

RENOVATION: \$20,000 - \$50,000

RENOVATIONS IN A JIFFY

When you want your renovations fast-tracked with minimum hassle, it may be time to call in the experts. **Carolyn Cossey** reports.

LAST MONTH, IN THE FIRST INSTALMENT of our three-part series on renovations within different budgets, we looked at a house transformation achieved for under \$20,000 by a talented DIY couple. They continued their day jobs and lived in the property throughout the renovation, so the time factor was not of great importance.

This month, our renovation project is a hard-working rental property that had become tired and was lagging behind in possible rent rises.

For property investors who are not hands-on in terms of managing their rentals or are not confident DIYers, the prospect of undertaking a renovation can be daunting. Deciding the extent of work needed, setting a realistic budget, calculating the return on investment required to make it worthwhile may all be outside the comfort zone.

If you don't want the hassle of deciding how to tackle the project, don't despair! There are experts out there who specialise in managing renovation projects for rental properties. By using a professional project management team, you can nail down a budget, and have accountability on a timeframe. Subcontractors are co-

BY USING A PROFESSIONAL PROJECT MANAGEMENT TEAM YOU CAN NAIL DOWN A BUDGET AND HAVE ACCOUNTABILITY ON A TIMEFRAME

ordinated for you. The dollar spend may be higher but you will have access to bulk buying power, and lost rent time will be minimised.

In this Rothesay Bay renovation, the mission was to modernise and refresh the property and get the work completed as quickly as possible. A mostly cosmetic level refresh on a well-located house with great bones resulted in a 24% increase in rent and a 23% increase in value. The property valuation post-renovation was estimated at \$150,000 more than pre-renovation, that's five times more than the \$30,000 the work cost.

Admittedly this project was undertaken in the sizzling Auckland property market, which makes it hard to attribute all the increased value to the renovation alone, even though it was completed in under a month.

PROPERTY DETAILS: Knights Rd, Rothesay Bay. A 2 bedroom, 1 bathroom brick and tile stand-alone house, approximately 100 square metres, with a basement garage. The house is in a premium Auckland North Shore location, with stunning views of Rangitoto

OBJECTIVE: This house has been owned by Larry Robbins for 15 years, and with its popular location, has tended to attract stable long-term tenants. The last ones were in place for 10 years.

"We knew it had become shabby," says Robbins, "and asked our tenant to let us know when they next planned to go on holiday, so we could make some improvements. We had raised the rent a small amount, but felt awkward about putting it to full market value, given the condition. As it turned out, shortly after that the tenants gave notice anyway." To complicate matters, Robbins and his wife were overseas, doing volunteer service on Mercy Ships, the world's largest charity hospital ship.

Clare Seed from Rentex Property Management has managed the property for as long as the Robbins have owned it, so was charged with the project. Her goal

was to give the house a modern refresh, to bring it up to date with the current rental market expectations and maximise the rental return. They wanted to "do it once, and do it right", with a job that could be expected to last another 15 years.

PLANNING: In her property management role, Seed had overseen the odd bathroom tidy-up or maintenance tasks. She began the planning of this project, with a view to gathering three quotes from each of the required tradespeople. She soon realised the scope of the task. "Honestly," she admits, "In a very short time, I realised it was going to be just too hard."

The quotes she did gather were confusing when she relayed them to Robbins. "Some were ridiculously high, but others were ridiculously low. We wanted to ensure a good standard of work," says Robbins.

It was then that Seed brought in Mark Trafford from Maintain to Profit, a company specialising in renovations and investment property maintenance. "We have completed over 600 renovations, averaging around 120 jobs per year. For this job, we had 12 different tradespeople on site at different times, so you get an idea of the logistics," says Trafford. "We submit very detailed quotes to our clients, you really need to know what work is included in a quote to be able to make comparisons."

"It was great," Seed says, "Mark gave me a flow chart of the process and we took it from there."

On a project like this, down time between tenants is a significant cost to factor in. Trafford's team can complete a project like this in around three weeks. A scope of work with a timetable is displayed in a central place in the house, so each tradesperson is clear on the timing. It's important that each part of the process occurs in the right sequence.

BUDGETING: From the first round of gathering information, it seemed that a budget of around \$30,000 was a realistic figure. Everyone involved in the project was happy to report that budget was adhered to.



RENOVATION: \$20,000 - \$50,000



The solid brick and tile Rothesay Bay house should serve the owners well for another 15 years after the \$30,000 renovation.

“This was a great project to work on,” says Trafford, “in that we kept to the original scope of works. Many times budget blowouts are due to people changing their minds on things during the renovation.”

With major responsibility for the project with the owners absent, Seed was mindful of the budget throughout. For instance, the house had ornate 1980s metal door handles on all interior doors. “If it had been my property, I would have modernised those,” says Seed, “but they are functional, undamaged, and we just about had a full set, there was no real need to spend more money on new ones.”

This is another key point when renovating an investment property. It has to be a practical exercise, don't get carried away with high-end fittings or modern schemes that don't add to your rental return.

REVIEW: “Our Plan A for the renovation,” Robbins says, “was to get a few friends over and splash some paint around. In reality, if we had done that, I think we would still be up to our ears in paint and rubbish. In terms of the time the house was off the market, the quality of the job, and the availability of my labour to do the work myself, bringing in the experts was a smart move, and it wasn't much more expensive.”

IT HAS TO BE A PRACTICAL EXERCISE, DON'T GET CARRIED AWAY WITH HIGH-END FITTINGS OR MODERN SCHEMES THAT DON'T ADD TO YOUR RENTAL RETURN.

-CLARE SEED

It was a big trust exercise as owners to leave the job so completely to others. “We were so grateful to Clare for the way she stuck to the budget so conscientiously and had a great relationship with the Maintain to Profit team.”

Case Study: The Makeover at Knights Road.

EXTERIOR: Owners gave trees a prune and cleared the garden (\$600). Chemwash to outside of house (\$414). Maintain to Profit painted back door and steps, front door and side panels in ironsand colour paint (\$422.50). **Total: \$1,436.50**

BATHROOM: The bathroom already had a modern acrylic shower unit which didn't need any alteration. The existing bath, vanity and toilet were a distinctive 1980s shade of avocado. They were replaced with modern white fixtures, a bath 1670mm x 715mm with exposed bath mixer, 900mm vanity with basin mixer, and a new toilet suite. The vanity was positioned to allow space for a rubbish bin to be inserted, and a large frameless mirror made the room light and spacious.

Total: \$3,650.00

ELECTRICAL WORKS: The owners had bought a new oven, so the electricians on the project had to disconnect the existing oven and connect the new one. To modernise the kitchen lighting, the existing fluoro light was replaced with a four-bar spotlight and repositioned to the middle of the room.

Back in the bathroom, an inline fan was added and ducted out, with a new seven-minute timer switch added. A new modern covered LED light replaced the existing light.

Hot tip: *An extractor fan in the bathroom on a timer ensures your new pristine bathroom stays mould-free.*

Throughout the house any wall lights, such as the old fashioned bedside-lamps



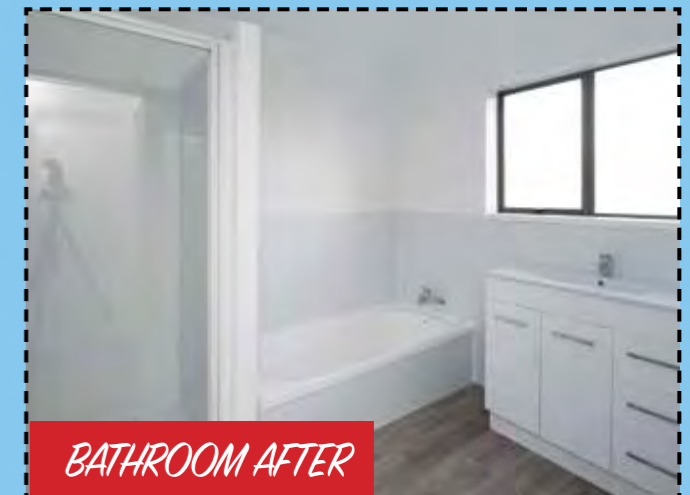
KITCHEN BEFORE



KITCHEN AFTER



BATHROOM BEFORE



BATHROOM AFTER



TOILET BEFORE



TOILET AFTER

were disconnected and made safe. All light fittings were fitted with new batten holders, shades and bulbs. Existing corner lights were repositioned to the middle of the room. An original light in the dining room was removed, with a new three-bar spot light installed.

Total: \$2,183.71

Hot tip: *There's so much choice and expense in lighting. Installing plain white plastic light shades, and basic bulbs, allows tenants to replace them with fancy light fittings or different bulbs to their own tastes easily.*

PAINTING:

For the interior of the house, all rooms including the hallway and stairwell to the garage, were painted with two coats of interior paint after mould treating, priming, filling and repriming as required. The ceilings were scraped back and

RENOVATION: \$20,000 - \$50,000

Crunching the Numbers

Purchase Price 2000	\$210,000
Total Renovation costs	\$35,460
Total Capital Investment	\$245,460

	Before Renovation	After Renovation	% Change
Estimated value	\$650,000	\$800,000	23%
Weekly rent	\$420	\$520	24%

	Before Renovation	After Renovation
Capital Gain	\$440,000	\$554,540
Gross Yield (based on capital invested)	10%	11%
Gross Yield (based on estimated valuation)	3.40%	3.40%

At \$100 per week additional rent this renovation will pay for itself in less than seven years which is a 14% return on investment

primed, with mould treated and painted with mould shield. The paint for the walls was applied over the existing textured wallpaper. Any tears or bumps in the wallpaper were repaired and sealed before being painted over.

Total: \$8,456.25

Hot Tip: Removing the existing paper would have been a big job, costing up to \$6000. Painting over wallpaper gives a modern textured effect.

BUILDING WORKS: Existing kitchen cabinetry was removed, including an original breakfast bar, with an overhead storage cabinet, ready for new units. The old bath, toilet and vanity were taken away. Existing wall linings in the bathroom were removed and replaced with new waterproof linings. To install the new bath, boxing around the base had to be constructed. **Total: \$2,900.00**

KITCHEN: The kitchen was the biggest job of the house, with a total redesign to

incorporate a dishwasher.

Hot Tip: Dishwashers are becoming an expected feature in rental properties, worth a corresponding estimated rental increase of \$10 per week.

In this kitchen the renovation included all new units: 3200mm x 600mm kitchen bench under the window, 2000mm x 900mm breakfast bar bench, cupboards and doors, new single sink and taps, fridge surround with cupboard above, a microwave unit, new pantry door. All units were done in white, with a laminate bench top. Dishwasher plumbed in. Inside of the existing pantry painted to match the rest of house. Splashback tiling completed.

Total: \$6,348.14

New dishwasher and stove from Appliance Shed. **Total: \$1,650**

HEATING: Heatpump purchased by owners. **Cost \$2,200** including installation.

Hot Tip: A permanent heating source needs to be a top priority in any renovation, Tenants just aren't prepared to live in cold,

damp or draughty houses any more. "If you lined up ten lots of tenants and gave them a choice of similar properties, one with a permanent heating source, and one without, I would bet money that all ten would choose the one with heating, and be prepared to pay a premium for it," advises Barry Adkins, business owner of Quinovic Property Management in Mt Eden.

FLOORING: Neutral light grey carpet throughout living areas and bedrooms, wood-look vinyl in bathroom, toilet and kitchen.

Total: \$5,960

MISCELLANEOUS ITEMS: 2 cracked windows were replaced (\$326), modern smoke alarm (\$60) and doorbell (\$40). Refurbished locks and rekeyed (\$250).

Total: \$676 ■

TAX DEDUCTIBILITY QUESTION

It is tempting to look at the nature of the work done in this project and assume there may be tax benefits in terms of deduction for the repairs and maintenance component of the work and depreciation on chattels.

This is an area where it is essential to get professional advice as IRD are very hard-nosed about allowing deductions where the work carried out has increased the value of the property.

Despite the tenure of ownership (in this case fifteen years), when renovations go beyond fair wear and tear and rental levels are increased, or the insured value of the property is increased IRD are likely to view all works as non-deductible capital costs.

REVIEW

Obviously this renovation has delivered excellent returns in terms of capital gain and a respectable return on investment. As with most Auckland properties, the yield on current valuation is low so a yield focused investor would possibly look at options such as replacing the property with a higher-yielding one or looking to increase rental through adding an extra room or a minor dwelling if the section allowed. ■