Personal benefit usually balanced against payback

To renovate or relocate?

By Patrick Allossery

Clearly, you have been bitten by the remodelling bug if you have purchased a high-definition television to watch *Trading Places*, your mini-van sports a heavy-duty roof rack but no back seats, and the cashiers at Home Depot are on a first-name basis with your children.

You are not alone. Increasing numbers of Canadians are opting to renovate instead of relocate. According to Statistics Canada, homeowners spent $23.4-billion on renovations and repairs in 2002, the most recent year for which figures are available. That is a record sum, well above the $15-billion (in constant 2002 dollars) spent in 1993.

But investing more on renovations, is not necessarily spending your money wisely. Michael Roman, founder and senior appraiser with Inhouse Appraisal Corp., a Toronto firm specializing in real estate appraisals and valuations, tells the story of a client who bought a $350,000 suburban home and sunk $100,000 into remodelling the basement.

The homeowner installed a clear-span ceiling to eliminate the need for support posts. "Then he put in a bar, an entertainment centre and a fireplace that were inappropriate for the home. They were the kind of furnishings you would expect to see in a $600,000 home," Mr. Roman says. Needless to say, the homeowner did not recover much of his investment when he sold the house.

Of course, resale value is not always top of mind when one embarks on a renovation project. Replacing an old kitchen with a new layout and appliances can have practical, as well as psychological, benefits.

Still, for most of us, return on investment is one of the main considerations, particularly if the plan is to sell within a few years. There are surveys that purport to show the financial gains of common renovation projects. For instance, interior cosmetic improvements such as fresh paint and upgraded light fixtures are usually listed as the best investments. Payback estimates for these fixes range from 60% to more than 100%. Bathroom and kitchen improvements place a close second with payback ranging from 70% to 90%. At the low end of the scale, most surveys cite in-ground pools. For one thing, installing a pool is a job even hardened do-it-yourselfers are likely to pass on. Hence, contractor rates will have to be paid. And come selling time, the universe of potential buyers will be smaller than average because not everyone wants a pool and its accompanying maintenance costs. Estimated payback: 0 to 30%.

While surveys provide helpful guidelines for would-be renovators, the payoff of remodelling is affected by numerous factors.

One of the most obvious, according to Mr. Roman, is the number of years you remain in the home after the work is completed. It does not take long for freshly painted walls to develop scuffs and new appliances to lose their display-room shine.

Mr. Roman says consideration must also be given to the value of the appliances, fixtures and materials that are discarded during the renovation.

"If you're remodelling a kitchen and the existing kitchen is semi-modern, you're going to be throwing away the value that's remaining in the stuff you take out," he says. Conversely, if the existing kitchen is rundown to the point at which it has no inherent value, then the true cost of the renovation will be less and the investment easier to recover when the house is sold.

To accurately estimate the expected return on investment, it is necessary to consider the value of the house as well as of other homes in the neighbourhood. Ignore or miscalculate this part of the value equation and, like the Inhouse Appraisal client who over-improved his basement, you could wind up with a costly renovation.

Sometimes the problem is not over-improvement but under-improvement, Mr. Roman says. Leaside, a neighbourhood with a high concentration of smaller homes constructed 50 to 90 years ago is undergoing a period of renewal. Buyers are moving in with the intention of knocking down interior walls, adding floors and generally upgrading and modernizing.

The seller of a small Leaside bungalow who put in a new bathroom to boost the resale value would be hard pressed to recoup any of the money spent, Mr. Roman says. "Most buyers would be planning to tear it out anyway."

Cheryl Lefton, a sales representative with Sutton-Granite Hill Realty Inc. in Toronto, says one of the most common remodelling sins homeowners commit is they choose colours and designs that are "too specific and personal."

Kitchen renovations usually score high on the payback scale, hitting about 70% to 90% return on the homeowners investment, but they fare poorly in a neighbourhood of newly constructed homes.

Keep in mind not everyone is going to share your tastes, she cautions. "If you're going to do an ugly renovation, I'd suggest you don't do a renovation at all."

Remodelling magazine conducts an annual study, Cost vs. Value Report, on the cost of renovation projects in 35 U.S. housing markets. In its introduction to the 2003 study, the publication observes that "availability of alternatives also has a bearing on a home's value."

For example, a homeowner competing at resale with a supply of newly constructed homes in the neighbourhood should not expect to recover as much for a remodelled kitchen or bathroom as would a homeowner in a neighbourhood of similar-aged homes.

The experts agree the most important factor affecting resale price is location. If your home is in a lousy neighbourhood, far from schools, job centres and entertainment districts, its value will suffer. And so will the return on investment for remodelling. But look on the bright side. You probably got the place for a steal. So go ahead — paper the walls purple, put in a heart-shaped pool and enjoy.

National Post

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