

# Return on Investment Report



*Hopkins & Porter*

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# Remodeling – Return on Investment?



Return on Investment (ROI) is not something we typically think about when making personal purchases. We make purchasing decisions based on the pleasure or need they will fulfill. Our homes and the improvements we make fit into another category. Like a stock market investment, we expect our homes to appreciate in value more than inflation and the cost of living, and in most years this is true. Over the long haul, real estate has had an 8% Return on Investment. We often expect the improvements and investments we make in our homes to yield the same return. As an example, a home theater or swimming pool is the type of purchase that will not have a high ROI, although it may have a high satisfaction value. Alternatively, a kitchen renovation or family room addition will have a high ROI. So it is necessary to first review your motives and then consider the importance of the ROI.

To help you make informed decisions about the investments you are considering making in your home, I am offering you this third party report. Remodeling Magazine and its publisher Hanley Wood, considered to be the top authorities on the construction industry, have been producing their “Cost vs. Value” report for almost 18 years. Please feel free to check out their web site for more information [www.remodelingmag.com](http://www.remodelingmag.com).

We would like to thank Hanley-Wood and especially Sall Alfano, Editor of Remodeling Magazine for the permission to use this report.

Handwritten signature of Guy Hopkins Semmes.

Guy Hopkins Semmes  
CEO, Hopkins and Porter

# Cost vs. Value Report

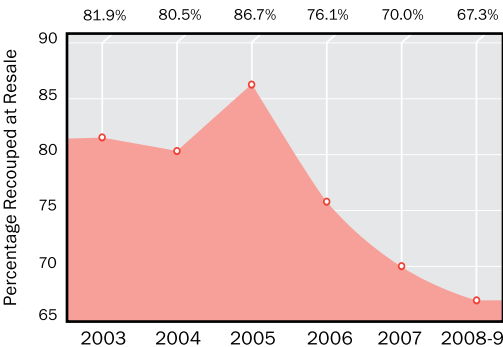
What's the payback for remodeling? Our annual report compares construction cost with resale value in 60 markets.

Each year since 1988, Remodeling's Cost vs. Value Report has compared construction costs for common remodeling projects with the value they add at resale in 60 US Housing markets. This year's Report has all 15 legacy projects (formerly, 10 were surveyed each year in rotation) plus the "upscale" versions of 7 projects introduced 4 years ago.

## 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, materials, sub-trades, and contractor overhead and profit.

For each project, the "resale value" data are aggregated from estimates provided by members of the National Association of Realtors. E-mail surveys containing project descriptions, construction costs, and median home price data for each city were sent to over 15,000 appraisers, sales agents, and brokers. More than 4,000 survey respondents used this information to estimate the value that the remodeling projects would add to the house at resale in the current market.



**Percentage Recouped at Resale**  
After the record-breaking year in 2005, the trend in cost recouped for all projects dropped more than 10 points in 2006. The downward trend persists in the last two years, but the rate of decline has slowed, despite record foreclosures and tightening credit.

# 2007-08 Job Cost vs. Resale Value

Project	Job Cost	Resale Value	Cost Recouped	National Average Cost Recouped
Attic Bedroom Remodel	\$41,401	\$32,635	78.8%	76.6%
Back-Up Power Generator	12,061	8,097	67.1%	58.0%
Basement Remodel	53,519	43,279	80.9%	75.1%
Bathroom Addition	33,236	22,670	68.2%	66.0%
Bathroom Remodel	14,445	11,388	78.8%	78.3%
Deck Addition - Wood	9,266	7,936	85.6%	85.4%
Family Room Addition	70,867	51,004	72.0%	68.6%
Garage Addition	49,183	36,790	74.8%	69.5%
Home Office Remodel	25,438	15,209	59.8%	57.0%
Major Kitchen Remodel	52,659	41,766	79.3%	78.1%
Master Suite Addition	88,680	64,549	72.8%	69.0%
Minor Kitchen Remodel	20,221	16,727	82.7%	83.0%
Roofing Replacement	15,376	11,069	72.0%	67.4%
Siding Replacement	8,990	7,651	85.1%	83.2%
Sunroom Addition	65,434	42,025	64.2%	59.1%
Two-Story Addition	127,072	99,464	78.3%	73.9%
Window Replacement - Vinyl	9,391	7,530	80.2%	79.3%
Window Replacement - Wood	10,242	8,226	80.3%	81.2%
Upscale 2007-08				
Bathroom Addition	66,973	47,116	70.3%	69.0%
Bathroom Remodel	46,988	32,656	69.5%	68.4%
Deck Addition - Composite	14,232	11,201	78.7%	77.6%
Garage Addition	75,102	51,322	68.3%	64.6%
Major Kitchen Remodel	104,893	78,008	74.4%	74.1%
Master Suite Addition	204,198	133,374	65.3%	64.1%
Roofing Replacement (steel)	28,044	19,611	69.9%	65.7%
Siding Replacement (fiber-cement)	12,910	11,536	89.4%	88.1%
Siding Replacement (foam-backed vinyl)	11,125	9,148	82.2%	79.7%
Window Replacement - Vinyl	12,084	9,791	81.0%	81.0%
Window Replacement - Wood	15,980	12,334	77.2%	79.3%

# 2008-09 Job Cost vs. Resale Value

Project	Job Cost	Resale Value	Cost Recouped	National Average Cost Recouped
Attic Bedroom Remodel	\$42,683	\$32,246	75.5%	73.8%
Back-Up Power Generator	12,858	7,999	62.2%	57.2%
Basement Remodel	54,288	42,407	78.1%	72.9%
Bathroom Addition	33,959	22,450	66.1%	63.5%
Bathroom Remodel	14,510	10,953	75.5%	74.6%
Deck Addition - Wood	9,370	7,863	83.9%	81.8%
Deck Addition - Composite	14,494	11,006	75.9%	73.7%
Family Room Addition	72,717	51,301	70.5%	65.9%
Garage Addition	52,710	36,960	70.1%	66.6%
Home Office Remodel	26,465	14,905	56.3%	54.6%
Major Kitchen Remodel	53,236	42,104	79.1%	76.0%
Master Suite Addition	90,590	64,719	71.4%	66.0%
Minor Kitchen Remodel	20,320	16,234	79.9%	79.5%
Roofing Replacement	16,088	11,661	72.5%	65.6%
Siding Replacement	9,326	7,705	82.6%	80.7%
Sunroom Addition	67,670	42,920	63.4%	56.7%
Two-Story Addition	131,717	102,338	77.7%	70.7%
Window Replacement - Vinyl	9,496	7,535	79.4%	77.2%
Window Replacement - Wood	10,416	8,215	78.9%	77.7%
Upscale 2008				
Bathroom Addition	\$67,892	\$46,801	68.9%	66.1%
Bathroom Remodel	47,615	34,369	72.2%	70.7%
Deck Addition - Composite	35,650	23,503	65.9%	63.2%
Garage Addition	79,044	52,788	66.8%	62.8%
Major Kitchen Remodel	106,506	78,086	73.3%	70.7%
Master Suite Addition	206,735	135,088	65.3%	61.1%
Roofing Replacement (steel)	31,112	21,523	69.2%	63.0%
Siding Replacement (fiber-cement)	12,951	11,785	91.0%	86.7%
Siding Replacement (foam-backed vinyl)	11,572	9,716	84.0%	80.4%
Window Replacement - Vinyl	12,257	10,095	82.4%	79.2%
Window Replacement - Wood	16,222	12,576	77.5%	76.5%

# Things to Consider Before you Remodel

## *Timing*

Kitchen and bathroom rate high in the report, but if you are in a neighborhood where most homes have been renovated and your has not, you will probably see a ROI above average for your area. If you are in a neighborhood where a lot of remodeling is going on, the average buyer will expect kitchen and bathrooms to be done. Some buyers would prefer to make the improvements themselves and in a hot market you will still get top dollar, without updating, and your immediate ROI would be lower than average if you proceed.

## *Location*

If you are installing a powder room or fireplace on the first floor of your home in a neighborhood where few exist, expect to see an immediate and high ROI on your investment.

## *Your Horizon*

If you know that you will be moving in the next 2-5 years, consider improvements items that add curb appeal, if that is lacking, or minor kitchen and bath face-lifts. On the other hand, if your horizon is over 7 years (a long time in most markets) don't worry so much about the ROI and consider making changes you want, the way you want them. Your costs will be absorbed by appreciation and in a good neighborhood your home value will rise with the tide of all the improvements your neighbors will be making. It is important to use a well known design build company. You don't want to make such a large investment into your home with an unknown and inexperienced company.



# What Do the Numbers Mean?

If some cost figures appear too high or low, one cause is the leveling effect of averaging. High demand for remodeling services in some parts of a given metro area may drive prices up, but this is often countered by lower demand – and lower prices – in another part of the same city. Also, seemingly small differences in size, scope or quality of finishes can dramatically affect final project cost.

Averaging also affects the “value” side of the equation. In an actual real estate transaction, the amount recouped for a given remodeling project depends on the condition of the rest of the house, as well as the value of similar homes nearby and the rate at which property values are changing in the surrounding area. Location in an urban, suburban or rural setting will also affect a home’s value, as will the availability and pricing of new and existing homes in the immediate vicinity.

In some cases, the value of the remodeling project at resale is more than 100% 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 houses have two bathrooms, adding a bath to a home that has just one may increase the resale value of the home beyond the cost of construction. In fact, not adding the bathroom could cause the home to sit on the market for much longer than is normal and to eventually sell for less than similar homes in the area.

When resale value is a major factor in a homeowner’s decision to remodel, the best course of action is to consult with a local remodeler about construction cost, and ask an experienced Realtor about home prices in the neighborhood.



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