

RENOVATION: TO TRADE

THE QUICK LICK & FLICK

RENO

So far in our series on renovations with different budgets and strategies, we have covered a DIY on a shoestring and a rejuvenation of a long-held rental done in a jiffy. This month we look at a renovation on a property purchased with the intention of adding value and then selling for a profit. **Carolyn Cossey** reports.

JEN GAUTIER IS A PASSIONATE PROPERTY investor who has been building a buy and hold portfolio since 2002. Two years ago she decided to try her hand at trading. "It was scary at first," she says, "after all those years of 'don't sell, never sell' as my mantra." It also meant putting herself on a fast learning curve in renovation skills. Gautier set up a separate GST registered company to undertake the trading operations. Over the last two years she has bought, renovated and sold five properties. This house, situated on Blake Rd in Mangere, was her most recent project.

The house was a three-bedroom, one-bathroom dwelling of 90m². She was drawn to the house for its great bones – a solid weather-board home in original condition. A lined and carpeted garage was used as an extra bedroom; Gautier saw reconfiguring that as an opportunity to add value. Born and raised in Pukekohe, she is a great fan of the South Auckland suburbs, appreciating the value this part of the city offers and the pool of potential first-home buyers. The house, in the Middlemore area of Mangere, is close to the hospital with great rail transport links to the city and road access to the airport and motorway.

Jen Gautier with her trusty companion, Scooter.



HOUSE BEFORE

Gautier managed her earlier projects, co-ordinating subcontractors and taking a DIY approach when swinging a crowbar was needed. This time she hired a project manager and renovation team, which she thought was her biggest lesson. "It worked really well and, honestly, didn't cost a great deal more. I still remained involved, but could relax a bit and enjoy the process. I set up good channels of communication at the start, so no one was offended with my scribbled notes on masking tape as the work was done."

OBJECTIVE: Gautier's stated objective was "to create an incredible-looking home that would appeal to first-home buyers or investors and to create a strong profit by adding value in a defined time frame." She wanted work of good quality, to a standard that she would feel comfortable living in the house herself. Lastly, Gautier wanted to have the renovation completed and the refurbished property sold within a four month-timeframe.



HOUSE AFTER

PLANNING: With this house it was obvious to Gautier what was needed. The kitchen, dark and yellow, was closed off. Removing a wall would enable modern open-plan flow to the dining and living areas. Inside, wood veneer linings needed removing, and fixtures and fittings were dated throughout. A deck was needed to give some outdoor living, best achieved by ripping out a set of lounge windows and replacing with a ranch-slider to fit. The converted garage could be partitioned into two rooms to better utilise the space. She was mindful of permissions required around the use of that space and marketed it as a studio/ gym/man cave or home office when it was time to sell, aware that it may be used as extra accommodation by the future buyer. She considered its removal and sought advice from Fuzo Property, which specialises in minor dwellings to maximise yield, but decided that upgrading the existing structure better suited her timeframe.

She made sure none of the work required consents, which would have burdened her timeline, by keeping the deck height under a metre and ensuring the new ranch-slider to the deck fitted the hole made by the window removal.

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KITCHEN BEFORE



KITCHEN AFTER



BATHROOM BEFORE



BATHROOM AFTER



BUDGETING: Gautier admits that on her first renovation, “budgeting was really just a guess, but on every project I have kept detailed spreadsheets, including the most minor Mitre 10 receipts. So by this one, I knew exactly what everything should cost, right down to the toilet roll holder.”

She sets aside around \$2000 for contingency, but does research a Plan B. “We knew that if for any reason the house didn’t sell in the required time frame, that it would be easily rentable. We had rental appraisals of \$670 per week for the house and garage as accommodation.”

Gautier believes that accurate costings at the start negate the need for a lot of spare money in the budget. On earlier projects, if nasty surprises lurked under the floorboards, she called on her mortgage broker husband, Charlie, for his expertise with a skill saw. “I also do a fair bit of informal research before buying,” Gautier says. “At open homes I might lift a corner of the carpet in the wardrobes to see what sort of floors are in a house.”

Her detailed knowledge and record

keeping on previous renovations meant that when she gathered quotes from potential project managers, she had a strong platform to negotiate from and to know whether the contractors were being realistic or detailed enough in their costings. The project manager co-ordinated and paid subcontractors, with Gautier organising the kitchen and curtains, where she knew she could get a better price.

Holding costs are a significant part of the budget, whether renovating for resale or long-term tenancies, and are often underestimated. Most investors count interest costs or lost rent, but such lesser items as power and water bills for the renovation period need to be included. All our renovators in this series comment that little things add up.

Property Trading versus Rental Property Investment

Property trading is a taxable activity for GST whereas rental income from residential property is exempt from GST. Gautier established a separate GST registered company when she began trading.

This meant she could claim a GST credit on the purchase price and on her renovation expenses and other costs. Upon sale Gautier had to pay GST on the full sale price.

In the case study below the costs are stated at their GST inclusive amount to be consistent with our previous two articles. We have broken down the costs to their net of GST values in the “Number Crunching” section to show the actual net profit made before tax.

Case Study: The Makeover at Blake Road

The project manager Gautier used was a family business and the costings below include allowances for their fee except where Gautier purchased some items directly.

KITCHEN: Remove existing cabinetry. Replace with 30mm granite bench top and all new cabinets including two-door pantry. New appliances: cooktop, oven, rangehood. Curved kitchen sink mixer. Row of four halogen kitchen lights. **Total: \$5,750.**

CURTAINS: Venetian blinds for all windows and ranch slider. **Total: \$1,350.**

CARPET AND VINYL: Fit 10mm underlay and strand-dyed nylon carpet. Vinyl to kitchen and bathroom. **Total: \$5,750.**

BATHROOM: Vanity, mirror, towel rail and basin tap. **Total: \$575.** Shower and wall linings were in good condition, just needed a thorough clean. Gautier had a leftover shower rose and slider from a previous renovation to use.

PAINT AND INTERIOR FITTINGS: Remove existing wood veneer; sand, plaster and paint inside house and sleepout. Replace light fittings, switches and door handles. **Total: \$5,750.**

KITCHEN WALL REMOVAL: This sounds like a major task, but in reality it didn’t cost a lot. Gautier did some prep work by removing the door, gib and skirtings, while builders demolished the timber frame of the wall and

patched area on ceiling before painting. This was part of the contract with the renovation team, included in the cost of building the wall in the converted garage. See below.

Hot Tip: *Gautier hates to see waste. Anything metal that came out of the property she gave away to one-man band scrap metal collectors who took it away to trade in for cash, instead of putting into the skip. Such things as the old lampshades went to Habitat For Humanity. They will pick up items and sell, raising funds for their own projects.*

KITCHEN: Tiling around vanity, stove/rangehood and around kitchen bench as splashback. **Total: \$345.**

REMOVE FIREPLACE: **Total: \$460.**

HOUSE ALARM: New installation with two sensors. **Total: \$550.**

Hot tip: *Shop around, and don’t be afraid to negotiate discounts. Between her rentals and renovations, this is the 10th alarm she has bought from Expertech Alarms.*

LAUNDRY: Purchase and install new laundry tub. **Total: \$450.**

EXTERIOR: Build 15m2 deck, remove window, purchase ranch-slider with lock handle, install ranch-slider. **Total: \$5,300.** Paint house, garage/carport and garden shed. **Total: \$8,000.** Garage conversion wall and door built. **Total: \$2,300.** Fence, cost shared with neighbour. **Total: \$1,500.**

Hot tip: *As a trader, while her time around these properties is short, Gautier gets to know the neighbours. This is great for security, eases any issues around the noise of renovations and makes shared jobs like fences easier to organise. Waterblast driveway, tidy section, garden rubbish removal. **Total: \$300.** Skip bin hire x 2. **Total: \$600.** Downpipe repairs. **Total: \$350.** Miscellaneous. **Total: \$2,050.***

TOTAL RENOVATION COST: \$41,380 (GST Inclusive).

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LOUNGE BEFORE



LOUNGE AFTER



BEDROOM BEFORE



BEDROOM AFTER



REVIEW: "I find these projects really inspiring," Gautier says. "Seeing the end result really lights me up. I have no regrets whatsoever, I was completely happy with the finish and the final look and feel of the property." She sells her properties herself with Trade Me advertisements. "I got great feedback from prospective buyers at the open homes. I loved hearing and seeing their reactions."

The project was finished on budget, and just as crucially, on time. From purchase date to sale date was less than three months, an incredible achievement considering the size of the renovation project undertaken.

She is most pleased about her decision to use a renovation company and project manager. "It was something I had considered in the past, but had been put off when

quotes could vary so greatly. By having the knowledge of what things should cost, I knew that this team were good value. They were a word of mouth recommendation, so I was confident of their work. I would definitely use this team again; I think I was fortunate to come across them."

The final test for this renovation, as it was a property to be traded, was its sale price: \$555,000.

Crunching The Numbers

Summary of Expenditure			
	Reno Costs:		
	Excl	GST	Incl
Kitchen	5,000	750	5,750
Curtains	1,174	176	1,350
Flooring	5,000	750	5,750
Bathroom	500	75	575
Interior Paint etc	5,000	750	5,750
Tiling	300	45	345
Fireplace	400	60	460
Alarm	478	72	550
Tub	391	59	450
Deck	4,609	691	5,300
Exterior Paint etc	6,957	1,043	8,000
Garage conversion	2,000	300	2,300
Fence	1,304	196	1,500
Section	261	39	300
Skip bins	522	78	600
Downpipe	304	46	350
Miscellaneous	1,783	267	2,050
RENOVATION TOTAL	35,983	5,397	41,380
Trading Costs			
Purchasing Costs	8,500	1,275	9,775
Holding Costs *	8,100	90	8,190
Sales Costs	3,800	570	4,370
*No GST on interest or rates			
TOTAL COSTS	\$56,383	\$7,332	\$63,715
Purchase Price (Dec 14)	352,174	52,826	405,000
Total Capital Investment	408,557	60,159	468,715
Sales Price (Feb 15)	482,609	72,391	555,000
Gain/Profit before Tax	\$74,052	\$12,233	\$86,285

Something else Gautier did differently on this project was using a property finder to source the property. "The key to making a profit with renovations and trading," she says, "is buying at wholesale, or less than

market value, and adding value through the renovation process. While the finder's fee seems a lot as part of the total budget, it meant I bought a property for \$405,000 at a time when comparable houses were \$435,000 to

Breakdown of Trading Costs (Excl GST)	
Purchasing Costs:	
Building inspection report	600
Finder's fee	5,800
Registered valuation	600
Lawyer's conveyancing fee	1,500
TOTAL	\$8,500
Holding Costs:	
Interest	7,200
Rates	300
Power	300
Water	100
Insurance	200
TOTAL	\$8,100
Sales costs:	
House staging	1,500
Professional photos	200
Trademe ad	500
Lawyer's conveyancing fee*	1,600
TOTAL	\$3,800

The reno would also deliver good returns under a buy and hold strategy.

	Value	Weekly Rent	Yield
Before Reno	\$405,000	\$430	5.5%
After Reno	\$555,000	\$670	6.3%

\$450,000 – a cost factored in at the start."

Gautier is happy with her achievements and keen to share her knowledge. You can follow her new blog, where she shares her investing stories at propertywithscooter.com. ■