



## Case Study

### Home Renovation or Sell for Land Value in Houston

One of the most common questions we receive is should we renovate our older home or should we just live in it until we want to sell our home for land value. This is an excellent question to deliberate and should be carefully evaluated before any major investment is undertaken. There are many factors that require in-depth dissecting and careful analysis in order to make a qualified determination.

We have an interesting and telling case study that occurred in the City of Houston, Memorial Area. The Memorial Area is a desirable affluent area of Houston that is near in, great school districts and a high demand area to raise a family. Our case study involves the story of 2 quite similar homes on comparable sized lots, approximate sized homes and both parallel soft modern architectural style homes in the same neighborhood. Each owner had very different objectives and housing needs. One property owner decided to do the minimum home improvements of product replacement, while the other property owner incorporated product replacements into several phased major home renovation projects over the course of 2 years.

#### Back Story Financial Data

<b>Data</b>	<b>Smith Family</b>	<b>Jones Family</b>
<b>Purchase Price</b>	<b>\$440,000</b>	<b>\$510,000</b>
<b>Year Built</b>	<b>1958</b>	<b>1960</b>
<b>A/C - S/F</b>	<b>4,020</b>	<b>4,200</b>
<b>Lot - S/F</b>	<b>24,000</b>	<b>29,000</b>
<b>Addition - S/F</b>	<b>0</b>	<b>1,420</b>
<b>Improvement Cost</b>	<b>\$ 85,000</b>	<b>\$350,000</b>
<b>Sales Price</b>	<b>\$940,000</b>	<b>\$1, 820,000</b>
<b>Net ROI</b>	<b>66%</b>	<b>98%</b>



## **Back Story**

Both families purchased their homes within 2 years of each other and sold their properties within 2 years. The Smith's elected to live in their home for a period of 8 years without any major home improvements. The only improvements that the Smith's were forced to make were home component replacements such as kitchen appliances, HVAC equipment and general home maintenance and repairs.

The Jones's elected to do a whole home renovation and expand the overall envelope of the home by 1,420 sf. These home additions included expanding the kitchen by 200 sf and extending a portion of the front 180 sf to create a foyer, formal powder room and some additional storage. The remaining home addition was for a new master suite which included a large bedroom, walk-in closets, exercise area and master bath.

The project also involved taking the home back to the studs and refinishing. A TPO roof was added as the new additions were framed. New HVAC components and new electrical panels were added to increase the required electrical demands and wood & stone floors were used throughout the home and a cover summer kitchen was created at the end of the project.

## **Personal Goals & Objectives**

The Smith family consisted of two middle aged empty nesters with one child in college. Both owners were professionals and had an annual income north of \$150,000. Their lifestyle was modest and they did not entertain or have large family gatherings often. They did travel abroad several times a year but at the expense of his company.

The Jones family had 2 children remaining at home. One was in college and the other was in high school. The owners consisted of two middle aged adults, one was a professional and the other a stay at home mother. Their annual income was also \$150,000 annually. Although their lifestyle was dramatically different, including frequent large family gatherings, numerous out of town guest and entertained regularly.

The personal goals of the buyer / owner will always require to be taken into consideration when evaluating to make home improvements or hold out for land value in a future sale. The home should reflect the quality of life that the owner is most comfortable with.



## **Types of Improvements**

There are many different home improvements to consider when evaluating your property for investment. These improvements can be categorized in two distinctive groups, replacement product improvements and discretionary lifestyle improvements.

Replacement products are the home components that have exhausted their serve life or become obsolete. These are items such as kitchen appliances, roof membranes, exterior & interior paint, HVAC systems.

Discretionary improvements are products and home improvement products / services that replace components for the purpose of updating the home design and decor regardless if it still provides its primary function. Hence the name discretionary improvements. These items include such items as flooring, cabinetry, counter tops and plumbing fixtures.

The ideal home renovation includes the strategic planning of product replacement products with the overall scheme of the renovation design and the discretionary improvements. Incorporating both types of replacement products is by far the most efficient method to plan and execute the design and construction improvements into home renovation.

## **Determining Factors**

A collective evolution and full analysis is the only way to secure a proper answer to the question of implementing a home improvement strategy or to hold the property for a sale for land value at a future date. It is only after a complete analysis of the following determining factors can one make a high confident decision. The careful assessment of the following vital factors should be weighed and measured.

**Location-** As with any real estate transaction the location contributes enormously to the market value of the property. The location also drives the rate of price appreciation over time. These factors can be appraised by studying the sold property values over the last 5 years. Caution should be used not to use only short term sales pricing, for this may only represent short pricing trend burst in concentrated local areas.



**Time Period** - The length of time that the owner intends to hold the property also has a contributing effect on the expected return of the owners investment. Shorter holding time durations are highly speculative if the property is intended for flipping for land value. There is much less risk if you are holding for short periods if you are employing a home renovation strategy. The supply and demand for both new home building sites and trending older home sales should be monitored for sudden market changes.

**Economic Cycles** - The residential single family housing market, much like the economy is cyclical in nature. These cycles are difficult to predict short term directions and should be referred to for establishing economic patterns to confirm impacts on the immediate employed strategies. Timing the market for sale is highly a speculative venture and does not hold the promise of the desired outcome.

**Lot Value** - The gathering of sold local lot prices and current available inventory is another critical element that is required to enter into the decision making process. Due to the lack of available lot supply in metro Houston, most building site availability is the result of purchasing obsolete and dilapidated homes ready for demolition. These homes are often sold for in a "as is" condition. Careful consideration should be used when assessing the trending lot prices to determine the relative supply of like kind lots at the sales time.

**Home Component Evaluation** - A complete and vigilant home inspection should be conducted to determine the product replacement requirements. These products will justify and establish a base line renovation budget for assessing the construction cost requirements. These products are not required to be in a non-operating condition. Evaluating the present condition and expected service life will provide enough information to determine if these components deem replacement.

**Financial Feasibility** - The financial feasibility is an assessment and analysis of the all the relevant factors that have a direct impact on the property's value. Once the pre-mentioned critical factors have been collected, they can be entered into the financial feasibility. These factors are implemented in many different analysis, such as *cost to benefits analysis*, *buy sell analysis*, *renovation cost analysis* and *market value analysis*. The collective studies can be implemented to determine the risk and returns from the investment required for the subject property.



## **Summary**

In our case study both the Smith and Jones experienced solid growth and returns on their equity and investments for their home acquisition and sales transaction. The results outperformed most other investments available during this period of time. This is a reflection of both the Houston housing market and local Memorial market value appreciation as well.

In comparing the two subject properties, the Jones investment results from the home renovation efforts produced a much more favorable return than the Smith's transaction. The Jones return on investment results were nearly double those of the Smith's property during like circumstances and conditions. One could safely expect similar financial performance provided that the conditions were comparable.

This case study represents a very over overlooked home purchasing strategy. It is not widely embraced for a number of reasons. First it takes a great deal of time and effort to conduct the required due diligence and home renovation improvements. Secondly it requires a number of very specific skills to perform the required assessment and analysis. An effective method of achieving these results if you do not have these abilities is to hire a seasoned luxury home remodeling contractor to assist you in these technical tasks.

The results are undeniable, but require the seasoned skills and effective leadership to succeed.