

SERVICE

RECEIVED

Home remodeling— the decision

IN ACTION APR 12 1990
COLORADO STATE LIBRARY
State Publications Library

Betty Jo White^{1/}

COLORADO STATE UNIVERSITY EXTENSION SERVICE

COLORADO STATE PUBLICATIONS LIBRARY



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 home remodeling project is faced with 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 will be 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 these steps: 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.

Diagram 1 identifies some of the variables to be considered when making the decision whether to remodel. The empty boxes can be filled in according to personal or individual family situations.

Every remodeling project may 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 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 alternative solutions or adjustments, what resources are available, and how effective the chosen remodeling activity will be in achieving the objective. Making the decision whether to remodel a home is a complex process which should involve the entire family.

Is It Worth It?

Families who own their homes and have "outgrown" them or want to improve their housing situation have a choice of buying a new home, buying an existing home which may need some work, or fixing up and perhaps adding space to their present home. Their decision is likely to be influenced by the prevailing housing market condition.

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 buying and remodeling an older home. At such times, home improvement loans may be easier to obtain than home mortgage loans.

Reasons for Remodeling

Reasons for improving a present home rather than moving might include: a desire to stay in a familiar neighborhood, especially for the elderly, dislike of adjusting to new schools, churches, stores, avoiding moving costs and frustrations, keeping a lower-than-current home mortgage interest rate, adding to the resale value of the home primarily as an investment, reducing operating or utility costs (i.e., the cost of insulation will be paid for by savings in heating and cooling costs), enhancing 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 of 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.

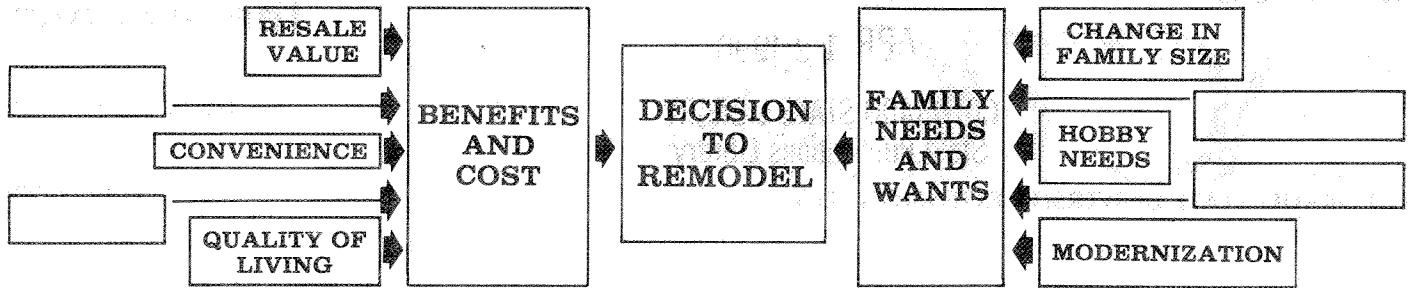
Reasons Against Remodeling

Reasons *not* to make home improvements on an existing residence or a newly-purchased older home might be: 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 which are likely to pay for themselves in increased market value (for example, addition of extra rooms or bathroom facilities)

^{1/}Betty Jo White, CSU assistant professor, housing (revised 10/1/78)

Diagram 1: Decision making.



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 spaces; 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 would be 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" will also affect 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.

"Dual purpose" areas which will increase the use factor of an existing structure should be considered. For example, a driveway/parking area might be modified to also provide recreational and entertainment facilities.

Avoid Overimproving

Overimprovement should be avoided. One formula says to improve a home to an after-improvement value of no more than 15 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 for estimating 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 utilized. However, the reconstruction and almost complete renovation required in converting or updating very 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 built-in dishwasher.

Estimating Potential Cash Return

The choice of a new addition, updating, conversion, or other improvement may depend on which would provide the most livability and/or resalability 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 provide added living space will yield the highest return upon resale.

Avoiding premature obsolescence of materials and design, and avoiding fads will also 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 home harder to sell.

To calculate the "return" on an investment, consider the following items: 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, 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 a very old home which has foundation, roof, framework or mechanical systems that will 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 utilize 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 is generally 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 on Service in Action sheet 9.921 may be used to evaluate the "remodeling potential" of a house.