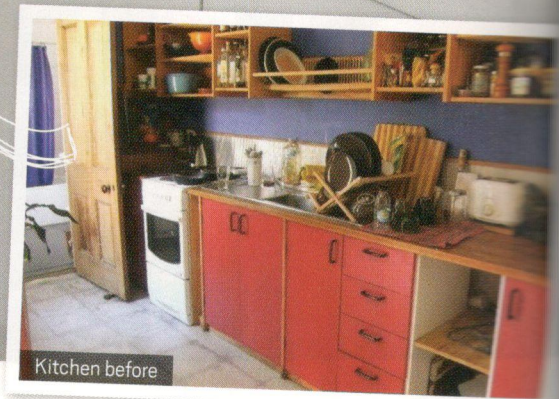


RENOVATION GOLD

Expert renovator Jane Slack-Smith tells us how she increased her property's value by \$100,000 in just six weeks. DINAH LEWIS BOUCHER



Kitchen after



Kitchen before

As investors we're constantly thinking about property acquisition – chasing down that next hot piece of real estate for the portfolio. But sometimes, by doing this, you miss opportunities sitting right under your nose, according to Jane Slack-Smith, founder of Your Property Success and director of Investors Choice Mortgages.

“A lot of people don't look at their current portfolio to see opportunity,” she says.

So, when a few properties she already owned came up for lease during 2015, Jane saw an opportunity to create value.

■ THE PROPERTY

Jane had purchased a two-bedroom, two-storey workers cottage in Darlington, Sydney, back in 2002 for \$427,500.

Pre-renovation the cottage was valued (in 2015) at \$820,000. While the humble workers cottage had increased significantly in value just as she had anticipated, Jane knew she could manufacture greater equity from a quick renovation revamp.

■ BUYING CRITERIA

Don't be fooled. A profitable renovation doesn't begin with paint and a toolbox, Jane explains. Her approach involves purchasing under market value, renovating to add value and holding for growth in an area she considers an excellent long-term prospect.

According to Jane, a profitable renovation starts when you've diligently researched and purchased the right property.

“The growth of the property is so important. I look at the ripple effect. I like to locate areas surrounded by strong performing areas,” she says.

■ PRE-RENO WORK

Before any renovation, thou shalt run the numbers! Jane looked at comparable sales in the area and knew what renovated homes were selling for.

JANE'S FIVE RS OF RENOVATIONS

1. Refresh: Basically, you just have to clean it! Eg. stained ceilings from years of smoking or clearing overgrown yards that can deter buyers. This one involves a bit of elbow grease and time.

2. Repair: This is when you get your toolbox out to fix things. From painting some bench tops in the kitchen or tiles in the bathroom to polishing floorboards and steam-cleaning carpets. It's the quick-fix type of renovation. You're not ripping things out.

3. Rejuvenation: This is the 'R' most people think about when they hear “renovation”. This includes the full kitchen and bathroom updates, carpet, and painting the house outside. This is where that 10 per cent renovation budget rule of thumb comes in.

4a. Restructure: Your typical structural renovation.

4b. Re-structure with a twist: Jane says “4b” is when you get creative with the floor plan while working within the current floor space, turning a three-bedroom into a four-bedroom, etc.

5. Revamp: This is what Jane did with her renovation. She looked at her existing portfolio and had a valuation done. She then carried out an analysis of comparable renovated properties in the suburb to work out if this revamp of her Darlington property would be viable. And it was, to the tune of a \$100,000 value increase!

“This is where the scope for a profitable renovation comes in. It's the difference in pricing disparity between an unrenovated property and a renovated property.”

Jane also noted what standard of finish in comparable properties was needed to achieve those higher sales prices.

After completing her analysis, she knew a low \$900,000 end price was achievable for this project.

“If I couldn't have added at least \$2 for \$1 spent, I wouldn't have done the renovation,” she says.

“Test the market for pricing disparity and then decide to renovate. If that

pricing difference between the renovated and unrenovated properties isn't enough to cover your renovation costs, holding costs and your profit margin, then there's no point in doing it.”

■ THE RENOVATION

In line with her findings, Jane kept the renovation updates purely cosmetic, focusing on the kitchen and carpet, painting internally and externally, and the necessary maintenance.

Sourcing quotes and keeping to a

timeline: For a quick turnaround in the project timeline, Jane recommends getting your quotes organised prior to tenants vacating.

“My tenants had lived in the property for many years, they were great, so in this instance I didn't start the process until the property was vacant,” she says.

Jane had a specific contractor in mind to quote her for the kitchen.

“When he came back to me with his timeframes, his kitchen manufacturers were three weeks out, which wasn't good enough.” She decided to go with her builder instead, who quoted up quickly.

Jane says this back and forth cost her two weeks in the project timeline.

“If I were buying the property, I would purchase with a clause in the contract to get quotes done (and access) before settlement so you hit the ground running, minimising the time out of the rental market,” she says. “Alternatively, if you're renovating with tenants in the property, reduce their rent throughout the duration of the renovation.”

Time is money in a successful renovation. The quicker you turn the project around, the more money for your pocket.

Kitchen: The old kitchen was pulled out and replaced with a sleek, custom-built version. Because of the suburb and her analysis of renovated properties, Jane selected new Caesarstone bench tops to complete the look.

“I wanted to move the price point from \$820,000 to \$920,000. Looking at the

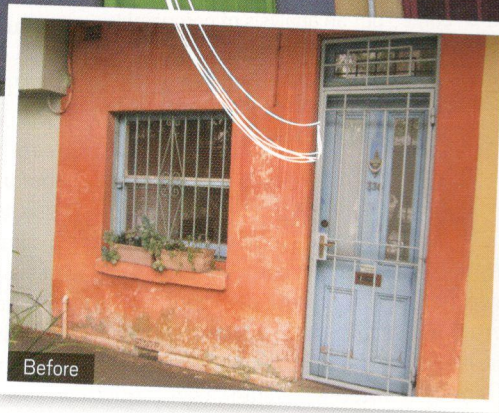
“If I couldn't have added at least \$2 for \$1 spent, I wouldn't have done the renovation.”

JANE SLACK-SMITH





After



Before

standard of finish expected in the area, the kitchen needed to be custom-made with this high-end finish," she explains.

Repairs: They may not be so sexy in terms of return on investment, but repairs were required. Electricals and switchboards needed to be updated.

"We spent about \$2000 fixing roof problems, which was no bang for your buck but it just had to be done."

When starting out, Jane recommends you allow a 10 per cent buffer in your renovation budget for any unforeseen maintenance issues.

Her professional skills came to the fore as she was able to organise and oversee this Sydney project from the comforts of her Melbourne base.

"I hand-picked all the colours, tiles and carpet from national suppliers with shops in Melbourne, ordered them and my team in Sydney simply picked them up from their local supplier.

"I still had all the input into the style, the colours and the design. I chose the Caesarstone and matched it with back-splash sample tiles, all from interstate."

Jane says she could have hired a project manager, but why pay someone to do it when you can get the job done for free?

"I used my rental agent. She actually got quotes for me and let people into the property. She had a list of trades they use regularly, I had a few people I wanted to get quotes from, I checked references, selected the trades and she managed that process."

Jane says a project manager would have cost her about \$3500 more.

"But they usually bring their own team and you might pay a premium on that team as well.

"I made sure I got the same valuer to come out to inspect the property, and she valued it at \$920,000."

PROJECT TIMELINE: SIX WEEKS

Week 1

- ▶ Selection of kitchen colour, paint colour, Caesarstone finish, appliances selected, carpet selected.
- ▶ Tenants move out.

Week 2

- ▶ Quotes from trades and suppliers confirmed, kitchen measured up and ordered, electrical switchboard replaced, kitchen demo begun.
- ▶ This would normally be done while the tenants were there but there were some access issues.

Week 3

- ▶ Start renovation: Kitchen removed, wall repairs and hot water service under kitchen bench removed, creating more room. Carpet removed.

Week 4

- ▶ Kitchen installed, splashback, Caesarstone measured up and ordered. Tiling of kitchen floor, painting done internally, toilet cistern added.
- ▶ Kitchen has to be fitted before Caesarstone final measurements done – wait time for this can be a real drag on reno times (Laminex is faster).

Week 5

- ▶ Kitchen appliances fitted, lighting fitted, balcony doors and internal and back doors replaced and painted, carpet laid.

Week 6

- ▶ Caesarstone bench top added, cleaned throughout and roofing repaired, final touches – mirror added, shower curtains, etc.
- ▶ This renovation could have been a lot quicker if quotes were done while the tenants were there. The bench tops were Caesarstone but Laminex requires no waiting, hence it could have been a three-week reno in different circumstances.

In six weeks Jane manufactured more than \$60,000 in equity on the property, raising the value from \$820,000 to \$920,000.

“Rule of thumb for your renovating budget is 10 per cent of the property’s value, and as you can see \$36,700 over \$820,000 is only 4.5 per cent, well under the 10 per cent renovation rule.

“I try to make \$2 for every \$1 spent, minimum, and this project returned \$2.90 on every \$1 so that’s a great result.

“I’d like to say I was jumping up and down excited, but there was no surprise. Because of my pre-renovation analysis I knew what the numbers were going to be before I started.”

■ LAST TIPS

Ensuring you buy the right property in the right area is paramount to a profitable renovation. If this means you don’t have much of a renovation budget after landing that great property, Jane says that’s okay.

THE NUMBERS: JANE’S PROJECT COSTS	
Description	Cost
Value pre-renovation	\$820,000
Reno breakdown: Kitchen, tiling, carpets throughout the house, new doors, mirror, toilet, works on laundry and wall repairs	\$21,900
Roof waterproofing	\$2200
Painting	\$4700
Carpet	\$2450
Kitchen package oven, cook top, range hood, dishwasher	\$1700
Upgrade electrical switchboard and new lighting and cabling	\$1750
Interest repayments	\$2000
Total renovation cost	\$36,700
Total project cost	\$856,700
Value of house after renovation	\$920,000
Added value in six weeks	\$100,000
Net equity gain after all costs	\$63,300

“I bought this property in 2002 and it wasn’t until 13 years later I redid the kitchen. I think a lot of people think you have to buy and renovate straight away.

“It’s okay to leave something up your sleeve.”

So, if you’ve nabbed the perfect property in a growth area but are stretched to complete the renovation, simply get it tenanted, sit back and relax.

“Don’t kick out good, rent-paying tenants just to renovate if you don’t need to. Instead, wait for a vacancy period,” Jane says.

Particularly with the current lending regime of tighter borrowing capacities, Jane demonstrates that you mightn’t necessarily have to go out looking for new properties to purchase straight away, either.

“As with this revamp, it’s often the gold buried in your own back yard that can help you create equity, increase the rent and improve your overall portfolio,” she says. **API**

A BRAND NEW WEBSITE FOR AUSTRALIAN PROPERTY INVESTORS



www.apimagazine.com.au