

## **Home Improvement Corner**

### *The Hidden Costs of Remodeling*

When prospective customers ask “How much does it cost to remodel?” the answer is generally “It depends.” One of my favorite responses is: “How much did you pay per pound for your last car?” This response illustrates how a Bentley and a Hyundai would be quite different if compared this way.

The costs of remodeling are generally budgeted for based on knowledge of what past experience tells a given remodeling professional what a similar project actually cost, extrapolated to align with the project at hand. Some remodelers underestimate this critical part of the process by unknowingly getting stuck in the ‘what they think it should cost’ without actually expressing what the last one like it actually did cost. They miss this critical step for lack of data, or worse: avoidance.

I developed a relatively reliable system that compartmentalizes portions of the total scope of work into smaller ‘buckets’. For example, a 2-story addition that expands the kitchen below master bath would include 5 buckets: 1) the addition itself; 2) kitchen finishes; 3) master bathroom finishes; 4) adjacent finishes outside the addition such as roofing, siding, patio, flooring, paint; and 5) design fees, engineering, permitting and sales tax. The result is a more accurate all-in cost for the improvements.

Hidden costs are defined as those items that do not fall into the five categories above. Items like replacing the furnace to accommodate the increase cubic footage of the addition; whether the addition triggers an improvement to the septic system or fire suppression system; perhaps a condition of permitting requires an improvement to the sidewalk or alley; and in older homes, the electrical panel and/or wiring may need to be upgraded to current code, foundation

repaired, cast iron plumbing replaced and in some cases, the oil tank decommissioned.

Few of these items are foreseeable without first conducting a thorough feasibility study. This part of the process is important if any of these items are suspect, because it can stop the design process long before it is ready to be submitted for permit. Feasibility should represent the first 5-20% of the expected design fees, depending on the size of the project.

The propensity of hidden costs is why most people express their construction budget as a percentage of the total amount they can afford. The 10% contingency is an indicator that some prospective customers use as a method for justifying these hidden costs. In reality, 10% represents the sales tax in most of the areas we service. The real number is more like 25%. Keep this in mind when you are budgeting for your project to keep from getting into financial trouble after the project has started.

Feel free to contact me with any questions you may have regarding this topic.

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