

Remodeling

Remodeling
Celebrates 20 Years

hanley wood

THE INDUSTRY SOURCE remodelingmagazine.com NOVEMBER 2005
OFFICIAL PUBLICATION OF THE REMODELING SHOW

2005 Cost vs Value Report



2005 Cost vs. Value Report



SAL ALFANO
EDITORIAL DIRECTOR

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 U.S. housing markets. This year's Report has all 15 legacy projects (formerly, 10 were surveyed each year in rotation), plus the "upscale" versions of 5 projects introduced two years ago. New this year are upscale versions of roofing and siding replacement projects.

WHERE WE GET THE DATA

Cost data for the Report come from Home-

Tech 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 members of the National Association of Realtors. E-mail surveys containing construction costs and median home price data for each city were sent to more than

20,000 appraisers, sales agents, and brokers, yielding data from more than 1,600 respondents (an 8% response rate).

WHAT DO THE NUMBERS MEAN?

If some cost figures appear too high or too 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

2005 National Averages

	Job Cost	Resale Value	Cost Recouped
Siding Replacement, Upscale (p. 106)	\$ 10,393	10,771	103.6%
Bathroom Remodel, Mid-Range (p. 94)	10,499	10,727	102.2%
Minor Kitchen Remodel, Mid-Range (p. 98)	14,913	14,691	98.5%
Siding Replacement, Mid-Range (p. 106)	7,239	6,914	95.5%
Two-Story Addition, Mid-Range (p. 108)	80,133	75,831	94.6%
Attic Bedroom, Mid-Range (p. 90)	39,188	36,649	93.5%
Bathroom Remodel, Upscale (p. 94)	26,052	24,286	93.2%
Major Kitchen Remodel, Mid-Range (p. 100)	43,862	39,920	91.0%
Deck Addition, Mid-Range (p. 96)	11,294	10,196	90.3%
Basement Remodel, Mid-Range (p. 90)	51,051	46,010	90.1%
Window Replacement, Mid-Range (p. 110)	9,684	8,681	89.6%
Window Replacement, Upscale (p. 110)	16,096	14,259	88.6%
Bathroom Addition, Mid-Range (p. 92)	22,977	19,850	86.4%
Roofing Replacement, Upscale (p. 104)	16,453	14,141	85.9%
Bathroom Addition, Upscale (p. 92)	47,212	40,488	85.8%
Major Kitchen Remodel, Upscale (p. 100)	81,552	69,194	84.8%
Roofing Replacement, Mid-Range (p. 104)	11,164	9,456	84.7%
Family Room Addition, Mid-Range (p. 96)	54,773	45,458	83.0%
Master Suite Addition, Mid-Range (p. 102)	73,370	60,460	82.4%
Master Suite Addition, Upscale (p. 102)	137,891	110,512	80.1%
Sunroom Addition, Mid-Range (p. 108)	31,736	23,643	74.5%
Home Office Remodel, Mid-Range (p. 98)	13,143	9,569	72.8%

Confidence Is High

The most reliable numbers in the survey are those in the national tables, for which the confidence level is 99% (+/-4%), according to Farnsworth Group. Dividing the results into regions effectively reduces the number of responses, so the confidence level goes down. Data for individual cities are least reliable because of the much smaller number of responses. This year, however, three cities — Houston, Phoenix, and San Diego — generated more than 100 responses each, enough to earn a confidence level of 95% (+/- 10%).

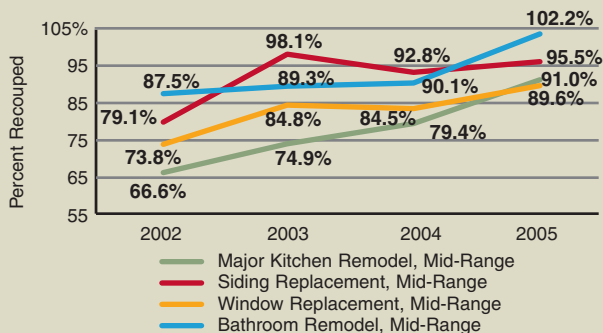
Confidence Level

National:	Regional:	
99% (+/- 4%)	East	95% +/- 7%
	Midwest	95% +/- 7%
	South	95% +/- 4%
	West	95% +/- 5%

The confidence level is a measure of statistical accuracy. The national level of 99% (+/- 4%) means that 99% of the time, national results for this survey will fall within 4% to either side of the national tables published here.

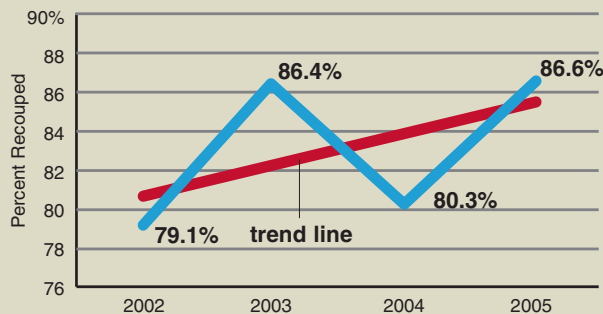
Highest Increase

Projects with highest four-year increase in recouped value



Four-Year Trend

Four-year trend in value recouped for all projects



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 bath 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.

Research Team

Specpan, an Indianapolis-based market research company, programmed and hosted the Web-based survey for the 2005 Cost vs. Value Report, and also collected and compiled the data. Farnsworth Group, a sister company to Specpan, analyzed survey data and provided pre- and post-survey consulting.