



Income Property host Scott McGillivray, left, and cameraman Ben Sharp.

**Magazine excerpt**

## **Landlords face pitfalls when they go the DIY route**

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Ask any landlord, contractor, builder or small real estate investor the one tool they have in their DIY renovation arsenal, and the answer is invariably the spreadsheet. Most property owners with some years of experience behind them have crafted a list of must-do projects as they inspect their latest investments. The spreadsheet, making up years of gained knowledge on a variety of projects, is the key to that successful renovation.

Peel back the spreadsheet onion and investors reveal the projects that are essential in making the most amount of profit for, what they hope is, the least amount of cost. Especially in a volatile economic climate with the fear of a double-dip recession, property investors and landlords are taking it upon themselves and "DIYing" their projects to ensure they are attracting the best tenants and/or buyers for their properties.

## **DIYing and the economy**

Owners and landlords are enhancing the value of their properties on their own more than ever before. Cost is always the number one factor and certainly the economy has heightened the need to cut expenses as much as possible.

Even though uncertainty in the economy can create buying opportunities for investors, would-be investors need to be aware of the pitfalls those investments might bring. “Economic times have increased the availability of some projects,” says Andrew Brennan, a professional real estate investor with Brennan Property Investments. “A lot of people who are behind on mortgage payments may not have the money to maintain their more distressed issues,” he adds.

There is a flipside to the economic story other than the availability of potential projects. Landlords, because of uncertainty, are looking to save money.

Stuart Henderson is a property owner and a senior member of the Ontario Landlords Association. The association has more than 3,000 members, most of whom own properties of 10 units or less. He says members are looking for assistance on DIY renovations more than they have in the recent past.

“The economy has not been strong since 2008, so more and more landlords who would have normally paid a contractor are now forced to do their own repairs and renovations,” he says. “Doing your own repairs and renovations is really a key point of landlords these days; the days of slumlords are over if you want to get good, qualified tenants.”

## **Plan and budget**

Getting the appropriate high-quality tenants is really what is behind the renovations in the first place. Essentially, it should be the first part of any DIY renovation plan. “The first thing you need to do is know the expectations of the tenants you are marketing to. You can’t go into a low-income area in parts of Toronto and renovate that to the same standards that would be required for a \$1,500 one-bedroom apartment downtown. You need to know what your tenants want,” says Andrew Gulaty, a full-time firefighter and owner of properties in Toronto and Mississauga. He notes that new landlords must realize the goal of a renovation on a rental is not the same goal one might have on their personal residence.

“When you are renovating a rental, your goal is to maximize return on investment and to attract quality tenants. Your personal tastes are not as important; the goals are different,” he stresses. He adds that most new landlords’ biggest mistake is overrenovating. “Granite and stainless steel in a poor-quality neighbourhood is not going to attract top-quality tenants.”

Most investors agree that fixing problem areas first and then getting into the cosmetics is the way to go on DIY projects and makes good planning sense. Scott McGillivray, a property investor and the host of Income Property on HGTV Canada, prepares a relatively systematic way of looking at projects.

“When I see a property that has opportunity, the checklist would be to fix everything that’s a deficiency on the home, i.e. roof, wiring, plumbing,” Mr. McGillivray says.

And with most renovations, either for personal or income purposes, the kitchens and bathrooms appear to be first on everyone's list.

"The kitchen is of No. 1 importance," adds Mr. McGillivray. "I have a sublist of how much work needs to be done in the kitchen.

The bathrooms are the next on the list and, again, a checklist is created. Then I look at all the hardware in the house, which I know is really easy. And then I look at how significant the flooring is in terms of needed work."

Seasoned pros like Mr. McGillivray and Mr. Gulaty often determine their budgets before they even buy a property. Says Mr. Gulaty, "I already have a rough idea as to how much it will cost me to upgrade the unit and how much extra rent I can get through the upgrade."

Mr. Brennan says his renovations move much more efficiently with a master list of potential items. "I've created a master list of 95 per cent of the things you may need as far as supplies for a renovation, from screws to flooring to faucets. It's much easier if I have a process, if I already have a very good indication of all the items I may need and I have a good understanding of what the prices are."

And for the more junior or novice investors, Mr. Brennan says it's easy enough to walk into any hardware store and familiarize oneself with costs.

Similarly, there is an abundance of resources online by searching "contractors' costs," which will garner a wealth of information on costs per square footage or per item on a variety of home renovation projects.

### **Where to start?**

Whether you are a landlord who rents or are looking to flip a house, you will likely start your renovations in the kitchens and bathrooms. However, the methodology behind the renovations may be as varied as the projects themselves.

For example, Mr. Henderson has a philosophy by which properties should be renovated to attract the best tenants. He suggests three things to enhance the property, in whatever part of the house/unit it may be. His philosophy looks at the ideas of "space,:" "personalizing the property" and "cleanliness."

Space, he says, can come in the form of an open kitchen and living room, as is the trend among homebuyers these days. "The open concept can be done, but you don't have to be highly skilled to do it," notes Mr. Henderson. "In my experience the cost of putting in an open concept kitchen in order to attract a good tenant is worth it."

In order to personalize, he says items like a new tub or toilet allow tenants to feel the property is theirs and not a property that has been rented out hundreds of times for the past number of years. "We could totally redo the bathroom but these cost-effective tips are the way to go if you are on a budget," adds Mr. Henderson. In terms of cleanliness, Mr. Henderson says changing old

carpets between tenants diminishes the potential for allergies, health problems, and shows sensitivity to people's health concerns.

Mr. Gulaty agrees that kitchens and bathrooms are the place to start and says tenants often do not have much by way of imagination.

“Even if they see a kitchen and bathroom, if the rest of the place is not in good repair it's still going to be a hard sell,” he says. “What I often do is if I am working on a unit and it doesn't show well I will take [the tenants] up to a completed unit to show them this is what it will look like when it's finished.”

There are also differences between the work done on a single-family home versus a multi-family unit, Mr. Brennan notes. For example, appliances for a single family unit might be purchased new for top rent. But, adds Mr. Brennan, a multi-family residence might get used appliances. Also, a nicer faucet would be added to a single-family.

Part of that planning, according to Mr. Brennan, is knowing well in advance what you may need for repairs or renovations. To a small investor every penny counts, and he says knowing projects ahead of time will allow investors to seek out sales and promotions on the products they need ahead of the renovation stage.

Another piece of advice for investors includes knowing your limits and ensuring you don't pick the most difficult project around, says Mr. McGillivray. “I could give you every checklist and every piece of information about being a real estate investor. But you'll never actually understand something until you try it. Don't jump into something that is overwhelming.” He adds that picking projects within one's comfort zone will allow them to do many renovations themselves and save costs.

“Even if you're not that skilled at physically doing things, act as the project manager so you at least learn from hiring out the trades,” he says.

## **Challenges**

Nothing in the DIY world should be taken for granted and even though costs can be saved and value can be added to projects, novice investors may find themselves trapped by some of the pitfalls of renovation.

### **1. Be realistic about timelines**

Mr. McGillivray says investors should make sure they can afford to carry the property for 25 per cent longer than originally anticipated as timelines always become an issue. Mr. Brennan agrees and says, “It's guaranteed that something will come up you didn't plan for both dollar-wise and time-wise.” He adds that investors should try not to add anything during the project, should not procrastinate, and should try to do the challenging projects first and compromise later if needed.

### **2. Walk before you run**

Again, Mr. McGillivray says novices should tackle projects they can deal with. For example, if

an investor already owns a home, try putting an income suite in the house first to get a feel for the challenges of being a landlord.

### **3. Understand local rules, regulations and legislation**

Mr. Gulaty says for Ontario landlords, issues such as not being able to collect security deposits, the inability to evict bad tenants in a timely manner and the fact that tenants can qualify if their income matches the rent (even though other expenses are not accounted for) all play havoc with the landlord experience. Mr. McGillivray also adds that checking with the city you are operating in and understanding the local bylaws on building apartments within houses or subdividing properties should be first and foremost in investors' minds.

### **4. Play safe**

“If you're under pressure and you're stressed and your time frame is quickly slipping away from you, sometimes you rush and you may get hurt,” notes Mr. Brennan. And besides your own safety on the job, the safety of the investment and your tenants should be ensured as well. Says Mr. McGillivray: “Above everything than just the cosmetics is the safety of the house. Typically you need a proper inspector or home inspection done to determine if the roof needs to be replaced, if anything needs to be rewired, if there is a plumbing issue or structural issue. Those things take precedence over any cosmetic renovations.”

### **5. Know when to ask for help**

“I've learned a lot, even if it's from a guy at the hardware store,” quips Mr. Brennan.

He says don't be embarrassed to say “I don't know.” Take money out of the budget, if necessary, and ensure the project is done right.

### **Reflecting the clientele**

With all the planning, budgeting, avoided pitfalls and lists of materials, the investor interested in “DIYing” their projects must not forget the most important part of the equation – the tenant. “It's all about imagining what the good tenant wants and doing it in a cost effective manner,” stresses Mr. Henderson. All the work in the world will not attract the right tenants and provide the income being sought if the renovations lack purpose. “Your renovations have to reflect your clientele. And then you can give slightly more to give you an advantage [over your competition],” says Mr. Gulaty. With that information in hand, DIY landlords can plan their projects with direction in order to save money, enhance value and participate in the renovation game in a meaningful and profitable way.