

Will Your Home Renovations Pay Off?

By Rebecca Baldrige, Journalist

What's the Difference Between Renovating and Remodeling?

The terms "renovating" and "remodeling" are often used interchangeably, but Home Depot says they're quite different. Renovation is the process of bringing a room or dwelling in poor or iffy condition up to good condition. It changes the quality of the room rather than the room itself. Remodeling is the process of making major structural changes.

RENOVATION EXAMPLES	REMODELING EXAMPLES
<ul style="list-style-type: none">• Repainting.• Refacing cabinets.• Installing new light fixtures.• Replacing windows.• Updating appliances.• Adding new hardware.• Replacing tiles or flooring.• Replacing outdated systems.	<ul style="list-style-type: none">• Combining two rooms into one.• Installing a kitchen island.• Removing walls.• Raising ceilings.• Changing the layout of a room.• Adding a deck.

What to Consider Before Renovating

The return on investment (ROI) of any given renovation project is a function of local market characteristics, the condition of the residential real estate market when the property is sold, and the quality of the work performed.

Bigger renovations aren't always better; spending more doesn't always ensure greater value creation. It's unlikely that a homeowner will earn-back more than the cost of construction unless the remodeling project is designed to fix a structural issue or a design flaw.

Returns on Investment

REALTOR magazine compares the cost of common remodeling projects and shows the payback homeowners might expect. These average paybacks identify the projects that might provide the greatest financial return at the time of sale.

PROJECT	JOB COST	RESALE VALUE	COST RECOUPED
HVAC Conversion Electrification	\$17,747	\$18,366	103.5%
Garage Door Replacement	\$4,302	\$4,418	102.7%
Manufactured Stone Veneer	\$10,925	\$11,177	102.3%
Entry Door Replacement Steel	\$2,214	\$2,235	100.9%
Siding Replacement Vinyl	\$16,348	\$15,485	94.7%
Siding Replacement Fiber-Cement	\$19,361	\$17,129	88.5%
Minor Kitchen Remodel Midrange	\$26,790	\$22,963	85.7%
Window Replacement Vinyl	\$20,091	\$13,766	68.5%
Bath Remodel Midrange	\$24,606	\$16,413	66.7%
Window Replacement Wood	\$24,376	\$14,912	61.2%
Roofing Replacement Asphalt Shingles	\$29,136	\$17,807	61.1%
Grand Entrance Fiberglass	\$10,823	\$5,457	50.4%
Deck Addition Wood	\$17,051	\$8,553	50.2%
Roofing Replacement Metal	\$47,414	\$23,163	48.9%
Bath Remodel Universal Design	\$39,710	\$18,270	46.0%
Major Kitchen Remodel Midrange	\$77,939	\$32,574	41.8%
Deck Addition Composite	\$23,430	\$9,325	39.8%
Bath Remodel Upscale	\$76,827	\$28,203	36.7%
Major Kitchen Remodel Upscale	\$154,483	\$48,913	31.7%
Bathroom Addition Midrange	\$57,090	\$17,237	30.2%

Primary Suite Addition Midrange	\$157,855	\$47,343	30.0%
Bathroom Addition Upscale	\$104,733	\$27,830	26.6%
Primary Suite Addition Upscale	\$325,504	\$73,875	22.7%

Source: Remodeling Online

Consider Your Location

One mistake homeowners often make is improving their homes well above the average for neighboring houses. A house improved well above others nearby are unlikely to command a premium.

How Much Do Americans Spend on Home Renovations?

The Joint Center for Housing Studies of Harvard University puts the figure at more than \$500 billion a year. The spending trend is toward creating healthy and energy-efficient homes.

Key Takeaways From This Article

- Remodeling can boost the return on investment (ROI) of a house.
- Remodeling projects must generally fix a design or structural flaw to earn back the cost of construction.
- The cost of renovating rental properties can be recouped during a sale but also with the increased rental rates that can be commanded by updated homes.
- One of the biggest mistakes is improving a home well above the average for neighboring houses because home prices tend to reflect the tastes of local homebuyers and the amount they're willing to pay.