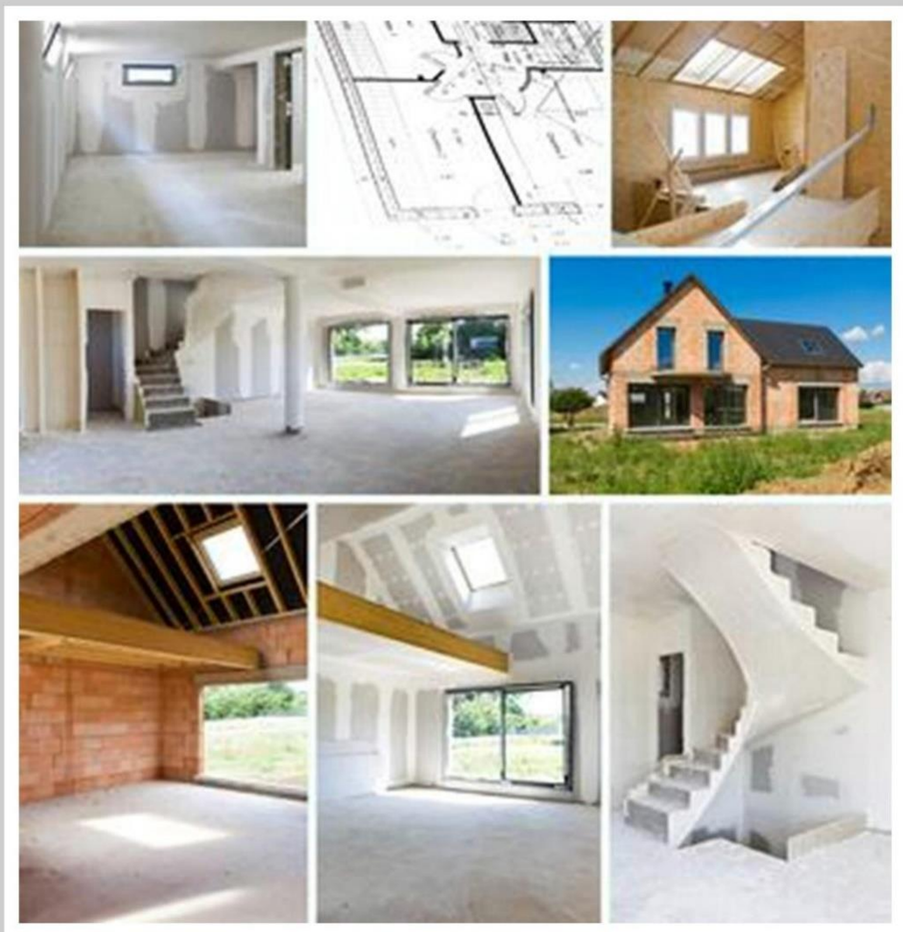

10 Top Tips For Property Renovation Profits

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PROPERTY SECRETS

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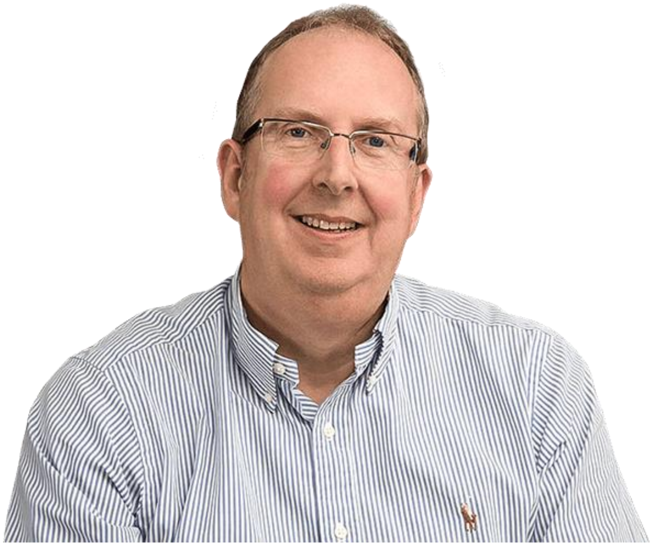

Peter Jones is an (ex) Chartered Surveyor, an author and a serial buy to let property investor.

He has been involved in property for over 30 years having graduated from the College of Estate Management, Reading University, and then qualifying as an Associate member of the Royal Institution of Chartered Surveyors in 1983, before being elected a Fellow in 1992.

By the age of 35 he was a Salaried Partner in a well respected firm of Chartered Surveyors, and was managing partner of their West End of London Office. His specialty was commercial property but during the recession of the 1990's his specialisation became redundant, and so did he.

Finding himself with no regular income, and with no savings, but with a wife and 3 young children to support, he borrowed some money from a relative and bought a house to refurbish and sell-on. That was the start of his own property business and, despite starting with none of his own money, he quickly assembled a multi-million pound property portfolio.

Peter is still actively involved in buying and renovating property, and regularly flips properties for profit.

Peter has written a number of successful property books. The first, *An Insider's Guide to Successful Property Investing*, was first published in 2000 and was one of, if not the very first, book of its kind which was written for what we'd now call buy to let investors.

On the back of its success he was invited to be a guest writer for Property Secrets, and wrote Spanish Property Secrets, French Property Secrets, and Portugal Property Secrets.

He is now a regular guest blogger for Property Secrets at www.propertysecrets.net

Peter has since written a number of other successful titles dealing with UK investing including *63 Common Defects in Investment Property and How to Spot Them*, *The Successful Property Renovator's Workshop,* and the highly acclaimed *The Successful Property Investor's Strategy Workshop* in which Peter describes step-by-step how he built his own property portfolio, starting with virtually none of his own money. Details of his books can be found at:

www.ThePropertyTeacher.co.uk

he has also written for Property Investor News, Property Auction News and Hot Property Alert, and has been a guest blogger for Progressive Property and LandlordZONE.

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And his Facebook page www.Facebook.com/PropertyTeacher

Please also visit Peter's YouTube Channel - The Property Teacher

Top Ten Tips For Property Renovation Profits

Making money renovating property can be easy ... but only if you know what you are doing! By using a few simple but powerful techniques you can guarantee yourself a profit every time.

A lot of people think they can make money by renovating property ...until they try it!

With the popularity of TV programmes like “Property Ladder” it seems like every one wants to try their hand at property renovating.

And on the face of it, that's a good idea. After all, it can be highly profitable.

But the <u>shocking truth</u> is that very few renovators actually make any money from it!

But I'm getting ahead of myself. Let me introduce myself, I am Peter Jones, Chartered Surveyor, author and property investor.

Over the last 17 years I've renovated over 100 properties; some of these were to sell on at a profit, and the rest were to keep and let out. I currently have 3 projects on the go and my target for this twelve month period is 12 properties.

Some of these were relatively straightforward projects - renewing the kitchen and bathroom, putting in new central heating and plumbing, upgrading the electrical wiring, putting in new windows, a damp course, and then redecorating throughout.

Others were much more substantial such as the pair of flats that were so riddled with dry rot I had to literally gut them and rebuild them from scratch. The only original parts of the building left were the outside walls!

So I guess that in my time I have probably seen most things that property renovating can throw at you.

Don't forget that renovating is a broad term. It encompasses modernisation which could include putting in a new heating system, new windows, and new kitchen and bathroom. It also covers repairs such as damp treatment, roof overhaul or renewal, and rewiring. It can also cover situations where you intend to convert the property, for example from a single dwelling to two or more flats, or from a corner shop back to a residential house (I have an acquaintance who specialises in doing nothing but this; since the demise of the corner shop, due to competition from supermarkets, he's done very well indeed).

The theory behind property renovating is very simple.

If you find the right property requiring the right type of work you will enhance the value by more than you spend. This is sometimes known as “forced appreciation”. Then, when the works are completed, if you have done your sums properly, the equity in the property will exceed the amount of your own money that you invested in the property.

Even better, you can then mortgage or remortgage the property and, depending on how much you’ve increased the value by, you might be able to “borrow back out” more than you put in.

And if you have more money than you put in you will have more to roll-up into the next property.

Repeat this process several times and your portfolio, and your equity, will grow rapidly.

However, you do need to be careful. If there’s one thing that the plethora of television programmes featuring house make-overs and refurbishments has done, it’s shown the population at large that making money from property refurbishment is not a dead cert. Making a profit requires careful planning and preparation.

All too often programmes like *Property Ladder* and *Homes Under The Hammer* have shown that it’s not just a question of buying a run down property, giving it a lick of paint, and then selling it on. More often than not, for various reasons, many of the aspirant property developers have struggled to make a profit at all. In many cases they were bailed out purely because property prices were increasing at the time; others were less fortunate and made a loss.

Knowing when to do a property up, and how to ensure a profit, is one of the key tools of success in a property investor's armoury. I, for one, like to use "forced appreciation", as it's often known, whenever I can. Appreciation is the increase in the value of a property due to market movement, whereas forced appreciation is pushing the value of a property by means of improving, repairing and modernising.

Depending upon the condition of a property when he or she buys, an investor may have no option but to repair and modernise if they are to bring the property back into functional use. Benefiting from forced appreciation per se might not be the motivation behind the works, but might be a secondary benefit.

However, often an investor will consciously seek properties that are past their best in the hope of squeezing an increase in the equity (equity being defined as the difference between the value of the property and any loan outstanding on it). This might give options as to future finance and will, as a minimum, increase the return from the property even if it is only on paper in the first instance.

For renovation projects to make a profit it's essential that the investor does their due diligence and plans everything before purchasing the property and committing themselves to considerable expense.

Here's a quick canter through some of the things an investor will need to consider.

First, if using forced appreciation is part of your overall strategy you will need a system to ensure that you find plenty of "product". Refurbishing properties is extremely popular and there is often fierce competition. So much so that it's not uncommon for purchasers to overpay for a property.

Every investor will have their own preferred method or methods of finding suitable properties, whether it simply be continually doing the rounds of their "favourite" estate agents, land registry searches of abandoned or derelict or semi-derelict properties and properties in disrepair in their target areas, auctions, running their own "properties wanted" adverts in local papers, or even, believe it or not, keeping an eye on the obituaries column in the local paper to see if they can get a march on probate sales.

If you do an internet search on “properties to renovate” or “How to renovate properties” and similar search terms you’ll come across a number of “member only” sites who specifically source run-down properties. Let’s face it, no one does anything for free, and so there will be costs incurred from using this service that will cut into your profit, so you’ll need to be sure of your figures if you’re tempted to take one of these properties on.

Having identified a suitable property an investor will need to make sure that they don’t over pay.

This will require a detailed knowledge of the value of this type of property in the locality, preferably in both its improved and unimproved state, although in practice detailed information, especially for the latter, can prove difficult to obtain.

I always find “working back” from an improved figure easier than trying to extrapolate forward from an unimproved figure, but a skill that needs to be developed by an investor is the ability to make accurate judgements using whatever information is to hand.

Once they’ve established the improved and un-improved values the renovator will need to consider both the cost of any required works, and how they will impact upon the end value. For an accurate assessment the investor will need to have inspected the property and made a detailed assessment of what’s required. This will mean more than a cursory viewing although, in practice, it may not be appropriate for an investor to embark on a detailed inspection.

However, with experience comes the knack of spotting the “things that will make the difference” and knowing “where to look”. By that I mean being able to spot which improvements will genuinely add value, and knowing different types of building and building construction well enough to know where defects are most likely to show themselves. For example, in a Victorian terrace with a back addition, obvious problems to look out for could be roof problems, especially around valley gutters, wiring and plumbing, damp problems where the damp course has broken down, etc etc.

Having established the likely works the investor will then need to factor in the effect on value in deciding how much to offer, or in the case of an auction property, bid.

Now it's true in property that "cost does not equal value". Some improvements will add more value than the cost of undertaking them, some less. So generally speaking, central heating and new windows will add more value than they cost, whereas, going to extremes, an expensive swimming pool can often be considered a liability and could have a negative effect on value.

A key to knowing how much to spend, and what the effect on value of any work done will be, is for the investor to understand their potential market. So the first decision the investor will need to make is whether they are renovating for resale, or whether they will be keeping the property to let out and hold as an investment. This will often decide the standard of works that the investor will undertake.

Often an investor would be wise to, say, install a lower standard of kitchen in a rental property than if she or he were to sell on to an owner-occupier. As long as the kitchen is of reasonable quality the property will attract the same rent as if the investor put in a plush, all singing, all dancing kitchen.

Adopting an economic term there is definitely a 'marginal utility of return' on one's investment. By contrast, if the investor is looking to sell on to the owner-occupier market, it may be worth spending more and putting in higher quality fittings because that is what the owner–occupier would expect. Again, the value might not be enhanced by the full cost of the works, but if nothing else it should facilitate a sale, and a quicker sale should enhance profit, taking into account the opportunity cost of money or actual interest paid on any finance.

However, even with the owner-occupier market in mind an investor will need to make sure that the works they undertake are appropriate to the property.

For example, I recently viewed a small two bedroom terrace house in a northern town which the estate agents details suggested would be ideal as a rental property.

It was obvious that the owner had been watching too much *Changing Rooms:* the kitchen refit was completely over the top, as was the asking price of the property, confirming my suspicion that the owner assumed the cost of the kitchen would translate directly into value added to the property.

But not in this case – in fact the kitchen was so over the top and inappropriate for a property of this size and value, that I think it actually detracts from the property. The sad thing is that this property did not have a bathroom, only a shower room, and if the owner had spent the money instead to convert the shower room into a proper bathroom, that would have added much more value.

If a renovator is looking to hold and rent the property then he or she will also need to think about finance. Any increase in the value of the property following refurbishment can potentially be drawn out using finance. If the increase in value is greater than the costs of the work by a sufficient margin, then the investor can get back the costs of the works by refinancing.

Having embarked on a potentially profitable project it's then the responsibility of the renovator to ensure a profit is made. This will firstly be down to their research and judgment, as we've already seen, about values and the potential costs of the works. Then, in a very practical sense, it will be by ensuring that the project comes in on, or even under, budget.

How one is going to achieve this also raises some practical questions. Do you need, want or intend to do some or all of the works yourself? If so, by implication, the properties you will be seeking will have to be close to home.

As an aside, if you do intend to do the work yourself, make sure that it pays for you to do it in the long-run. Although it can be tempting to "muck in" to cut costs, often the jobs will be done quicker and to a higher standard if you employ professional contractors instead. Speed is important when you have bought using finance – the interest will be clocking up daily.

Even if you bought a property for cash, you should still make a notional allowance for interest during the holding period to reflect the opportunity cost of your funds. Similarly many investors also fail to allow (or charge) for their own time which is a mistake and which distorts the final figures.

If you are prepared to take a more hands-off role then you'll be able to be more flexible about where you buy. Many of my refurbishment projects have been some 150 miles from where I live, but I have been able to find, and rely upon, a trustworthy project manager who makes sure the works are done on time and in budget. This allows me time to look for the next deal rather than worrying needlessly about the details of the current project.

If you want to put some time into your refurbishment project, finding the right team of contractors and someone to manage them is time well spent. So having completed the works, what then? Well, quite simply the choice usually comes down to selling-on at a profit, or keeping the property and letting it out. I usually go for the latter, and will combine this with refinancing. If I have done my sums properly the value will have increased by a good margin over the costs of the project, and I will usually be able to draw out enough extra equity to pay my refurbishment costs. Often there will also be a “surplus” that I can put towards the deposit of another property.

Drawing equity out as a loan does not attract tax. After all, it’s not income and until there’s a sale, there’s no chargeable capital gain. Another plus of going the refinance route is that any interest on the loan, as long as the monies are used in connection with the “business”, will be an allowable expense and can be off-set for tax purposes.

However, if you decide to sell-on, then clearly you will be hoping for a gain, and chances are that it will be chargeable! A solution to this is to consider whether you can live in the property as your main residence as you refurbish it, thus taking it out of Capital Gains Tax.

In practice this will suit few investors but if you are just starting out, and your life style is flexible enough to accommodate this, then it can be a great way of boosting your returns from a project.

If you are tempted to try your hand, here's a list of my top do’s and don'ts when renovating property.

Number One - Be Clear in Your Own Mind Why You Want to Renovate

There are three main reasons why we will probably want to refurbish a property.

The first is because it's a rental property for letting out.

The second reason is because it's a property we've bought to refurbish and sell on.

The third is so we can add to the value and then refinance it and get all or most of our money back out.

If it's a rental property we'll probably be trying to make sure that we:

*Make it easier to rent and so reduce our voids

*Increase the rent

*Increase the capital value so that we can refinance and pull our money back out if we want to.

If we're renovating the property to sell it on, we'll need to be aware of two potential markets:

*The first is to owner occupiers

*The second is to other investors

The standard of refurbishment will be different for both of these potential buyers. If we're renovating to sell on to owner occupiers then we'll generally have to provide a higher standard of refurbishment, and conversely, a lower standard of refurbishment if we're selling on to other investors.

The premise behind this is that the other investors will be looking to rent the property out and so a refurbishment for a sale to an investor will be identical to a refurbishment to rent the property out. In that case we'll be looking to bring the property up to a good, but not exceptional standard and use hard-wearing finishes.

If we are renovating a property to sell on to other investors their main concerns will be:

*The yield

*Buying at a discount, what we could call nowadays below market value.

Of course there are always exceptions to every rule and the refurbishment will need to be in keeping with the property, in other words its size, age, character and location, regardless of whether we're renovating to rent out or to sell on.

And in some areas the appropriate market may be high-end tenants, in which case the finish for the rental market may be identical to the finish we would provide for owner occupiers or, in some cases, such as higher end corporate, higher than for owner occupiers.

A lot of people think of renovating property to sell-on at a profit when the work is done. But don't forget that buying to do up and buying to hold and let are not mutually exclusive. In fact there are definite benefits in combining the two.

Having cut my teeth doing up a couple of properties to sell-on, but having also enjoyed the benefits of "let and hold" through buy to let, as often as I possibly can I now try to combine the two by buying to do-up and then letting and holding.

The premise behind buying to do-up is that it will result in a profit. The money you spend should be on things that will improve the property, and so the value of the property should increase by more than the amount you spend on the works.

If you buy to "do-up and sell-on" you would take this profit as a lump sum. If instead you do up and then "hold and let", this profit will translate as an increase in the equity you hold in the property. If the equity increases, this can either be seen to reduce the gearing if you have used finance or, alternatively, can be taken out by way of mortgaging, re-mortgaging or as a Further Advance, and can be used to buy or refurbish other properties, or to pay your salary as a property developer.

Number Two – Take on Projects in Keeping With Your Experience

Do be careful not to be too ambitious when you start. The type of project you take on should depend on how much experience you have. Possible categories of projects can broadly be classified as:

***Beginners.** Dealing only with single units i.e. flats and houses. These will be rundown but sound, requiring only cosmetic, minor modernisation, minor repairs, and/or redecoration.

***Intermediate.** Again, dealing only with single units. These will still be rundown but generally sound, but may require more extensive refurbishment and modernisation i.e. more extensive non-structural repairs, some renewing of services, new bathroom and kitchen, new heating systems and new windows.

***Advanced.** This could include dealing with multiple units, such as modernising a house converted into flats, a HMO (house in multiple occupation) or a block of flats. It could also include converting a single residence into multiple units.

A typical project will require planning and/or building regulation consent, and you will probably need an architect. The property could be rundown and not sound, and could require some structural repairs e.g. dealing with settlement or subsidence, a major roof failure, major damp problems with associated rot etc.

***Expert.** This would include large conversion projects, wholesale redevelopment, or anything to do with listed properties.

Although it's sensible to learn the basics before you become too adventurous, don't underestimate what you can achieve, either. My list is just a guide and there are no hard and fast rules.

Even if there were any, all rules are there to be broken. I've heard it said that beginners should only take on projects that require minor cosmetic improvements. However, I advise that if you think you're up to it, it can be easier, quicker and more financially rewarding to, say, take on a project with a major structural problem, if that problem is relatively easy to rectify. It can be easier to organise and manage one big job, and keep a rein on the costs, than to sort out numerous minor problems.

Number Three - Don't start any project unless you're confident that you will make a profit.

Let's face it, unless there are good investment reasons for doing otherwise, there is no point in taking on a project that does not result in a profit.

Do make sure, when calculating how much you can pay for a property, that you allow for a realistic profit. When calculating how much you can pay for a renovation property you'll need to:

*estimate as accurately as you can the sale price of the property once modernised
*and then deduct
*the amount of any fees, such as estate agents and solicitors, payable on sale
*the cost of the works, including surveyors and architects fees and a contingency (it'll always cost more than you expect)
*an allowance for interest for a loan on the property and a loan to cover the cost of the works
*an allowance for your profit i.e. build in £10,000 or £20,000 or whatever you think to be a reasonable profit given that the size of the project.

Then you'll be left with the maximum amount you can afford to pay for this property.

Number Four- Know How Much Value The Works Will Add Before You Start

Before doing any works of repair, renovation, modernisation and improvement, we will want to be sure that they will add value. That is, unless there are other good reasons for doing the work, such as, we are obliged by law to undertake them, or the works will increase saleability or rentability even if they don't add value per se. So how much value do individual items of repair, renovation, modernisation and improvement add?

Remember, cost does not equal value. It is important to remember when planning to refurbish a property that the cost of the refurbishment will not always be directly reflected by increased value. Just think about the £20,000 kitchen in the £60,000 terraced house.

One of the first things I was taught as a young Surveyor was that cost does not equal value. It is therefore very likely on occasion that you could spend money on a property but not increase the value by as much as you spend, and in some instances you may even detract from the value.

Similarly, looked at the other way, this works in our favour because it also means that we can spend money on a property but disproportionately add value to the property, increasing its equity and therefore our wealth or the profit within the property.

I often get asked if there's a list anywhere, or a website, which shows how much value different works of repair, renovation, modernisation and improvement add to the value of a property.

Or if there's a formula we can use, to work out how much value is added.

Unfortunately it's not as simple as that.

The amount by which any work of repair, renovation, modernisation or improvement will add value to a property will almost always be market driven and will depend on the demand, requirements and expectations of the market in that area.

Let me illustrate this by using an extreme example. If you put central heating into a terraced house which is located in an area of extremely low demand, and where there's a glut of terraced houses on the market, you may not add any value at all. The property may be just as hard to sell with the heating as without it. Terraced houses are hard to sell, full stop. As I say, this is only an example, I'm not stating a general rule. In some areas terraced houses are very popular.

In our hypothetical area new central heating might make the property easier to rent out, but it might not make it easier to sell.

Here's another extreme example. Adding a garage to a property in the suburbs might add a few thousand in value to a property, but if you can squeeze a garage onto a plot in central London it may add many multiples of that in value, possibly even £100,000 or more!

So a £20,000 kitchen installed in a cheap 3 bedroom terraced house in a town in northern England, and which would normally sell for £60,000, might add no extra value over and above a cheap kitchen costing £1,500, and it could even reduce the value if it's overbearing and the next owners are going to have to rip it out and start again.

I'm using this as an example because I once saw a terraced house, worth no more than £60,000, which was on at an asking price of £80,000. The reason it was on at this price? The owner had obviously spent about £20,000 on the kitchen but it was totally out of keeping. In their mind they'd added £20,000 to the value, being the cost of the kitchen (we'll look at *cost does not equal value* in a moment) but in truth, it probably hadn't added a penny to the value. It might even have reduced the value because it was so large and over-bearing.

The same £20,000 kitchen installed in a super-luxury detached house might also add no value, and might reduce the value because buyers of that type of house might expect a fully fitted kitchen costing £60,000 with all the trimmings.

So, in my experience, there are no hard and fast rules, the amount by which any work will add or reduce the value will depend upon market expectations in that area.

But having said all of that I was interested to see that the Nationwide recently published a special report in which they give advice on how much an improvement can add to the value. It's true that they have a large survey sample of properties which they can research and extrapolate their figures from but, even so, I'd be wary about relying too much upon general guidelines. In summary, they suggest that:

***Adding a bedroom** and a bathroom through an extension or loft conversion can add over 20% to a property's value.
***Extending** to accommodate an extra bedroom can add over 10% to house value.
***An extra bathroom** adds 5% to the value of the average home.

Specifically, Robert Gardner, their Chief Economist said:

"Having more useable space is generally thought to be consistent with better quality accommodation and people are prepared to pay for it. A 10% increase in floor space, other things equal, adds 5% to the price of a typical house, whilst adding space equivalent to the size of a typical double bedroom to a two-bedroom house can add around 11% to its value.

A second bathroom also remains a favourite amongst home owners and our research shows that creating an additional bathroom can add 5% to the value of the average house.

Home owners who add a loft conversion or extension incorporating a double bedroom and a bathroom can add about 20% to the value of a three bedroom, one bathroom house. Households appear happy to pay for more space and our analysis suggests that, providing the room is useable, adding an extra bedroom can be a good way to increase the value of a property".

Based on their research The Nationwide estimate the value added for different types of property by increasing floor area to accommodate an extra bedroom is as follows:

*Terraced house 2 bed to 3 bed plus 10%
*Terraced house 3 bed to 4 bed plus 9%
*Semi-detached house 2 bed to 3 bed plus 12%
*Semi-detached house 3 bed to 4 bed plus 9%
*Detached house 3 bed to 4 bed plus 9%

Number Five – Be Clear on How Much The Works Will Cost Before Your Start

The amount you pay will depend on where you are located, the size and quality of the property you are working on, the quality of the work you instruct, how many quotes you obtain and how hard you 'negotiate' with your contractors, and even where we are in the economic cycle; in downturns builders are more likely to be looking for work and are more likely to discount prices.

Just to give you a rough guide, here are the kind of prices I would expect to pay for my properties in the North East, although you have to bear in mind that prices will vary greatly across the country for the reasons I've just given.

So, here's a very brief list:

*Central heating for a 2 to 3-bedroom property: £3000 - £4000
*New windows and a new front and rear door for a 2-bedroom or 3-bedroom property: £4000, unless I buy the windows direct from a manufacturer and get my builder to fit them, in which case they'd probably be nearer £2,000 to £2,500
*Rewiring a 2 bedroom flat: £2,750 to £3,000
*A new kitchen fitted by my builder: £1,500, including built-in cooker and hob
*A new bathroom fitted by my builder: £500 - £600 including new 3 piece bathroom suite
*Tiling the bathroom: £300 - £500
*Decorating a 2 or 3-bedroom property: £1,500 to £2,000
*Cheap carpets for a 2 to 3-bedroom rental property: £800 to £1,500

And don't forget to allow for a notional charge for your own time when you're calculating or estimating the cost of the works. If you don't cost out your time, you will be robbing Peter to pay Paul. Your time is a valuable resource and should be accounted for.

The same is true with interest. Even if you buy the property for cash and fund the building works with your own money, you must allow for notional interest payments, otherwise you're really cooking the books. You have to allow for the opportunity cost of using your own money. After all, if didn't use it to fund your project, it would be invested somewhere else, for example in the bank earning interest.

Number Six - Take Professional Advice To Be Clear on What Work is Required

Always get a surveyor to do a survey before you buy. Although some problems are impossible to spot until you get “stuck in”, having a survey should cut down on the number of nasty surprises you have to deal with. Once you know what’s required, you'll also need accurate quotes from builders and contractors so you can budget for all the costs.

Do make sure that before you start your project you carefully plan the order and sequence of the works that are required. There is nothing more frustrating than having to undo a completed task because you have overlooked something else that needed doing first.

For example, there’s no point getting the plasterer in until you're sure that the electrician has finished rewiring. Otherwise he'll be cutting out and chasing through your new plaster.

Another thing I always forget is to get the “chippy” to allow for carpets before he hangs the doors. I’m embarrassed to say that on several occasions the carpet fitters have put in new carpets and I’ve then found that all the doors had to be taken off and planned down so the doors would open and close. That’s very frustrating.

Number Seven - Do Search Around For The Best Finance For Renovation Projects.

Lenders require a property to be habitable from day one before they will advance a buy to let loan.

Many buy to let lenders are reluctant to advance mortgages against properties which require even minor works of repair, modernisation or improvement. The rationale behind this is that in lending on the property they are taking the potential income into account, and they want to see that income coming in as soon as possible. So if the property requires repair or modernisation, there won't be an immediate stream of income, which puts the lender at risk if they ever had to repossess.

For this reason most lenders will insist that the property is in a letable condition from day one, and as a consequence of that I have seen instances where loans have been declined, based upon the valuer's comments when he has inspected the property, for what would usually be considered fairly trivial reasons.

However, the good news is that some lenders will lend on properties requiring a limited amount of renovation or refurbishment by way of a light refurbishment loan.

The definition of light refurbishment is a little vague but it essentially covers situations where the property requires a cosmetic upgrade, and perhaps minor improvements, such as a new kitchen or a new bathroom.

The way that light refurbishment loans work is that the lender will advance, say, 70%, depending upon their LTV, of the purchase price of the property, or the value, whichever is lower, and will usually also retain a sum of money equivalent to the cost of undertaking the improvement or repair works.

At the time of the initial mortgage application the valuer will be asked to provide an opinion of value of the property in its current un-refurbished condition, and also an opinion of value of the property upon completion of the works.

When the borrower informs the lender that the works have been completed, the valuer will re-inspect, and as long as the valuer is happy with the standard of the works that have been undertaken, the sum of money retained to cover the cost of the works will be released, and any extra equity.

The mortgage will be re-calculated to be 70% of the value of the property after improvement, and any extra equity resulting will be released at the same time.

There are pros and cons with using light refurbishment loans.

The first disadvantage is that only a few buy to let lenders offer a light refurbishment or limited refurbishment loan, so there's not much choice. The main lender is Paragon, although the terms of their loan make it very limiting, but others include Shawbrook, Kent Reliance, Aldermore and the Saffron Building Society.

Also Precise offer a *bridge to let* facility whereby they bridge the refurbishment and then the loan can be swapped to a more traditional buy to let type loan.

The second main disadvantage is that currently loan to value ratios are limited. Most tend to be around 70%, although Paragon offer a 75% LTV, although this comes with strings attached, Kent Reliance offer 75% LTV, and Saffron offer an 80% LTV.

This can be compared with the best LTVs available for standard buy to let mortgages which include 85% offered by Kent Reliance and 80% by The Mortgage Works, Mortgage Trust and Saffron.

Another potential disadvantage, depending on what you buy and where, is that most lenders have relatively high minimum valuations for their light refurbishment products. Paragon has the lowest at £75,000, and Saffron and Kent Reliance only lend on properties over £100,000, which is fairly typical.

Paragon describe their limited refurbishment scheme as being for a property that is "currently habitable but where minor works would enhance the overall appeal to the market and its potential rental income. Minor works might typically include the replacement or refurbishment of kitchens and bathrooms, renewal of services or decorative attention. The scheme is not for works that require planning permission, permitted development rights or building regulations approval, and should not involve any major structural works to the property”.

That is a fair summary of how all lenders see light refurbishment.

Let’s have a look at the different products offered by the different lenders.

Paragon Mortgages

Here’s how the Paragon limited refurbishment scheme limited works.

The minimum valuation requirement is £75,000.

Up to 75% of the purchase price or the valuation, whichever is the lower, will be advanced upon completion of the purchase.

A retention amount, being a minimum of £2,500 up to a maximum of £25,000, will be held and, once works are completed, up to 75% of the after-works value can be released.

The works must be completed within three months of the initial advance.

The maximum £25,000 retention is the maximum that will be released on refurbishment.

In other words, even if you increase the value of the property by more than £25,000, £25,000 is the maximum amount of extra equity they will release.

If you run the numbers it means that the most efficient way of using it is to buy a property for £75,000, spend £6,000 doing it up to produce an end value of £108,250. Then we’ll be able to get the full £25,000 back out.

But how many properties will fit that scenario? Not many.

But it’s not all bad news! There are other lenders with different products

Saffron Building Society

Saffron Building Society also offer a popular buy to let mortgage specifically for light refurbishment works. The minimum valuation of purchase price is £100,000.

They are currently advertising two buy to let light refurbishment products.

One has a 75% LTV and is on a 2 year fixed rate of 4.47%

The other, which is potentially much more interesting to us, has an 80% LTV and a five year fixed rate of 5.07%.

Their website gives this example;

Purchase price of property £100,000
Initial advance £75,000
Property value after improvements £130,000
Total borrowing £97,500
Further advance £22,500

Aldermore

Aldermore offer a light refurbishment product.

They will advance 65% LTV on day one on the lower of the purchase price or the valuation with a retention on the advance to take the total advance up to 70% of the completed value.

The works must be undertaken within six months from the date of drawing the original advance.

There is an arrangement fee of 2.5% with a procuration fee of 0.75% and a minimum interest margin of 5% over the base rate of 3%, with an additional loading of 1% during the refurbishment phase.

Shawbrook

Shawbrook offer a short term mortgage for refurbishments, with a 75% LTV and a minimum loan of £75,000, meaning a minimum valuation of £100,000. The maximum loan period is 18 months. The rate charged is 8% above 3 month Libor which means it's roughly 8.5% a year at today's rates.

So this is really a bridging facility.

But you can switch to their standard buy to let mortgage, again with a LTV of 75% and a minimum loan and value of £75,000 and £100,000 respectively, with the choice of interest only, capital repayment or partial capital repayment terms.

The maximum term for interest only is 10 years and the rates are nearer 4% at the moment.

Precise

Precise have a *Bridge to Let* facility. Here's a quick summary of how it works.

They offer a light refurb bridging facility with a maximum LTV of 70% for a maximum of 18 months. The minimum loan and valuation amounts are £50,000. The monthly rate is 0.95%. and there is a 2% facility fee.

Once the works are completed, within 4 months you can switch to their Bridge to let buy to let mortgage. This has an 80% LTV for loans under £500,000, with a maximum term of 30 years and with rates of around 5%.

So there's lots of different products, each with the pluses and minuses. Whether it's worth using one of these more expensive bridging type products will all depend upon the figures. You may consider it worthwhile to use a more expensive product initially if you intend to refinance down the line and then switch to a cheaper product like a normal buy to let product.

So it's worth playing with the figures and seeing which combination works best for you.

Number Eight - Carefully Consider Whether You Should Do Some or All of The Work Yourself

If cash-flow is a problem you might want to reduce costs by doing the work yourself. However, although that looks good on paper, if you're not experienced in a particular trade, or if you are refurbishing a property after work or at the weekend while still trying to hold down your 9 to 5 job, this can be a false economy. Inevitably it will mean the project takes longer, and if your DIY is anything like mine, it means the quality of the work will suffer.

The property “gurus” tell us that we should avoid doing the donkey work ourselves. Otherwise, when we work out how much we’ve have earned on an hourly basis after we’ve spent days, evenings, nights and weekends slaving away over soggy wallpaper and lumpy plaster, or worse, we'll find we've only managed to create ourselves another job. And depending upon how much work there is to do, and how long it takes us to do it, we might find the truth in the view that job stands for “*just over broke*”.

The trouble is, if you try to do as much of the work as you can yourself, you will inevitably slow the project down and increase costs in the long run. This is because you can only do one job at a time.

Also, unless you are already a skilled craftsman, any job will take longer if you do it yourself than if you get someone in to do it. And there’s the strong possibility that the quality of your work won’t be as high as that of a “professional”, with the ongoing risk that once you’ve finished you might have to get someone in to redo what you spend hours or days attempting.

Instead, decide from the beginning that you’ll get the experts in. Yes, you'll have to pay them but, unless you are in the trade yourself, you'll find they'll do any job far quicker than you and to a much higher quality. In fact, if you plan the project properly, you can have one, two or even three trades on site at the same time and considerably speed up how long the project takes.

Time is money, and while you’re working evenings and weekends to get the job done, bank interest (or the opportunity cost of your funds) is quietly ticking up and your profits are gradually being eroded away.

Number Nine – Don't Forget You Might be Eligible For Grants

Don't forget you might be eligible for grants from the local authority, or other statutory bodies, depending upon the status of the property and the type of repairs you are doing. But equally, don't forget it might take a considerable time for your application to be processed and for the grant to be released. Still, if there is money on the table and you can use it, you may as well take it.

Some local authorities offer grants to bring empty properties back into use so it's always worth giving them a ring to see if any funds are available.

For example, in the north east, where I have a few investment properties, Newcastle City Council offer a 'cheap loan' to property owners to bring properties which have been empty for more than 6 months back into use.

Tip Number Ten - Don't Overlook The Small Things.

I can tell you that when you are settling down to a day's work it is highly irritating to find that you have forgotten to take with you all the little luxuries we take for granted at home. This list will include tea and coffee, milk, sugar, teaspoons, mugs, washing-up liquid, soap, tea towels, a towel, a radio, and last but not least, toilet paper.

Not quite as urgent, but in their time also essential, are cleaning solutions of various types, bleach for the toilet, dusters, rubble sacks, and a decent heavy weight vacuum cleaner.

To save a lot of grief, especially with your builders, these should be the first things you take to the site. But they are easy to overlook when your mind is focused on ordering the big stuff like a kitchen, or a bathroom, or a full set of double glazed windows.

And finally, although a list of do and don'ts like this may seem daunting, don't think that renovating a property is beyond your abilities. You really don't need to be a builder or a handyman. In fact you don't need any special qualifications because you don't need to do the work yourself. Often it's better if you don't. There are plenty of people with the right skills and experience you can subcontract the work to, leaving you with more time to look for the next project.

All you really need is a desire to do it, and the willingness to plan and prepare properly.

Here's to profitable property renovations.

Peter Jones

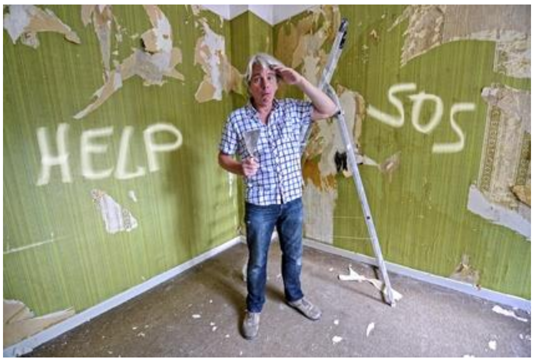
Peter Jones
(ex) Chartered Surveyor, author and property investor
www.ThePropertyTeacher.co.uk

How To Make Sure You Make a Profit Every Time You Renovate a Property

Everything You Need To Know to Do Your Own Profitable Projects

Dear Fellow property investor,

"How Professional Property Investors Really Make Property Renovation Profits - And How You Can Too!"



Buying a property that needs a bit doing to it, and giving it a bit of TLC and a quick 'refurb', can be one of the easiest, most fun, and most satisfying ways of making a profit in property.

I've literally lost count of how many properties I've renovated since I started back in 1995, certainly more than 100. Some I have sold-on at a profit. Others I've kept to let out and, if I've wanted to take "the profit", I've refinanced and have drawn out the extra value I've created.

At the moment, as I write this, I have 3 projects on the go and am looking for my next one. These aren't big developments, instead mainly they are normal residential houses, like terraced houses and semis, for which I know there is a ready market when I finish the project.

It's bread and butter stuff; I buy the property and usually pop them back onto the market 4 or 5 months later and **collect my profit**. This is nice and easy, nothing complicated.

Don't misunderstand me, I don't say any of this to boast - I believe anyone can do this. I have no special skills, in fact I can't even do DIY! In my home my wife does it because she knows she can't trust me to hammer a nail in straight!

But I do have a system which pretty much guarantees me a profit every time BEFORE I start a renovation project, and I'll show you how you can obtain and use the very same system in a moment so you can do your own, highly profitable property refurbishments.

If You Don't Know How To Do it, Renovating a Property Can Be A Minefield

Let’s be honest, **most people think that renovating property is an easy way to make money**...**UNTIL THEY TRY IT!**

Sadly, the reality is that by 6 months into their projects, many ‘would-be’ renovators have all but given up on their dream of making a profit and are desperately trying to limit their losses instead.

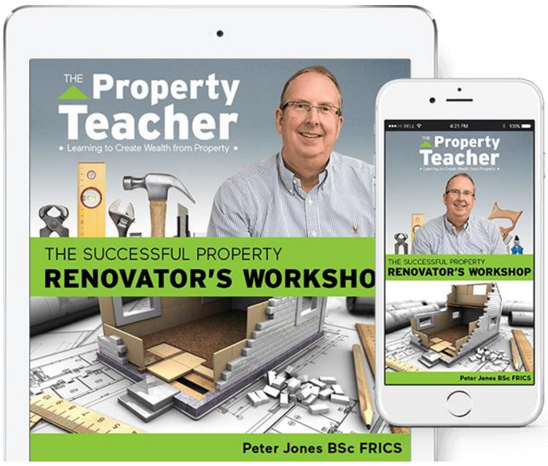
It’s not their fault. TV shows like ‘*Property Ladder*’ and, more recently, ‘*Homes Under The Hammer*’, have fuelled a massive interest in buying a wreck and doing it up**.**

But programmes like this DON'T show you HOW TO DO IT!

If you want to be guaranteed a profit, you need to know how to find the right property, how to plan the project, how to cost the refurb and budget properly, how to put the right ‘power team’ in place, and how to exit.

These are things no-one ever shows you…until now!

Let Me Show You How You Can Guarantee Yourself a Profit...Every Time!



Renovating property for a profit isn’t rocket science, but you’d be surprised how many people do it get it wrong.

The good news is there are **a few simple things you can do** *before you start* which will almost guarantee you a profit and success every time.

If you want to renovate property, either to sell-on at a profit, or so you can add value and then refinance and borrow all of your money back out to spend on your next project, I'll show you how in my best selling Home Study Course ***The Successful Property Renovator’s Workshop***.

This is a ‘course in a book’, which will take you through the whole 'system' for renovating for profit in detail.

This is based on my over 40 years in property, and the more than 100 properties I’ve refurbished. I've taken all my knowledge and experience, and have put it all down on ‘paper’ in this 'easy to read' Home Study Course, so that you can do your own profitable refurb projects with confidence.

Here’s What You’ll Discover in *The Successful Property Renovator’s Workshop*

*How to find the right projects – many would-be property renovators get this wrong by choosing projects that are either too small or too big -there’s a sweet-spot, and I’ll show you what it is.

*How to cost the work so you don’t have any nasty surprises, so you can keep on budget, and create a profit

*How to find the right contractors and builders to get the job done properly, on time and within budget

*How to do your sums to make sure you make a profit and, most importantly, exactly how much profit you will make

*One cost many investors ignore, but which can significantly affect the outcome and whether you made a profit or not

*Why selling your property isn’t always the right exit strategy, and what you should do instead

*How to raise finance for the purchase and the project, and how to refinance when you have completed, so you can get ALL of your cash back out, and do it again

*Why understanding your target market makes all the difference

*Practical tips on how to make the project run smoothly, based on what I’ve found works and what doesn’t work when I’ve done my own projects

*How to organise the project properly, confident that you will achieve a profitable outcome

*How to make sure you don’t under-estimate the cost of the project or the time it will take

*Why it’s easy to over-estimate the end value, and how to avoid this

*Why it’s easy to do ‘too much’ work, and how to make sure you do exactly what is required so you don't waste valuable time, and money

And much, much more!

In it I'll show you how you can find, plan, prepare and do each project to ensure your own profitable success every time.

And none of this is just dry theory. This is all based upon my own, personal experience of refurbishing and renovating over 100 properties, which is why **I use case studies of actual properties** I've refurbished, along with photographs, to illustrate many of the points made.

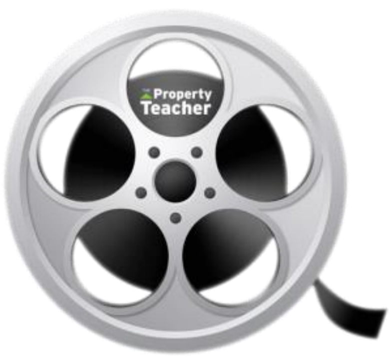
In ***The Successful Property Renovator's Workshop*** I'll show you **all the things I did right**, so you can copy them.

And I'll show you **all the things I did wrong**, so you can avoid them to save you years of trial and error, sleepless nights, and a lot of wasted money. In other words, I'll show you how you can tap into and use all of my experience and knowledge.

BUT THAT'S NOT ALL!

Order Now And You'll Receive These Valuable Bonuses as A Special FREE Gift From Me

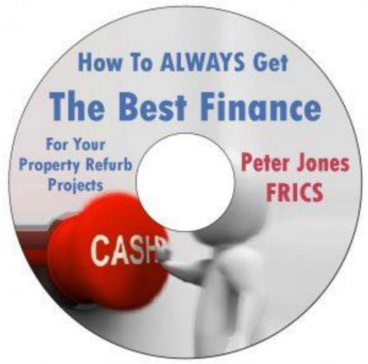
Special Bonus Number 1



Lifetime Access to My Library of Extra Content.

I've put together a 45 minute video called My Top Ten Tips For Renovating Property. I'm going to add more video content to the library on a regular basis and you will have lifetime access to all the content – this includes videos of actual renovations and refurbs I have undertaken.

Special Bonus Number 2



Many would-be property renovators are put off trying to do projects because they assume they won't be able to get finance, or they don't know how to finance their projects.

Others are prepared to give it a go but, because they choose the WRONG type of finance, they greatly reduce their profits.

The good news is that there are lenders will finance your projects for you if you know here to find them, and how to approach them.

Getting the right finance can often be the difference between success and failure. That's why I'll send you, as a special FREE bonus when you order your copy of ***The Successful Property Renovators Workshop***, a 1½ hour audio recording of an interview I did with my financial guru and go-to person, in which we discuss the types of finance available for refurb projects, and HOW TO GET IT!

I've called it ***"How to Always Get The BEST Finance For Your Property Refurb Projects"*** and it does exactly what it says on the tin!

This audio is worth £49.97 in its own right but you'll receive it for FREE when you order your copy of ***The Successful Property Renovators Workshop.***

60 Day, No Quibble, Full Refund Guarantee

I know that the information in the *Successful Property Renovator's Workshop* will be of **immense value to all property investors**.

But, naturally, there's a full 60-day no-quibble money-back guarantee of complete satisfaction (which I trust you won't need, but it's there anyway), so there's really nothing for you to lose when you order your copy.

If for any reason you're not happy with your copy just email me if you order the Digital version, or return the manual if you order the hard copy version, within 60 days of receipt, and I'll give you a full, no questions asked, refund.

PLUS, you can keep the FREE bonus as a ‘Thank you’ from me for trying it.

Order Your Copy NOW And You’ll Soon Be Doing Your Own Profitable Property Renovation Projects

Remember, ***The Successful Property Renovator’s Workshop* is available** as an ebook for you to download now and print off, or to read on your computer, or tablet, or ebook reader, for **ONLY £29.97, by clicking the link to my webpage below!**

OR, if you'd prefer a **HARD COPY**, it comes as a **MANUAL** in a 4-ring binder for **only £49.97 inc p&p.**
So **please go to:**

www.thepropertyteacher.co.uk/psrefurboffer

and order your copy now and you can soon be on your way to starting your own highly profitable property projects, and be on the road to securing **YOUR FINANCIAL FREEDOM FOR LIFE**!

Here's to profitable property renovations.

Peter Jones

Peter Jones
(ex) Chartered Surveyor, author and property investor
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PS Why reinvent the wheel? Grab your Digital download copy, or your hard copy manual version, of ***The Successful Property Renovator’s Workshop*** now and learn how you can guarantee a successful and profitable outcome every time you renovate a property for profit.

www.thepropertyteacher.co.uk/psrefurboffer