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## Renovation Webinar

### Dean Parker & Steve McKnight (Property Investing.com)

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#### Quick Deal Analysis and Reno Numbers

**Steve McKnight:** We're probably going ahead of ourselves a little bit here but I think now's a good time to talk about it. You've got a handy formula for finding good reno projects. How does it work?

**Dean Parker:** Well, we've got...this is part of the step one, all education part. We've got a series of quick analysis formula and there's a quick deal analysis and this is the one that we use all the time for finding deals. And essentially, that's just the basic formula is just purchase price times 135% equals selling price. And the 135% is made up of a series of costs associated with a renovation. So that's things like your buy and end costs, your renovation costs, your holding costs and your selling costs. So we've pretty much put a percentage around all those types of numbers to come up with a formula so it's easy to use.

**Steve McKnight:** And in this case, like, let's say I find a property, use real easy numbers 'cause I'm a pretty simple kind of guy, you found a property for \$100,000, how would I apply this formula to that?

**Dean Parker:** Okay, so it's a \$100,000, you times 100,000 by the 135% and it's going to give you \$135,000 as a selling price. So essentially, you'd need to sell your product, your finished renovation for \$135,000 to cover your acquisition costs, the renovation costs that would be required, the holding costs, the selling costs and to also have a profit margin.

And the percentage is, in this case, because the formula or that percentage I just quoted, we use that for a cosmetic renovation and the numbers for that are essentially just 5% for acquisition costs, 10% for reno, 4% for holding, 4% for selling and 12% for profit margin. So that gives you your 35% and then you always just add your 100% in for your purchase price.

**Steve McKnight:** That would mean then that you would have to...The assumptions behind making a profit, you'd only be spending \$10,000 to renovate it...

**Dean Parker:** Yes.

**Steve McKnight:** ...to increase the sales price to \$135,000.

**Dean Parker:** Correct.

**Steve McKnight:** And if you did that, you'd be making a profit of what, \$12,000?

**Dean Parker:** Correct. Yep, your 12%, that's right.

**Steve McKnight:** All right, so this formula, what it allows you to do is look at the purchase price, add on 135% and look at the sales prices and I guess try and answer the question can I sell this property for 135% more than or 35% more than what I bought it for. And if the answer is yes, then I'm looking to make a profit so long as I keep my reno cost to 10% of the purchase price.

**Dean Parker:** Correct, yeah. So I mean, the reason why we developed this was because we'd go out and we'd jump in a car with a real estate agent and he'd have eight properties for us to look at. And I'd walk up into the first one and it'd be on the market for \$200,000 and I'd say to him, "All right, if I paint it and carpet it and put a new kitchen in, how much would I be able to sell it for?" And he'd turn and go, "Oh, you might high 220's" for example and we'd really quickly be okay, well, there's no way knowing that we can make any money out of this. So we'd just plug the formula in and say well, it doesn't work. I mean, that's a really easy example, you can figure that in your head.

But what we did, we actually gave it to the real estate agents and we allowed them to use it to actually find deals for us. So we'd say look it really needs to meet this rough criteria. We need to be able to sell it for 35% more otherwise there's no point in really showing us. And it saved them wasting our time and their own so it was a good system.

**Steve McKnight:** Thanks.