Remodeling Return On Investment

Getting your hands dirty and remodeling your home before putting it on the market may seem like a great idea to attract buyers, but be aware that some renovations have a better return on investment than others.

If you're remodeling with the intent to resell, make sure your work will pay for itself.

BEST ROI

Not all remodeling projects are created equal when it comes to raising the value of your home. The general rule of thumb is that unless it adds square footage, such as an addition or expansion of an existing room, you're not going to get 100% of what you paid. However, you can get close.

According to This Old House, a minor kitchen remodel that costs around $14,000 will net you an 87% return on investment. A deck will bring 75% of the costs back to you, and work on your master suite will put 74% of your investment back in your pocket.

Kermit Baker, director of the remodeling futures program at the Joint Center for Housing Studies at Harvard University, says homebuyers first look at kitchens and baths, so work there is liable to get you more of your money back than work elsewhere.

WORST ROI

Pools. Hands down, experts say, pools are the worst remodel you can do and expect to recoup your costs. Many homeowners consider a pool an expensive maintenance headache and may be unwilling to shell out the extra cash to cover it.

Experts say, however, not to let that ruin your dream of putting in a backyard oasis. Just don't look at it as an investment. Staying around and enjoying it yourself for a few years means your expenses may be naturally absorbed in your property's appreciation over time. Just as long as your renovations aren't too trendy.

"There's stylistic depreciation," Baker told This Old House. "All the fads now are for knocking down walls and making big rooms, but 10 years from now, that might not necessarily be the case." A quote that's proving out as the pandemic and working from home had people regretting their great rooms. Also, home renovations are also prone to hidden expenses, like discovered water leaks, foundation problems and more.

Furthermore, those improvements can also lead to a higher tax bill, further eating away at your investment.

Your best course, experts say, is to avoid looking at improvements, even popular ones like kitchens and baths, as an investment. Instead, make your decisions based on your own lifestyle and budgets. Make the improvements that make you happy and never mind the resale value.

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REAL ESTATE 101

Home Equity Loans

Many people pay for improvements with a home equity loan or line of credit, also called a HELOC. These loans use a percentage of your home equity as collateral for the loan. The loan amount is determined by an appraiser hired by the lending institution. These loans can be used for home repairs or improvements, but can also be used to fund medical bills, pay off debt or even to pay for college. It creates a lien against the home and reduces the amount of equity in the property.

HOMEWISE

Real Estate Tips and Advice

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HOMEWISE GLOSSARY

Rate lock: When the lender issues a written commitment to a borrower as to a specific interest rate for a specific period of time. **SOURCE:** MLS.com