STRATEGY

REALITY CHECK

The Reality Risk

WHY TREATING "REALITY" REAL ESTATE TELEVISION AS EDUCATION PUTS THE ENTIRE INDUSTRY AT RISK.

Content provided by Charles Sells, The PIP Group

In a recent article in *The New York Times*, a would-be home-flipper recounted his first attempt to fix-and-flip a property. He recalled how he had recently sold a thriving tech company and was relying on the proceeds from that sale to stay home and care for his wife and toddler while his spouse was on bed rest during a tough pregnancy. Not surprisingly, part of that "family time" included watching a few relaxing episodes of reality real estate television, complete with high-end fixtures, tense design moments, and a happily concluded, profitable transaction by the end of each show.

Pretty soon, the soon-to-be investor, along with his neighbors, was "stalking" a house heading for the auction block. The first deal went smoothly, just like the shows implied. The partners made about $80,000 in profit. However, their second deal was much more time-consuming and costly. Each partner walked away with only about $10,000 after sinking months into the deal. At that rate, there were a lot of other things the investors would have been better off spending their time on. Things became financially tight as much of the capital from the sale of the business had gone into the low-return project. The investors wondered if they should give up, but ultimately kept flipping.

That particular newspaper article has a happy ending. The former tech entrepreneur is now a happy and successful flipper. However, he was operating with a number of advantages most people do not have, including:

- He had financial flexibility thanks to the sale of his company. He was not operating on a tight deadline and could afford to elongate timelines and learn "on the job."
- He was investing in the hot California housing market, which allowed the partners some "wiggle room" to make a few mistakes and still turn a profit.
- He worked with another investor who was more familiar with the process and knew the initial cost of the property left room for repairs.

Many others who get involved in flipping because it looks incredibly exciting and glamorous on television do not have these advantages. And the price they pay can be very, very high.

REALITY REAL ESTATE TELEVISION CREATES OVERCONFIDENCE THAT KILLS DEALS & DREAMS

Imagine quitting your job and investing in a $1.7 million mansion in New Jersey because you just knew you could do at least as good as job as those characters you've seen on television. Now, imagine spending more than a year on that project between dealing with repairs you failed to foresee and complications from a slowing high-end housing market that required you to actually re-do some of your best "HGTV-designer" work in order to make the house attractive to local buyers. Now, imagine making about $10,000. Don't get excited. You made less than $1,000 a month and you quit your job. That was not a win, and you didn't even get paid the pittance that "Love It or List It" homeowners get for their appearances. Nor, by the way, did you earn a salary for all your design mishaps because (remember?) you are not a reality real estate design "star."

Am I knocking reality real estate television too hard? Certainly, a lot of people would say, "Yes!" I constantly hear it from my friends and other investors — particularly those who have gotten into real estate since the end of the Great Recession. They tell me, "Charles, give these people a break! No one really thinks reality television is real anymore. At least now they are involved in real estate. That should make you happy."

Let me be clear: I love it when people get involved in real estate investing. Real estate investing is one the greatest wealth generators of all time. It changes countless lives for the better when done well. Unfortunately, it can also change countless lives for the worse when thousands of people jump into the industry blindly and make investments based on a series of false premises that are completely unrealistic. Furthermore, the latter type of behavior is incredibly harmful to our industry as a whole. That is why the availability of high-quality, easily accessible education, and the ability to recognize it, is so important.

IF YOU CAN'T ACCEPT THAT NOT EVERY DEAL IS A "HOME RUN," MAYBE YOU SHOULDN'T BE AT BAT YET

At The PIP Group, we have been in the business for decades. Not only are we a group of investors with a track record of investing on our own behalf to great effect, we are also a group of investors with a track record of generating top-of- the-industry returns on other investors' behalf. Does that mean every deal is a home run? Of course not. More importantly, we have the experience and perspective not to demand every deal be one. What we do demand is that every deal have an extremely high likelihood of generating solid returns and multiple exit strategies in place that make our investors money and, in a worst-case scenario, do not lose our investors' money.

That rigorous best-case/worst-case approach to real estate investing is a very different world view and investing philosophy than the couple who find they cannot complete a project because, despite being under-budget and ahead of schedule, they keep making design changes to their flip. (Yes, that couple is real, and yes, there are dozens just like them proudly posting about this issue on social media). I'll tell you what that outcome is ultimately going to be: Their "hot market" is going to cool while they are debating whether the vaulted ceilings were a mistake and if they should add in some exposed beams for that "farmhouse feel," and they're going to be left with months of extra holding costs and a property that is far, far too improved for the neighborhood in which it sits.

"OK, we get it, Charles," you are probably thinking right now. "Reality real estate is not real. But seriously, who thinks it is?" I'll get to that. More people than you might imagine.

EVERYTHING IS "PLASTIC" – INCLUDING THE HAPPY ENDING

Andy Warhol once said of Hollywood and show business, "Everybody's plastic, but I love plastic. I want to be plastic." Now, if you have ever seen Warhol's art, you know that he was an absolute genius, but he was also stark raving crazy. That is not a good business strategy for most people, and definitely not for most real estate investors. However, real estate investors who base their leap into the industry on reality real estate television are

often dedicated to the "plastic," the faux luxury that you can only afford if you are filming a fake rehab rather than undertaking a real one. This hurts their planning prior to investing, inhibits their ability to stick to a timeline or a budget, and, ultimately, damages the marketability of their end product once they complete the project.

Would-be real estate "stars" (on social media and in their own minds, at least) often have very unrealistic ideas about timelines and budgets for real estate investments even though they believe they are factoring the "unreality" of real estate-television production. The real reality is that for a real estate show, the investors may only paint two of the four walls of a room or even only a portion of the sides of a house. Then, the investors go back later and redo the rest, sometimes even changing the color if the producers demanded a hue that was not marketable. This makes sense when it comes to producing a product called "reality real estate television." It does not make sense when it comes to producing a finished product you can sell to a retail buyer on as short a timeline as possible!

FIGHTING THE "YES, VIRGINIA, THERE IS A SANTA CLAUS" SYNDROME IN OUR INDUSTRY

It should come as no surprise to any experienced real estate investor that reality real estate television franchises get sued — a lot. Any show that relies on partial renovations (read: about half a room) and manufactured drama with real fallout after the show ends (read: the roof is leaking and we have foundational instability!) is going to have some dissatisfied participants once the episode wraps, especially since homeowners often sign their rights away without reading the fine print because they are excited about being on television. There are dozens of horror stories out there about people who spent hundreds of thousands of dollars repairing the damage done to their homes during a "home makeover" or trying to finish renovations on their own because the contractor departed, leaving the job half done, along with the film crew.

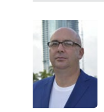
I feel badly for those homeowners, but I also feel like they made a bargain and got what the legalese warned them about. People who believe the story arc is real, however, are the ones who are really getting the raw end of the deal. In 2016, a survey that polled 2,000 adults ages 25 years and older indicated that about two in every five adults viewing reality television believe that even "scripted reality" series, of which reality real estate television is certainly a part, are entirely real. Furthermore, those who are most likely to make life-changing decisions based on reality television (25-34 years of age and 55 & up), are also the demographics who tend to have the least wiggle room when it comes to both time and money. The older demographic may leap in, believing they can do it completely on their own, and risk their retirement capital at a time when they are getting ready to rely heavily upon it. The younger demographic usually has less capital to lose and far less financial wiggle room thanks to heavy student loan debt.

Both populations fall prey to a fervent desire to believe that the magic, the stardust, and the lighting effects are all real while forgetting the very tangible, real benefits that come with real estate investing like financial independence, ownership of your time, and lasting legacy. I call it "Yes, Virginia, there is a Santa Claus" syndrome because every time they lose sight of the stardust and start looking at the facts of a deal, a new show jumps in to motivate them to focus on the sparkle rather than on the bottom line. It is irresponsible, and it is a true hazard.

The kicker for me, though, is this: Very nearly everyone wishing to increase their earnings potential or experience new flexibility in their professional life should consider real estate! The problem is that with nearly most of the population watching some form of reality television and half of all viewers looking to reality real estate television as a legitimate form of self-education, the expectations and information are misleading (if I'm being generous) or entirely erroneous (if I'm being blunt).

As professional real estate investors with decades of experience, we at The PIP Group believe strongly in our responsibility to educate and guide newer investors even if they do not place their capital in our funds. That is why we offer free education and timely information about real estate investing strategies on our website and also travel the country speaking and teaching. Reality real estate television is not going away. Neither is the potential for our industry to get repeatedly hit with its harmful fallout. We must fortify ourselves against this threat by protecting those most likely to become victims of the misinformation.

We do this both by providing valuable education and experience-related insight and by being available to help new investors make wise investment decisions when they are allocating their capital. •



Charles Sells began his career investing in tax liens at the age of 23. Like many of us, he was enticed by the simplicity and profitability often conveyed in popular coaching programs and weekend workshops. However, experience taught him that success required more than a simple snap of the fingers. So, at 26, Charles kicked the pitchmen to the curb and started his own business, helping investors discover realistic profits investing in distressed real estate. The model was simple: use his growing knowledge, integrity and tenacity to help others grow alongside him, in experience and in profits. One investor at a time, Charles has built a reputable business helping individuals invest passively in everything from tax liens to the ever-so-popular fix-and-flip. Fast-forward 20 years and The PIP Group has transacted hundreds of millions of dollars in distressed real estate investments on behalf of nearly 1,000 investors worldwide. Charles and his team at The PIP Group have taken the stress out of investing in distressed real estate, by enabling investors to have their individual investments remain in their name and their control, retaining 100% ownership, with Charles and The PIP Group team at the helm to make certain those investments remain profitable.