



HOUSING

Home remodeling: the decision

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Quick Facts...

Reasons to improve an existing home include: a desire to stay in the neighborhood, avoid the strain of new surroundings, avoid moving costs and problems, and keep a low home mortgage interest rate.

Reasons not to make home improvements include: the house is not structurally sound, improvements cannot be made economically, there is no potential for added space, and the floor plan or location is poor.

Avoid overimprovement, fads and premature obsolescence of materials and design.

Costs to renovate vary immensely, depending on the degree of "do-it-yourself" work, labor costs, extent of prior renovation, and degree of renovation necessary.

A family considering a home remodeling project faces many questions:

- Is it the right decision?
- Will it be worthwhile?
- Where will the money come from?
- Where is the best place to add a room?
- How much help is needed?
- What decisions must be made before the job starts?
- Will the money invested be returned when the home is sold?
- Has anything been overlooked?
- And most important, how does a family begin its remodeling project?

Decision-Making Elements

Decision-making begins when a family becomes aware of an undesirable situation that needs to be altered or eliminated. The decision-making process includes:

1. recognizing that something should be done;
2. identifying and weighing possible alternatives;
3. gathering information about alternatives;
4. resolving alternatives and making choices;
5. accepting responsibility for choices and all possible consequences; and
6. carrying it out.

Every remodeling project may not involve all the elements or procedures discussed in this series of fact sheets 9.921 *Home remodeling: evaluation checklist*, 9.922 *Home remodeling: the design*, and 9.923 *Home remodeling: doing the work*. There can be quite a difference between the steps involved, the time required, and the overall cost of a minor versus a major remodeling project.

Minor projects usually involve some face-lifting on a structurally sound and comfortable home and may include redecorating, such as painting, wallpapering or paneling, and new floor coverings or carpet. Major remodeling involves structural alterations such as tearing out a wall, changing or replacing doors and/or windows, or adding a new room complete with necessary utilities.

Exploring the situation thoroughly can help a family identify their needs and possible alternatives or adjustments, what resources are available, and how effective the remodel will achieve the objective. Making the decision whether to remodel a home is a complex process that should involve the entire family.

Is It Worth It?

Families that own their homes and have outgrown them or want to improve their housing situation have a choice to buy a new home, buy an existing home that may need some work, or fix up and add space to their present home. The decision may be influenced by the condition of the local housing market.

When housing prices and mortgage interest rates are high, families may decide against buying a newer, larger or better home in favor of increasing expenditures to repair, update, convert or add to the home they have, or buy and remodel an older home. At such times, home improvement loans may be easier to obtain than home mortgage loans.

Reasons for Remodel

Reasons to improve a present home rather than move might include:

- a desire to stay in a familiar neighborhood (especially for the elderly);
- dislike for adjusting to new schools, churches, stores;
- avoid moving costs and frustrations;
- keep a lower mortgage interest rate;
- add to the resale value of the home primarily as an investment;
- reduce operating or utility costs (i.e., the cost of insulation is paid for by savings in heating and cooling costs); or
- enhance the livability for the individual family (patio, swimming pool, greenhouse, workshop, etc.).

The purchase of an older home in need of repair is often the choice for a family that places high value on square footage per dollar, larger lots with mature landscaping, and established neighborhoods, while de-emphasizing modern and up-to-date plumbing, electrical and heating systems.

Reasons Against Remodel

Reasons not to make home improvements on an existing residence or a newly-purchased older home:

- the home is not structurally sound;
- improvements cannot be economically or physically made to satisfy local building codes;
- there is no potential for desired added space or it is inaccessible, except at great cost;
- the floor plan and/or location is poor or no longer satisfactory;
- chances for investment recovery are poor. (Even if the primary reason for improving the home is increased livability and occupant satisfaction, the importance of investment recovery if and when the home is sold should at least be considered.)

Home remodeling improvements or additions that are likely to pay for themselves in increased market value (for example, addition of extra rooms or bathroom facilities) should not be confused with basic maintenance and repair expenditures.

Replacement or repair of major mechanical equipment, such as plumbing, wiring, heating systems, a new roof or waterproofing a basement, are classified as maintenance. This type of expenditure is **not** likely to be recaptured through increased resale value because a comparably-priced item (already paid for and considered part of the original market value of the home) is being discarded. Buyers expect a minimum of basic equipment in the first place.

Evaluating Remodeling Proposals

A number of basic elements affect the investment value of an improvement. First is the nature of the improvement itself. If the improvement involves something that most homebuyers would want or consider an asset, the chances of recouping the investment are excellent. Another rule of thumb states that remodeling money should come back 100 percent on resale if spent on the addition of new space; 75 percent if modernizing existing space; and 50 percent if adding luxury amenities such as swimming pools or tennis courts.

Some of the more common space additions or changes are added bedrooms, second baths, remodeled kitchens and family rooms. To predetermine if one or more of these changes is a prime selling point, consult local real estate agents or appraisers to evaluate the present market in the area.

The geographic location and local “vogue” also affects the value of an improvement. A swimming pool may be a good investment in California or Florida but a poor one in Montana or Vermont. Patios and tennis courts, at one time considered “risky,” may be more desirable as energy-conscious people become more oriented towards home recreation.

Another factor in determining the investment value of remodeling is the home itself. One must evaluate the housing market and the neighborhood. The degree or scale of home improvement is relevant and might possibly be affected by these factors. Remodeling a kitchen to add convenience and status to an otherwise modest home may not promote that home to the luxury category.

Consider dual-purpose areas that will increase the use factor of an existing structure. For example, a driveway/parking area might be modified to provide recreational and entertainment facilities.

Avoid Overimproving

Avoid overimprovement. One formula says to improve a home to an after-improvement value of no more than 15 percent to 20 percent higher than the average home in the neighborhood. Another guideline says the improvement cost should be less than 60 percent of the building cost for a new home of equal size and quality.

A useful technique to estimate the chances of recovering remodeling costs is to have the home appraised **as is**, then have the appraiser look at the remodeling plans for an **after** appraisal. If the resale potential will cover the cost of remodeling, the investment may be worthwhile.

Most families will pay only the average neighborhood price for a home. Thus, the lower the value of the home in relation to other homes in the neighborhood, the more the value of that home can increase. If most neighborhood owners improve their properties, their expenditures will help maintain the value of area homes. On the other hand, if the neighborhood has begun to deteriorate, remodeling may not increase the value of a home unless the entire neighborhood is being rejuvenated through public or private action.

A final element having impact on investment recovery is the relative cost of the improvement. Usually, the most expensive way to improve is adding to the physical size of the home. Less expensive are updating and/or converting (changing interior space from one use to another), since existing structural elements and utility services may be used. However, the reconstruction and almost complete renovation required in converting or updating old homes can be more expensive than new construction. Least expensive (and least likely to dramatically increase market value) may be improvements that neither add nor convert space, but modernize and provide more comfort, convenience, or status, such as adding a fireplace or a dishwasher.

Estimating Potential Cash Return

The choice of a new addition, update, conversion, or other improvement may depend on which will provide the most livability or resalability for the money. Generally, the simple, inexpensive changes that make big, obvious differences are the safe ones. Experts tend to agree that money spent on updating kitchens, bathrooms, front entrances, and enclosing attics, porches, and garages to provide added living space yield the highest return on resale.

For greater return on resale, avoid fads and premature obsolescence of materials and design. Costly changes, such as an elaborate greenhouse that may

be an improvement desired by few families, may not increase the resale value and, in fact, may make the home harder to sell.

To calculate the return on an investment, consider: initial cash outlay, estimated cost of the do-it-yourself elements, interest costs to finance the project, increased maintenance (both in time and money) and utility costs, increased property insurance costs, and tax assessments resulting from the improvement.

Consider also that some increase in resale value may be due to general appreciation in house values in the area.

Renovating an old home that has foundation, roof, framework or mechanical systems that do not withstand normal present-day use, or rehabilitating a dilapidated unit that does not meet health and safety standards, often takes longer and costs more than expected. Such renovation or rehabilitation may not be less expensive than building or buying a new home of the same size and in the same location.

The amount and cost of work needed to bring the structure up to local building code requirements may be prohibitive. Although a thorough remodeling of an old home may take less material than building a new home, it will likely use more labor than new construction. Costs to renovate also vary immensely, depending on local labor costs, extent of any prior renovation, degree of renovation necessary, and amount of “do-it-yourself” input. It generally is less expensive to cover up rather than tear out but is not always advisable or acceptable to the consumer or local building department.

The checklist in 9.921 *Home remodeling: evaluation checklist* may be used to evaluate the remodeling potential of a house.

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