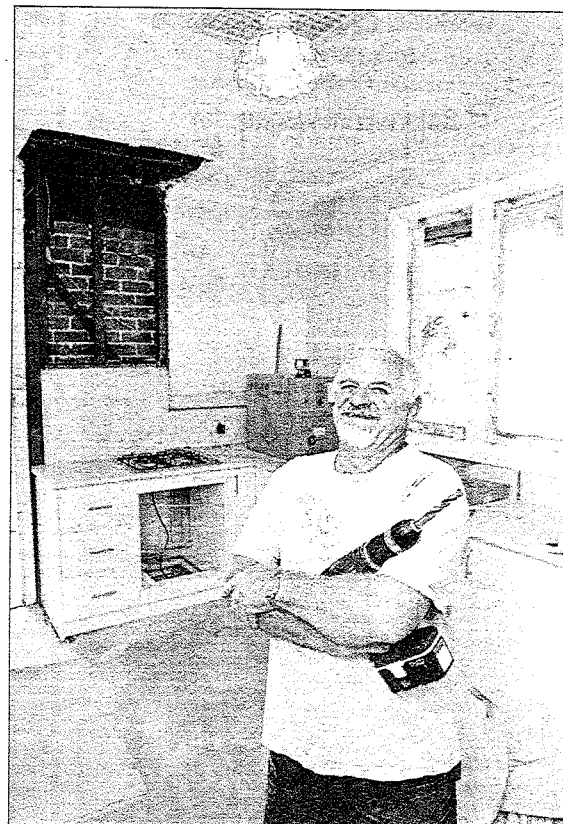


"Hit-and-run" investor Kent Cliffe at his Brookdale property.

Pictures: RICHARD HATHERLY



Barry Scott expects \$60,000 profit on this Hamilton Hill property.

Quick turnover key to profits

HIT-AND-RUN renovators are defying Perth's flat property market and achieving profits by giving cosmetic makeovers to carefully selected properties.

According to property investor coach Nigel Plowman, director in accounting firm McKinley Plowman, these investors were well-informed, bought properties at bargain prices, then renovated to add value and either sell for a quick profit or achieve a much improved rental return.

They had business structures that allowed them to turn over properties quickly yet ensure their tax position was not adversely affected. Those structures could be a discretionary trust or company, depending on circumstances.

"For some investors the flexibility provided by a discretionary trust may be more important than obtaining the capped rate of tax and limited liability that is available within a company structure," Mr Plowman said.

Clients were spending as little as \$20,000 on cosmetic makeovers of rundown properties and achieving clear profits above \$30,000 after just a few months.

Mr Plowman said while there were lots of profitable opportunities out

there, it was important to consult an accountant before starting a renovation project. Along with finding out the best way to structure an investment, it was essential to know which type of renovations would trigger a GST and which ones wouldn't.

While cosmetic renovations wouldn't trigger the additional 10 per cent tax, a lot of structural work

would. Also, while GST was generally not applied to the sale of properties over five years old, the Australian Tax Office may apply this tax if "substantial renovations" have been made.

"It can be an unpleasant and costly surprise if the fine line between cosmetic and substantial renovations is crossed," he said. "Unfortunately, a lot of investors don't become aware of

these issues until after the event."

Property investment consultants Momentum Wealth managing director Damian Collins said though Perth's property market was relatively flat at present, many investors continued to make good profits from renovating.

He also said it was critical for investors to discuss their property-

investment goals with their accountant.

"It's still surprising how many people will embark on projects without first consulting their accountant," he said. "This can end up being costly in the long run."

Mr Collins pointed to two of the company's case studies in the hit-and-run renovation trend.

CASE STUDY 1

BARRY SCOTT, 61

Semi-retired new homes consultant Barry Scott used the buyer's agent to purchase three properties at bargain prices, then renovated them and resold for a profit.

Mr Scott, 61, said he intended to use profits made through buying and flipping properties to fund a semi-retired lifestyle that included regular overseas travel.

Though property investment no longer attracted "good press", he still believed it could be used to generate wealth with the right approach. He said he gave the attractively-priced rundown properties a makeover and put them back on the market within six weeks.

The homes are sold within a tax-effective structure and the purely cosmetic renovations do not attract GST when sold.

Mr Scott's most recent project includes a three-bedroom home in Leda, which he bought for \$222,500 and sold a few months later for \$310,000.

He spent \$27,500 on renovations, including repainting, new floor coverings, replacing internal doors and window treatments and renovating the kitchen and bathroom as well as tidying up the gardens.

His entry and exit cost stamp duty, conveyancing and real estate agent fees came to \$21,000 with \$9000 holding costs.

Mr Scott's next makeover project

is an "almost derelict" house he bought in Hamilton Hill for \$360,000. He estimates he will make a profit of at least \$60,000 after renovation.

"Of course, one can also increase profit margins through negotiating things like real estate and settlement agents fees," he said. "Everything is negotiable these days."

CASE STUDY 2

KENT CLIFFE, 22

Mr Cliffe is confident that investing in property continues to provide the perfect vehicle to build wealth.

He completed a Momentum Wealth program with a view to buying properties and selling them quickly.

An economics graduate and an education consultant for Momentum Wealth, he bought a Brookdale property, which was listed at \$320,000, for \$240,000.

After spending \$25,000 on renovations he expects to sell it for more than \$320,000.

Mr Cliffe said that after taking into account holding costs of about \$4000, agent's fees of \$10,000, conveyancing of \$1500 and \$6500 in stamp duty, he still expects to make a profit of more than \$40,000.

"The work is completely cosmetic so I won't incur a GST when the property is sold," he said.

"It's important to be aware of what will incur a GST and what sorts of things will reduce your capital gains tax."