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Hosted by: Doug & Andrea Van Soest

Episode 38 – 6 Creative Ways to Add Value to a Property

Andrea: Welcome back to Spouses Flipping Houses, Episode 38. Today we are talking about creative ways that you can add value, and I think we have six creative ways that you can add value to any project.

Doug: Not talking about adding value in the traditional way of adding new flooring, and new paint, and maybe better countertops or anything like that in terms of design. We're talking specifically about creative ways to make a deal out of something that just on the surface would not normally be a deal.

Andrea: Right, which is great for today's pretty competitive market. I think a lot of people out there are struggling to find deals, and sometimes you just need to look at it in a different way.

Doug: Yeah put on your creative glasses, and we'll show you some things to look for. Excited about getting into that.

Andrea: Yeah so before we talk about that, maybe we should talk about the fact that Doug needs a little more sleep.

Doug: The fact that I'm turning 40 and losing my mind. I turned 40, and I've lost my marbles. It's official.

Andrea: So we just went to lunch, and we're coming back from lunch, and we entered the house through our garage. Okay, so first of all I have to tell you that our garage is a little bit crazy.

It's very low on the priority list of things in our life, so the organization and what not you know is just not our priority. It's filled with staging stuff on one side; the other side is kid's bicycles, and tricycles, and scooters, and it's just a big modgepodge. And as long as there's a walking path in the middle, I'm cool with it.

Doug: The garage goes through phases, like it'll have a few months of the year where we've cleaned house, and it's looking great. Organized, we're parking in there. Then, you know eventually it's like where else do we put this?

I'll just put it in the garage temporarily, and then another thing goes in the garage temporarily.

Andrea: And really a lot of life takes place in our garage. We do a lot of projects out there, a lot of kid's craft things.

Doug: Bikes and sports equipment.

Andrea: It just is what it is. It's kind of crazy. So anyways, we're walking through the garage, and Doug says, "Let me mess with the sprinkler timer real quick. I think the grass looks a little too wet."

So it's a nice day. I'm just kind of standing there, looking at the park across the street while Doug messes with the timer, and I look over to the side, and there's a stack of mail just randomly sitting on a chair.

What is this stack of mail here? There's rent checks in there. There's like important documentation.

Doug: More than one rent check. I remember bringing that stack of mail into the garage. This was several days ago. It is the beginning of the month, and you know we have, we get mail from a post office box place.

And I get it, bring it home, and bring it down to the office where we process all of that stuff. I don't know; I think I got distracted. Somehow, I got distracted in the garage looking for something, and set the mail down, and a few days later thank the lord Andrea finds it.

Andrea: Before it became a child's craft project or a recyclable.

Doug: So I don't know. I'm losing it, so you know. The lesson here is to take care of your rent checks when they come in.

Andrea: Yeah, the lesson here is you know, I feel like we run a really great business, and we do pretty well at this. But you will never have everything perfect, so on the surface it might look like you have a really great business, and you have a really messy garage.

Doug: Every once in a while, clean out the garage and keep going.

Andrea: My grandma used to always say, "Do what you can do, not what you can't."

Doug: That's so simple but so true.

Andrea: So sometimes we're just not going to get to the garage.

Doug: So today's topic was actually inspired by a wholesale deal that we did recently, and on the surface this wholesale deal we actually presented to quite a few different buyers, and everybody was just passing on it for some reason.

And I wasn't sure why because I thought the value seemed pretty strong. It seemed like a solid deal. Well, then I sent it to another guy, and he just wanted to inspect it, so he went out to take a look at the property and said, "Yeah, I'll take it no problem."

He didn't try to negotiate price or anything, and so I was just curious. I asked him, "Well, what's your plan with the property?" This house was a 3-bed/1-bath, and everybody was analyzing it as a 3-bed/1-bath, but he just said, "Oh, I'm going to add a master bathroom."

And those values seem to be a little stronger when it's a 3-bed/2-bath, and he just wanted to check it out and make sure he could do that. So wow, kind of a light went off that yeah, he saw that value there that nobody else was really seeing.

So that kind of inspired today's topic about finding the hidden value in different ways.

Andrea: So the more we've been wholesaling properties to other investors, we're kind of realizing what it is that they're wanting, and the way that they analyze deals. And we're realizing that most investors view deals with sort of a one-track mind, and that is they're planning to go in and upgrade what's already there.

But in this super competitive market, it's really important that sometimes you try to think outside of the box where you're going to be very limited on the amount of deals that you can do because you're only looking at it from one perspective that might not seem like a deal at that moment.

Doug: Yeah, and you're likely missing out on a lot of opportunity by not looking at this deal from different angles.

Andrea: So that's what we're going to talk about today.

Doug: We've got six creative ways to look at a property differently and see if there's a value there that was sort of hidden.

Andrea: So the first one that we already kind of touched base on was to add a bathroom. And so there's some things that you really want to think through before you decide whether or not this a good option for you, and that is can you do it in a cost-effective way that's not going to break the budget.

That's really important, because if you go and spend \$20,000 on adding a bathroom, then that probably didn't benefit you. Secondly, is it going to raise the value because if the house already has three bathrooms, then you really don't need a fourth bathroom that's not going to be a benefit.

Doug: Yeah and this again goes back to knowing your comps, knowing how to analyze a deal, knowing the area, what brings value and what doesn't. But in most areas, going from one bathroom to two bathrooms is pretty significant, especially if it's a family that's living in that area.

Andrea: Yeah, if you have the opportunity to inspect the property first and check out the layout, there are some ways that you can add a bathroom in a very cost-effective manner that will be a huge benefit to you in the long run.

So first of all, you've got to make sure that there's space to add that bathroom. Second of all, you want to make sure that there's plumbing nearby where you want to add it, because if you're having to run plumbing across the whole house, then again, not cost-effective.

But sometimes, you can actually, depending on the layout, maybe build a bathroom on the other side of the wall from an existing bathroom. So you're just tying into the existing plumbing, and it tends to be really affordable.

We've done this a couple of times, and we were able to create a master suite where there wasn't one and add a second bathroom where there wasn't one, and just kind of cut into the room next door.

And of course it all depends on the layout. The other kind of creative thing that you can do is maybe turn a small laundry area into a bathroom if you're really in need of a second bathroom, because the plumbing is already there for it. It'd be pretty simple, and then maybe move your laundry room to the garage if you have to.

I think a lot of times people would prefer a second bathroom to indoor laundry, so if you get kind of creative, you can find little ways that you can do this and add value. The second thing you want to think about is it a slab foundation or is it a raised foundation.

If it's a slab foundation, you're definitely not going to be running plumbing across the house. But if it's a raised foundation, it's a little bit easier to run plumbing to an area that maybe is conducive to adding a bathroom.

Doug: So the second way would be to add a bedroom.

Andrea: We've done this a lot actually because we buy a lot in first-time homebuyer type neighborhoods, and so generally these families want to fit as many people into the space that they can afford as possible.

So even if that means losing a living room sometimes, they prefer it to be an extra bedroom. So we'll often turn maybe a bonus room or a den into an extra bedroom or try and create a master suite when there wasn't one, or maybe take a large bedroom and split it into two because that is what is desirable for that neighborhood.

So again, it comes back to looking at your comps. If this property were in let's say more of a retirement neighborhood, then that person probably isn't going to want a large bedroom split into two. But if it's a family neighborhood, the additional bedrooms might be more important.

Doug: Yeah, and I will say from an appraiser's perspective, the largest value add in this category is when you're going from a one-bedroom to a two-bedroom. You're doubling your sizes of your bedrooms right there, and also from a two-bedroom to a three-bedroom.

You know, roughly 30 percent more bedrooms in that scenario as well. When you get up to four or five bedrooms, and you're talking about adding a fifth or sixth bedroom, maybe not as significant. You may not get any extra value for that from an appraiser's perspective.

But going from one to two or two to three, huge value add, and there's lots of opportunities in these older homes to do that. So that's a good one to look for.

Andrea: The third creative way to add value is by adding square footage.

Doug: Yes, this is a popular one right now in some areas here in So Cal, and I'm sure across the country. A little bit more involved, this one is, but there can be huge upsides and huge potential for creating value where you typically may not have seen it before.

Now this is going to normally happen in neighborhoods that are a bit higher end, higher priced, medium to upper end areas that are desirable, that probably have older homes. So we're talking about in Southern California here, the closer you get to the beach or a little more expensive neighborhoods, there are some good opportunities here.

So we're talking about your Pasadenas, your Orange County neighborhoods, your San Diego, your Mission Beach. Those aren't the only places of course, but those are some areas that would be ripe for this strategy.

I mean, it really comes down to cost per square foot. And what does it cost you to add square footage and what are the homes selling for on a general price per square foot in that area? There's no exact rule on what works, but let's just throw a hypothetical out there.

Let's say you're in an area that sells for \$500 a square foot. Well, if you can build for say \$150 a square foot, and then sell that same property for \$500 a square foot, that probably makes sense to do that. And you don't necessarily even have to get a huge discount on the house you're buying to be able to make it a deal.

You can buy a 1-bed/1-bath home for \$500 a square foot, but then make it a 2-bed/2-bath by adding a thousand square feet to it, and that thousand square feet costs you \$150 a square foot. But then you're selling the entire house for \$500 a square foot.

So probably going to be a lot of value created there, and obviously you're going to have a lot more to look into. Does the area allow for additions? Is the lot big enough? You know, a lot more there you're going to have to deal with the city; a lot of permits to go through, and architects, and those kinds of things.

But if you're willing to go through some of those headaches, you can really be rewarded with this strategy. Now caveat, this is probably not for your first deal, not for the first time "faint-of-heart flipper." This is going to be a more seasoned strategy if you've got some experience, especially in construction and dealing with municipalities.

But if you do have that and are willing to tackle those things, this is a great strategy to add square footage.

Andrea: The fourth way that you can creatively add value is by turning a property into multiple units. And so by doing this, you're either creating additional rental income

for yourself, or you can then turn around and sell it to a landlord investor for a higher price because it's going to be yielding them more each month as well.

Doug: Right, and yeah this kind of came to mind because again, we sold a wholesale house recently to an investor, and he checked back in with me a couple of months later, and I said, "Hey, how's that project going that we sold you?"

And he goes, "Oh great. I actually turned the entire bottom floor into a rental unit," and he actually said his mother is living in the upstairs unit, but he was able to completely convert this bottom floor into its own apartment, so to speak.

And it wasn't even anything we had thought of at all, but the house was really conducive for that. It sort of had its own entrance in the back, and there was a lot of square footage down there, so it really worked out for him. And nobody else, I don't think, had thought of that either.

Andrea: One thing you're going to want to consider if you decide to try and do this as a strategy, you're probably going to want to sell it to an investor off-market. If you go and list it on the MLS and you're trying to find an end-buyer that's going to be getting a loan on it, and you've split it into two or three units, they're going to have a real problem trying to get a loan, especially if you didn't do it through permitting and if the utilities have not been divided.

But there are a lot of cash-buyer landlords out there that will not care about that. They just see the income potential, and they're willing to work with it because they're not concerned about reselling it or getting a loan.

Doug: Right. Okay, so the fifth creative way to add value or see value that isn't normally there is vacation rentals.

Andrea: So with the invention of AirBNB, and VRBO, and all of these great vacation rental websites, this has become really popular and a great money making strategy for rental properties.

Doug: Yeah, for the right property.

Andrea: Yeah, we have several friends that are doing this, and it is great in so many ways because you can use the property yourself if it's a place that you feel like vacationing. But then also, you make a higher rate of return because people are kind of renting it sort of on a hotel basis as opposed to just a set amount per month.

Doug: Yeah, there are some areas where your rent as a VRBO vacation rental may be double or more what you would normally get for a monthly rental.

Andrea: Right, a couple of things that you might want to keep in mind though with a vacation rental is that it is more management intensive, so you probably want to make sure that it's somewhat nearby you or that you have great property management, a great cleaning service lined up.

Also, you're going to have to have it furnished, so it's a little bit more of an intensive thing, but the reward can be big. So this is a good strategy. Also, you're going to want to make sure that you have a great location that people want to visit on a vacation, or maybe it's near an event venue that people are willing to pay a bit extra to stay near this particular event venue.

There's a lot of reasons and places that people want to go, so it's not limited to just Hawaii or just Aspen, Colorado. There's vacation rentals all over the place, and so if you find a property that you think could potentially be good for this, just do a little research and chances are, it might be.

Doug: Yeah, definitely.

Andrea: So the sixth and final way to creatively add value is to subdivide larger lots.

Doug: Yeah, there are lots of fun and cool things you can do with a larger lot. So if the zoning allows, you can make multiple lots potentially out of your one lot. So let's say you have an acre property, and the zoning allows for a minimum of a quarter acre. You know, you might be able to divide that into four separate building lots.

That adds value to your investment. Another thing you can do, which we've done quite a bit, is sometimes we'll buy a home, and it kind of comes with an extra lot. Like the owner owns the lot next door and just wants to sell it together.

I love that because we can then just separate that very easily, and we'll just sell off the house but keep the lot for basically free, and you have it for future use of whatever you desire. You can build on the lot down the road. There are other things you can do as well depending on if it's allowed, but some other ideas might be bringing a cell phone tower if it's in an area that's conducive for that.

Cell phone towers go up all over the place, and that can be a nice income for you there. You can make a storage lot out of it; you can make a parking lot if you're in an area where parking is needed.

Andrea: Or RV parking.

Doug: RV parking, these are all ideas that are out there, and there's a million other uses as well.

Andrea: So in your typical track home neighborhood, you're probably not going to be able to throw up an RV parking lot, but those aren't typically the types of neighborhoods where you'd be getting extra lots anyways.

Doug: Right, but keep an eye out for large lots, especially in areas that seem primed for development or that are in the path of progress, if you will. Those areas can be a great strategy when you have land to work with.

Andrea: So those are our six creative ways to add value to a deal. I know that not one of these six things is probably anything that you haven't heard of before, but we know sort of from our experience right now that selling

properties to other investors is very competitive right now.

And so it's really important to be creative, and to think outside the box, and to look for ways that you can make a deal into a deal that might not seem like one from the get-go if you want to continue doing this business.

Doug: Yeah, and we're of course not saying to force a square peg into a round hole. If there's nothing you can do with this particular opportunity, pass on it. They'll be another opportunity down the road.

Andrea: Absolutely.

Doug: But don't put your blinders on to what might be a real opportunity that others aren't seeing; that's our point.

Andrea: Yeah.

Doug: Alright, I think that wraps it up for today. We're going to head on out of here and pick up some kids from school.

Andrea: We'll talk to you next week.

Doug: Bye!