

Home Improvement Corner

Analyzing the Cost of Remodeling 2005-2011

2008 marked the official start to the collapse of the housing market. Before this recession, remodeling customers were more likely to focus on service and quality to differentiate between contractors. On the contrary, the most common question nowadays is “how much will it cost?” When it comes to home improvement, the relentless stranglehold on financing has forced price to the top of the decision-making process.

Each year, Remodeling Magazine releases its Cost vs. Value report, indicating the mean sales price of a variety of project types and their relative mean resale value. The report produces regional data from sources ranging from an industry-specific estimating software company to the National Association of Realtors.

In 2005, for example, a major upscale kitchen remodel averaged \$81,552 nationally. Its relative resale value was \$69,194, yielding an 85% return on investment. 2005 provided some of the highest rates of return for home improvement, with a number of categories averaging over 100% return on investment. In 2008, that same kitchen project averaged \$110,964 with a 71% return. Most customers realized their dream kitchen was not as much a financial investment as it was becoming an investment in lifestyle.

In 2011, the Seattle area average cost was roughly \$120,000, but only averaged a 57% return. Taking into account foreclosures on one end of the spectrum, the potential return may be as high as 85% on the other end, for a desirable property. Investment potential is simply a factor of what the market is willing to bear. If you plan to stay in your home for more than 5 years, a high-end kitchen remodel could be a wise investment in anticipation of a recovering housing market.

Examining the cost of remodeling over the past few years is what’s really intriguing. In 2008, the market began to force the cost of remodeling downward. This phenomenon was driven by 2 primary factors: first; former employees of downsized companies started up their own residential services, and second; the customer began shopping multiple sources for comparative analysis. The result was a nonsensical array of construction budgeting from craftsmen with no experience in estimating or business management.

Most reputable contractors will tell you “it’s gonna cost what it’s gonna cost.” The hard cost for materials, equipment and labor are roughly the same regardless of which company you choose. Having analyzed these 3 factors over the past few years, I can best summarize as follows:

Material cost varies greatly with where it is sourced and at with what degree of quality it is specified. With relatively similar sourcing practices, material costs have fluctuated with international supply & demand, but are overall slightly higher than they were in 2008.

Equipment refers to the tools and machinery used to perform the various tasks of a given project. The relative cost of a jackhammer Year over year, equipment costs continue to rise with increasing costs of insurance, maintenance, and fuel.

Labor is the most variable cost of the three, because it reflects on the quality of personnel. One company may spend 100 hours on a task averaging \$65/hr for its employees. Another may spend 65 hours on the same task at \$100/hr. The difference is the same, except for when it comes to the customer’s expectation for efficiency and quality as it relates to the service provider’s value

proposition. Over the past few years, raises have been withheld by most remodeling companies in order to compete with one-man operations. Failure to recognize advancement causes stagnation and contempt in an organization. Especially in the face of inflation. Cost of living adjustments have been forcing the overall average labor cost upward since 2008.

Bottom line: This may be the best time to get your home improvement project completed. In my opinion, the most successful remodeling companies are those that can accurately budget and track job costs while maintaining top talent.

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