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How to make 12% in 4 days

## How to make 12% in 4 days

An Investigate Property client recently had the interesting and rewarding experience of making a 12% profit on his property in only 4 days! Not a bad result given he had to do next to nothing to achieve this. Also an excellent result given the money he had already made in buying the deal and subsequent renovations.



## You make your money when you buy

The property in question is a block of units that was purchased about 6 months after it first hit the market and almost \$350k below the original asking price. Further, it was purchased 3 months after Investigate Property told all of their clients about it... it just seemed as if no one wanted it despite the obvious signs that it was a good buy. That is until Adam came along.

Adam had renovated and strata-titled flats before and immediately upon becoming a client of Investigate Property saw that this was still available and also saw the potential.

Investigate Property recommended the property be purchased at no more than \$1.05mill, which was already \$100k below the asking price at the time, which Adam agreed was a good price, providing we could prove it.

Simple!

Adam purchased the property subject to satisfactory valuation. Every purchaser has the right to a valuation when they buy, however in this instance by adding in a clause about 'satisfactory valuation' Adam was able to pull out even if the valuation came in at the contract price. And there-in lay the task; for Adam to proceed we needed a valuation to come in at \$1.15mill or full asking price.



### ***Take control of the valuation process***

We organised a valuation through a valuer that we knew had a handle on values in the area and in particular unit blocks. That was step one. Step two was to provide him with sales evidence that he could not ignore, supporting the higher valuation. This we did, and in fact during research we determined the property should really be valued at higher than the asking price.

After meeting the valuer on-site, presenting him with a detailed report with sales evidence and rental appraisals from multiple property managers, we played the waiting game. One week later Adam received his valuation at \$1.15mill.

### ***"He just made \$100k!"***

One thing to note here is that the valuation was for market purposes and not mortgage purposes. While the lender did indicate they would consider it, in the end they organised their own valuation, which came in at... you guessed it, contract price.

It doesn't matter though, because when it comes to refinancing this won't be an issue.

### **You can also make money after you buy!**

So Adam is \$100k in front so far. The property was purchased with an idea to carry out a cosmetic renovation to each unit, add courtyards by concreting down the side of the building and installing dividing fences, privatise the garages (there was a garage per unit, each with their own garage door, but no walls dividing them) and then strata-title the unit block. The renovations and courtyards were to increase the rent for holding and the strata-titling was to increase the value of the property. Yes, Adam would be up for more holding costs (more rates, body corporate fees, etc.), but this would be offset by the increased rent and the increased equity is well worth the exercise.

Adam constructed all of the courtyards and privatised the garages. He then renovated one unit only. The reason? To both test the valuation and because this one unit was becoming vacant. If the valuation for this one unit came in where expected, then Adam would go ahead and renovate all of the units.

Here are the numbers to buy, renovate one unit, strata-title and construct the courtyards:

Purchase price plus buying costs	\$1,122,500
External improvements	\$40,000
Renovations to Unit 5	\$7,000
Consultants/strata fees	\$21,800
<b>Total</b>	<b>\$1,191,300</b>

### **The valuation**

The valuation has come in, this time using a different valuer than at purchase, and it is lower than expected at \$290k for Unit 5. This is despite evidence suggesting it should be \$20k-30k higher.

None the less, once applied across the board (assuming another \$7k spent on the other 2 bed unit and \$5k spent on each of the 1 bed units), the total valuation would come in at approximately \$1,360,000. Not a bad result!

Even with a poor valuation, the property is now worth more than \$300k than he paid for it.

Total net gain, assuming money spent on further internal renovations, comes in at close to \$125,000, excluding holding costs.

### **How to make 12% in 4 days**

But wait, there's more! Adam didn't like the valuation he received for the renovated unit. He had pages of evidence to suggest it was worth a fair amount more and so rather than accept it, he organised another valuation.

***You don't have to accept the first valuation.***

Adam got the original valuer back in who was amazed at the transformation. On the spot he indicated to Adam that it would be worth in the low \$300k's for the renovated unit so things were looking good.

Only 4 days after receiving the first valuation the new valuation is back. \$325,000! That is 12% higher than the first valuation he received! It is also marginally higher than what Adam was expecting. Adam's sales evidence was between 2 and 6 months old, but the valuer knew some recent sales and auction results that pushed the value slightly higher.

As an added bonus the valuer indicated higher valuations for the unrenovated units as well, so the total value for all 5 units now sits at \$1,455,000.

Now Adam is faced with a dilemma. It seems the internal renovations added a minimal amount of value compared with the strata-title exercise, so Adam has to decide whether to renovate the other units or not. Evidence suggests that it may not add much equity, but it will increase the rent.

For now though, he is more than happy with the \$260k+ (excluding holding costs) he has made from the venture thus far.

The project now shows a 37% increase on purchase and a 6% rent return on costs to date. ***All because of the three steps: 1) buy well. 2) add value. 3) get the right valuer and take control of the valuation process.***

Investigate Property are buyer's agents and your due diligence specialists. Our ***Property Source Membership*** is for people who are keen to buy property in the Brisbane City Council area just like Adam's. For more information on membership [click here](#).

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