A Comprehensive Guide to Remodeling Your Home

The information presented here is for general reference only, and may or may not be appropriate for your specific situation. A conversation with a financial professional will allow your specific facts, goals and overall financial situation to be taken into consideration before advice is given. First Tennessee does not offer tax or legal advice. You should consult your personal tax and/or legal advisor concerning your individual situation.

"Home is where the heart is." Each year, millions of American homeowners take this message to heart by renovating, remodeling and fixing up their homes.

Sometimes, remodeling projects are undertaken to increase a home's value and make it more attractive on the resale market. Other times, they're done simply to make a home more enjoyable and livable. More often, remodeling projects accomplish both objectives: increasing the resale value as well as the owner's enjoyment of the home.

But the world of remodeling and renovation can be complex and frustrating for those who are not prepared. That's why we've created this guide to remodeling your home. Included are some guidelines to help you get started on five common remodeling projects, as well as how much you might expect to spend on them and how much they might increase the value of your home at resale.

If you have any questions about the material included in this guide, please feel free to contact us.

Move ... or Remodel?

The ongoing housing slump has created a dilemma for many homeowners who would like to "trade up" to a bigger, newer or more expensive home.

In a normal housing environment, many people buy homes they can comfortably afford, live in them for a certain number of years, build up equity by making regular monthly payments and through normal price appreciation, and then use this equity as a down payment on their next home.

Well, the past few years have been anything but "normal" in the housing market. **Due to falling—or, at best, static—home values, many homeowners have not been able to accumulate the equity to allow them to trade up.** And even if they do have the equity, slowing sales make it more difficult to sell the home they have.

In this environment, many homeowners are choosing to remodel and renovate their existing home instead of buying a new home. **There are many potential benefits to this strategy:**

- Eliminates the risk of buying a new home and being unable to sell the existing home.
- The existing mortgage remains intact so the monthly payment stays the same.
- The closing costs incurred when buying a new home are saved, as are moving expenses.
- Renovations generally increase the resale value of the home.
- The owners will enjoy the renovations while they continue to live in the home until market conditions improve and they may be able to trade up.

But what types of renovations should you make? The easy answer: the ones that you can afford and will most enjoy. In reality, though, it's a little more complicated than that, because it's usually smart to make renovations that will also provide the greatest return on investment (or ROI) when it comes to resale.

So how do you know which renovations will provide the highest resale ROI? Read on for more details and guidance.

How to Choose the Right Renovation Projects

When it comes to home remodeling, deciding which renovations to tackle and which to leave alone is a matter of melding your heart with your head.

That's because both your emotions and your logic should play a part in the decision. On the emotional side, you obviously want to choose projects that you will enjoy and that will enhance the quality of your lifestyle at home. On the logical side, it's also smart to choose projects that will provide the greatest potential return on your investment dollars (or ROI) when it's time to sell your home. (The worksheet inside can help you evaluate potential renovation projects objectively.)

To help determine how well various remodeling projects might hold their value, *Remodeling* magazine publishes a *Cost vs. Value Report* each year. The report details both national and regional average returns for many different remodeling projects. Following is a look at how five of the most popular projects fared in the most recent report, along with some guidelines for getting started on each project:

CHOOSING A CONTRACTOR

Unless it's a relatively simple project, you'll probably end up hiring a contractor to handle the bulk of your home renovation projects. We've all heard contractor horror stories, but there are three simple steps you can take that will help you avoid most contractor problems and ensure a smooth working relationship:

1. Get *and check* references. The National Association of the Remodeling Industry (www.nari.org) and the Remodelers Council of the National Association of Home Builders (www.nahb.org) are good resources for finding contractors in your area. Get three to five homeowner references from candidates and ask them about their experiences: Was the contractor timely, professional, neat and friendly, and did the project stay on budget?

2. Get *comprehensive* estimates. Comprehensive means that the estimate includes all details related to the project, including the quality and type of material to be used and a timeline for completion. Don't assume anything—if it's not in the estimate, the contractor is not legally obligated to provide it.

3. Get everything *in writing*. A formal written contract should be signed with the contractor before work begins that covers the following: scope of work, completion date, payment schedule, licensing and insurance, and other details (e.g., permitting, cleanup, work hours, damage repair, etc.).

1. Kitchen remodel

Traditionally, kitchens and bathrooms have been the two remodeling projects that have been most attractive to potential buyers and provided the highest ROI, and this trend continues to hold. The average cost of a minor kitchen remodeling project nationwide is now $21,411, with 78 percent of this cost recouped upon resale. A major kitchen remodeling project, meanwhile, costs $57,215, but the ROI drops to 72 percent.

Kitchen remodeling projects usually include upgrading old appliances (e.g., refrigerator, oven, range, dishwasher) with sleek new energy-efficient models; replacing countertops (usually with granite or marble) and cabinets; adding tile backsplashes on the walls above counters, the sink and the stove; replacing fluorescent lights with recessed halogen lights; adding under-counter lighting; and replacing old sinks with ones that have larger, deeper basins and old faucets with new water-saving, high-tech ones.

In addition, a number of new products can help transform your kitchen from dated and tired to exciting and dynamic, including:

- Instant-on hot water heater
- Cabinets with slide-out shelving
- Built-in storage
- Pull-out wastebaskets and sliding towel bars
- Recycling bins
- Wine refrigerators

2. Bathroom remodel

This also continues to rank among the most attractive remodeling projects from an ROI perspective: A minor bathroom remodeling project now costs $16,142 and recoups 71 percent upon resale. Moving up to a major bathroom remodel increases the cost to $52,295 but lowers the ROI to just 63 percent.

Once an afterthought, bathrooms have become the crowning jewel for many homes today. From natural stone and skylights to whirlpool baths and spacious walk-in showers, many homeowners are creating environments that mirror high-end spas. Popular bathroom upgrades include:

- New shower basins with imported tile and frameless shower doors
- One-piece, pre-formed sink and countertop combinations in granite or marble
- Bronze, brushed-nickel and weathered copper faucets, handles and drawer pulls
- Water-conserving low-flow toilets and bidets
- Accent lighting, solar tubes and skylights
- Heated floor tiles and towel racks

3. New deck

There are few home improvement projects that deliver more enjoyment than a new deck, and decks also hold their value well when it comes to resale. The average wood deck now costs $10,634 to build, and homeowners recoup 81 percent of this when they sell. For a composite deck, the cost rises to $15,373 and the ROI drops to 71 percent.

You can save a lot of money on your new deck by building it yourself. Decks usually aren't as difficult or complicated as most other home improvement projects, making them good do-it-yourself projects for many "weekend warriors." Here are a few basic guidelines to keep in mind if you decide to build your own deck:

- Check your local zoning ordinances to see if there are any potential restrictions. You may need to apply for a building permit.
- Take the time to do proper site preparation before you get started. Kill all grass and weeds, make sure the site is level, and then cover it with mulch to keep more grass and weeds from growing.
- Consider building a "floating deck" that doesn't have to be attached to your home. Instead, it is supported by posts cemented into the ground. This will avoid the expense and hassle of having to remove siding from your home in order to attach the deck.
- Decide between wood and composite materials. Composites generally require less maintenance than wood, but are nearly 50 percent more expensive, on average.
- Remember that you'll need to stain and/or seal a wood deck to help preserve and protect it. Depending on your climate, the deck should be re-stained/resealed every two to three years.

4. Finished basement

There are many potential benefits to finishing a basement, not the least of which is the addition of hundreds of square feet of usable square footage to your home. This is also usually a good investment: The average basement remodel now costs $62,067 and returns 75 percent of the investment.

Unlike building a deck, finishing a basement is usually a large and complex project that goes beyond the skills of most homeowners—even those who consider themselves somewhat handy around the house. Unless you're experienced in carpentry and construction, or have a good friend who is, you're probably better off hiring a pro. See the sidebar for tips on hiring the right contractor.

It's easy to see why finishing the basement is such a popular home renovation project. It usually offers the opportunity for all kinds of fun home additions, including:

- Home theater or media room
- Entertainment and game room
- Kids' playroom
- Guest bedroom(s)
- In-law suite or apartment

ADDING ON: BE CAREFUL NOT TO "OVERBUILD"

The most ambitious renovation or remodeling project you can undertake is adding a new room or wing onto your home. Add-ons, however, can be a little risky: Aside from the high cost, experts say homeowners should be careful not to "overbuild" their home in relation to their neighborhood.

For example, let's say the average home price in your neighborhood is $200,000 and you decide to spend $75,000 on a sunroom addition. You may greatly enjoy the sunroom while you live there, and it will certainly help set your home apart from others when you decide to sell, but it probably won't add anything close to $75,000 to the value of your home. This is because buyers usually won't pay above a certain percentage of the average home price in a neighborhood, no matter what kinds of upgrades it has.

Here are the average costs (nationwide) and returns on investment for several popular home add-ons, according to *Remodeling* magazine's most recent *Cost vs. Value Report*:

Project	Cost	ROI
Bathroom addition	$39,045	60%
Garage addition	$58,432	62%
Sunroom addition	$73,167	51%
Family room addition	$82,756	65%
Master suite addition	$103,696	65%
Two-story addition	$156,309	69%

5. Home office

With the growing number of Americans working from home—there are now 18 million home-based businesses and 24 million telecommuters in the U.S.*—adding a home office has become one of the hottest home renovation projects. Unfortunately, home offices are among the lowest rated projects when it comes to ROI: The average home office renovation costs $28,375 and returns only 48 percent of the investment.

Before starting work on your home office renovation, take the time to plan and design an office that fits around your individual work style. **For most people, the office should be in an area of the home that's free from distractions**—ideally, a spare bedroom that's off in a corner of the house, or an extra room in the basement. Having a well-defined home office area will also make it easier to calculate the home office deduction for your income taxes, if you choose to take it.

Lighting is one of the most critical factors in designing a home office. Since you'll probably spend most of your office time on a computer, strive for a mixture of natural and artificial light, with an ambient light level that's similar to the light coming from your computer display. You can save money on utility bills and help keep your office cool by installing compact fluorescent (CFL) light bulbs and task lighting. CFLs burn cooler and use up to 75 percent less energy than halogen and incandescent bulbs.

Also, be sure to plan your office design around computer, printer, telephone and other device connectivity. You may have Wi-Fi in your home, and that's great for carrying the laptop around the house, but an old-fashioned wired connection is usually more reliable and preferable for your main Internet connection.

** Source: U.S. Census Bureau*

LIGHTING AND FLOORING

Enhanced and upgraded lighting and flooring are two more popular and cost-effective home remodeling projects. Here are a few basic guidelines for each:

Lighting: Proper lighting can add beauty and drama to any area. Often, it's the final touch that creates the perfect feel for any room. There are three main types of lighting:

- **Ambient**—Provides the overall illumination for a room or area.
- **Accent**—Creates mood and helps shift visual interest in a room (to highlight artwork, antiques or indoor plants, for example).
- **Task**—Lamps, track lights and pendant lights help you perform specific tasks like cooking, reading or working at your desk.

Flooring: For many homeowners, new flooring offers the most bang for their decorative bucks. In most homes, the floors set the tone immediately—whether it's warm and rich hardwoods, soft and elegant plush carpeting, or light and breezy ceramic tile.

- **Carpet**—While plush or cut-pile carpet may be attractive, it often doesn't wear as well as more sturdy loop carpets like Berber. Also keep in mind that your choice of padding can be as important as the carpet itself.
- **Hardwoods**—Most hardwood floors are clean, simple and durable. However, remember that they usually amplify and echo sound throughout the house, and they also tend to accumulate dust and pet hair.
- **Tile**—While ceramic and porcelain are the two most popular kinds of tile material, there are many different varieties of tile to choose from. Keep in mind that different kinds of tile have vastly different levels of durability. Tile ratings (ranging from Group I Light Traffic to Group V Extra Heavy Traffic) gauge a particular tile's ability to withstand wear and water absorption.

Melding Your Heart and Your Head

Deciding which home renovation projects to undertake involves factoring in both the emotional and logical sides of the equation. Use this worksheet to help you evaluate potential projects objectively and make the best decision for your home and family:

Renovation Project	Cost*	ROI*	Enjoyment Quotient**
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____
_____	$ _____	_____ %	_____

** Visit http://www.remodeling.hw.net/2009/costvsvalue/national.aspx for* Remodeling *magazine's most recent* Cost vs. Value Report *that lists the national average job cost and return on investment (or cost recoup) for 33 popular home renovation projects.*

*** Rate each project on a scale of 1-10 based on how much personal enjoyment you think you and your family will derive from it.*

FIRST TENNESSEE®

powering your dreams®

©2010 First Tennessee Bank National Association. Member FDIC.

www.firsttennessee.com