

STEP-BY-STEP GUIDE TO INVESTMENT PROPERTY RENOVATIONS

Over the next three months we will run a series of renovation features covering small, medium and large renovation budgets. First, **Carolyn Cossey** seeks expert help to compile a blueprint for any renovation, no matter how big or small.

DOING UP HOUSES IS THE FAST

way to riches right? So shows like *The Block* and *My First Home* would have us believe. Renovating an investment property is a very different project from renovating your own home. With advice from Mark Trafford, of Maintain to Profit, a specialist maintenance and renovation company, we've created a step by step guide.

"We have completed over 600 renovations, averaging around 120 jobs per year," Trafford says. "With a small budget, you'll need to prioritise carefully, expect to do some of the work yourself, or undertake a plan. If you have tight budget constraints, perhaps it means you do the kitchen this year, but make an agreement with the tenants that if they are still there in 12 months, you'll tackle the bathroom then."

Step 1

SETTING GOALS - WHY ARE WE DOING THIS RENOVATION?

A renovation for a buy and hold rental will have different goals from a property you intend to renovate and trade, or one day live in yourself.

For buy and hold you will want the post-renovation yield to be as high or higher than pre-renovation yield. How much extra rent will you be able to charge once the renovation is completed?

For a trade you will want the renovated sale value to be greater than the unrenovated sale value plus renovation costs. If not, you should save yourself the stress and sell now!

For a buy and hold property, can you alter the layout to add another bedroom, or can you extend? Is it generally tired, in which case you may be after "re-decoration" which is a cosmetic refresh using existing cabinetry, and adding touches such as a new coat of paint, as opposed to "renovation" where you are removing walls and putting in whole new kitchen cabinets or shower units.

At the very least, renovations should safeguard you from tenancy vacancies and allow you to keep up your rent at a good market rate.

Barry Adkins, the business owner of Quinovic Property Management in Mt Eden, says: "A tired property will lag behind in any rent rises. When smart properties are commanding 5% per annum rent rises, you may be lucky to achieve a 2% rise if your rental is shabby."

Step 2

PLANNING

You need to answer several questions before embarking on your renovation.

What is the budget? What problems are you trying to solve? What will give you the best bang for your buck? What is the most urgent issue to address? What skills do you have to complete tasks yourself? What contractors will you need to employ? Will the time of year, and weather, affect when parts of the project should be completed?

Do any of the jobs need planning permission or consents? Consider your target market of tenants and what their likely

requirements will be. For example, if you are expecting a young family to live in your property you'll want to include items such as secure fencing in your plan.

"Tenants can actually be put off by high end fixtures and fittings," Trafford says. "They are concerned that if these things should get damaged they will be expensive to replace. Go for tried and trusted brands on things such as tapware and appliances, so you can easily source replacement parts."

Step 3

CRUNCH THOSE NUMBERS

This is possibly the hardest step and where many unblooded renovators get caught out

Property investment is a business and if the numbers do not stack up, you need to keep revising your plan until they do or flag the project altogether. Numbers do not lie, but people sometimes fool themselves by leaving items out or costing things inaccurately.

Once you've calculated costs as accurately as possible you can add a contingency. This should be at least 10% and if you don't end up needing it that's great, but highly unlikely!

Go online for a planning tool or talk to an experienced tradesman, quantity surveyor or other expert to ensure your figures are realistic. "Do your sums," Trafford stresses.

"You don't want to end up doing this for nothing. When you get quotes, be very sure exactly what is included, so that you can make comparisons. If you are going to do work yourself, factor in costs of your time, and time the property will be empty."



Step 4

THE EXCITING PART, GET TO WORK!

Yes, finally, after all the other steps have been completed and you are confident this renovation will achieve the set goals you can actually get started.

If your planning and number crunching have been conscientiously undertaken there should be no surprises during this stage. Yeah, right! The chances are there will always be some unexpected event during a renovation

This is where the contingency comes in. Follow your plan. Monitor the work of your tradespeople; keep up with any inspections that may be required. If you are managing the project yourself, be aware of code compliance

Step 5

REVIEW

The hard work is done, so what have you learned?

Take the time to review steps one to four and honestly evaluate your performance. Which steps did you do well and where did you fall down? What issues arose which you had not allowed for? Could you have foreseen the pitfalls with better planning? Did some things go better than expected and how can you capitalise on this in future? Did you make some good contacts that you would use again, or recommend to others? What would you do differently?

Most importantly, can you review your rent now, and start to recoup your costs? Is it worth getting your property revalued? Perhaps you can take that increased equity into a new property. Maybe one where you can add value through renovation? In which case, repeat steps one to five - only better. ■

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-MARK TRAFFORD

issues and timelines. Have a system for filing invoices as you may need them for any warranty issues. As you pay bills refer back to your original budget so you can track any overspends. If you blow the budget in one area, can you make savings in another? "Remember that by law, you can't do plumbing or electrical work, without qualifications," Trafford says.

Take photos - one day you will want to look back on what you achieved!

RENOVATIONS ON A SHOESTRING \$0-\$20,000

In the first of a three-part series, **Carolyn Cossey** talks to Steve Nicholson about renovating on a shoestring budget.

STEVE NICHOLSON AND HIS WIFE

Wendy are inspirational DIYers who produced amazing renovation results on a shoestring budget. "I'm not a renovation expert," Steve Nicholson says, "but I do know a lot about doing a great job, and saving money."

"We bought a two-bedroom in Te Ngae Rd in Rotorua, back in 2010," Nicholson says. "Our plan was to live in it while we renovated, and then turn it into a long-term hold rental property. The asking price was just over \$100,000, and we had a rough figure of around \$10,000 budgeted for the work we planned to do. Ironically, we were able to secure the property for just \$85,000 but the bank required a 30% deposit, instead of the 10% we had planned on. Just like that, our renovation budget was swallowed, and we moved in with just \$1000 to spare."

With money tight, the Nicholsons realised they would have to move into the house immediately. It also forced Nicholson to apply his Kiwi ingenuity to the task, something for which he is grateful now. "It meant we had to find a different way to do things; it actually worked to our advantage," he says.

Nicholson is practical, believing many people could take on the tasks he did. "If you can measure and cut accurately, and use power tools such as a skill saw effectively, you are well on your way," he says. "It helps to be able to chat to people, and make friends easily," he adds.

"For instance, I got on really well with our plumber. He was nearing retirement, so towards the end of the project, he was happy to lend me his tools, and let me get on with the job myself with his advice, returning to check my work when completed."

Nicholson admits to a certain naivety when he took on this project. At the start, he was expecting to clean and paint a bit



Pulling apart a house in mid-winter. Priceless! Wendy shows she's got the right mindset for the job.

IT HELPS TO BE ABLE TO CHAT TO PEOPLE, AND MAKE FRIENDS EASILY
-STEVE NICHOLSON

but, as is often the case, once he started pulling away the surface layer of the house, he realised he'd taken on a mammoth task.

A common debate with DIY renovations is that of time versus money. "If we'd had the money to pay someone to do it for us, it would have happened three to four times faster, but it also would have cost three to four times more."



KITCHEN BEFORE



KITCHEN AFTER



LOUNGE BEFORE



LOUNGE AFTER



BATHROOM BEFORE



BATHROOM AFTER

Nicholson has a pragmatic theory on valuing time. "You know, they say the average TV watching time is three to four hours per day. If you put those hours to better use, you are not losing any of your productive wage earning time. For most of the renovation I was teaching four days a week, so we did have some late nights sanding and painting, and then had to get

to work the next morning."

Their final cost of the renovation (excluding their lost television watching hours) came out at just under \$20,000. The total time of transforming the house from "horrible to comfortable" as Nicholson puts it, was around two years. "That was the point where we could have a house warming party, for friends and

people who had helped out. Most were amazed at the results."

The Nicholsons are now ready to find tenants for the Te Ngae Road property, and are looking forward to taking their learning to a new project in Tauranga, an ex-bacon factory with rental accommodation attached. ■

ANATOMY OF A RENOVATION

PROPERTY DETAILS: Two bedroom house Te Ngae Rd, Rotorua. House size: 70 square metres. Originally listed for \$145,000 when advertised in 2010, as a deceased estate.
Eventual purchase price: \$85,000.

GOAL: To create a clean, comfortable, liveable house that could be easily rented to a target market of tenants, looking for a low to medium priced rental home.

PLANNING: Nicholson says "I thought we would need \$10k to fix the place up and at 10% deposit we would have plenty spare as a contingency." With only \$1,000 available after paying the 30% deposit the plan was to undertake much of the work themselves and to purchase materials as they could afford it up to \$10,000.

Nicholson's skills include an engineering degree and teaching technicraft, so he knew he could tackle much of the project himself. What he didn't know, he taught himself by watching YouTube videos, or visiting internet forums.

NUMBER CRUNCHING: Didn't really happen- see Review!

SHOW TIME Here is what this inspirational couple achieved by diverting their television time to hard graft.

EXTERIOR: Cement board cladding: cleaned, mould killed, repainted.

Roof: Odd rust spot removed, sprayed for moss and mould, rust spots treated with rust killer and galvanized. Two layers of good quality roof paint applied.

Exterior Lighting: Replaced light fittings to fit automated lights at front and back door.
Total spend: \$500

Best bargain: \$300 worth of quality roof paint for \$70 on Trade Me, leftovers from a paint contractor's job.

GARAGE: A big spend area, with insulation and power added so Nicholson had a workshop. Security lights put on front.



Now that's what I call a fence!

Switchboard upgraded. **Total spend: \$1000**

DECKING: Rebuilt deck at front of house incorporating storage space, built in Vitex, a Solomon Island hardwood. All new fittings and timber. Timber was sourced from a Trade Me auction that turned out to be ITM stock, of odd lengths, so worked out about half the price of hardwood purchased at retail, around the same cost as a radiata pine deck.
Total spend: \$500.

BACKYARD FENCING: Fence rebuilt, reusing palings and railings where possible. Additional replacements bought off Trade Me, from a hoarder in Tauranga. Three years on, no discernible difference between new and old parts of the fence. The cost was offset with neighbours' contributions for half the cost of rebuilding the fence with new materials, and Nicholson's labour. **Total spend: \$0**

RAISED GARDEN BED AND STORAGE SHED: Raised garden bed built of Douglas fir, sourced on Trade Me for \$1 per metre. Storage shed built from concrete shutters (sheets of plywood used to contain concrete on projects like swimming pools), double-skinned and insulated. **Total cost: \$900**

Hot tip! Steve Nicholson used Google Sketch Up, a 3D modelling programme, which is free online, to design his bespoke projects such as the garden shed, and shelving

inside the house. This meant that instead of designing a project, then going out to buy the materials, he could model a design from the materials he had available; another saving.

KITCHEN: Total remodel. Original stainless steel bench kept, but existing cupboards and bench sold on Trade Me for \$20. Sourced a high quality but used faucet style sink tap with ceramic valves. Bought a second hand kitchen, consisting of benches, shelves and sink, although final design incorporated original sink. Where there was a 400 mm gap between the new unit and the stove, Steve custom built a cabinet to fit the space. He measured draw fronts, and had them professionally made by a cabinet maker to match the rest of the kitchen. Metal and roller kitchen drawer slides sourced for \$2.50 each from AJ's Emporium. **Total spend: \$400**

BATHROOM: Most expensive room of house, as Steve hired a carpenter to help redo the framing, gibbing and plastering of walls. The cost of the carpenter alone was \$1600.

Replaced blown out MDF window frames with handmade H3 timber frames. Pulled up floor, replaced with plywood, and covered with vinyl.

Best Bargains: Second hand acrylic bath \$10, toilet and cistern \$10, vanity \$17, all from Trade Me. **Total spend: \$3500**



Girls can do anything. Wendy punches above her weight in the DIY department too.



Looking justifiably proud of their achievements Wendy and Steve take five.

INSULATION AND INTERIOR WALLS

Insulated roof, walls and under floors, using a mixture of polystyrene beads, Rockwool and fibreglass bats. Insulation sourced through Trade Me, most new, some of it left over bales from others' projects. Installed themselves, cost of materials \$800.

Replaced wall linings where required, plaster and paint walls. Neutral colour, Shark Grey, found on Trade Me, in sufficient quantity to cover all walls. **Total cost: \$3000**

Hot tip: Removing the existing wallpaper was a bit of a trial. Eventually, Wendy and Steve hired a wallpaper steamer and found it was the right tool for the job. They bought their own, and then resold it on Trade Me when the project was completed.

FLOOR COVERINGS: Carpet in bedrooms, main bedroom done with a large piece of carpet pulled out of another house. Hallway and smaller bedroom used offcuts hot glued together and stuck down. Rest of house covered in good quality wood look vinyl, professionally laid. **Total spend: \$3200**

HEATING:
Heat pump: \$2700
Miscellaneous: \$3,300

REVIEW:

Total costs: \$19,000
Valuation after renovation: \$130,000
Profit (excluding own hours): \$26,000
Hours worked: Months!
Rental appraisal: \$220 per week
Yield: 11% \$220x52 / (\$85,000+\$19,000)

Nicholson took many lessons from this project; the most important was around the costing part of the process. "That \$10k budget was just a guess," he says. "This is where using a spreadsheet to calculate estimates and put in actual costs becomes really important. I way underestimated costs for floorings, painting, and repairs I wasn't expecting, I just guesstimated these at the time."

"There was so much hidden unexpected work; unfortunately you can't pull up floor coverings until you move in to be able to assess the true work required on a property. Now I'm a little more experienced I would have proper estimates done for everything to start off with before buying."

BIGGEST LESSONS Nicholson recommends using the best quality affordable timber. "If you are replacing floors with chipboard, you will have to buy floor coverings to go over it, which turned out to be one of our biggest

expenses. If you can put down good timber, it gives you other choices."

Paying for a plasterer in the bathroom stage of the renovation was another big expense, as Nicholson was still getting his own skills up to standard.

"Now I reckon the worst plastering in the house is the stuff I paid to have done," he says. "If I was to pay a plasterer again, I would only use one that came highly recommended through word of mouth. Plastering is one of those things that looks great immediately after it's finished, it is only after time has passed that you really know if you've got a quality job."

Sourcing material on Trade Me was certainly worth doing, but required patience. "We put in the searches, and were prepared to wait until we could get things at the right price. It's when you have an urgent need to purchase an item that people end up paying a premium."

Nicholson was surprised when reviewing his credit card bills at how much he had spent at Bunnings, a total of \$3,150. While some purchases were big, like sheets of Gyprock, the spend covered a lot of small items such as fittings, sandpaper and plaster. He paid full retail, but now realises he could have used his Property Investors' Association card for discounts. ■