

Remodeling – Cost versus Value Part Two

The real estate market has been fearsome for sellers the last few years. No question, it is difficult to sell, and sales activity is most closely linked with how good a deal a house is. In an environment like this, it becomes important to try to answer the question: "What will my house be worth in the marketplace after I com

It's relatively easy to get opinions from real estate sales people, contractors, and Architects, but they may vary too much for your comfort. It's also possible to hire a professional appraiser to answer the question for you if you have a clear and complete description of what you plan to do--in other words, a full set of plans and specifications. But if you're depending on the answer of the question to decide if you'll even prepare those plans and specs, you're left caught in a Catch 22 quandary.

Another approach is to follow the logic and process that an appraiser uses to arrive at value yourself. While you won't have access to all their same information and the benefit of all their training and experience, this process when added to the anecdotal evidence you've gathered might be enough to get you "on your way" with your project, or help you decide that you had better not "travel" at this time after all.

First, you need to assemble some "comps" or comparatives. Those are homes that have sold recently in your area that are similar in terms of their general size, design, character, location, etc. They do not have to be identical because you will be making adjustments for variations, but the fewer adjustments you need to make, the more accurate your final assessment is likely to be.

You can get "comp" information from a realtor who is cooperating with you or a title company which might make available its Metrosan records. We have found most title

companies willing to help, as long as your requests are simple and clear. You would call the customer service department or "title plant" of the company. A good place to start might be the title company that insures the title to your home. After all, you are their customer.

Once you have a set of comparables, each of these other locations should be reduced to a value in terms of dollars per square foot. That is the basic starting point. Now you make adjustments. Adjustments are based on market value. The most common mistake for a home owner is to assume that value is based on what something costs. It is easy to put \$20,000.00 into a kitchen, but that does not mean someone else is willing to pay \$20,000.00 more for a house because it has a new kitchen. If you are in an area that has primarily updated kitchens and all the homes you have as "comps" have updated kitchens, then an updated kitchen is a requirement in order to reach that dollar per square foot value. In that circumstance, if your kitchen is not updated you would need to make a *downward* adjustment.

If you are planning to upgrade your kitchen, you are appraising the value of your home after the work is completed. If your comps have not been upgraded, it becomes more tricky to determine what an upgraded kitchen is worth to the market. For these types of adjustments, you can talk to realtors and appraisers.

You can also form some judgment yourself by looking at homes for sale and coming up with reasonable figures. In fact, a good way to start would be to consider yourself a potential buyer out looking at homes. How much more would *you* be willing to pay for a home that has an updated kitchen compared to an identical home without? A typical answer to this question might be \$10,000.00 to \$15,000.00. Note that this is significantly less

than what is commonly spent on kitchen remodels. We have found that Sacramento kitchen remodels tend to range from a low of \$8,000 to \$10,000 to an average of \$22,000 to \$28,000 and a high of \$30,000.00 to \$60,000.00. Generally, the market values usually value kitchen remodels on the low end of the cost range.

All of your figuring should be as objective and realistic as possible. To check your numbers, talk with your neighbors--not about what you are planning to do but what they think the *value* is for a typical set of features such as the ones you are thinking of adding. It sounds like a lot of work to go through this analytical process, and it is, but if you take the time and trouble you will end up with a good idea of how much of your investment, no matter what the project, is likely to be reflected in the market value after you finish the job.

To get this sort of a detailed, objective financial analysis of your proposed remodeling project is a lot of work. It may not seem justified in your case to put that type of time and energy into looking at the numbers. In fact, the numbers by themselves are almost never a good reason to do a remodeling project. Although it's wise to look at your home as a major investment (for most of us it is the *biggest* investment we will make), it almost never makes sense to embark on a major construction project in reshaping your home based strictly on a theoretical financial return.

Copyright 1995, Michael F. Malinowski,
AIA