

Remodeling's Payoff

The annual report compares construction costs with resale values in 58 markets.

The “Cost vs. Value Report,” published each year in conjunction with Remodeling magazine, gives you a city-by-city guide on what various home projects will pay back at resale. This year’s report features data for five more markets than last year* and a new project—a mid-range home office remodel.

On a somber yet optimistic note, we included New Orleans’ results, compiled before Hurricane Katrina, with the firm belief that in time the Big Easy’s real estate market will once again be thriving.

Where we get the data

Cost data for the report come from HomeTech Information Systems, a remodeling estimating software company in Bethesda, Md. HomeTech collects current cost information quarterly from a nationwide network of remodeling contractors and employs an adjustment factor to account for regional pricing variations. Construction cost figures include labor, material, sub-trades, and contractor overhead and profit.

Resale values (“cost recouped” in the tables) are aggregated from estimates provided by National Association of REALTORS® members. E-mail surveys containing construction costs and median home price data for each city were sent to more than 20,000 appraisers, brokers, and salespeople, yielding data from more than 1,600 respondents (an 8 percent response rate).

Specpan, an Indianapolis-based market research company, hosted the Web-based survey and collected and compiled the data. Farnsworth Group, a sister company to Specpan, analyzed survey data and provided pre- and post-survey consulting.

What do the numbers mean?

If some remodeling job cost figures appear too high or too low, one cause is the leveling effect of averaging. The demand for—and cost of—remodeling services can vary greatly within a given metro area.

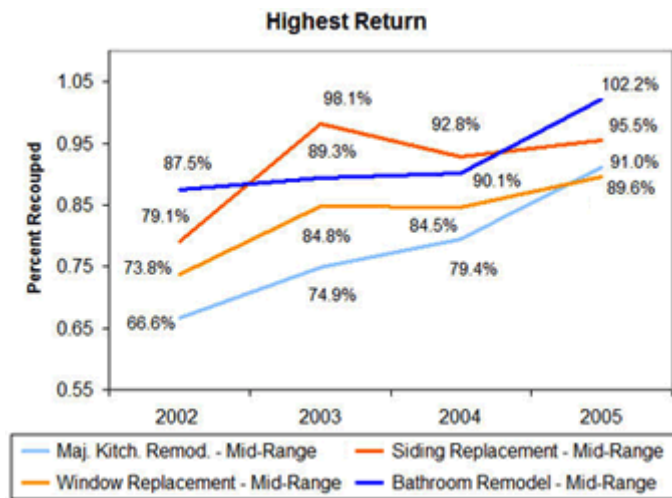
Averaging also affects the value side of the equation. The amount recouped for an actual remodeling project depends on the condition of the rest of the house, as well as the value of similar homes nearby, the availability of new homes, and the rate at which property values are changing. Location in an urban, suburban, or rural setting will also affect a home’s value.

In some cases, the value of the remodeling project at resale is more than 100 percent of its original cost. This usually happens in markets where property values are rising very rapidly, but it can also occur when buyers regard certain types of remodeling projects as “standard.”

For example, in a neighborhood where most homes have an updated kitchen, remodeling a kitchen may well increase the resale value of the home beyond the cost of construction. In some cases, in fact, not redoing the kitchen could cause the home to sit on the market for much longer than normal and to eventually sell for less than similar homes in the area.

Keeping up with the Joneses can be a savvy investment move. But ultimately, the best reason for a remodel is to enjoy it.—*Sal Alfano, editorial director of Remodeling magazine, and Christina Hoffmann Spira, managing editor of REALTOR® Magazine*

Since 2002 four projects, reported each year since 2002, have shown the greatest return at resale on a national basis. Two of the projects, siding and windows, reflect the importance consumers place on curb appeal and insulation; the others, a kitchen and a bath project, are consistently high performers in most markets.



Remodeling magazine, published by Hanley-Wood LLC, has been producing this report annually for 19 years. We'd like to thank the editors and designers of Remodeling, as well as the REALTORS® who contributed to bringing you this report.

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