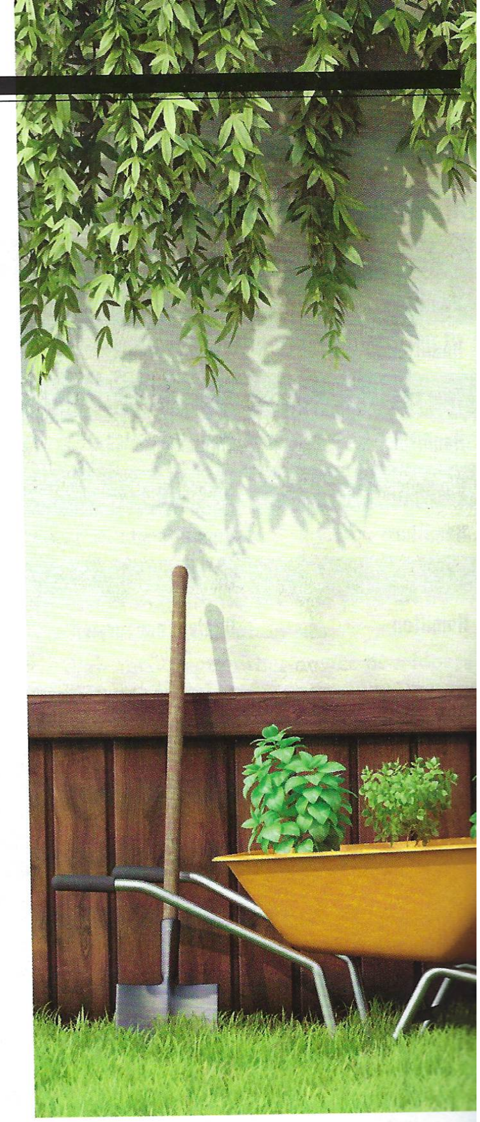

MAKING ROOM FOR PROFIT

Ryan Carr of R.W. Carr Investment Co. explains how adding a shed to your properties can generate extra cash flow

When I first started buying investment properties, the market was slower than it is today. There was slightly less competition, bidding wars were far less common, and the buyer actually had a chance to negotiate a decent deal. One of the best parts of that was the chance to do your research on the house, inspect the guts and double-check that it was exactly what you wanted. Most investors want financial returns with a mechanically sound home – fewer hiccups and more income. But what happens when you've found that awesome property in the location you wanted, only to realize you can't charge any more for rent than what the market will bear?

The solution: a shed. Sheds and on-site storage are nothing new; they've been around forever and are generally more economical than renting an off-site storage unit in most towns. They are reasonably easy to install, don't require permits and can be placed in small and large backyards alike for yearly tenant use. The best part is that the returns are pretty stout for the effort required.

Let's take a look at a basic shed proposal. I was at a big-box store this spring and saw a great 8' x 10' shed for $959 ($849 + tax). It was a nice earthy tan thermoplastic mould – flat-pack design, structurally sound. The real-world installation cost of a shed like this should be around $250. Any handyman in the area can zip this thing together in an afternoon; at a $50/hour labour rate (which may or may not be accurate for your town), that's $250. Another thing to consider is that some sheds don't come with a proper footing. Should this apply, building a pressure-treated pad will cost you another two hours of labour ($100) and around $24 in materials.

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8' x 10' shed	**$959**
Pad materials	
Pressure-treated 2x6	**$71**
Pressure-treated plywood sheets	**$86**
Screws	**$17**
Deck blocks	**$47**
Gravel	**$21**
Total	**$242**
Labour	
Initial installation cost	**$250**
Footing construction	**$100**
Total	**$350**
Shed, labour and materials total	**$1,551**

Generating income

From my personal portfolio experience, sheds of this nature in decent repair can reasonably add $35 a month to the income a property generates. The interesting thing about sheds is that half of tenants will decline to take one at first because it feels like an upsell. Conversely, when they move in and realize they'd need a 2,400-square-foot mini mansion for that mahogany armoire, it's a perfect way to help them out and make a few extra bucks. It also keeps the large, clunky items like bikes or hockey bags out of your stairwells for damage protection. Win-win.

Over 12 months, that extra $35 a month adds up to $420 per year, which is a 27% ROI in year one. For anyone looking to factor in vacancy to the equation, using the 10% vacancy calculation widely accepted for rental units, that's still a 24.3% ROI.

I recently sold a property that had two sheds. These sheds produced income every month. I was approached by a potential buyer who was interested in the home, and among the requirements was a minimum gross cash flow of $400 a month. After crunching the rent numbers, we fell in the $350 range. However, after adding the shed income to the deal, it was closer to $425. Sheds actually made the deal cash flow and work for his budget.

Very similar to cap rate, sheds also have an effect on property value. For example, a two-unit home purchased for $400,000 at 2.7% over 30 years may carry a mortgage of $1,297 a month. That same home purchased at $420,000 would carry a mortgage of $1,362 a month – a net difference of $65 more. If the more expensive purchase had a pair of sheds ($70 a month, less vacancy), it's about even, and the seller profited $20,000, less shed installation costs.

You might be thinking, "Well, yeah, but my house makes a better ROI than that annually," and that's quite possibly true. However, think of your average stock market return at 7% to 10% per year. If stock market guys were consistently getting 24.3% yearly on their portfolios, they'd be investigated. Here, you are simply adding a cherry to the top of your property and making use of the dead space that's not making you anything at all. Consider renting the garage of the home separately as well. Increasing the efficiency of what you already have is the key. ■

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