



MAKE PROFIT BY ADDING A ROOM

Diana Clement looks into the niche strategy of adding a bedroom to create cashflow and capital gain.

Rooms mean money when it comes to property investment: the more rooms you can add to a property the higher rent you can charge and the higher the sale price will be in most cases.

Ask investors who have done it and they'll tell you that the best strategy is to squeeze more bedrooms from the same footprint. Quite often it's possible to do this without planning or resource consent.

Usually it simply means walling off part of the living space. But a popular conversion involves moving the kitchen into the living area and using the old kitchen as a bedroom. When the layout allows, this is a relatively easy job, say those who use this strategy.

ADDING ROOMS IN TIMARU

Timaru investors Kerry and Helen Beveridge have taken adding new rooms to a new level.

The Beveridges are adding a total of eight new bedrooms to their 15-bedroom boarding house in Timaru.

Seven of the bedrooms will be created out of the old manager's quarters and other downstairs rooms, says Kerry Beveridge. The most recent conversion, which wouldn't be much different from an ordinary residential home, involved converting a 4.3m x 3.3m double into two single rooms. "I actually consulted a few of the tenants before building the rooms, so I was providing them something they valued," he says.

The building was built in 1867 as the former Albion Hotel. It has housed people ever since in several different guises as the Shamrock Hotel, City

TIMARU: COSTS AND TIMELINE

The cost of converting all of new bedrooms has been/will be paid for from cash flow on the \$257,000 property. The Beveridges are hands-on investors and Kerry sourced the building materials himself.

That included:

- Door and frame \$60 from the local dump
- Window \$1 (Trade Me)
- Skirting \$10 (Trade Me)
- Wall insulation \$150
- Timber for wall \$130
- Gib/ wall linings \$ 400 from Mitre 10.
- Hardwired smoke detector \$284
- Carpet for new doorway free from a friend
- Electrical work \$300
- Curtains \$75
- Paint (had already)

Paul Dunstan of Express Property Maintenance charged \$630 to install the window and wall framing with Beveridge working as the unpaid assistant. Beveridge did the Gib hanging, stopping and painting himself.

The room was empty for **three** weeks during the renovation.

- **Week One:** the door and wall framing was added.
- **Week Two:** involved stripping out the existing walls to put insulation and a re-line (which Beveridge has been doing to other rooms between tenancies as well to add warmth and noise protection).
- **Week Three:** Beveridge added the new window, finished the painting and fixed the carpet. The room was left to air for a few days after painting before being let.

Converting a large bedroom into two small bedrooms is an easy way of creating an extra room.



“If you push it too far you could have a case where you can't rent it out”
Gary Lin

Hotel, Globe bar, Aldan House student accommodation and finally a backpacker's hostel. But when Beveridge bought the building, which had been empty for more than a year, the strategy was to add many new bedrooms as well as upgrading the quality and managing the building in a hands-on way.

Beveridge has the plans dating back many, many years showing the many changes that have been made to the building. The double room that he has converted into singles had at some point been created from two single rooms, so he was reconverting it back. And it made sense to have smaller rooms because most of his tenants are single workers and students or local workers from the nearby hospital.

“It was ridiculously easy,” says Beveridge. There were already windows in the right locations, although one was fitted with louvers and had to be replaced.

The work involved removing old walls and linings, creating a new wall and door, painting, insulating and adding timber skirting and arcs. “The lower part of the walls are lined with durable grooved ply to give (the) look of tongue and groove. The rooms are a little on the small side for what I would normally want but the preference has been for smaller cheaper rooms so that's what I have given them.”

Beveridge says that the room was previously rented for \$160 a week, but brings in a combined \$260 as two rooms.

CUTTING OFF THE TOP OF THE L.

Mortgage broker Kris Pedersen was so impressed with a reno his client was looking to buy that he offered \$20,000 cash in hand to the investor to take it over. The two-bedroom freestanding house in Canongate Street, Birkdale, Auckland, had an odd L-shaped lounge, from which Pedersen was able to cut off a new bedroom.

Whilst an owner occupier may have loved the extra space, Pedersen could see cash flow from the extra bedroom. He contracted for project management company Maintain to Profit to do the renovation and to add the extra bedroom.

“It was a very easy job,” says Dean Larritt, operations director at Maintain to Profit. “We had the space and it was just a matter of walling it off.”

All up the work for this part of the renovation cost \$1,800, which was \$1,500 for the Gibbing and new door and \$300 for painting. “It created a whole new dynamic in terms of space,” says Larritt. It was done as part of an entire cosmetic renovation, which took four weeks.

The entire house renovation cost \$30,000, says Tennille Pedersen. The valuation prior to renovation was \$490,000 and after \$565,000.

SQUEEZING MORE FROM THE SAUSAGE

Auckland investor Bao Nguyễn will have added \$100,000 in value to a two-bedroom unit once his renovation is complete. The work will add an extra bedroom to the two-bedroom brick and tile sausage block unit in Auckland's Hillsborough, which was bought earlier this year by Nguyễn for \$621,000.

Nguyễn worked with property coach Gary Lin to find an ideal property to add a bedroom to. Reconfiguring kitchens to become bedrooms and building the kitchen into the lounge has proved to be a winning formula for Lin and many others.

Lin, a former civil engineer turned property coach, says with smaller units

such as this he will usually build the kitchen along one wall.

The renovation of Nguyễn's unit cost \$20,000. Unlike most such conversions it wasn't necessary to buy a new kitchen because the old one was modern and in good condition. The units were removed as part of the \$2,000 “demolition” from the soon-to-be bedroom and installed in one end of the lounge. The carpet was moved to the new bedroom and laminate flooring put down in the new kitchen, lounge, and hallway.

“I actually consulted a few of the tenants before building the rooms, so I was providing them something they valued”
Kerry Beveridge

The other main work in the third bedroom involved closing the hatch into the lounge, moving the main telephone connection, and light switches in both rooms had to be moved. The project manager employed a plumber to move the plumbing.

At the time of publication the renovation was in progress. However Nguyễn can expect the potential rent to jump from \$460 a week to around \$560 to \$570.

Lin himself owns four converted sausage block brick and tile units personally that have been converted from two bedrooms to three and in the last year has worked with clients on 12 more such conversions.

He says the learning curve for him was being able to visualise the space. “Each property has its own unique layout and you need a sense of space to work out the rentability (of the converted unit). That is the most important thing.” For example, renters in upmarket suburbs such as Auckland's Remuera aren't impressed with small rooms that have been converted from kitchens. “If you push it too far you could have a case where you can't rent it out,” says Lin.

In lower value neighbourhoods, tenants are less bothered by small bedrooms. In fact, in some units Lin says it's possible to turn the laundry into a bedroom or office by making do without the laundry sink and putting the washing machine and drier (if there is one) into the bathroom. Other ways to find space for a reconfiguration include removing the hot water cylinder and attaching a continuous hot water unit to the outside of the unit or using hallway space.

Potentially, says Lin, some units could be converted to four bedrooms. But in reality this often doesn't work because units typically only have windows down two sides and also there can be a lack of parking space.

Examples where Lin has converted two-bedroom properties to four bedrooms, usually involve properties of at least 100 square metres. ■