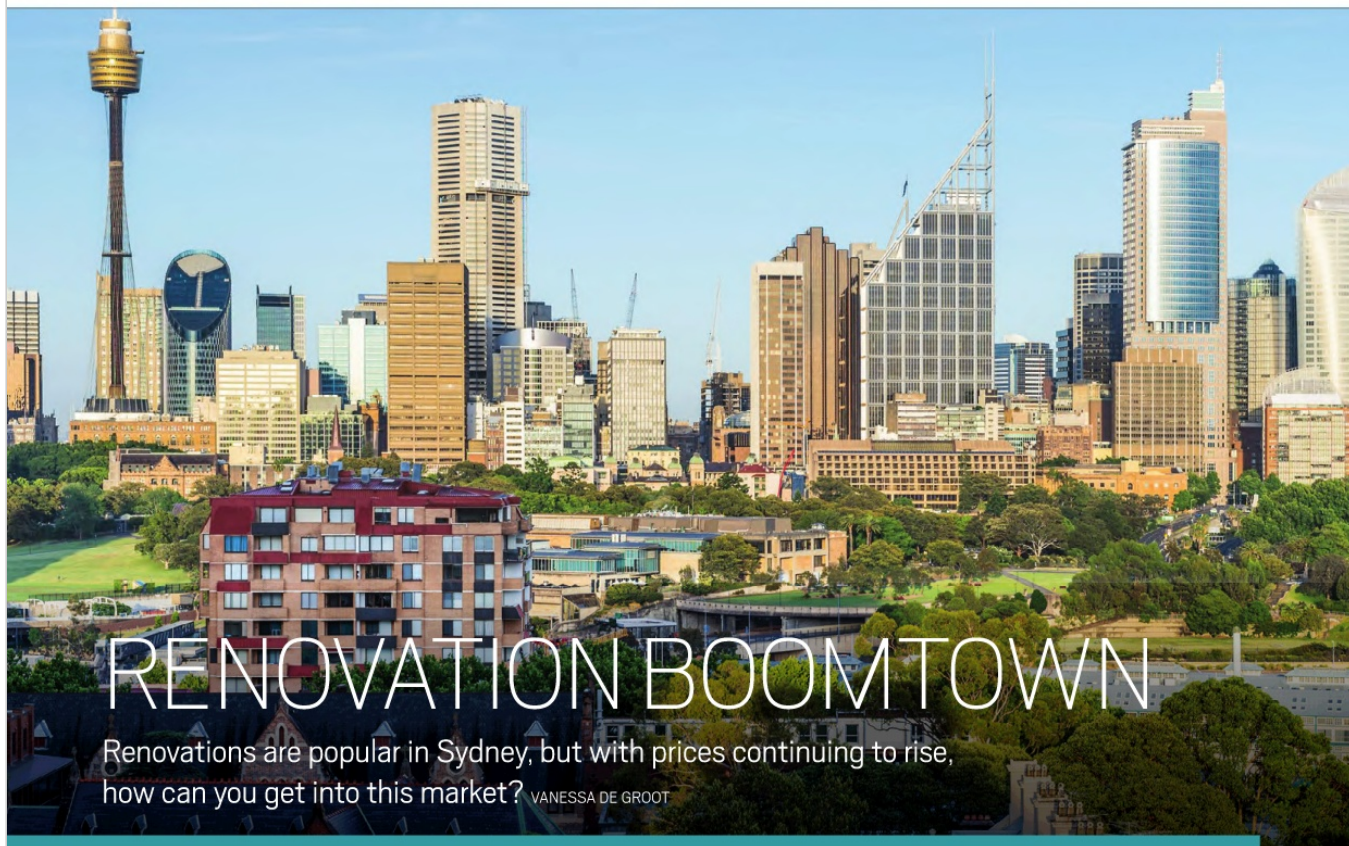




THE STATES ■ New South Wales



“It’s a boomtown for renovations in New South Wales at the moment,” declares John Cunningham, president of the Real Estate Institute of NSW.

The major reason for this is that the cost of buying and moving is now so high.

The median house price in Sydney is approaching \$1 million, he notes, and with stamp duty being four per cent of the purchase price, the bill is \$40,000 to move.

“When you add that to all the other costs of moving, it ends up being around \$60,000 or \$70,000,” he says.

“You’re burning money, so you may as well put it into renovations instead.”

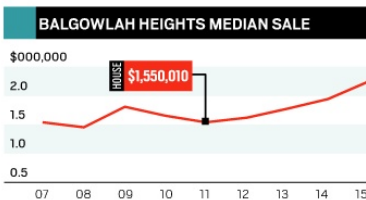
Certainly stock levels are declining in Sydney – with some areas, particularly blue-chip areas, experiencing record lows – indicating that people are indeed choosing to stay put and renovate instead.

This in turn encourages other people to delay their purchases, as their options for buying are more limited.

Cunningham says Sydney property owners are not only doing small renovations but also extensions and knock-downs and rebuilds.

So, where should property

ALL ABOUT BALGOWLAH HEIGHTS*		
	House	Unit
Median price May 16	\$2,350,000	SNR
12-month growth	18.7%	SNR
Median rent May 16	\$1595	SNR
Rent growth May 16 (YoY)	8.0%	SNR
Gross rental yield May 16	3.6%	SNR
Properties sold May 16	67	SNR
Properties sold May 15	69	SNR
Average vendor discount June 16	-1.9%	-13.5%
Average vendor discount June 15	0.0%	3.5%



investors look for the best renovation opportunities? We’ve canvassed the experts and found the top spots.

INNER-CITY PICKS

There are parts of Sydney – particularly in the city’s inner ring – where doing a knock-down and rebuild isn’t possible, according to Cunningham.

With current council codes you wouldn’t be able to build what you already have, he says, especially when it comes to floor space ratios and setbacks.

In certain areas and for certain housing – particularly semi-detached – you also won’t be permitted to change the façade, Cunningham notes, although you can change the back of the property.

He says despite these restrictions, there are still great opportunities in inner Sydney to undertake renovation projects and make money. In fact, there are suburbs in the inner city that are “booming” from a renovation perspective, according to Cunningham.

“In that inner-ring circle around the city of Sydney you can transform a two-bedroom fibro home on 400 to 600 square metres into a stunning four-bed contemporary home,” he says.

“In those areas, you’re looking to buy an old house for \$1 million and you



can transform it into a \$2 million house without the fear of overcapitalising.

“Ten years ago overcapitalising was an issue, but it’s not now.”

Cunningham says investors should invest not in the A-grade suburbs, but in the D-grade areas morphing into the C-grade to improve their chances of strong gains.

“In Sydney we’re finding the hipster suburbs are starting to come to the fore; as soon as you see cafes appearing you know it’s a good place to invest,” he says.

He names Balgowlah Heights and North Balgowlah as examples – they’re separated by the suburb of Balgowlah, and in the past the price differential has been close to 20 to 30 per cent, but today it’s almost indiscernible.

Cunningham recommends investors buy in the middle-range suburbs, because that’s where the strongest growth is and where you can get the best returns on renovations.

He names Dulwich Hill, seven kilometres west of the CBD and next door to the more desirable, gentrified areas of Newtown and Enmore, as another great renovation location.

In this suburb, he says, investors can buy a freestanding weatherboard home for between \$1 million and \$1.2 million

that needs a lot of work and once it’s fixed up it could be worth \$2 million.

“That’s the upper end of the market, but you can capitalise on those renovation projects in a significant way,” he says.

“You can move from \$1 million to \$1.5 million by just transforming the look, not even extending, or you can do a total overhaul and invest serious money to do it.

“You won’t overcapitalise, as long as there’s evidence to show what you build is saleable.”

Greville Pabst, executive chairman of WBP Property Group, names Marrickville, neighbouring Dulwich Hill, as a suburb offering a range of stock prime for renovation, especially because its properties remain more affordable than its gentrified neighbours.

Marrickville residents have access to a rich community and amenities, he says, and the additional appeal of renovating a dated apartment in Marrickville is that there isn’t an oversupply of new stock to compete with in the area.

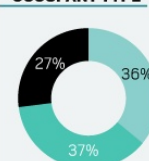
Cunningham says investors could also consider areas around Gladesville, next to Hunters Hill, less than 10 kilometres northwest of the Sydney CBD, for renovation projects.

**BALGOWLAH HEIGHTS FACT SHEET**

**Balgowlah Heights** has a low supply to demand situation. There are few rental properties available to tenants and there’s an undersupply of for-sale listings. Discounting has been muted. Incomes are growing slightly faster than the New South Wales average. The proportion of renters to owner-occupiers is below average for NSW. Stock for sale levels are up by 1.5 per cent year on year.

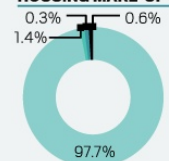
Source: SQM Research, www.sqmresearch.com.au (accurate to June, 2016).

**OCCUPANT TYPE<sup>3</sup>**



■ Owner-occupiers  
■ Mortgage holders  
■ Renters

**HOUSING MAKE-UP<sup>4</sup>**



■ Separate house (1000)  
■ Semi-detached row or terrace house, townhouse etc (14)  
■ Flat, unit or apartment (3)  
■ Other dwelling (7)

**VACANCY RATES<sup>3</sup>**



**10-YEAR AVERAGE ANNUAL GROWTH<sup>5</sup>**



**KEY DRIVERS**

- ▶ 11 kilometres from Sydney CBD
- ▶ Northern suburbs location
- ▶ Prestige suburb
- ▶ Beachside location.

**POPULATION<sup>4</sup>**

3268

**WALK SCORE<sup>6</sup>: 50**

Balgowlah Heights is the 381st most walkable neighbourhood in Sydney. Residents can walk to an average of 0.2 restaurants, bars and coffee shops in five minutes in this suburb.



Source: APPI and SQM Research. <sup>3</sup>Source: www.sqmresearch.com.au. <sup>4</sup>Source: ABS 2011 Census. <sup>5</sup>Source: ABS 2011 Census. <sup>6</sup>Source: APPI. <sup>7</sup>Source: www.walkscore.com.au. H = houses, U = units, Y01 = year on year, SNR = statistically not reliable. <sup>8</sup>Source: onthefloor.com.au

**THE STATES** ■ New South Wales

On the northern beaches, he names Narrabeena, down south he cites Caringbah, and on the east he likes areas around Pagewood.

You'll spend more money to buy a property and renovate in Sydney's inner city than you would in the outer suburbs of Sydney, but the experts agree you'll make more money.

Cohen Handler managing director Simon Cohen says the type of renovation investors undertake in inner-city or blue-chip areas will be different to that in the outer suburbs.

"In the western suburbs the demand for a Calcutta kitchen isn't there, so you can just do a nice Ikea kitchen," he says.

"But in the eastern suburbs you'll get three or four times at resale, so people expect higher quality finishes."

Riki Tawhara, Cohen Handler buyers' agent, adds that in the inner east you'll need to be more creative with a renovation due to space restrictions.

"When it comes to attic spaces or extending out the back, people want to do as much as they can with the little amount of space they own," he says.

In the inner east, he says, this is happening in Redfern and Darlinghurst in particular. This is probably one of the most competitive marketplaces in the entire state, he adds, because it's close to the city and amenity, with a tight-knit community.

**OUTER SUBURBS**

In the west there's more leeway when it comes to space, according to Tawhara, and so from a structural point of view a renovation on a property in this area will be cheaper.

"You've got more room, with a bigger block, and it's a little more lenient in terms of restrictions as well," he says.

Knock-downs and rebuilds are also a good option in the west, Tawhara adds, given that property owners in well-established areas will have bigger blocks – of around 600 to 700 square metres and above – to work with.

“Ten years ago overcapitalising was an issue, but it's not now.”

JOHN CUNNINGHAM

With the costs of buying and selling, it ends up being cheaper to either fully renovate or knock down and rebuild to get the home they want, Tawhara says.

Baulkham Hills is one suburb in the west that offers good opportunities for renovation projects, he adds, especially since it's in demand due to a good public school in the area.

Meanwhile, Cunningham says investors should also consider Campbelltown, near the future Badgerys Creek airport and plenty of infrastructure.

Camden, around 50 kilometres west of the Sydney CBD, is another pick for Pabst. He says it has older housing stock suitable for renovation with the prospect of capital gains.

Pabst suggests investors purchase

a period-style home and ensure any renovation undertaken preserves its period appeal to give it a competitive edge over new stock.

The neighbouring suburbs of Bardwell Park and Rockdale, 10 kilometres south of Sydney, along with the western suburb of Granville, around 17 kilometres from the CBD, are also great entry-level markets for buyers, Pabst says.

"The common thread between these suburbs is they are close to railway lines and have older, dated homes suitable for renovation," he says.

Cunningham also names areas south towards Helensburgh and Wollongong as offering good opportunities for investors.

As Sydney moves further out and transport gets better, these areas are starting to almost morph into the city, he says, and will be boom areas in the future.

**HOUSES VS UNITS**

It's hard to overcapitalise when renovating both houses and units, according to Cunningham, but since the unit market has stabilised and the house market is still moving, investors will need to be careful with the selection of the former.

He advises investors to look at recent sales in the local area to determine whether a project is viable, and to think about the appropriateness of what they're doing. He points out, however, that kitchen and bathroom renovations in units will most likely result in higher yields.

Tawhara says one-bedroom-plus-study apartments in Sydney can be a good buy for a renovation project if you can convert them into a two-bedder.

He says he's looking at an 84-square-metre unit in Darlinghurst that he can pick up for \$900,000 and convert into a two-bedroom unit that's potentially worth \$1.2 million.

With the conversion costing a maximum of \$15,000, it's possible to make hundreds of thousands of dollars.

He adds that smaller inner-city studios can also be converted into one-bedroom units for around \$10,000, with rents increasing from \$450 to \$500 per week.

Since the market is so tight in many areas of inner Sydney, Tawhara says off-market is more important than ever for investors to not only find properties but to save money by eliminating competition.

But with property prices continuing



Marrickville homes

to rise in Sydney, is it even necessary to renovate to manufacture equity?

Tawhara's advice for "bread-and-butter investors" is to do a basic cosmetic renovation to increase the yield initially and then consider a bigger renovation down the track.

He says adding a bedroom (within the existing internal walls) will always be a winner, and in the inner city creating more car spaces will also result in a premium.

Pabst warns renovators to be acutely aware that the end goal is to add value to a property.

"The NSW housing market in particular has peaked in many areas, making selection more important than ever for renovators if they're expecting to see fast post-renovation gain in the value of their property.

"Renovations can add a premium of up to 30 per cent on properties, and smart selection of a property's location is essential in determining the level of success."

If you do your homework, Cunningham says, and find a renovation project in an area where there's limited property available and high demand, there'll be price hikes and you'll make money from a renovation.

He says the major benefit of doing a knock-down and rebuild is that it's easier to control the cost.

If you're opting to renovate an existing property though, his advice is to get a fixed-price contract to avoid a blowout.

"The cost of a renovation and extension is double the square metre rate of building new," he says.

#### FIRST-TIME OPPORTUNITY

## Getting in on the ground level

A cosmetic renovation is all it took to boost both the value and yield of Natalie's investment property in Sydney's west.

The circa-1965 house in Kingswood, around 50 kilometres from the Sydney CBD, was in a "very original" condition when the young investor purchased it last year.

She bought it specifically with the intention of renovating, and says the area was a great location for this kind of project.

"There are opportunities everywhere, but it just depends on what you can afford," she says.

"Sydney's inner east is amazing. If I could afford to buy in the east and renovate and sell I'd make a killing.

"But for entry-level investors there are lots of opportunities out west, it's definitely a good place to buy.

"There's potential to not only renovate the older original homes and make money but there are capital gains to be made from the infrastructure happening in the area."

Natalie paid \$500,000 for her Kingswood property, which also has a granny flat, and if she sold it now she estimates it would be worth around \$620,000.

Part of that rise in value can be attributed to the recent rise in the Sydney market, but Natalie estimates the renovation she undertook added around \$50,000 in value.

She adds that without the renovation the property would have achieved between \$320 and \$340 per week in rent, but post-renovation it's returning \$400 per week.

The cosmetic renovation on Natalie's Kingswood property included ripping up the carpet and polishing the floorboards, painting and upgrading the kitchen. The bathrooms didn't need to be touched, she says.

While the project took three times the expected two weeks, the property was rented quickly, minimising Natalie's out-of-pocket expenses.

*\* Name changed to protect privacy*

"Renovations are like opening a Pandora's Box; you don't know what's inside and there could be issues galore once you open it up."

Cunningham warns that costs – both financial and personal – can blow out if the project doesn't finish on time.

With renovations booming in NSW, he says it's also a boom time for building companies and consequently it can be hard to find tradies, which increases the risk of hiring someone who may do a substandard job.

He says there are two choices for

renovators – the first is doing an owner-builder style of renovation, whereby the owner manages contractors themselves, although these are best done by experienced investors who've tackled the process before.

The alternative approach is Cunningham's preferred option – find a reputable building company who can manage the whole project for you from beginning to end.

"DIY in this marketplace is not the smart thing, unless you've done it before and have your own contacts," he says. **API**

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