

How to Profit from Renovation

When it comes to making money from renovation, any old house won't do.

The key to a successful renovation is to choose the right suburb, the right street and then the right property. It can be difficult to make a decent profit if the property is located in an area that doesn't attract significantly higher prices for renovated homes or if the property ends up costing you more than the likely sale price.

Long before you roll up your sleeves and start on the hands-on-job of renovating, here's what you need to do to spot the true potential of a property.

1. Research comparable sales

Make sure the street and suburb where you purchase the property can absorb the price increase you would expect on the sale. Some areas have very little difference in value between an un-renovated and renovated property, which leaves little room for profit even if you do stick to a tight renovation budget.

2. Inspect with a checklist

Put together a checklist based on your renovation plans. Are you looking to do a quick makeover or are you planning for a bigger spend?

The checklist should outline what features you are looking for that could make it a worthwhile investment, such as space to extend, flexible layout and the potential to add an extra bedroom or living space.

Keep in mind that if you buy in a less than ideal location, such as a busy road or next to an unsightly aspect, there will always be a cap on the property's sale price no matter how well it is renovated.

3. Make a budget

To work out if you are going to make a profit from your renovation project, you need to start with a realistic budget that takes into account every possible cost (e.g., legal fees, home loan interest and a contingency for unexpected costs). Subtract your projected expenses from the estimated sales price and this gives you the maximum sum you should allow yourself to pay for the property.

4. Seek professional help

Many a renovation has come unstuck when faced with unforeseen problems like electrical rewiring, roof or plumbing repairs. A professional building inspection can warn you of these dangers, including issues like termites or hidden mould, which may enable you to get the property for the discount it costs to fix these expensive repairs.

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