

# HOW TO FIND RENOVATION SWEET SPOTS

Half the battle with profitable renovation is buying in the right location. We show you how. **NILA SWEENEY**

**B**efore the recent boom in the Sydney and Melbourne markets, investors could quickly renovate on the cheap and still make a decent return. Nowadays, prices are surging, buyers are more discerning and lenders are tightening their policies, so it's more challenging to create huge profits. This doesn't mean you can't make money from a cosmetic reno – you certainly can, as evidenced by the number of investors still pursuing the strategy.

"Cosmetic renovation, particularly in inner Sydney, is still very profitable," says Catherine Lezer, prolific renovator and property developer with Hamelin Grove.

"The reasons are simple: people have little money left over after buying, and they normally cannot borrow easily for cosmetic renovations.

"Most people are also not too keen on renovating, and investors don't want the un-rentable downtime during the renovation."

Therefore, you need to be more strategic when embarking on doing cosmetic renovations to get the results you want.

This starts by choosing the right location for your renovation.

With more than 35,000 suburbs in Australia, you need to know where to focus your energy.

#### HOW TO FIND THE BEST AREAS FOR COSMETIC RENOVATIONS

When it comes to choosing the areas to target, there are a number of factors to take into account. These include your budget, your experience as a renovator

With more than 35,000 suburbs in Australia, you need to know where to focus your energy.

and your risk tolerance. If you have limited borrowing capacity, you need to focus your research on areas that are within your reach.

Once you've established your financial bandwidth, you can then start looking for the right location for your cosmetic renovation project.

"A great renovation is one thing, but if the location is challenged, the project will face adversity regardless of the cosmetic renovation appeal," explains Cate Bakos, founder of buyers' agency Cate Bakos Property.

To find areas that are ripe for renovation, experts say you need to focus on the following criteria:

#### THE AREA'S ALREADY SHOWING SIGNS OF GENTRIFICATION

The beauty of buying in areas that are on the turn is you can piggyback on its growing popularity and get capital growth quickly with minimum spend.

These signs include physical changes in the area such as emerging cafe culture and a growing number of supermarkets and shops.

#### THE AREA'S BENEFITING FROM THE RIPPLE EFFECT

A suburb next to an expensive area is poised to catch the demand overflow as buyers seek out more affordable properties near their desired location.

For example, Bakos cites Altona, a Melbourne suburb that's experiencing growing buyers' demand thanks to its proximity to Williamstown, where values have soared and are now unaffordable.

"Altona is attracting buyers who can't afford Williamstown but still want to live in the area. It's cheaper, it's rapidly changing and becoming trendier," Bakos says.

#### THE AREA HAS WIDE PRICE RANGE

A suburb that has a wide spread of prices is ideal for cosmetic renovations, according to Lezer.

"I look for a class of property where the spread of prices is wide. For example, a two-bed, one-car unit in Sydney's Botany Bay can sell from \$550,000 to \$720,000. This gives you an indication

that there are some gains to be had by renovating," Lezer says. "Don't look at new property sale prices when doing this research as it will distort your upper end."

#### RENOVATIONS ARE ALREADY OCCURRING IN THE AREA

Being among the first to renovate in an area can be advantageous as you're able to cherry-pick the best properties, but it can also be risky because you don't know if the demand is there and if the trend will catch on.

Look for signs surrounding properties have already been renovated and check the comparable sales and listings to see how much they're selling for.

#### IT'S AN OLDER SUBURB

By 'older suburb', creator of DSRdata.com.au Jeremy Sheppard means it's gone through at least a couple of generations of ownerships.

"You're more likely to find run-down properties among renovated properties in those markets. But the done-up properties need to comfortably outnumber the run-down ones," he says.

#### FALLING DAYS ON MARKET

If you're doing a cosmetic renovation to flip, you want a speedy sale. A good indicator to watch is the average number of "days on market" (DOM) that a property spends listed for sale.

"Properties need to come on the market and go unconditional ASAP if you're flipping," Sheppard says.

#### HIGH AUCTION CLEARANCE RATE

A high auction clearance rate (ACR) for the suburb is also an important indicator of demand in an area. As a rule, you want an area where you get the highest possible demand against supply. If you're flipping, you want to make sure ACR and DOM are standout figures.

#### AREAS WITH LOW SUPPLY

Areas with low housing supply are generally sought-after and sell very quickly. For example, Beacon Hill in Sydney's Northern Beaches only takes 45 days to sell a house, and the auction clearance rate has been consistently high over the past two years.

In contrast, you need to watch out for oversupplied areas with too much new stock. To illustrate, Sheppard cautions about buying in Sydney's Wolli Creek.

"You wouldn't want to renovate a unit in Wolli Creek right now, for example. There are simply too many new units currently for sale. A high percentage stock on the market (SOM%) is your key indicator to avoid those trouble spots."

#### YOUR SUBURB ISN'T TOO CLOSE TO NEW DEVELOPMENTS

The reason is simple – buyers would rather buy a new house than a renovated property if the difference in price is not that big. Therefore, focus on areas where there's evidence other properties in the suburb or surrounding suburbs have already been renovated and are valuing up rather than localities dominated by new builds.

## Deal-breakers that could drain your profits

A **big deal-breaker** for a cosmetic renovation would be a significant structural change that doesn't create a significant "wow" factor. These are issues that would soak up funds and time but not draw much emotion from buyers.

**For example:** Sinking foundations, electrical rewiring, roof restoration. Ironically, termites, on the other hand, might be a blessing in disguise. Seeing termites mentioned on a pest inspection will scare away many a would-be buyer. But you may be able to negotiate the price down as a result. Just make sure the cost of eliminating the termite infestation is lower than the discount you get.

Get a quote from a reliable pest control professional and if this can be remedied relatively cheaply, then it's worth looking.



#### 44 AREAS TO MAKE BIG COSMETIC RENO PROFITS

These suburbs have a wide range of prices and are, statistically, in high demand. Bear in mind that while this list has been vetted statistically, you still need to apply your own common sense and on-the-ground research skills.

State	Suburb	Typical value	Min sale price	Max sale price	DOM	ACR (%)
ACT	Deakin	\$1,082,729	\$741,500	\$1,965,000	66	81.1
ACT	Hughes	\$850,231	\$585,000	\$100,010,000	35	92.7
ACT	Narrabundah	\$778,027	\$560,000	\$965,000	51	83.1
ACT	Wetangana	\$807,507	\$435,000	\$1,510,000	49	86
NSW	Binger	\$986,322	\$680,000	\$1,385,000	47	76.6
NSW	Beteau Bay	\$575,000	\$415,000	\$935,000	60	43.1
NSW	Bescon Hill	\$1,325,067	\$850,000	\$3,965,000	45	75.1
NSW	Cambridge Gardens	\$570,000	\$515,000	\$635,000	43	100
NSW	Comp	\$1,130,000	\$838,500	\$1,254,000	38	76.7
NSW	East Ballina	\$596,893	\$240,000	\$740,000	105	60.7
NSW	Fishing Point	\$639,053	\$560,000	\$1,012,000	160	80
NSW	Green Point	\$647,832	\$140,000	\$1,130,000	66	65
NSW	Killamey Vale	\$470,617	\$348,000	\$640,000	57	72.2
NSW	Lakemba	\$909,862	\$590,000	\$1,070,000	71	68.2
NSW	Marsfield	\$827,000	\$651,000	\$2,020,500	59	83.7
NSW	North Rocks	\$1,129,280	\$680,000	\$1,555,000	51	70.2
NSW	Oatley	\$1,434,527	\$635,000	\$2,760,000	56	76.4
NSW	Urunderra	\$460,000	\$415,000	\$779,000	67	100
NSW	Valentine	\$624,933	\$434,500	\$925,000	75	60
NSW	Wentworth Falls	\$592,468	\$390,000	\$1,350,000	107	80
NSW	Windang	\$527,603	\$165,000	\$329,000	56	60
Qld	Acacia Ridge	\$376,110	\$255,000	\$425,100	71	58.3
Qld	Steiglitz	\$515,801	\$340,000	\$1,127,500	94	100
Qld	Upper Mount Gravatt	\$587,393	\$520,000	\$780,000	67	67.1
SA	Brighton	\$638,432	\$50,000	\$685,000	93	75.7
Tas	Dynnyme	\$479,127	\$372,000	\$395,000	40	52.5
Vic	Beaconsfield	\$580,072	\$455,000	\$915,000	81	57.1
Vic	Beaconsfield Upper	\$692,917	\$765,000	\$905,000	74	100
Vic	Bell Post Hill	\$339,562	\$239,000	\$490,000	63	38.5
Vic	Brighton East	\$1,589,593	\$760,000	\$2,310,000	78	81.4
Vic	Flemington	\$817,520	\$262,000	\$2,370,000	45	87.1
Vic	Hawthorn	\$1,814,208	\$710,000	\$5,500,000	78	81.4
Vic	Lysterfield	\$833,025	\$599,999	\$1,405,000	57	64.3
Vic	Mickleham	\$377,275	\$330,000	\$1,000,000	103	60
Vic	Parkdale	\$964,520	\$599,999	\$2,300,000	66	72.3
Vic	Rosanna	\$897,261	\$430,000	\$1,216,000	75	84.6
Vic	Sunshine	\$601,545	\$425,000	\$1,300,000	93	90.3
Vic	Truganina	\$417,000	\$323,000	\$620,000	87	75
Vic	Tyabb	\$425,000	\$402,000	\$1,205,000	81	38.8
Vic	Upper Ferntree Gully	\$557,601	\$530,000	\$890,000	34	93.4
Vic	Viewbank	\$841,453	\$686,000	\$1,300,000	52	82.1
Vic	Warandyte	\$1,000,966	\$585,000	\$2,380,000	74	83.6
Vic	Yarrabank	\$543,221	\$425,000	\$665,000	73	100

Source: domain.com.au

#### THE AREA IS NEAR TO WHERE YOU LIVE

Lezer says when renovating, whether DIY or using tradies, your property should be close to home so you can monitor its progress properly.

"I prefer to renovate within 30 minutes of home. This would make it easy to meet tradies on-site at 7am."

#### AREAS WITH HIGH DEMAND FROM TENANTS

To reduce your risk when looking to hold your renovation project, Jane Slack-Smith of Your Property Success advocates choosing a suburb with proven rental demand.

"I only want to invest in a suburb with a minimum of 30 per cent renters. That's because I want to make sure I have demand for my property and reduce the risk of my property lying vacant."

"I only want to invest in a suburb with a vacancy rate of below three per cent as this is considered a balanced market where supply meets demand."

#### LOOK FOR LOWER SOCIOECONOMIC AREAS WITH GROWTH DRIVERS

Some renovators would balk at the suggestions of renovating in lower socioeconomic areas, but Jane Eyles-Bennett of Hotspace says these areas could be a good place to start if you have a small budget – but only if there are growth drivers and signs of gentrification.

"You can make a profit anywhere. Sometimes you need to start small, and these areas can be a good place to cut your teeth. If you can only make \$10,000, that's fine. You can then move up from there."

Zaki Ameer, the founder of Dream Design Do Property, adds that he would look at lower socioeconomic areas within proximity of a CBD.

Just like location, finding the right property to renovate is key to your renovation success.

"I'd look for markets that are at the start of the property clock and still have room for growth. For example, currently we see these in pockets of southeast Queensland. Make sure there's sales activity happening and that they have the infrastructure to support further development and easy access to employment hubs," Ameer says.

#### ■ CHOOSING THE RIGHT PROPERTY

Just like location, finding the right property to renovate is key to your renovation success. In this market, you'd want to focus on attributes such as period-style homes with evidence of deterioration or neglect.

#### EXAMPLES OF PERIOD-STYLE HOMES

- ▶ Fibro cottages
- ▶ Red-brick houses from the 1970s
- ▶ Linoleum flooring
- ▶ Synthetic benchtops in sickly colours
- ▶ Aluminium venetian blinds
- ▶ Outdated light fittings
- ▶ Bold paint colours that were trendy in the '90s or even earlier
- ▶ Bathroom tiles and taps you might have seen at your nan's place.

#### EXAMPLES OF DETERIORATION OR NEGLECT MIGHT INCLUDE:

- ▶ Faded, peeling or cracking paint
- ▶ Worn carpet
- ▶ Dirt and grime
- ▶ Jungle-like gardens.

Make sure you get a professional property inspector to check the property is structurally sound and doesn't have

#### COSMETIC RENO NO-GO ZONES

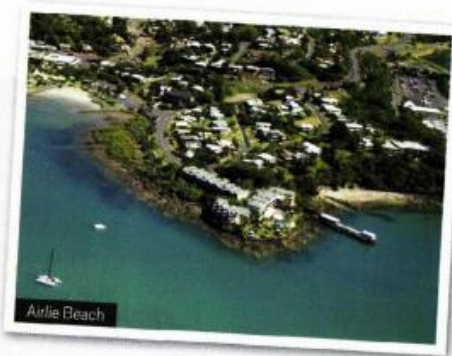
Whether you're renovating or not, you want to stay away from some locations. These are essentially locations in which there's no evidence of long-term capital growth drivers, and there's an oversupply of housing relative to demand.

For example, they're too far from the city centre, they're in economic turmoil, such as mining towns where projects have been abandoned or finished, and there's been overbuilding, resulting in supply exceeding demand.

"None of these above markets needs any on-the-ground cross checking," Sheppard says. "These areas all show poor demand against supply and there are no visible growth drivers." Sheppard names the following suburbs as some of the worst offenders:

State	Suburb	Type <sup>1</sup>	Typical value	DOM	Discounting (%)	ACR (%)
Qld	Nebo	H	\$160,000	365	21.75	0.0
Qld	Nebo	U	SNR	561	SNR	0.0
Qld	Airle Beach	H	\$625,000	N/A	11.02	0.0
Qld	Airle Beach	U	\$335,045	286	13.11	14.3
SA	Mount Pleasant	H	\$307,324	307	9.05	0.0
SA	Mount Pleasant	U	\$197,000	177	8	N/A
Vic	Allansford	H	\$415,000	302	9.4	0.0
Vic	Allansford	U	\$260,000	170	11.4	40.0
WA	Middleton Beach	H	\$698,000	201	8.6	16.7
WA	Middleton Beach	U	\$235,000	N/A	10.3	0.0

Source: realestate.com.au<sup>1</sup> H = house, U = unit



Airle Beach

any hidden issues that might cost a lot of money to rectify.

"As a rule, I like older style properties (unit blocks) without lifts, no more than four stories and hence lower quarterly strata fees as you're not paying

for the upkeep of the amenities," Slack-Smith says.

"Older units also offer the opportunity to buy under market value to create instant equity or renovate to increase rent." ■