

Ask the experts

Our panel of experts share their advice on the financial sense in adding on a second bathroom, and whether it's prudent to take a line of credit against an old home and replace it with a four-bedroom house

Q Worth adding a second bathroom?

My wife and I recently bought a three-bedroom house in Hobart as an investment property. It has a smallish bathroom so we are thinking about converting the internal laundry into a second bathroom. Is this a wise investment for adding value to the house, and would a second bathroom earn much more rent? Do you think we should bother building an external laundry or just add a washing machine to the main bathroom/kitchen?

A It would be impossible to advise on the exact figures for your property, but my simple answer would be yes. I've just completed a renovation where I changed the laundry into a full bathroom. This was incredibly successful and was part of creating a very positively-g geared property. The capital growth received from this conversion was about four times the renovation cost.

The best part about adding a bathroom is that you'll not only receive a much better rental return, but the property value will increase substantially. The downside is that changing a laundry into a bathroom is one of the most difficult and costly property alterations. All of the plumbing must be changed, unless you already had a second toilet in the laundry that can be utilised to save on costs.

Without any guarantees, my simple calculations indicate that a second bathroom could increase the rent by about 10–20%, but you must watch the amount of money you spend. With my recent renovation, the rental increased by \$100 per week and the bathroom cost a little over \$5,000. My returns on the renovation/investment are 100%!

The experts



Prue Muirhead

Prue was named *Your Investment Property's* Investor of the Year in 2009. She amassed a \$3.5m portfolio within four years and

retired at the age of 39 years.
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Bryce Holdaway

Bryce is national property strategist with Capital 360 property advisory, with over 12 years' experience in property acquisition being complemented by his accounting and

financial planning background.
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My immediate response regarding an external laundry would be to not bother building another room because this would cause further delays and add on more cost. I placed the laundry into a section of the hallway that led nowhere but backed onto the old laundry, which is now the new bathroom.

However, I have seen laundries successfully built into cupboards, inside or outside properties. In my experience, tenants want somewhere clean and tidy, and to know they have somewhere for their washing machine.

– Prue Muirhead

Q Generating cash flow

We have an investment property, a three-bedroom house valued at around \$500,000, rented for \$355 per week with no mortgage. Would it be prudent to get a line of credit (LOC) for \$150,000 and knock down the 50-year-old house and replace it with a four-bedroom house on that land, which is 350m²? We were hoping that getting a new house with four bedrooms would generate more rental income. Please advise.

A Clearly, cash flow is important to you, but for the purposes of answering your question fully I will operate on the assumption that the ultimate reason you are investing in property is because you are looking to build significant and lasting wealth for your family.

On that basis, let's have a look at the options that are available to you.

Option 1: Rebuild house to add an extra bedroom

First, in keeping with the importance of cash flow, a downside to demolishing the existing house then constructing a new four-bedroom house would be your family receiving zero rental income for 4–6 months (or more) until the new house is constructed and tenantable. Second, full demolition to add a bedroom simply for cash-flow purposes may not recover capital and servicing of the LOC.

However, if your research suggests that there is a material increase in rent in your area for a four-bedroom house, and if its configuration allows, there may be a more cost-effective way to achieve this. This option requires excellent project management to make sure the construction of the house comes in on time, on specification and – most importantly – on budget. If you did take the project management task on yourself, you run the risk of making costly mistakes which could blow out your budget.

This is why many smart investors employ the services of a professional project manager to help manage and deliver their project on time and on budget, not to mention that a professional can free up your spare time and weekends so it does not take away valuable time with your family.

Option 2: Utilise existing building

Step 1: Create an additional bedroom by simply adding an internal wall or small addition (subject to configuration of the house) at a much lower LOC cost than knocking down the house, which results in high capital costs and cash-flow loss in year one.