



REMODELING

Where to begin

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BEFORE you lift a hammer or sign a contract to begin that remodeling project you have been thinking about, consider the issues discussed in this publication. You will save yourself money, frustration and problems in the future.

Remodeling refers to home improvements that are beyond normal repair, maintenance and decorating. Each year Americans spend billions of dollars on remodeling projects. The reasons homeowners choose to undertake these major home improvements include:

- to accommodate an additional family member.
- to increase the value of the house.
- to correct functional problems, for example, replace an inadequate heating system or modernize a kitchen.
- to add amenities, for example, a fireplace.
- to improve energy efficiency.
- develop poorly used space, for example, a family room in the basement.

This publication will help you to consider whether remodeling is really the best answer for you.

Should You Make Over or Start Over?

It is often a lot easier to think about making over rather than starting over with another house. After all, moving usually means giving up a home and facing the unknown problems of a new house and probably a new neighborhood. It is usually a much larger financial commitment as well. You may have strong emotional ties to the existing home, and the home may have unusual features difficult to duplicate in another home. You will face similar problems if your choice is between remodeling and building a replacement home as in the case of a farm family. However, there are times that starting over may make more sense.

Here are some steps to take in evaluating whether to make over or start over:

Step 1. Consider how well the house meets your present and anticipated needs. Is the house too small, too large or awkwardly arranged? Are there enough bedrooms? Be sure you consider the house's location and neighborhood features as well. You may find features of the neighborhood, such as the traffic level, the life-style of families moving in, the lot size, convenience to work or school, or other problems you cannot change. You will need to balance these against the positive features of the home. It may be helpful to seek the opinions of persons such as realtors who are familiar with a variety of homes. They can help you recognize advantages and disadvantages of your home that you may overlook.

Step 2. Visit homes that are for sale in your neighborhood or other desirable neighborhoods. Check sale prices and features to get a sense of the value of your own home and whether you can afford to purchase a home that already has the features you are hoping to add by remodeling. It is often less expensive to purchase a home with the features you want already in place than to add them to your present home through extensive remodeling.

Step 3. Evaluate the structural and mechanical soundness of your home. A well built, well maintained home can last for centuries. However, before you invest money and time in your home to add a room or update the kitchen, determine whether you will also have to invest in a new roof, chimney, foundation, furnace, plumbing, garage or make other major expenditures just to keep the home livable. A building contractor or building inspector can help with this evaluation.

Step 4. Get bids on the remodeling work you plan. You should seek bids even if you plan to do all or part of the work yourself. Be sure to include bids for work you may have identified in Step 3.

Step 5. Check zoning and other land use regulations to assure that the type of work you plan is allowed and to be sure you are aware of any legal requirement should you proceed.

Are You Beginning With Realistic Expectations?

While remodeling may involve less change and uncertainty than starting over, it does nevertheless involve a great deal of each. Consequently, before you begin you should have your eyes open.

To assure you are aware of what you are getting into, there are several areas to consider. If a contractor will be doing the work, the areas to consider are cost and the effect on the value on the home. If you will be doing the work yourself, there are additional things to consider, including skills needed and amount of time required.

Cost

While the total cost of remodeling maybe less than moving, the costs are likely to be surprisingly high. Remodeling costs are likely to be proportionally higher than costs of new construction. There are several reasons for this, including the fact that some demolition is required to remove such things as siding, windows and walls. When walls or flooring is removed, it is not uncommon to find unexpected repairs that must be made.

In addition, the new construction must tie into the existing structure. Sometimes this means reflooring an entire room. Accommodation may have to be made for changes in lumber sizes since the original construction occurred. Contractors have to consider these factors when they set their prices.

If you are planning to do the work yourself, there are other costs you must consider. These are discussed in the section on “Should You Do the Job Yourself?”.

Impact on the Value of Your Home

Dollars and time spent remodeling your home will not necessarily increase its value. One way to understand the effect of various remodeling projects on the resale value of your home is to look at the methods residential appraisers use to determine appraised values. They typically use the method of market comparison. The appraiser will identify a number of recently sold properties in the same neighborhood. Your home then will be compared with these homes feature by feature. The value of your home will be based on how it compares with these other homes.

Because this method of appraisal is used, the value of any remodeling will not be determined by cost but by how much it increased the market value. Appraisers call this the **principle of contribution**. For example, suppose you add a fireplace that costs \$4,000. The comparative analysis may indicate that fireplaces contribute only \$500 to the value of comparable homes. In this case the fireplace can only be expected to add \$500 to the sale price of your home. If you install a toilet without a wash sink you add little to the value of a house because the improvement is not functionally complete. It would be considered an under improvement.

There are several other principles of residential appraisal that can help you in figuring the value of remodeling projects and deciding which projects to do first, including:

Principle of proportionality. This means that the parts of a home should be in proportion with each other. Three baths in a two bedroom will probably be out of proportion. As a rule, kitchen improvements should not exceed 10 percent of the value of the home. The addition of an overly large master bedroom may be out of proportion if the other bedrooms are relatively small.

Principle of conformity. The value of a home is affected by the size, condition and amenities of homes around it. If all the homes on your block are well maintained but yours is not, the value of your home will be higher than it would be if it were on a block of homes in equally poor condition. In short, the value of your home is in part dependent on what your neighbors do with their homes. The principle of conformity should also guide the amount of remodeling you consider. It is generally unwise to expand or improve your home to the extent that it has substantially more rooms or features than neighboring homes. Appraisers refer to such over improved homes as “sore thumbs.”

Functional obsolescence or its converse, remaining useful life. To the extent that remodeling “modernizes” your home, it is probably a good investment. Because of this, appraisers recommend putting remodeling efforts into the kitchen and bath. Now that most homes have a bath on each floor, adding a second bath could be justified for the same reason. The concept of functional obsolescence should be considered from another viewpoint as well. An addition will be given the same life expectancy as the original structure. This means that if a house is seriously outdated or given a low value because of neighborhood conditions, the value of the addition will be depreciated accordingly.

Market price vs. curb appeal. There is one more factor to introduce, the distinction between “sale price” and “salability” or “curb appeal.” An improvement may not increase the price your home brings but

it may make it sell faster. Exterior painting and interior decorating will not be reflected in the appraised value but they may result in a quicker sale.

One caution about decorating neutral, light colors are safest. The light colors will tend to make rooms seem larger and airier. Neutral tones will avoid problems of the color scheme clashing with the furnishings of perspective buyers. Decorating can actually decrease the salability of a home if the style is unusual and potential buyers feel they will have to redecorate immediately.

The idea of salability is also important from another viewpoint. If your home is not up to Federal Housing Administration (FHA) minimum property standards, you may have to make improvements to sell the home at any price. Exterior paint, wiring, structural problems fall in this category. Such improvements can sometimes be included in moving expenses for tax purposes. If these deficiencies are not health or safety problems and a move is on the horizon, you may want to delay required improvements until they can be included in moving expenses.

Should You Do the Job Yourself?

You may be able to reduce the cost of your remodeling project by up to one-half by supplying your own labor. The savings will be greatest where a high proportion of the job is labor: finishing a basement for example.

Doing the job yourself can have other advantages as well. It can allow you to do a bit at a time as you have the money. For many people, remodeling is a relaxing hobby and a source of personal pleasure as they see the results of their labor. If you have the skills, you may be willing to devote the time and patience to a job that a tradesperson could not justify.

Before you decide to do the job yourself, there are a few cautions to keep in mind:

1. Consider all the costs. You may have to purchase or rent special equipment or tools needed only for this job. If it is the first time you are doing a job, you may make mistakes and have to buy additional materials. You will also be buying materials at retail price and have to worry about getting them to your home. Finally, your time is not free. The time you spend remodeling is time you cannot spend relaxing with your family, reading or working for money.

2. Do you have the time? If you are doing a project for the first time, you will probably be learning as you go. You may spend a good deal of time trying to decide what to do next. Not having the professional equipment used by contractors can also slow you down as can correcting mistakes and dealing with unexpected repairs discovered to be necessary as you are working. If you will be doing the work on evenings and

weekends, you will have to consider the additional time required to set up and to clean up for-relatively brief work periods. In short, doing the job yourself may be a lot more work than you expected and your home will be disrupted a lot longer than it would be if a contractor did the work.

3. Do you have the skills and knowledge?

There are numerous do-it-yourself books available through lumber yards or local libraries that can help you determine the level of skill needed. If you do not have the skills and knowledge to do the job properly, you may find that the job needs to be redone sooner than would otherwise necessary. For example, a shower that is not installed properly can drain poorly and cause water damage in adjacent rooms. An improperly done job can also create problems should you try to sell the home. If the windows you install fail to fit properly or the joints in the dry wall are uneven, a potential buyer may be discouraged.

4. Is your family ready? Doing your own remodeling can be a major commitment of time. Other family members may resent your lack of time for other activities. They may be frustrated by the mess, noise and extended periods of disruption in routine. The resulting stress should not be underestimated.

How Will You Pay?

Savings or household incomes are the most common source of funds for remodeling projects. Charge cards and 30-day delayed payment options provided by merchants are sometimes used to expand these sources.

If you must secure outside financing, you have a variety of options:

1. Banks, savings and loan associations and credit unions offer personal loans and home improvement loans. However, before you settle on a loan of either of these types, you should investigate the following alternatives because the interest rates for these will generally be lower.

2. Individual communities have their own housing rehabilitation programs funded from Community Development Block Grant monies and other sources. These programs vary considerably from community to community. The local housing authority or local community development office can give you details. They may be able to alert you to state programs as well.

3. If you do not qualify for these programs, you may want to consider borrowing against your life insurance. The interest rates are usually very low.

4. Credit unions often will make loans at favorable interest rates.

5. FHA Title I home improvement loans are another possibility. These loans are administered through local

lending institutions. The rates are just below market rates.

6. You maybe able to extend your present mortgage and get money for home improvements in this way.
7. If a large loan is required existing equity in a house is a possible source of collateral.

Start With a Plan

If you have decided to make over rather than start over, you should use some of the information you have collected in the steps outlined above to develop an overall plan.

What Remodeling Should be Done?

Of course, this depends on the house and your reasons for remodeling. However, there are some general principles to consider:

1. If you need space, look for it within the house first. Improved storage systems and changes in furnishings in some cases can add the space you need. Closing in a porch, finishing the basement, attic or garage are all cheaper than adding a new wing to your home; the foundation and roof are already in place. Added foundations and roofs can be sources of future maintenance problems. For example, if the new foundation is not carefully installed, it may settle differently than the original structure. By finding your additional space within your existing home, you may avoid potential zoning problems.
2. If you maybe moving in a few years and are concerned about resale, be certain you have read the section, "Impact on the Value of Your Home."
3. Adding insulation, improving the heating system and other improvements that increase the energy efficiency of the home should be given a high priority. There are government programs that can cut the cost of some of these improvements. More important, these improvements can cut your monthly housing expenses and perhaps make your home more comfortable as well.
4. Improvements that will extend the useful life of the house should be considered first. A leaky roof should be replaced before a room is added.

Steps to Include in Planning

Your plan should include at least the following steps:

1. Discuss the project with your family and agree on the work to be done the work-involved and the expectations of each family member.
2. Put first things first. Before you begin you should have in mind all the work you want to do and determine which tasks logically precede others. For example, if you are remodeling a bathroom, structural and mechanical repairs should be done first. The new window and shower should be installed before the walls are repaired.
3. Take advantage of opportunities to upgrade. There are small improvement jobs that should always be undertaken as part of a major remodeling project. For example, when wall cavities are opened insulation should be added as well as vapor barriers, upgraded caulking and weatherstripping. Wiring and plumbing should be inspected and upgraded if necessary at the same time.

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