

REMODELING ROI

What will be the financial return on my project?

This is a good question to ask and an easy one to talk about. Like most aspects of home remodeling it's difficult to put a hard number on it. Most common additions and remodels have an immediate return of between 70% and 90%. Over time they grow at about 5% annually, the same as the rest of the house, but it's not a liquid asset. So remodeling is a good investment, not a great one, but certainly no loser over the mid to long term.

Resale ROI

Lot's of different charts show lot's of different data. Most supposedly 'hard' data is from realtors and is presented under the premise of how much more can you sell your house for if you invest \$X in it before you sell.

The leaders here are kitchen remodeling, bathroom remodeling and bathroom additions. The least wise are basement finishes and window/siding replacement.

Very rarely will a home improvement recoup its cost when you are looking to sell your home in the same year as the improvement. However, it can make your home more marketable and it should increase your home's value on the market.

Marketability

For example, you have your archaic steel entry door with a rotten frame replaced with a premium fiberglass wood grain one complete with an aluminum-clad frame. Removal, disposal and install is \$2000.00. Does your listing go from \$280K to 282K? Probably not so you won't get the 2K back. Does a similar listing the buyer's looking at have a beautiful new door? If it doesn't, it's one reason he should buy from you. And if the old door was so unattractive potential buyers objected to it, the new one could be the feature to seal the deal.

Value

Does your homes' value increase? You might be able to up your price. If not, you could feel confident with being firm on your price. Also it's a bargaining point in your favor if the buyer counters your list price. "I could take \$275 if you weren't getting a brand new energy-saving door with a lifetime guarantee..."

Staying Put ROI

I was unable to find any data on how home improvements affect home value over the long term, so as the first paragraph says, it's a fair investment but not really why those who stay put do it.

If homeowners are planning on staying in their house 3+ years, the financial side to a remodel is important, but secondary to improving their house to meet their lifestyle.

<u>Need or Problem</u>	<u>Remodel Solution</u>
“We like to entertain but don’t have enough space”	Extend dining room into great room
“We don’t really have a foyer, and the laundry room is in a corner of the basement”	Convert part of the garage into a mud room and laundry area
“I cook a lot and don’t have enough countertop space or a pantry”	Kitchen remodel

Of course the numbers have to work, but if the owners don’t get the space they need for the uses they want, a 200% return will have them disappointed.

Case by Case

When I’m working with a customer and they ask me what their return should be, I have to start asking them questions, and we have to get a focused dialogue going to narrow down our variables and come up with a ballpark estimate.

Is it going to be an addition, finishing out previously unfinished space, an interior remodel, an exterior remodel or some combination of these?

Additions - Long term equity and intangible returns

An addition can be gauged by knowing a bit about what homes are selling for in the area. If similar houses are selling for \$150/square foot, (SF) then a 100 SF addition will up the house value \$15K. Historically, real estate appreciates 3-10% annually here, (check your taxes), so your money **will build equity**. One note of caution about product;

It usually doesn’t make much difference if the millwork is low end pine or special order Brazilian cherry. It doesn’t matter if you use high budget custom windows or economical vinyl ones. It’s just \$X per foot for the most part, spec level is usually much less important in used homes than it is in new ones as far as determining value.

Enjoyment

However, additions usually bring the most satisfaction to homeowner and builder alike. It’s something new. It’s something big. You can’t help but enjoy it. It fixes the problem the house had. It’s really *your* house now, made for the way *you* live.

Finished Basements – Deep foundation vs. Lookout/Walkout

It’s tough making a deep basement feel comfortable all year without spending more than it would take to finish the same lookout or walkout basement. A well planned HVAC (Heating Ventilation and Air Conditioning) system is the key with the furnace blower (assuming force air) critical. A purpose designed system usually cost several thousand and involves more than just “cutting some vents in those current pipes”. Most people

don't' do it. A separate HVAC 'zone' is the ultimate but most people just don't do it. Another spendy part about a deep basement is the need to cut in egress window(s). Since it's a necessity, make them really big.

Configuration

Adding bedroom(s) and bathroom(s) in a basement are the best way to increase the house value and once again are more expensive than just having one big game room. Depending on basement size, a bath should be a high priority, especially if there's none currently.