

The reality of property renovation – what TV doesn't tell you

by Adam Smith

Auction night is the climax of renovation reality TV. The viewers are hooked from the beginning, siding with their favourite teams and watching them transform hideous houses into 'perfect' homes. Tension builds, bidding wars begin and the hammer falls leaving a winning couple basking in the glory of a significant profit, for eight weeks of hard slog.



But in the real world, life typically plays out a little differently, which has brought a bit of criticism of these renovation shows recently, like [TV One's Our First Home](#).

The \$190,400 profit made by the winning family, when analysed in the above article, was reduced dramatically to just \$33,000 in the real world. Split that across the family of four, it works out at \$8,250 each, so about \$1,000 each per week if you took it as earnings. And even more could be knocked off that profit once you take into account some of the other costs we look at below.

So what's makes the difference between TV and reality?

If you've been watching awestruck at the profits made on these shows and you're bursting at the seams to get on the renovation bandwagon, here are a few things to take into account before knocking down your first wall. A quick \$200,000 in a few months is a pipedream, sorry...

- **TAX ON PROFITS**

Remember that if it is your intention to buy and on-sell for profit, whether you renovate or not, that profit is then 100% taxable as income. In the case of the winners of My First Home, in the real world, they would have been taxed at 33% on the 'profit' of \$190,400 - that's \$62,800 straight to the taxman!

- **COST OF LABOUR**

If you're trying to get a place up to scratch and on the market in eight weeks on a tight budget, cutting tradespeople is where you save the dollars. That means making a lot of the work DIY. If that's your plan, you'll be hard pressed to hold down a full-time job too, even if you have helping hands.

On the show they had a family of four tradies/labourers working much more than full time to get the job done. If you don't have that kind of backing from mum, dad and your mates, you'll be shelling out a lot more than they did on the show in tradespeople, which consumes a significant portion of your profit.

- **HOLDING COSTS**

These are often the little extras long forgotten on purchase day. Things like interest on your mortgage, rates over the months you own it, and insurance – all to be paid from the day you purchase until you settle. There is several thousand dollars involved here, even with a moderate mortgage. All things they never had to consider or pay for on the TV show.

- **PROFESSIONAL FEES**

Sponsored by a real estate agency, there was little likelihood the My First Home teams were going to sell privately... Neither would they need to consider an agent's commission in their profit equations. Legal fees were probably also taken care of. Realistically these two figures would have equated to a \$25,000 chunk out of the winners' profit.

- **STAGING & MARKETING**

Homes can be much harder to sell empty – styling a home tastefully to create a warm and desirable place to live will give you a better chance of getting top dollar. Many real estate agencies will also promote marketing packages to advertise your property, at your cost of course. So that's another few thousand dollars. Never mind the marketing budget that TVNZ would have actually spent to promote the show....

With all this in mind, it's pretty hard to see a clear way to profit, but it is possible. Reality TV shows may paint a pretty picture for buyers trying to make a quick buck in a rising market, but remember it's called property speculating for a reason – there's as much risk involved as there is potential for large gains. A lot more planning than speculating needs to go into the project for you to walk out well off, or at least better off.

Despite the warnings, property trading can be very profitable, but it does come with greater risks. It is vital you seek quality expert help and advice, and buying well initially is absolutely critical to your success.

If you need a no obligation sales or rental appraisal for a project you are considering, [give Iron Bridge a call](#).