



Action

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Home remodeling— the decision

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no. 9.920

Quick Facts

The decision to remodel a home is a complex process and the entire family should be involved.

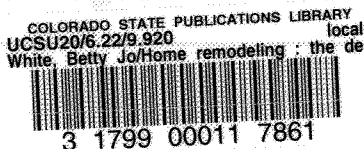
Reasons for improving an existing home rather than moving include a desire to stay in a familiar neighborhood, avoiding the strain of adjusting to new surroundings, avoiding moving costs and problems, and keeping a low home mortgage interest rate.

Reasons not to make home improvements are that 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.

Overimprovement should be avoided.

Avoiding premature obsolescence of materials and design and avoiding fads will give greater return in resale.

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

Regardless of how simple or complex the project, there are several factors to consider.

The first step is to make the decision whether to remodel or not. Decision-making begins when a person becomes aware of a situation that needs to be changed or altered.

The decision-making process includes these steps: 1) recognizing that "something" should be done and that a decision is needed; 2) identifying and weighing appropriate alternatives; 3) gathering information about alternatives; 4) choosing among or resolving alternatives and making the choice; 5) accepting responsibility for the choice and all its possible consequences, and carrying it out.

Diagram I gives some ideas to think about when making the decision to remodel. The empty boxes can be filled in with personal situations.

All remodeling projects will not involve all the elements or procedures discussed in this series of Service In Action sheets - 9.920, 9.921, 9.922, 9.923 and 9.924. There is a difference between the steps involved, the time and cost of a minor remodeling project versus a major one.

Minor projects usually involve some "face-lifting" on an already structurally sound and comfortable house. Minor remodeling, sometimes called redecorating, includes such items as painting, wallpapering, adding paneling or new floor coverings, such as carpet. Major remodeling requires some structural changes, such as tearing out a wall or adding a new room.

Exploring the situation thoroughly can help a family see what the needs are, what alternate solutions or adjustments are possible, what resources can be used, and whether something can be done about the situation. The decision whether to remodel a home is a complex process and the entire family should be involved.

Is It Worth It?

Families who own their homes but have "outgrown" them or want to improve their housing situation have to decide between buying a new home, buying an older existing home that may need some work, or fixing up and perhaps adding space to their present home. This decision is likely to be influenced by the prevailing housing situation.

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

The purchase of an older house needing repair is often the choice of a family which places more value on square footage per dollar, larger lots, mature landscaping and established neighborhoods, and less value on modern plumbing, electrical and heating systems.

Reasons for improving an existing home rather than moving include a desire to stay in a familiar neighborhood; avoiding the strain of adjusting to new schools, churches, stores; avoiding moving costs and problems; and keeping a lower-than-current home mortgage interest rate. In the minds of many homeowners, home improvement is desired in order to enhance the value of the house as an investment or to add living pleasure (patio, swimming pool, etc.).

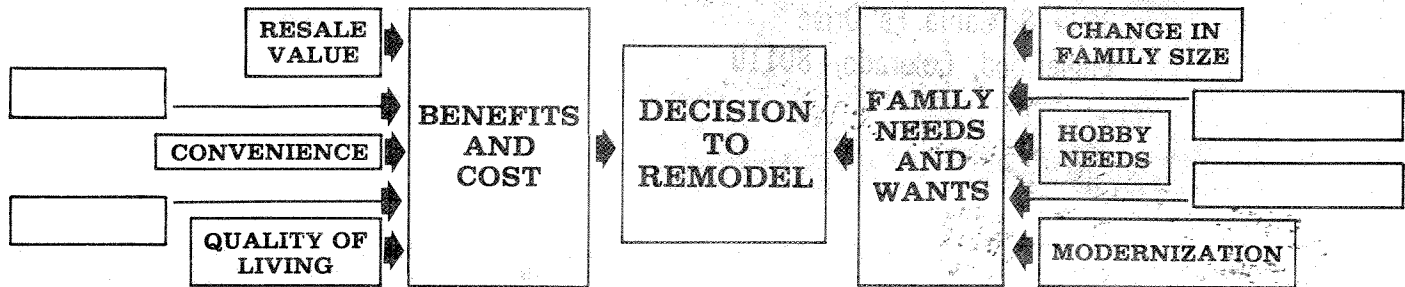
Reasons not to make home improvements are that the house is not structurally sound; improvements cannot be made (economically) to meet local building codes; there is no potential for added space or it is inaccessible, except at great cost; and that the floor plan and/or location is poor.

If the primary reason for improving the home is increased livability and personal satisfaction to the occupants, a consideration should be whether it is important for the investment to be recovered if and when the house is sold. Remodeling economics dictate that a family shouldn't expect to get all of the invested money back.

Home improvements should not be confused with maintenance and repair. Any new addition or improvement to an existing house is likely to pay for itself in increased market value. A replacement of major mechanical equipment—such as plumbing, wiring, heating equipment, a new roof or waterproofed basement—is not likely to pay for itself, because a comparable cost item already paid for is being discarded. These are items that buyers expect in the first place. Some improvements, while not adding to resale value, may pay for themselves (i.e., the cost of insulation will be paid for by savings in heating and cooling costs).

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Diagram 1: Decision making.



A number of basic elements affect the investment value of an improvement. The first is the nature of the improvement itself. As a rule of thumb, if the improvement is something that most homeowners want or expect, the chances of recouping the investment are excellent. Thus, the more highly specialized the project, the less likely the return. Another rule of thumb states that the remodeling money comes back 100 per cent on resale if spent on the addition of new space; 75 per cent if modernizing existing spaces; and 50 per cent if adding such luxury amenities as a swimming pool.

Some of the more common room additions or changes are added bedrooms, second baths, remodeled kitchens and family room provisions. To predetermine whether one or more of these changes would be a prime selling point, a person should consult local real estate agents or appraisers to see what the present market is in the area.

The geographic region and "vogue" will affect the "value" of an improvement. A swimming pool is a good investment in California or Florida and a poor one in Minnesota. Patios and tennis courts, at one time considered "risky," may be more important as energy-conscious people become more home recreation oriented.

A second element in the investment value of remodeling is the house that is being improved. One must look to the house-buying market and the neighborhood. The degree or scale of improvement of the home is relevant.

Remodeling a kitchen to add convenience and status to an otherwise modest home will not promote that home to the luxury category. "Dual purpose" areas which will extend the use factor also should be considered. For example, a driveway/parking area might be extended to serve recreational and entertainment purposes as well.

Overimprovement should be avoided. One guideline is that it is safe to improve a house to a value (after improvement) of no more than 15 to 20 per cent higher than the average home in the neighborhood. Another guideline is that the cost of the improvement should be less than 60 per cent of the cost of building a new home of equal size and quality.

An accurate method of estimating the chances for recovery of remodeling costs is to have the house appraised "as is," then have the appraiser look at the remodeling plans for an "after" appraisal. If the future resale value will cover the cost of remodeling, the investment may be worthwhile.

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

A final element having an impact on recovering the investment would be the *relative cost of the improvement*.

Usually, the most expensive way to improve is to add to the physical size of the house. A less expensive method is updating and/or converting (changing interior space from one use to another), because existing structural elements and utility connections may be reused. However, the reconstruction and almost complete renovation required in converting or updating very old houses can be more expensive than new construction. Least expensive 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 built-in dishwasher.

The choice of a new addition, updating or conversion, or other improvements may depend on which procedure allows the most livability and/or resalable improvement for the money, all other things being equal. 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 become added living space will yield the highest return upon resale.

Avoiding premature obsolescence of materials and design and avoiding fads also will give greater returns on resale. 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 house harder to sell.

To calculate the "return" on an investment, the following items should be considered: 1) initial cash outlay, 2) an estimate of the cost of the do-it-yourself elements, 3) the interest costs to finance the project, 4) increased maintenance costs (in time and money), 5) any increased property insurance costs, and 6) tax assessments resulting from the improvement.

It should be realized, however, that some increase in resale value may be due to general appreciation in house values in the area.

Renovating a very old house which has foundation, roof, framework or mechanical systems that will not withstand normal use today, 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 house of the same size and in the same location.

The amount and cost of work needed to bring the structure up to the local building code may be prohibitive. Although a thorough remodeling of an old house may take less material than building a new house, it will probably utilize more labor than new construction. Costs to renovate also vary immensely, depending on the degree of "do-it-yourself" work, labor costs, extent of any prior renovation, and degree of renovation presently necessary. It generally is less expensive to cover up rather than tear out.

The checklist on Service in Action sheet 9.921 may be used to evaluate the "remodeling potential" of a house.