

# Beware the fool's gold of renovation



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AFTER the most recent round of renovation reality shows, does anyone feel the desire to go off and renovate for vast riches?

Let's hope not, because despite some of the representations within these programs, riches are hardly there to be found. Rather, a world of pain.

The problem is they leave out the costs of very significant items when it comes to doing renovations. For example, the cost of borrowing the money.

Yes, there is an interest expense that needs to be calculated into your budget. And, let's face it, most of us would need a loan to take on such projects.

And stamp duty on top of the purchase price, plus the agent selling fees on a resale, make flipping a property after a renovation an almost impossible task.

These basic essential costs, of course, were not properly disclosed or discussed in any of the most recent renovation programs. And don't even get me started about the cost of labour. It makes the amount of "profit" in these shows a very rubbery figure indeed.

Don't get me wrong, it is possible to make some money out of a renovation. However, literally every person I have spoken to who has made money out of renovations has basically spent a lot of their own time and energy in doing it.

Normally they have a skill in that area. Such as being a carpenter, architect, electrician, plumber or builder by trade.

That enables them to keep some of the big costs down. I have not yet met a person who has conducted a profitable renovation by outsourcing all

the tasks. Owners also mistake a profit from a renovation with normal capital growth that has occurred in a rising market. In other words, it wasn't the renovation that made them the profit, rather the general rise in the housing market. Perhaps it is smarter to not do a renovation but, rather, hand the fool's gold to the next buyer.

Then, of course, if you are going to do the renovation largely on your own, consider the cost of your own time. And do you have the skills to do a proper job? I can't count the properties I have come across where it is clear some botched job has been done by the owner that effectively has taken away from the value.

It should also be clearly noted, if you are renovating to do a simple upgrade, such as adding a room, you should look at the costs of adding that room versus buying a property that has the

additional room. Two years ago, I reported that, all things equal, the price gap between three- and four-bedroom houses was

less than the cost of building a fourth bedroom. In other words, it was cheaper to sell your three-bedroom house and buy a four-bedroom property, as opposed to building an extra room.

Not much has changed. It is still cheaper to sell and buy to upgrade – location and other quality aspects being equal.

Of course, if you have a natural passion and desire to do a renovation, then great. Go for it.

But, as far as I am concerned, renovating a home should be considered an opportunity to improve one's standard of living in that home, not one to make you rich. Because, mark my words, it won't.

Louis Christopher is managing director of [sqmresearch.com.au](http://sqmresearch.com.au), where you can find stock-on-market statistics for every postcode in the country.



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