

Homeownership: Spending money to make money

Considering home renovations, either as a means of putting your own personal stamp on your property, or as part of a strategy to fetch top dollar when you sell? The big question is which home improvements hold the biggest potential bang for your buck.

For most people, their home is both their greatest asset and their greatest debt. Your home serves as shelter, of course, but it also lets you express your own personal tastes and provides an opportunity to grow your family roots. Beyond that, it also serves an important role as an investment.

When it comes to home improvements, how can homeowners best leverage that investment to increase the value of the home, both literally and through the perception of the potential buyer's eyes?

What do buyers want?

With the widespread increase over the last decade of design and décor media and shows, buyer expectations of value have evolved and expanded.

Steven Fudge, from the urbaneer.com, says that sellers have to create and support that perception of value: "Any space that signals it's been well-cared for and is enjoyed by the current resident, will instantly convey some measure of value other buyers will appreciate."

While the prospect of swinging the hammer and gutting your property end to end might be tempting, if your end goal is generate the best return on investment, your motivations should be decidedly more pragmatic. Once you've determined what you can spend, it's time to get down to the business of getting the most mileage out of those home renovation dollars to peak buyer interest, motivating them towards action.

While there are buyers that are purposely seeking out a fixer-upper, a number of buyers list turn-key living as a high priority on their must-have list. For many, time is as precious a commodity as money. A rising number of buyers actively seek homes where the work (or some of the work) is done for them by the current owners.

Where to start?

According to the latest Cost vs. Value Report from the U.S - based National Association of Realtors (NAR), there is definite value to focusing on specific areas in the home. The report looks at the cost-to-value ratio in home improvement projects. According to their stats, homeowners can expect to recoup a lot of their initial costs. For instance, a deck addition (87.4%), major kitchen remodel (63.6%), minor kitchen remodel (82.7%), bathroom remodel (63.6%), new roof (63.0%) and basement remodel (77.6%) all provided attractive returns on the initial investment in the last year.

NAR explains the cost-to-value as an expression of "resale value as a percentage of construction cost. When cost and value are equal, the ratio is 100%; when cost is higher than value, the ratio is less than 100%; when value is higher than cost, the ratio exceeds 100%" (source NAR Cost-to-Value trends). Furthermore, their report shows that the ratio is trending upward, which is good news for homeowners looking to invest in home improvement.

A potential problem is that while the cost-to-value ratio may be very attractive for some projects, a number of these come with rather hefty price tags at the outset. If your budget is a little more limited, what should homeowners target in a prioritized list?

Fudge says that, in his experience, "When it comes to selling, the first three spaces I recommend my clients invest in are the kitchen, washroom and, if they have one, the master ensuite. In any market, these are the areas that provide the greatest return on investment."

Room by room

The kitchen is often referred to as the heart of the home, and with good reason. It is the focal point in a house, both from its location, visibility and function. Accordingly, it bears much of the cost centre from a home improvement point of view. However, if you are going to pick one spot to try to boost the asset value of your home, this is a good one.

If your kitchen is dated, try to bring it into the contemporary with new appliances and cabinetry. As a basic rule of design, kitchens should mix fashion with function, with ample storage and counter space. Be neutral in your colour choices as well. For example, NAR comments the value of white in a kitchen, because of its duality in terms of timelessness and the ability to promote the sense of light and space.

If your budget doesn't allow for a major kitchen overhaul, like redoing custom cabinet work, examine other, cheaper alternatives like re-facing cupboard doors. This can bring a dated kitchen quickly into the current style, for a fraction of the price. Replacing hardware and plumbing fixtures have the same effect for minimal cost.

Much of the same principle can be applied to updating a washroom. A little attention to the details goes a long way to communicating value. Make sure that vanities are sleek and practical and promote that sense of space. Make sure toilets and bathtubs are in good repair as well.

To refinance?

In his experience with his clients, and from a lending perspective, Mortgage Broker Jake Abramowicz says that sellers must be ever mindful of the buyer's perception and their visual experience when viewing a home.

"The improvements that are most appealing are those that are the most pleasing to the eye." Abramowicz points out other less "glamorous" improvements, like the upgrades and repairs to the furnace or to the plumbing, will actually contribute more long term to the asset growth of a home, but are not as "highly regarded" by prospective buyers, generally speaking.

He sees clients that refinance their mortgages to do home improvements, but cautions homeowners to temper their expectations. "Typically, home renovations are not 'bulletproof', in the sense that they don't yield a 100% return on investment." This supports some of the appeal of less expensive jobs, like painting for instance, which has the effect of making a space refreshed and current for very little capital investment.

Fudge echoes this sentiment, "Even if the upgrades are modest, like fresh paint or changing out the hardware, attending to these details will not go unnoticed by a potential buyer."

The logo consists of the word "WRITTN" in a bold, blue, sans-serif font, centered within a blue rectangular border.