

Remodeling – Cost versus Value

As you begin to consider renovating your home, one of the first questions to ask yourself is: "What is the difference between the cost and value of remodeling?" In other words, will your remodeled, expanded, or altered home have a value in the marketplace equal to what you have invested in it? Just about every remodeling magazine and book features some kind of analysis on what types of remodeling projects make sense. These analyses rarely agree, however. To get useful information for your specific home and your specific ideas, you'll have to dig a bit deeper!

What happens in real cases where houses have been remodeled extensively and sold? Optimistically, what can you expect? Our office has had a number of projects that have undergone extensive renovations, and for a variety of reasons, were sold shortly afterwards. In every case we are aware of, our clients recouped all of their expenditures. These instances are very rare, however. After all, why would you undertake a major renovation project if you were planning to sell? In fact, we advise clients that before considering a major project they should be comfortable with spending at least *five years* in a home. Smaller projects may require shorter stays, but it rarely makes sense to undertake any type of major renovation or remodeling project if you cannot foresee at least a five year stay.

One exception to that rule of thumb is when you are remodeling strictly as an investment. I always advise, however, that it is better to keep real estate *investment* activity separate from real estate *living* activity. If you really believe residential real estate remodeling is a great place to invest money and you are doing a project strictly for its investment value, the project should be something other than your personal home. After all, your home carries with it a whole variety of other factors to consider, such as your comfort, getting along with your neighbors, safety for your family,

etc. These tend to muddy up the decision process when looked at strictly from an investment standpoint.

In the current real estate market, this discussion seems pretty moot, since houses have not been appreciating much, and selling any real estate that is not at 'bargain basement' prices is tough. It was not that long ago, however, that conditions were quite different, and we will undoubtedly at some point start back on the "up" cycle.

Let's say you've done all the obvious things: looked for examples, and talked to real estate sales people, architect, and contractors. You're probably finding a range of opinions and information which might make it difficult to have the confidence that your project make sense for you.

If you want to consider the value-added versus your cost in a more rigorous, analytical way, there is an approach for this. It is the same approach an appraiser uses when they assign a value to your home. You can hire an appraiser to perform this type of analysis for you, as long as you have enough information on which to base an appraisal. After all, when you get financing for a new home, the appraisal is based on the plans alone. With a set of plans and specifications, you can get a professional appraisal of your project.

The catch here is that you need complete plans which are expensive and require that you have already decided on what you want to do. It's a bit of a Catch 22 situation if you are trying to get a realistic assessment of value *before* you decide to go forward with your project. In the difficult real estate market we are in, it seems especially prudent to assess the risk that your investment in your home will not be reflected in its value to the market place. In a climate where values are rapidly rising, the market tends to catch up with you, making it less risky that you won't recoup your investment the longer you stay in your home.

The answer might be to go through an "appraisal" process yourself. Basically, that involves following along the same lines of research and logic that an appraiser uses to determine value. Join me in my next column and we'll find out how that works.

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