

REMODELING PROJECTS THAT PAY OFF

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According to the National Association of REALTORS, U.S. homes have appreciated 6.8% annually on average since 1968, compared with inflation during the same period at an annual clip of 5.1%.

An estimated 1 million homeowners per year undertake a remodeling project. The decision of whether to sell a house, or stay and remodel, is based on many factors, including what type of changes you want to make, how long you plan to stay in the house and the cost of the remodeling in comparison to the value of the property.

Experts say there are at least two rules of thumb when it comes to remodeling your house.

First, you should not increase the value of the property to a point where it is the most expensive property in your neighborhood. This could make it difficult to sell the property in a competitive housing market.

Second, you should strive to keep your new mortgage debt below 80% of your home's new appraised value. Not only does this keep you below the debt/equity ratio requiring you to pay private mortgage insurance on the new loan, but it also ensures you don't assume a monthly payment that precludes you from having a balanced household budget.

Remodeling Magazine conducts an annual survey of the remodeling projects that could add the most value to your home. The survey compares how the same 18 remodeling projects affected home values in 60 different cities. The 2004 survey (which is the most recently completed survey) was the 18th for the magazine. According to this publication, the top five remodeling projects for the last completed year (2004) ranked in the order of percent of cost recouped at property resale were:

Minor kitchen remodel	92.9%
Siding replacement	92.8%
Midrange bathroom remodel	90.1%
Deck addition	86.7%
Midrange bathroom addition	86.4%

When housing prices are rising rapidly, remodeling costs can be recouped faster. In addition, if your remodeling simply catches your house up to the others in your neighborhood – say adding a third-car garage to your property when 3 car garages are prevalent -- then this type of improvement could actually recoup more than the cost.

The question of how much to spend on remodeling could also depend on whether the changes could be categorized as maintenance or remodeling. Maintenance improvements would be items

such as replacing the roof, recarpeting or repainting. These are items which a prospective home buyer would expect to find completed if your property were on the market at market price. However, maintenance projects that focus on energy efficiency may have an even quicker payback than standard remodeling. Replacing windows, adding insulation and upgrading to a more efficient heating and air unit are good examples.

Once you decide on a remodeling project you still have to choose from all of those who identify themselves as remodelers. Experts advise asking some basic questions of a prospective contractor, such as:

1. How long have you been in business?
2. Will employees or subcontractors be assigned to the project?
3. How many projects like mine have you completed in the past year?
4. May I have a list of references?
5. Do you have liability insurance – for the contractor as well as for any subcontractor?
And, may I see a copy of that certificate of coverage?

Don't rely on just one estimate for any job, as costs can vary greatly. And, make sure you understand what is included in each bid so you can accurately compare apples to apples. An example is a roofing job -- the grade of shingles, type of sheathing and kind of flashing could vary indicating that a lower bid might also represent lower quality.

By sticking to these suggestions, you could be enjoying your new remodel job now and for many years to come or you could be putting yourself in line to receive top dollar if you should decide to sell.

Sources: NAR, Real Estate Journal, MarketWatch, Remodeling Magazine, Skye