

RENOVATING AFFORDABLY

Just because a suburb's not part of the inner city, doesn't mean it's not ripe for renovation. NICOLA MCDUGALL



Sometimes we can become fixated on those glorious inner-ring suburbs home to character properties perfect for rejuvenation.

But cities are big places and more and more of our population are living in the middle and outer ring, often for affordability reasons.

Many of the suburbs about 20 kilometres or more from Melbourne's CBD have a plethora of properties, perhaps 30 to 40 years old now, that are in perfect shape for a cosmetic renovation. In fact, you could potentially spend a little to make a lot if you invest and renovate wisely.

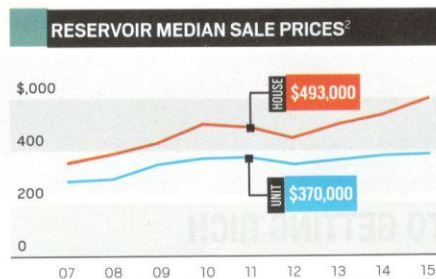
THE SKINNY ON RENOS

Enzo Raimondo, chief executive officer of the Real Estate Institute of Victoria, says the reality of city life for many Melburnians is that their housing needs change but they don't necessarily want to move.

He says for owner-occupiers and investors alike, sprucing up an existing but possibly tired property may well be the best answer.

"When your kids are demanding their own bedrooms, that old-fashioned kitchen is getting on your nerves or your house needs a major overhaul, a difficult decision awaits – to renovate or relocate," he says.

ALL ABOUT RESERVOIR ¹		
	House	Unit
Median price Jan 16	\$570,000	\$374,000
12-month growth	10.7%	-0.5%
Median rent Jan 16	\$350	\$310
Rent growth (YoY)	2.9%	3.3%
Gross rental yield Jan 16	3.4%	4.3%
Properties sold Jan 16	814	235
Properties sold Jan 15	741	220
Average vendor discount Feb 15	-6.2%	-2.2%
Average vendor discount Feb 14	-3.9%	-0.8%



"Renovating an existing home offers the chance to create the house you want in the location you know and love.

"It avoids upheavals such as changing children's schools or settling into a new community. But the difficulties are obvious – the disruption to lives, the need to temporarily rent or live in a building site, the expense and potential for cost overruns, the work involved in planning permissions, design and project management."

Of course, cosmetic renovations are the least disruptive option, but even a quick once-over is going to test the strongest of relationships and no one really wants "paint wars" on home soil.

Even keeping costs to a minimum, in the outer suburbs it's important investors or renovators maintain a strict budget to ensure they don't overcapitalise.

"If the cost of your renovation will take the amount spent on your home above the ceiling price for homes in your area, it may be time to rethink," Raimondo says.

"Even if you plan to stay long-term, so assume you'll eventually be in profit, overcapitalising isn't a good idea. Sometimes selling unexpectedly is necessary and if the house is overcapitalised, you may lose money."

If you draw a circle 20 kilometres out from Melbourne's CBD, the possible

suburbs to choose for a cosmetic renovation are many. But the experts say that some suburbs are better bets than others.

Jane Slack-Smith, founder of Your Property Success, says it's imperative to look for suburbs with a large pricing disparity between renovated and unrenovated properties.

This is inherently harder in suburbs further from the CBD, but there are ways to source localities with potential. She uses available data to help lock in locales including the *Top 100 Renovators Report* produced by Residex.

"The report assesses suburbs with the most number of streets within that suburb with the necessary pricing disparity," she says.

"As expected, the top 15 suburbs (in Melbourne) are all inner-city suburbs.

"The reason there are less outer suburbs in the list is that at a lower price point, there's often not enough spread in values to cover the costs of purchase, renovation and holding costs and profit.

"However, a few that did feature in the report included Caroline Springs, Cairnlea, Hillside, Beaumaris, Black Rock [and] North Warrandyte."

Slack-Smith says this is a great starting point but it's worthwhile running the suburbs through other criteria to narrow down the pick areas.

"When looking to do a cosmetic renovation, an overall strategy should first be considered.

"A cosmetic renovation is best suited to a 'buy, renovate and hold/rent' strategy as compared to a 'buy, renovate and sell (or flip)', which often requires a structural renovation."

Slack-Smith says that narrows the search to suburbs with good capital growth prospects.

"I want to be able to see that there are at least 30 per cent of renters in that suburb and a minimum of 20 sales per month to enable a good chance of securing a property without wasting time."

David Maiolo, director of Roda Developments in Melbourne's Thomastown, about 20 kilometres from the CBD, says many of the city's outer suburbs have homes ideal for renovation.

"Reservoir, Mill Park and Bundoora have experienced fantastic boom periods, but are now due for refreshment to bring them up to date with today's needs and styles. These suburbs are known for their

JANE SLACK-SMITH'S TOP TIPS

Regardless of where you buy, the fundamentals of a profitable renovation are always:

- ▶ Buying in an area with good growth potential for long-term wealth
- ▶ Pricing disparity, so you make money from your renovation
- ▶ Demand for a renovated property
- ▶ Thirty per cent of renters or more, so you're not stuck with a beautifully renovated empty property
- ▶ Greater than 20 per cent sales per month, so you're not wasting your time trying to find the proverbial needle in a haystack.



beautiful tree-lined streets, and with some love and attention these period style homes can retain their character with a modern touch," he says.

When renovating in the outer-ring, Maiolo says it's important investors stick to houses, as these are likely to provide the best returns as well as have subdivision potential.

"Their history and larger style blocks make [houses] ideal spots for redevelopment, with options including multi-unit developments to the rear of the properties. This allows you to take advantage of the available space, while also modernising the character and style of the current dwelling," he says.

"With the number of historic homes in these suburbs, there's an opportunity to renovate them back to their original charm and character. These larger blocks also offer open spaces to entertain by opening up the kitchen, meals and living areas and connecting them to your outdoor living spaces."

■ ADVANTAGES

Slack-Smith believes an upside in outer suburb renovation is that the housing's generally in good condition.

"In the outer suburbs generally the age of housing isn't particularly old... postwar and often '60s, '70s and '80s, so often they're in reasonable condition and require mostly updating to suit the current market, rather than a complete gut and renovation.

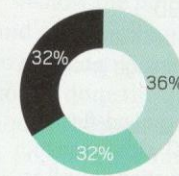
"Another pro is that often you find tradespeople charging more in the more affluent (often inner-city) suburbs,

RESERVOIR FACT SHEET

Reservoir has a low supply to demand situation. There are few rental properties available to tenants and there's an undersupply of for-sale listings. Discounting has been muted. Incomes in Reservoir are growing slightly faster than the Victoria average. The proportion of renters to owner-occupiers is above average for the state. Stock for sale levels are unchanged for the year.

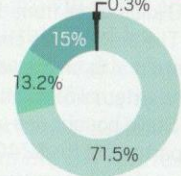
Source: SQM Research, www.sqmresearch.com.au (accurate to Mar 2016).

OCCUPANT TYPE³



- Owner-occupiers
- Mortgage holders
- Renters

HOUSING MAKE-UP⁴



- Separate house (12,970)
- Semi-detached row or terrace house, townhouse etc (2385)
- Flat, unit or apartment (2719)
- Other dwelling (51)

VACANCY RATES³

1.8%
RESERVOIR

2%
MELBOURNE

10-YEAR AVERAGE ANNUAL GROWTH⁵

7%
HOUSES

4.9%
UNITS

KEY DRIVERS

- ▶ Known for its scenic, tree-lined streets
- ▶ Larger style blocks
- ▶ Historic homes ripe for renovation

POPULATION⁴

47,637

WALK SCORE⁶: 60

Reservoir is the 144th most walkable neighbourhood in Melbourne. Some errands can be accomplished on foot there.



Source: APIM and SQM Research. Source: realestate.com.au. Source: SQM Research. Source: ABS 2011 Census. Source: APIM. Source: www.walkscore.com.au. H = houses, U = units, YoY = year on year, SNR = statistically not reliable

INVESTOR SNAPSHOT

Cheltenham capital

Steve Taranto is a registered builder and active investor who knows the value of renovating in Melbourne's outer suburbs.

"Being an investor, just like everybody else, when I see a property opportunity we take it onboard and assess it and if there's money to be made we go ahead and do it," he says.

With this in mind, Steve was part of a buying syndicate that purchased a block of eight apartments in Cheltenham, Melbourne, in 2012. The suburb is about 20 kilometres from the CBD.

The project was chosen because of its potential to create value through internal and external renovation.

Steve bought one of the ground-floor apartments for \$240,000 with a plan to complete a cosmetic renovation as well as create a courtyard using his building nous and the power of the syndicate as the new owners' corporation.

"We were fortunate to get a ground floor apartment and as a result of that we were able to create a courtyard and gain some privately titled building area from the common property," he says.

"The big factor was the courtyard. There was a window in the living room, which we completely removed and put some French bi-fold doors in there, which opened up to the courtyard."

Steve left the tenants in the property for about 18 months before taking vacant possession and starting the renovation, which was completed within a few months.

"We set a strict and realistic budget,



Exterior after



Interior after



Name: Steve Taranto
Lives: Hampton, Vic
Invests: Cheltenham and others
Strategy: Buy, renovate or develop, and sell.

being careful not to overcapitalise on unnecessary costly modifications.

"This was achieved by a few cost-saving simple techniques such as avoiding removal of structural

“Fixtures and fittings were carefully selected within the mid-price range.”

walls, respraying existing bath and wall/floor tiles and utilising existing plumbing points for new cabinetry to kitchen and bathroom.

"Fixtures and fittings were carefully selected within the mid-price range and display furniture installed to provide that homely feel," he says.

"The result was a classy, modern and fresh-looking abode that attracted plenty of interest from potential investors and downsizers. The property went to auction in December 2013 with fierce bidding and achieved a top end of the market price of \$396,000."

That meant the renovation netted a handsome \$70,400 profit for what was really only a few months' work.

While he chose to sell the apartment at the time, Steve says he'd renovate in the outer suburbs again if the conditions were right and the numbers stacked up.



Bathroom before



Kitchen before



Bathroom after



Kitchen after

COST BREAKDOWN

Purchase price	\$240,000
Stamp duty	\$13,200
Fees and purchasing commissions	\$15,500
External renovation costs	\$14,800
Internal renovation costs	\$31,300
Selling costs	\$10,800
Total costs	\$325,600
Sale price	\$396,000
TOTAL PROFIT	\$70,400

whereas in the outer suburbs hourly rates can be lower.

"Hence you may find it cheaper to do a renovation."

Renovating in more affordable Melbourne locations may be a solid investment strategy as long as you've done your homework, but there are still many cons to keep in mind.

Maiolo says older properties may be protected and therefore stymie your plans.

"Heritage overlays to some properties can mean restrictions to renovation plans. These need to be approved by local councils, which can really draw out the planning process.

"You've also got to keep an eye on continuing changes to zones and building codes, which can adversely affect your plans."

Slack-Smith agrees the buy-in is cheaper but the lack of a large price disparity will create a hurdle.

"Often the pricing disparity is not present, so the value of a renovated to unrenovated property is not enough to cover the costs of purchase, holding and renovation as well as making a profit.

"Another disadvantage could be if you are in the outer suburbs where new property development and estates are being built, then you are directly competing against new homes, for example in areas such as Point Cook"

■ SMART STRATEGIES

To underpin renovation success, investors need to stick to smart strategies and always keep an eye on their ultimate goal, which should be the manufacture of equity as well as retaining the properties over the long-term.

With cosmetic renovations, they also need to remember which parts of the properties are likely to make the biggest

statement as well as secure the greatest chance of capital growth.

"Definitely kitchen and bathroom upgrades. You can really make a statement by just updating kitchens and bathrooms and leaving the rest of the house as it is.

"A fresh coat of paint also never goes astray!" Maiolo says.

Slack-Smith warns not to gloss over the numbers when you're considering a venture.

"Property choice is paramount, and research on that property is essential.

"Know the potential growth of the area and surrounding areas, this is the key to growing your long-term wealth after you've done the quick manufacturing of equity through the renovation itself."

So, staying away from the city centre can make sense if you're looking for a fixer-upper. Just remember to keep a keen eye on the numbers and do your due diligence. **API**

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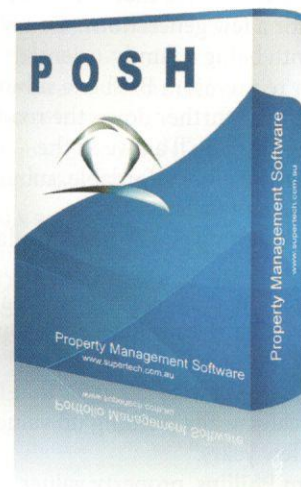
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