

renovations

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# Is it better to renovate first, or simply sell the potential?

COLLEEN HAWKES · 09:22, Aug 16 2018



There's a huge demand for do-ups, such as this house that early winners on *The Block*, Alice and Caleb Pearson, bought to renovate.

Programmes such as *The Block NZ* put plenty of attention on the benefits to be gained by renovating. And although the teams this year are working with new terrace houses, the idea of renovating to sell for a higher dollar is appealing.

There are many instances of young people trying this for themselves with great results. Some, like Alice and Caleb Pearson who won *The Block NZ* in 2013, have even become serial renovators and sellers, and say it is paying off for them.

But when the Pearsons look to buy a house, they are looking for potential, not a house that's already perfect. And they are very experienced and have sussed out a winning formula.



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This graffiti glass splashback on The Block NZ: Villa Wars did not charm the buyers.

Which begs the question, if you renovate to sell, will your renovation be to another's taste? is it better to renovate before you sell or simply leave your home as is and sell the potential? And if your renovation takes time, do any gains simply reflect the change in the market over that period?

**READ MORE:**

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The owners of a large apartment above my flat spend a lot of money putting in a new kitchen before putting the place on the market. But the first thing the new owner did was gut the entire interior and order a completely new kitchen.

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Real estate agents see this sort of thing happening all the time.

**'NO WAY YOU WILL GET THAT BACK'**

Craig Lowe of Lowe & Co in Wellington says spending \$40,000 to \$80,000 putting in a new kitchen, or \$20,000 to \$40,000 on a bathroom is not worthwhile. "There is no way you will get that back. It is far better to sell the potential. But you should also advertise that fact, so people are not coming in expecting it to look perfect. It is better that they arrive with lower expectations and may be surprised it looks better than expected.



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Alice and Caleb Pearson's house in Belmont sold for a tidy \$1,126,000 in the second season of *The Block NZ*. But experts say it can be hard to measure actual monetary value of a renovation when you include your own time, and then factor in rising house prices in the interim.

"Preparing your home to sell should be about presentation, not renovation. Painting walls, sanding floors or removing a lot of rubbish from the back section to create a new lawn will all add value. Those things are relatively inexpensive and they make sense. But investing capital in major structural renovations is not worthwhile."

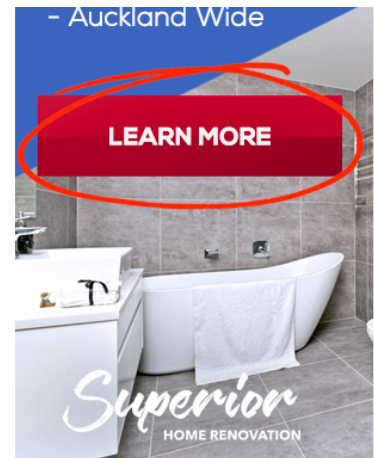
Lowé believes the rise in popularity of renovation shows such as *The Block* has created a demand for "do-ups". Consequently, the price of such houses tends to be much higher than it should be when compared with properties that have been renovated

"It's really a cultural thing – our national pastime is investing in real estate and doing up houses. There's also that desire to make money quickly by flipping or renovating for gain."

#### 'WILD STAB IN THE DARK'

Lowé says he has had nearly two decades of watching some people do this well, and some do it badly. "So many people take a wild stab in the dark thinking their work will be right on trend for buyers. They also don't factor in their own time, or the holding and transactional costs. If you do the maths, there is no money in it."

Lowé says many renovators feel like winners because housing prices have gone up while they worked on the house, but that doesn't mean the renovation paid off. "It's interesting that the minute the market flattens out, no-one is renovating to sell anymore. If there really was money in it, then they would still be doing it (during those periods)."



ABIGAIL DOUGHERTY/HOMED

Alice and Caleb Pearson won *The Block NZ* in 2013 and are now experienced serial renovators who now how to make a profit. They've just finished their seventh renovation and are about to embark on the next.

Jeremy Wyn-Harris of Builderscrack.co.nz agrees that over capitalisation – when you spend more than you get back in the sale – is to be avoided at all costs. He says it helps to understand the market for a house in your area pre-renovation, and the market post-renovation.

#### 'RENOVATING MAY SHRINK DEMAND'

"If you are in possession of the 'worst house on the best street', you may

find that renovating shrinks demand, even though your home's value is higher, and presentation is better. If you have an average house on an average street, renovating could make your home stand out, and increase demand. Your best course of action is to discuss the market with several real estate agents, and buyers if possible. Get a feel for what people are looking for in your area.

"If your unrenovated existing home pretty much ticks the boxes, then perhaps a simple paint and redecorate will deliver a nice profit on that work. If your home has any issues or flaws that are likely to put off buyers, then it's a good idea to address them prior to sale."



IAIN MCGREGOR/HOMED

Felicity Clark is another serial renovator. Based in Christchurch the 29-year-old is now selling her sixth renovation, a '70s house designed by the late architect John Huggins.

Wyn-Harris says roof and guttering maintenance, exterior painting, gardening, addressing water damage and drainage issues around the property are all simple fixes that work to add value to your property.

"Next, interior paint and decorations, updating kitchen joinery (doors and handles), updating bathroomware, new carpet, curtains and a heat pump are all basic renovations that usually add value.

"Bigger renovations, such as adding rooms or reconfiguring a home, have the possibility of adding significant value, but also come with the risk of bigger investment."

Meanwhile, Alice and Caleb Pearson, who have seven renovations behind them, are looking for the next project, which will be in the South Island. They know they are on to a good thing.

"There were so many people that went through our house at the open home and said 'Oh man, I wish that we could do what you are doing'," says Alice Pearson.

"So we know that we are living the dream I guess, but we definitely have a whole lot more dreams with property."

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kc20

41 minutes ago

Some one thought it was a good idea to put Graffiti in the kitchen ? lol

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+1  



Shawn Gooch

53 minutes ago

He looks exactly like one fella off first dates..... was he on first dates? Naughty

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0  



MadManMo

1 hour ago

To those in the comments below who are wondering about whether tax is payable on houses which are done up and then flicked off, it depends. Contrary to popular belief, we do have a capital gains tax which is applied to houses being on-sold where the price increase is the objective, and not the interim rent take. Even if you dwell in the house. Anyone genuinely interested would be advised to check the relevant taxation legislation. But, basically: if you sell a house within 2 years of purchasing it (soon to be 5) and you sell it for more than you paid and if that price difference represents a significant portion of your total income and if you display a pattern of this (buying and then selling houses for more than you paid), or if you did not rent the house out while it was in your possession and you did not live in it and you sell it for a profit, or if you did rent it out but you sell it for a profit within 2 years (soon 5), you'll be stung with a CGT bill.

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0  



Bruce2

2 hours ago

A do up is a great place to start. I brought a do-up, it got a roof over my head, I could live in it and do it up as and when finances allowed. Sadly most people want to start flash.

[Reply](#) · [Share](#) · [3 replies](#)

+14  



johnny4socks

1 hour ago

ya dead rite Bruce2.its all about looks,not whats affordable..

[Reply](#) · [Share](#)

+2  



Penguin1234

57 minutes ago

Problem is so much is wildly over priced once you factor in renovation work.

[Reply](#) · [Share](#)

+2  



Sammy\_L

19 minutes ago

True

[Reply](#) · [Share](#)

0  



**jimmyzn1**

2 hours ago

I've relocated a number of houses then renovated after they're onsite and profits from doing this are most definitely worth it as the sqm rate is a lot less than building new, yet the valuation is still comparatively high. Developers need to open up more land with less restrictive covenants. Councils need to streamline the consent process more. If you treat it like a business, do your homework and don't over capitalise it's worth doing.

Reply · Share · 1 reply

+7



**PeCr57**

21 minutes ago

Wise words indeed. I made the fatal mistake of over capitalising and it hurt deep indeed. Learnt my lesson the hard way, and I imagine I am not alone in that. Knowing your costs to knowing what can be realised, having good project management skills, and good trade relationships are to my mind, the key actions to any successful renovation.

Reply · Share

+1



**Wasi**

2 hours ago

Wow. I didn't realise our national passtime was buying and renovating houses. Old mugins here thinking it was rugby.

Reply · Share

-1



**jimmyzn1**

2 hours ago

But fair enough call if they are speculating. If their intention is to renovate to sell and make profit, then they should be taxed. If their intention is to renovate to live in then any profits realized should not be taxed (buying selling same market, so typically profits are irrelevant for your own home) Simple IRD rules.

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+3



**Kefharlek**

47 minutes ago

Do you know that they aren't declaring their profits?

Reply · Share

0



**I know u**

45 minutes ago

read the ird rules , if you show a trend of selling for example 2 houses in 4 years you are doing it for profit and will be taxed regardless . Annoys me when people don't pay gst , tax , acc and bleat about there profit it's illegal

Reply · Share

+1



**Monsterbishi**

2 hours ago

Some renovations pre-sale are a no brainer, going through a house and painting in light neutral colours to de-personalise the space leaves it more open to potential buyers imagination.

Reply · Share · 1 reply

+5



**I know u**

43 minutes ago

real estate agents need to be clear when they advertise these as a renovation but it's a redecoration

Reply · Share

+2



**CharlieT**

4 hours ago

I wonder if they are paying tax on their profits?

Reply · Share · 3 replies

-12



**Stand tall**

3 hours ago

Interesting comment. They have got off their butts and are obviously passionate in working a winning formula. Yet, potentially with the change in government, you're right- they may HAVE to pay tax on capital gains. Not really fair for a young couple trying to make something of their lives using their energy and passion!

Reply · Share · 1 reply

-11



**I know u**

40 minutes ago

wish I didn't have to pay tax so I could get ahead. follow the rules like everyone else

Share

+1



**soap box loud**

2 hours ago

100% agree

Reply · Share

+3



**CharlieT**

4 hours ago

I wonder if they are paying tax on the profit?

Reply · Share · 10 replies

-14



**Atheist Joe**

4 hours ago

Had to be one to put the boot in

Reply · Share · 4 replies

+12



**Mudshark**

3 hours ago

Fair question, just a bit pointed and not taking into account the work that goes in.

Share

+2



**raspberryjam**

3 hours ago

This is nz and you'll always find there's one...at least

Share

0



**KiwiJD**

2 hours ago

I wonder if CharlieT is paying tax...or the lawnmower man I saw this morning...or Amazon.  
The first reaction people have to success is often a window into why they're not successful themselves.

Share

+4



**Jordan2**

42 minutes ago

@KiwiJD

You absolutely nailed it.

Share

0



**Thinking Age Man**

3 hours ago

Of course they are.

Reply · Share

-1



**Doer1**

3 hours ago

they will be as will anyone be when Mikey delivers his capital gains tax...what say u Cindy..

Reply · Share

-2



**TBS V2**

2 hours ago

If they havent, they will be after this article!

Reply · Share

+3



**Jordan2**

45 minutes ago

For fox sake Charlie. Of course they are. Pretty obvious I would have thought. Why would you even suggest they weren't.  
Shake the head.

Reply · Share

+1



**GJane21**

30 minutes ago

Good point. If it's a business then they should pay the business tax as all other business do

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+1

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