

## Realty Firm Makes Improvements Pay Off

PROPERTY: Company Puts Capital Into Home Renovations

By **MIKE ALLEN**

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Having flipped houses during the depths of the recession, the guys at Renovation Realty knew their best payoffs were behind them.

The competition for houses was getting stiffer, margins were falling, and much bigger and better heeled competitors such as private equity firms were muscling out the small players.

So instead of buying low and selling high they're now improving properties, working with owners, and then selling high.

The idea behind the new business, launched in late 2011, was a deal on a house that fell through, said President Cannon Christian. If only RR could have somehow partnered with these homeowners, the owners and Christian's firm would both have profited, he said.

The most common scenario RR encounters is a group of siblings who have inherited a house and need to sell, Christian said. "We said we could create a service based on our same flipping model that we do the work, front the money, and we're the real estate brokers as well."

Last year, the La Mesa-based firm did 29 renovations and sales. This year RR is on track to do more than 50 renovations and sales. "Right now we've got six projects throughout the county," Christian said.

Once owners decide to hire RR, the service runs all its proposed improvements by them, but given the firm's experience, most owners take the firm's advice, he said.

"Every house is completely different. We'll put in as little or as much as it takes," Christian said. One 6,000-square-foot house in Carlsbad got about \$150,000 in upgrades, yet one small condo only needed \$5,000 to get up to a better asking price.

That money comes from RR's pockets, not the owners. When the project is done, the house goes on the market and when escrow closes, both RR and the owner get paid.

### **The Margins**

The first houses renovated by RR netted the average sales gain of about \$116,000, but as the housing recovery gains traction, so have RR's margins.

At a typical three-bedroom, 1,200-square-foot house in Santee, the "as-is price," or the one the house would fetch without any upgrades, was \$220,000. After RR's investment of \$66,400 that included a completely new kitchen and bathrooms, the new value was at least \$281,000. The sale was still pending as of last week, but the accepted price was about \$379,000, Christian said.

That price meant the owner got \$83,000 or nearly 40 percent above what he would have gained if the house sold without any improvements.

RR says the net gains to owners after all the expenses for the renovations, fees and taxes on the sale, and commissions paid to both sides range from 20 percent to 40 percent.

RR is active in many disparate markets but particularly in those areas that continue to hold their values, Christian said. Among the hottest in San Diego are Clairemont, Bay Park, Del Cerro, San Carlos, Serra Mesa, and along the state Route 78 corridor in North County.

RR's business model seems to be both creative and makes a good deal of sense because renovating houses isn't for everyone, and in most cases, arranging the financing for such projects is still difficult, said Dana Kuhn, a lecturer at San Diego State University's Corky McMillin Center for Real Estate.

"It's the short term financing they're offering that's the key to this deal," Kuhn said. "You're saving the seller all the trouble (of doing the renovations) and all those fixed costs if they had to obtain the loan to pay for the improvements."

Christian gives most of the credit for RR's success to his father, Keith, the firm's chairman, who has been renovating houses for some 27 years. "Without his experience, background, and most of all, his capital, the company wouldn't be in existence," Christian said.

### **Rolling Out a Franchise Model**

RR's business model is working so well, the partners are rolling out a franchise model this year, Keith said.

"We're registered to do business in 37 states and will be marketing it shortly," he said. Under the arrangement, RR would provide franchisees with the training involved in doing renovations, estimating and operations, and receive both a franchise fee, and some royalties on sales.

The firm hopes to have four franchised territories signed this year, likely in California or some nearby western states, Keith said. The fees would depend on the territory's size, the population, and how fast the franchisee wants to grow, he said.

Keith's other son, Griffin, and a former construction manager, Art Haffling, are the other RR partners.

RR has 18 workers today, 11 of whom are on the contracting end of things. There are a lot of other business vendors staying busy because of the company's growth, Christian says.

The transformation of run-down hovels to spruced-up attractive abodes takes RR workers into some challenging places. One house in Poway was memorable for the amount of junk the owner had accumulated that had to be disposed of, Christian said.

It was a scene that could be featured on the television reality show "Hoarders," Christian said. "We filled up 12 commercial dumpsters. There was 198,000 pounds of trash... We couldn't even walk through."

Another positive Christian is proud of is the effect that improved houses have on the rest of the neighborhood. "We'll be working on a house, and neighbors come up to us and ask, 'Hey, you're finally fixing this place up? That's great.' "