4 Critical Economic Factors of Major Remodeling ROI

When a home approaches 20 - 30 years of age or greater, there are many of the major components that require replacement. During this same period an home owner will make some significant decisions regarding the length of time they will live in the home and how inclusive their home improvement investments will be. Do you just replace the product components like an oven or do you undertake a major kitchen renovation? These decisions are often driven by a matrix of factors including the cost of improvements and the anticipated return of the investment. For anyone who was gone through this process, they will tell you that it is a complicated equation effected by many variables. We will look at some of these variables and the impact they can have on the best renovation results.

Time

The time element of the decision matrix is the most significant factor. Much like the time value of money the longer the time you intend to remain in your home translates to a higher return on your remodeling investment. This is due the appreciation of the home's value and ever increasing construction and product cost over time.

Let's use an example of a $1,000,000 home market value, a new home addition of $125,000, assuming property value appreciation of 4% and general cost index inflation of 2%. So if you commence a renovation project that cost $125,000 with the intentions of living in your home for 5 years, the net result of this investment could yield you $75,000 increase in home market value. This is exemplified by the increase in added living area multiplied by the $/sf of the market value.

If we use the same example but reduce the time element to 2 years, the result could very likely be different. A straight increase of property value appreciation in 2 years represents $80,000, but yields a net result of a negative $45,000.

Remodeling Project

Not all major remodeling projects are the same. Nor will they have the same return on your investment. Although there are widely published articles on various remodeling project returns on investment, the actual returns have to do with the contribution of a quality design and the construction improvement workmanship. The best example of this is a kitchen renovation that has been redesigned and updated to reflect modern consumer demand. With a well redesigned kitchen that has been remodeled with quality products and outstanding craftsmanship will stop buyers in their tracks.

With the priority of most home buyers being focused on kitchens and bathrooms, it pays to invest your remodeling dollars where they will contribute the most in your return on investment. In contrast, when an owner invest in a swimming pool or lavish landscaping improvements, the property is indeed enhanced but the investment does not translate to equal value of the investment over time. The truth of the matter is that these types of improvements often do not increase the resale value of the property when sold.

Location

The location of your home has an important influence on the remodeling project return on investment. Historically speaking the closer your home is to developing metro area of a city, the greater the increase in the rate of the property value. In contrast the further out your home is the city the slower the appreciation rate. The metro area properties also tend to hold their values better in times of high home inventory periods, when there are downward pressures on home values. In addition, the average age of homes are greater in metro areas then suburban and rural areas. This naturally warrants greater home improvement investments in older homes to maintain their value and keep them from a stage of disrepair.

The geo location has a huge impact on how the renovation investment translates to higher rates of returns. When your home's value is increasing at annual rates of 3% - 6% annual, the investments in meaningful renovations such as room additions and strategic updates will transfer into generous contributions to your homes ultimate sales price.

Purpose

The motives and purpose of a project will also have an impact on the ultimate value of the property. Doing your homework on your neighborhoods immediate property value will assist you in evaluating the short and long term financial impact of proposed remodeling projects on your properties future value. If your motives are defined by making your living space more attractive through furniture and decorator accessories, most often this will not translate into greater property values. So if recapturing your home renovation investment is a priority to you, careful analysis and consideration should be exercised before you commit to your project.

Older home's owners must compete with newer home inventory when they sell their property. New home pricing are expectedly higher than existing home inventory. The price difference is often a result of the architectural and contemporary design distinctions of newly constructed homes. As a rule the more home improvement repairs and updates required by an older home the larger to price difference between new and older homes.