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Renovation Success Secrets

With

Owen Jackson and Sam Vannutini

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The following is a discussion between Owen Jackson (owner of Interviewsonmoney.com) and Sam Vannutini on how to make money through Renovations.

Sam Vannutini is a very successful real estate investor who focuses on making money through renovations. He holds seminars and has his own business teaching people how to make money through Real Estate Investing

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Tell us about yourself Sam

I began almost 20 years ago now, with my first investment property. I got caught up in the romance of the boom of the late 80s. The market was going up and I bought a property, and it almost doubled in value in 12 months. And I thought, gee, this is good, this is easy. I purchased more and more properties and thinking this is great. Built up equity and then unfortunately, overextended myself. When interest rates went up, we had the recession in the early 90s. It all came tumbling back and I pretty much lost the lot. Very close to being bankrupt but managed to survive somehow.

I held on to one property through all that. I subdivided the land, sold that off, and that sort of helped me kick start my investing again. Despite everything that went on at the time and the difficulties, I guess I never lost my dream of being wealthy one day. Rather than give up, you just got to learn the lessons and persist. I basically had two options. I wanted to either go back and work and be dependent on someone else for the rest of my life, or start again, learn my lessons, and do it properly the next time around.

Anyway, mid 90s, I discovered, actually I discovered the art of renovating.

Someone introduced it to me and I discarded the house I had I fixed up. Sold that at a profit and started going from there and yeah, that's pretty much how it built up. I had to start slowly and I realized it was a marathon not a sprint, so this time I took it a bit easy, a bit more cautious and fortunately, everything fell into place for me that way.

It's all about learning the smart way- working a bit smarter and understanding the concepts of adding value and increasing the value of your assets in order to create more equity and using that equity to leverage off and then purchase more properties.

So now it's a balance approach. Probably 30 percent of my week goes to my business activities, another 30 percent on my real estate projects, and the other 30 percent is to my wife and children and generally having a nice relaxing time.

The actual system

The whole concept behind renovating is to add value. So in a nutshell, it's to buy property – and this is the three basic fundamentals that I've learnt that have been the lock and key to my success.

This is number one: to purchase real estate at a reasonable price, at a reasonable discount if you like. I don't like using the term "wholesale", but at a reasonable discount.

The second aspect of the fundamental is to add value. As you know, the market goes up and then it stops and it goes up again. But there were times when the market doesn't move or there are even times now we're witnessing seeing that the market's gone backwards. So, relying solely on market forces to create your wealth I think is not totally safe, not the most reliable way to do it because we can't predict the market. Comes out of left field but can actually affect the market.
So therefore, by adding value, you're creating your own equity. Now, you create your own added value to that property and building equity. The market's also kicking along and moving up, then it's a double whammy and it's a bonus. And then you're really snowballing or compounding your profits.

So that's where the value adding comes in. Some who like new properties will say to you, "Hey, what about property, buildings go down in value and land goes up." Yes, we're still purchasing land for value but by increasing the value through renovating you still get most of the depreciation benefits as well.
I don't want to get off on to an accounting tangent, but you will also get depreciation of certain things and other things in the renovations can actually have a tax deduction in the actual year.

Third fundamental is to obviously sell at a profit. So it's buy low, increase the value, sell high. Or if you're not selling, then to have it as a maximized value and rent it out and generate cash flow and generate a higher rental return based on the new and improved status of the property.

I have basic criteria with renovations and basically, anything goes. Obviously, there are certain things you want to avoid. Any major problems with the house. Could be structural, could be termites, things like that. So you want to make sure that they're the sorts of things you avoid. The house has got to be OK or sound basically, have good bones.

Now, the other thing that I look at to avoid is the layout of the floor plan. If that's in bad shape, then I avoid that as well because no matter how much cosmetic improvements you have, if it's got a lousy floor plan, it'll always have a lousy floor plan.

The third thing is that it has to fit in with the rest of the streetscape. So if you've got a street full of single-story Victorian cottages and there's a blond brick or cream brick veneer there that's built in the 70s, then it looks totally out of place. I wouldn't be touching that property. People live on a certain street because the type of house they want to be in. So if you've got the wrong sort of property, you're not going to find someone, you're always going to get less rent.

I try to look outside the square in my property selection. I don't believe that just giving something a slap of paint and some new carpet and a new gardens and things like that is enough. You have to understand too it's something that we're working off a set budget.

I try to look outside the square and look at modifications that go beyond cosmetic stuff. Modifications that are inexpensive and that will add value.

Now there are two areas of profit. First is the purchase price,
buy as cheap as possible, and the second is doing as a project manager.

I'm a project manager; I'm no longer a renovator. My job and what everyone's job aims to be is to be the project manager. Coordinate everything and other people do the dirty work for you. So by doing that, I'm able to save and do enough research to cut my renovation costs down. So that's my two angles of profit, the purchase price and also doing a renovation at half the price that most people would normally pay.

People think that the first year you become a renovator means you have to do plumbing or how to paint and things like that. Well, I think that's horrible, I don't want to do it, or I can't really be bothered, or I'm not handy in that way. What I mean by that is that you become the project manager, that's the goal, your goal. It's that time leverage. You're better off spending your time to see what deals you can find. And then coordinating and then making sure that you try and turn up on time. Having the right materials ready and purchasing those materials at a discount.

What is a good deal or not a good deal?

It's all numbers. You've got to be emotionally detached from this sort of stuff. It's purely a business transaction. It's a numbers transaction. Understand that not every deal that you potentially come up with is going to stack up. There's going to be times when you have to walk away from it. There are quite a few steps that make that up. So, the first thing is you need to understand the market that you're working in. People ask me, "Oh, where's the place to purchase real estate?" and my answer is wherever you find a good deal What I do want to know is the market that I'm working in.

The two values that I'm talking about are a regional property value and the value of a similar property that's been renovated. That gives me my two starting points. And the best way to do that is you have to get off your backside and go and inspect properties. There's a lot of information online that you can get that people look at as a shortcut. If you want to compare apples with apples, you have to go see the difference between renovations and renovations.

The formula.

I think I mentioned that we've got a fixed percentage or a fixed budget that we work on. The reason we do that is to ensure that we do not overcapitalize and we don't end up losing our profits. Because at that point, purchasing a home for 300,000 and spending

100,000 on it, and it's only going to be worth 400,000. There's no profit. So what we're going to do is run through a current project that I'm doing. I'll just quickly run you through the numbers. That budget by the way is 10 to 15 percent of the unrenovated value. So if a property's worth 300,000 dollars unrenovated, and I'm looking at that property, I know I've got 30,000 to 45,000 dollars to play with on renovations. Let's work on a worst case scenario for 45,000 dollars. I'm going to look at this and say, OK. If I purchase this property for 300,000 and I spent 45,000 on it to renovate, will I be able to achieve X selling price or value in order to make a profit.

I'll give you this example of the property I'm working on. We had the original unrenovated value of around 300,000 dollars. Fully renovated properties, similar properties are fetching around $420K to $450K price. That's what we basically base on, what we've seen. The $450K had brand new townhouses at that money, $420K is to renovate in reasonable niche. That's based on research on what's been happening in the area. So we've got one in the sky worth –let's work on a worst case – we have potentially $420,000 dollar value, plus. I don't go for the $450K, I always take the conservative numbers. Basically if it works on worst case scenarios, then it's a go. If it doesn't, then forget it. Because once you start throwing hopefuls into the equation, then that won't work out. That's the quickest way to get yourself into trouble.

As I've said, and you said you want a minimum profit equity target of around 40, 50,000 dollars. So make it worth your while. If you're going to sell the property, you want to make at least 30,000 to make it worth your while. If you're going to hold it, you're going to want a bit more.

So we've got a situation where we've got the unrenovated value is 300,000 dollars. A maximum renovation value of $345K, so you have $45,000 dollars. I put in another 10 percent to buying and holding cost on top of that. That's an extra 30,000.
So that's 45 and 30, 75 plus the 300. All up, if I purchase for $300K and did the job, it would owe me $375,000 dollars. Then on top of that 375, I throw in my 10 percent gross profit margin. So we overestimate our profit. We exaggerate our profit but we

underestimate our selling in value. So 20 percent of 375 gives us 75,000 dollars profit. Best case scenario and this is what
loads of developers do, that's their target profit 20 percent.

If you say I only want 10 percent which is now $37,500, if something goes wrong, you've got nothing left. You lose half your profit. You overestimate it. So based on that, 375,000 dollars which is what is going to cost all up. Our 75,000 profit is 450,000. Now, does that 450,000 fall within that range of 420 to 450? Yes it does. It's at the upper end.

Based on those numbers alone, that's a viable thing. Because even if its 420, we still walk away with 45,000 dollars. Now, that tells me that the maximum price I have to purchase that for is 300,000. I'd walk away. I wouldn't pay more for that. So if I could purchase that property at 300,000 or
better, I would purchase it. Best case scenario, I'd pay 295,000. Now, any more than that, forget it. If my numbers came back to me and my end value for it – let's say for the sake of the argument that my research show that once the property is renovated, It's only going to be worth 400,000.

Based on the 300,000 purchase price, it's not worth it. It's not viable anymore.
But if I could purchase that property at 260 or 270,000, then it becomes viable again. If that was the case, so it didn't stack up, I'd put the offer in at $260K or $270K, If it got rejected, that's fine. I walk away and move on with the next one. But if I not made it at that sort of value, I can make it work.

There is an extra thing on that. You might think, 45,000 is my maximum budget. I've seen the property; I realized that I can get away with that 30,000 even 25,000 at a pinch. So there's an extra 15,000 in the meat of the deal. So even if it's only worth 420, I've only dropped effectively 15,000. Because we said 15,000 on my costs as well. So that's the whole thing. If you work that formula, you'll always make money.
So step one is when you purchase the property, you always make it subject to a satisfactory builder's inspection. Then you take your builders or whoever handyman or whoever you got there, to have a look at it to give you an idea. I mean, you can get an architect inspection, it doesn't matter. Get an idea of if there's any hidden surprises and

roughly what's involved in the repairs. You also put it subject to excess to get builders to have a look at it. So that way you can get painters for it and get quoted on that. Perhaps you can do that, peruse it, before it settles in case you have a bit of excess. Pretty much get all your sums done within that time.

And the good thing is about the builder's reports is if something comes back, and it say's, "Oh there's a major issue structurally and it's going to cost 10,000 dollars to fix." Here's the deal. This is my experience; I did have to spend a few years as an agent. When someone generally signs a contract to sell their house, especially if the house has got problems – and this is the advantage that you're dealing with all the properties – and the owners know what the problems are, and if they have the time and money to fix it, they would've done it by now. They just want to pass their problems on to someone else.

When a seller signs a contract generally I can tell you now, within a few hours they're already thinking about what to do with the money, where to spend the money. So you come back with an inspection report that's not satisfactory, it requires an extra 5-10,000 dollars work and you say, well I'm sorry, I'm withdrawing from the contract.
It's a big let down for them so you got an option there. You can either say, well, here's the deal.

You either reduce the price to reflect that 5 to 10,000 dollars, renegotiate the purchase price to allow for those repairs, or you can say if not, that's fine, you take care of the repairs and I'm happy to buy the house off you.

To make it safe, your costs to repairs always have to be, not exaggerated but they have to expensive. If you can get away with 5,000 and the new terms' going to cost you 10,000, that's up to you.

Step two. Referring to what we used, a fixed
percentage budget. 10 to 15 percent of unrenovated value. Now let's take this scenario once again back to a case study. I purchase a property for 300,000 dollars. Therefore, 10 to 15 percent is 30 to 45,000 dollars. OK. So I know that I've got 30 up to a maximum of 45,000 dollars to play with, to renovate this property. To get it to the standard that I

want, exactly how I want it, it might cost me 60,000 dollars. You might think well, if we do this, and do that, but it might end up costing you. So the key then is to prioritize your money, where it goes.

So where is that 30 to 45,000 dollars going to get you the biggest bang for your buck? If you can do everything that you want and it's only 25,000 dollars and you're buying the most expensive fixtures and things like that, fantastic. You know, that's just a bonus.

But the key is if you're to go over budget, do not do that and prioritize the money, where it's going to go. We're talking your first priority is what I call the wow factor. Shiny timber floors, fresh paint land's the first impression the outside; you know, a fence, nicely landscaped front garden, things like that.

First impression's the roof, repainting, stuff like that so it looks really good from the outside. So as you got straight appeal, inside it's bang for your buck, your floors, you're light fittings, your painting, your window furnishings, and things like that. Kitchens and bathrooms are a lot more expensive. Having said that, I mean I can do a bathroom for about 4,000 dollars and a kitchen for about 6,000 dollars. There's ways of doing it. Pulling the right people in and knowing where to find things at discounts and options and things like that. Recycled materials, bit and pieces and like that.

So many different options, so many different tricks, it's not funny.
Kitchens and bathrooms: look just at auction houses, trading posts, look out online for auctions. There's different places that sell mainly wholesale, things like that. Flat pack kitchens from Bunnings, good quality for a rental. Really good quality, a gloss white finish, things like that and very inexpensive. The current kitchen I'm doing from Bunning, 2,800 dollars, cabinets, doors, handles, things like that. You know, it's 2,800 dollars for that. I've purchased two stone bench tops retrofitted in. It cost me 800 dollars for the bench tops so add a bit of labor on top of that. 5,000 dollars you get a really good kitchen. Stone bench tops, plus stainless steel appliances, 5,000 dollars it'll be done.