



Adding a room can be expensive - do the numbers stack up?

NEED MORE ROOM?

Adding a room can be a great way to increase the equity, rent and rentability of an investment property but the key is doing it right. By **Carolyn Brooke**

DECIDING IF AND how to add a room to an investment property should be based on understanding the numbers, the potential equity or rental returns and the area's rental market. While a \$60,000 to \$80,000 cost of extending a house in a high-growth area could be justified with the resulting valuation increase, the additional rent might be similar to what can be achieved by creating a room for around \$10,000 using existing space at a much lower cost in a lower-decile area.

It is important to understand the market you are in – talk to property managers and find out what is renting for what in your area. There may be little point in adding a

third bedroom if the area is popular with young professionals who only want two bedrooms, while adding a fourth bedroom in a lower-decile area may fetch an extra \$100 rent each week.

According to the Ministry of Business, Innovation and Employment's latest statistics for average weekly rents, a four-bedroom house in Massey/Royal Heights in west Auckland fetches \$97 more than a three-bedroom. Out south in Weymouth a fourth bedroom would get you an extra \$104. In more central St Lukes/Sandringham a third bedroom gets an extra \$96 and a fourth an extra \$145.

Using existing space is almost always the

way to go for investors when adding a room as it is hard to make the numbers of an extension work on rental returns alone. But for investors with properties in high-value areas, there is no denying that extending a house can be viable as it adds much more long-term value.

EXTENSIONS

Mark Trafford, of Maintain to Profit, often works with homeowners on extensions and says it is a popular option for people needing a bigger home but not wanting the daunting task of purchasing an upgrade in the current property market.

"They want to stay in the area where they are, where the schools are and where they can grow into a property," Mark says.

Adding a main bedroom and an ensuite could price between \$60,000 and \$80,000 all up, completely project managed.

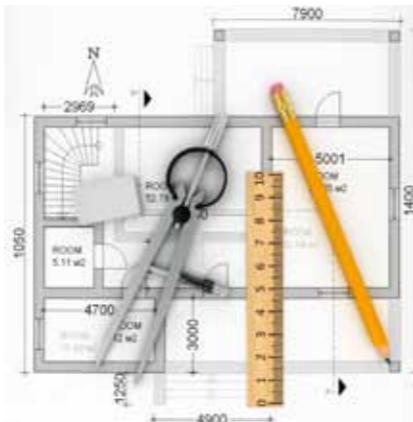
He estimates transforming a house from having three bedrooms and one bathroom to four bedrooms, one bathroom and one ensuite would increase the value by at least \$100,000 – it clearly works for the banks who are lending the money for work, he says.

Issues to be aware of when doing an extension include council restrictions like height to boundary limits and if drainage as it may need to be rerouted due to the new foundations.

If looking for someone to manage the whole process then Mark recommends using reputable outfits that are experienced with investors.

"Use companies that understand what you're trying to achieve around yields and valuations and that don't encourage you to spend money unnecessary."

Also look for companies that will give



you a fixed price and only use registered tradespeople.

"There can be up to 10 different trades involved in a project so if you're going to deal with them all independently then you need to be prepared."

MOVING WALLS

There are two main ways of adding a room using existing space, neither will add as much long-term value as an extension but the cost is effective and a similar rent increase can be achieved.

The first involves method moving walls – often it is using parts of a large lounge and a large bedroom to create an extra room.

You still need to do your homework, Mark says, and always talk to an architect, draftsman or builder first. There can be lots of opportunities, especially in older houses with large dining areas or laundries.

"Often a small fourth bedroom or an office can be created by shifting walls without a huge cost – it's about fresh eyes looking at space within a footprint."

Changes to load-bearing walls or to windows or doorways require council consent – always check first.

Disconnecting a laundry in an older house and converting it into a study is also an option. It is a matter of looking at the space and knowing what will get more rent, he says; a study would likely appeal to potential tenants while a washing machine in the kitchen or in a cupboard would be unlikely to put them off.

Costs involved in a straightforward and project-managed job could be from \$11,000 to about \$17,000 – made up of \$3,000 for an architect or draftsperson, \$3,000 to \$4,000 for council costs and \$5,000 to \$10,000 for building and finishing.

"If you spent \$20,000 then you'll get



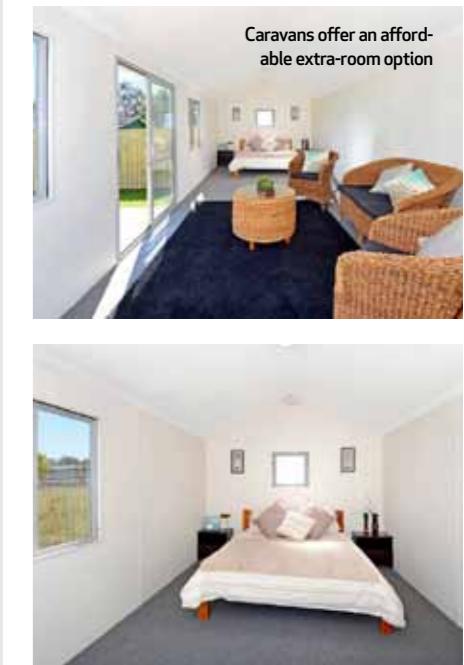
Adding a main bedroom and ensuite usually costs between \$60,000 and \$80,000

USING EXISTING SPACE IS ALMOST ALWAYS THE WAY TO GO

HOW MUCH EXTRA RENT COULD YOU GET?

A SNAPSHOT OF the Ministry of Business, Innovation and Employment's average rental statistics for houses for the six months to 31 Oct 2013, with the increase in rent for adding a third or fourth bedroom. Look at the statistics for your area to provide a guideline as to what you could get by adding a room to your property:

AREA	TWO BED	THREE BED	3RD BEDROOM INCREASE	FOUR BED	4TH BEDROOM INCREASE
Auckland: St Lukes/Sandringham	\$464	\$560	20.7%	\$705	25.9%
Auckland: Massey/Royal Heights	\$361	\$397	10.0%	\$494	24.4%
Auckland: Weymouth	\$352	\$397	12.8%	\$501	26.2%
Auckland: Ponsonby/Freemans Bay	\$613	\$779	27.1%	\$919	18.0%
Wellington: Tawa/Granada North	\$338	\$387	14.5%	\$457	18.1%
Wellington: Mt Cook	\$447	\$558	24.8%	\$671	20.3%
Christchurch: Burnside/Harewood		\$451		\$554	22.8%
Christchurch central	\$490			\$715	45.9%



Caravans offer an affordable extra-room option

\$40,000 to \$50,000 back in valuation increase," Mark says.

"If you're looking to gain an extra \$100 per week then you'll make your money back within four years."

SPLITTING A ROOM

The second option using existing space is the easiest. This is simply adding a wall,

usually by splitting a large room or walling off space like a large dining area. It is important to always seek advice from a builder, architect or draftsperson first and to establish if council consent is required.

"You've got to be very careful about putting in a box room that no one is going to use," Mark says. "There is a really fine line between creating an extra room

ADDING A FOURTH BEDROOM AND ENSUITE WILL INCREASE THE VALUE BY AT LEAST \$100,000

RENOVATION: ADD A ROOM

and creating something that is a large cupboard.”

Costs will depend on what’s involved but should come in well under \$10,000. A job Mark worked on with Pedersens Property Management in Auckland to create a fourth bedroom/study using a large open-plan dining and living area involved fitting and painting a door and a wall and cost \$1725. A cosmetic renovation was done on the house at the same time, including new carpet, complete internal/external repaint, bathroom renovation and a garden tidy. The house valued up at \$565,000 after being purchase price for \$460,000 (value at time of purchase \$490,000) and rent increased \$70 per week.

CARAVANS

Leisuretime Caravan’s Jacob Tash says caravans are becoming a popular



alternative to extensions or renovation as a way to increase rent.

“These are not those 10 square meter ones where there isn’t enough space to put a double bed in and walk around it – these are really spacious,” Jacob says. “This would be a really spacious spare room you could put really close to the house.”

The caravans are completely removable and don’t need permits, he says. They’re warranted and registered with suspension and breaks and can be towed.

“They are a caravan they just don’t look like a caravan.”

The empty shell or lock-up option works well for investors who have a builder who can complete the insulation, fit-out and finishing. A kitset comes as a flat-pack caravan and can also be assembled by a builder.

The third option is completely fitted out.

The smallest caravan size is six metres by three metres and Jacob estimates as a self-contained bedsit it would fetch an extra \$150 in Auckland. Wellington would be a little under and Christchurch would be little higher as there is a high demand for short term accommodation.

“I know one guy in Christchurch is getting \$200.”

He estimates the largest caravan, a self-contained two-bedroom, could fetch up to \$300 in Auckland.

Caravans range from just under \$22,000 to over \$58,000 depending on size and whether it is kitset, empty shell or completely finished.

Be wary of very small or very cheap options, he says as there could be water tightness, insulation or poor workmanship issues.

“Sure, you can buy one of those really cheap now but the reason they’re cheap is there is nothing to them.” ■