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## 2008 Cost vs. Value Report: Still Many Happy Returns for Home Rehabs

Remodeling magazine's annual report shows that maintenance-related projects and moderately priced upgrades are providing stable paybacks, even in a slower market.



By G.M. Filisko | December 2008

Despite home price drops in many cities, remodeling projects are holding their own as a way for owners to add value.

Many people are wondering where their money will be safest during these uncertain economic times. When home owners turn to you for your expert advice, counsel them that some things never change: Investing in their home still pays off.

NATIONAL ASSOCIATION OF REALTORS® statistics show that home prices have fallen by an average of 7 percent nationally in the past year. But the value of home owners' investment in remodeling projects has declined only 3.86 percent on average between 2007 and 2008, according to *Remodeling's* 2008–2009 Cost vs. Value Report.

*Remodeling* produces the Cost vs. Value Report each year in cooperation with REALTOR® magazine. REALTORS® responding to a survey in midsummer said home owners could expect to recoup a national average of 67.3 percent of their investment in 30 different home improvement projects. At the height of the housing boom in 2005, home owners could expect to recoup a national average of 86.7 percent on projects.

Remodeling remains hot in 10 cities, where, on at least some projects, home owners can recover 100 percent of their costs. In Charlotte, N.C., for example, decks, midrange kitchen remodels, vinyl siding, and window-replacement projects all would net more than they cost, in respondents' estimation. High rates of recovery were seen in both strong real estate markets and weak ones.

Many cities with the highest rates of recovery were smaller—Jackson, Miss., and Billings, Mont., for example—which may point to lower labor and materials costs that are easier to recoup.

Seattle also made the list of cities with a cost recovery of more than 100 percent on decks and minor kitchen remodels. In fact, Pacific Coast cities recorded the best payback on remodeling by a wide margin, as they did in 2007. Although construction costs on the Pacific Coast are nearly 17 percent higher than national averages, the value of renovations at resale more than makes up for those higher prices.

The result is an average cost-recouped percentage that's 14.8 percent higher than in the rest of the country. The toughest place to get your money back: Midwestern cities such as Chicago, Cleveland, Indianapolis, and Milwaukee.

### Top 10 Project Paybacks

Once again, exterior remodeling projects lead the way for recovery on dollars spent in this year's Cost vs. Value survey. When you compare the national averages, **replacement projects that boost curb appeal**—siding, windows, and decks—give you the greatest chance of recouping your money. Inside, only kitchen remodels can compare, at least on a national level.

1. Upscale fiber cement siding (86.7%)
2. Midrange wood deck (81.8%)
3. Midrange vinyl siding (80.7%)
4. Upscale foam-backed vinyl (80.4%)
5. Midrange minor kitchen remodel (79.5%)
6. Upscale vinyl window replacement (79.2%)
7. Midrange wood window replacement (77.7%)
8. Midrange vinyl window replacement (77.2%)
9. Upscale wood window replacement (76.5%)
10. Midrange major kitchen remodel (76.0%)

### The Real Deal: Examples from You

REALTORS® around the country helped us track down home owners who had recently completed remodeling projects. In all cases, the projects cost far less than the job cost estimates provided with the Cost vs. Value survey.



**ATTIC-TO-BEDROOM**  
Location: Oak Park, Ill.

When Rick Nagle and Eileen Deamer of Oak Park, Ill., spent more than \$35,000 to convert the attic of their 100-year-old home into a combination master bedroom and office, "resale value wasn't our concern," says Deamer, a U.S. government employee and the married mother of two.

The transformation turned 600 square feet of makeshift office with a toilet in the middle of the room to a colonial-style bedroom/office with two walk-in closets and an adjoining sage green bath with a walk-in shower. To allow two simultaneous uses, pocket doors separate the bedroom and office spaces.



#### BATHROOM

*Location: Fountain Hills, Ariz.*

"This is such a crazy market to try to judge how much a renovation is worth, but having a refurbished kitchen and bathrooms makes almost any house more salable," says Shari Gay, ABR®, sales associate at RE/MAX Sun Properties in Fountain Hills, Ariz. The owner—Gay's sister—added Saltillo clay floor tile throughout the 1,800-square-foot home, including the new bathroom. Bathroom finishes included a new cherry vanity cabinet, a tile shower, oil-rubbed bronze fixtures, and a soothing, sophisticated yellow color scheme, which all add up to a great look.

Total cost? About \$5,000. "She'll at least break even on the upgrades," predicts Gay. "If this were a boom market, she would get even more."



#### KITCHEN

*Location: Honolulu*

A kitchen is the heart of most homes. That's why Hollywood set designer Wally White decided to spend most of his \$15,000 renovation budget on upgrading the kitchen of his Honolulu studio condo. To spruce up the existing white cabinetry, which he left to save costs, the owner added bursts of color with celadon green granite countertops and walls painted in a complementary shade of light green. An undermounted white porcelain sink, a six-light halogen fixture on a dimmer, and brushed stainless steel faucet completed the look. It paid off.

White grossed \$45,000 when he sold eight months later. "The unit sold for more than any other studio—and most of the one-bedroom condos in the building," says Susan Weinik, a sales associate with Realty Executives Oahu.



#### BASEMENT

*Location: West Brighton, N.Y.*

In a modest 1950s ranch in West Brighton, N.Y., a midrange basement upgrade suited Bernard Fallon's mother-in-law, Ligaya Nocon, just fine. After purchasing her home "on the high end of the market," according to Fallon, broker at Fallon Associates Realty in Rochester, N.Y., Nocon kept basement renovation costs under \$9,000.

She created a cottage feel by whitewashing the knotty pine paneling rather than replacing it. She also reupholstered the existing bar to cover wear and warmed up the room with wall-to-wall carpeting instead of wood or tile. "We just dressed it up for the personal enjoyment of my mother-in-law," says Fallon, "but I think it will help sell the property later."

### The Specs

To help respondents determine the resale value of improvements, the survey provided specifications for each project:

**Attic Bedroom Remodel.** Convert unfinished attic space to a 15-by-15-foot bedroom and a 5-by-7-foot bathroom with shower. Include a 15-foot shed dormer, four new windows, and closet space under the eaves. Insulate and finish ceiling and walls. Carpet floor. Extend existing HVAC to new space; provide electrical wiring and lighting to code. Retain existing stairs, but add rail and baluster around stairwell.

**Minor Kitchen Remodel.** In a functional but dated 200-square-foot kitchen with 30 linear feet of cabinetry and countertops, leave cabinet boxes in place but replace fronts with new raised-panel wood doors and drawers, including new hardware. Replace wall oven and cooktop with new energy-efficient models. Replace laminate countertops; install mid-priced sink and faucet. Repaint trim, add wall covering, and remove and replace resilient flooring.

**Basement Remodel.** Finish the lower level of a house to create a 20-by-30-foot entertaining area with wet bar and a 5-by-8-foot full bathroom; construct 24 linear feet of finished partition to enclose mechanical area. Walls and ceilings are painted drywall throughout; exterior walls are insulated; painted trim throughout. Include five six-panel factory-painted hardboard doors with passage locksets. Electrical wiring to code. **Main room>** Include 15 recessed ceiling light fixtures and three surface-mounted light fixtures, as well as a snap-together laminate flooring system.

**Bathroom>** Includes standard white toilet, vanity with cultured marble top, resilient vinyl flooring, two-piece fiberglass shower unit, a light/fan combination, vanity light fixture, recessed medicine cabinet, towel and paper-holder

hardware. **Bar area**> Include 10 linear feet of raised-panel oak cabinets with laminate countertops, stainless steel bar sink, single-lever bar faucet, undercounter refrigerator, and vinyl floor tile.

**Upscale Bathroom Remodel.** Expand an existing 35-square-foot bathroom to 100 square feet within existing house footprint. Relocate all fixtures. Include 42-by-42-inch shower with ceramic tile walls with accent strip, recessed shower caddy, body-spray fixtures, and frameless glass enclosure. Include a customized whirlpool tub, stone countertop with two sinks, two mirrored medicine cabinets with lighting, a compartmentalized commode area with one-piece toilet, and a humidistat-controlled exhaust fan. Use all color fixtures. Use larger matching ceramic tiles on the floor, laid on the diagonal with ceramic tile base molding. Add general and spot lighting including waterproof shower fixture. Cabinetry includes a custom drawer base and wall cabinets for a built-in look. Extend HVAC system and include electric in-floor heating and heated towel bars.

### Why Renovation Pays

Why are renovations holding their value better than home prices today? "When housing slows down, people stay put and renovate their house to make it more livable," says Paul Zuch, president of Capital Improvements, a designing, building, and remodeling company in Dallas. And by renovating before they sell, home owners get to enjoy the new space themselves, not just make the home more appealing to buyers. "It just makes sense," says Zuch.

Recent renovations also make buyers' lives easier. "Home owners who remodel their home are providing a service to future buyers," says Eileen Nelis, a broker at Savvy and Co. in Charlotte, N.C. "When buyers purchase, they don't want to do all that painting and remodeling, and they don't want that price tag. They may be willing to make improvements down the line, but when they purchase, they want to open the door and have everything complete. It reduces their stress."

Making home improvements can also reduce sellers' stress by heading off that time-honored negotiating technique—pecking away at the sales price by pointing out imperfections. "If sellers have done some improvements and dressed up their property, the improvements will help sell it," says Bernard Fallon, broker at Fallon Associates Realty in Rochester, N.Y. "If sellers don't want to improve their property, buyers will tick off the repairs and try to take them off the price."

That doesn't mean that every home owner should do every renovation, even in a more stable real estate market. Take Tulsa, Okla., where median home prices actually edged up slightly more than 2 percent in 2008, according to NAR. REALTORS® in Tulsa reported that, of the 30 remodeling projects surveyed, only 16 netted home owners at least 80 percent of the cost.

"Not every neighborhood will support the additional work," says Jim Hemphill, a sales associate at Coldwell Banker Select in Tulsa, "but in older, more established neighborhoods, if you redo a kitchen or bathroom or add a master bath or bedroom, you'll get your money out."

Despite the value, the weak economy is likely to slow seller spending on remodeling, at least in the short term, predicts the most recent Leading Indicator of Remodeling Activity computed by the Joint Center for Housing Studies at Harvard University.

The LIRA for the third quarter of this year estimated that owners' spending on home improvements will decline at an annual rate of 12 percent by the second quarter of 2009, continuing a two-year downward trend. Spending is unlikely to recover until the housing market turns around, according to the Center.

Yet, despite declines in overall remodeling dollars spent and a still shaky housing market, "people's homes are still one of their best, most solid investments," notes Zuch. "Even though the markets have gone through some adjustments, it's still smart to invest in your home."

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