

Which makes more sense, move or remodel?

By [HYPERLINK "mailto:editors@bankrate.com"](mailto:editors@bankrate.com) [Michael Giusti](#)
Bankrate.com

It happens suddenly, over a cup of coffee and the morning newspaper, or perhaps as you make your way across the obstacle course of clutter that was once your living room. Your house doesn't fit your needs, and you can no longer deny it.

Time to make a hard decision, one potentially worth thousands of dollars. Should you move, or should you remodel? Dan Fritschen, author of "Remodel or Move," says the typical family faces this decision several times in life. The first milestone tends to be when children arrive. "The standard American lifestyle is to buy a starter house, but when kids come along that starter house may not be big enough anymore," Fritschen says.

Children become teens, and shared accommodations soon feel more like an invasion of privacy than a slumber party. Within a few years a third challenge hits: college. As children move away for school or into their own apartments, the large, teenager-friendly house suddenly feels too big. It may be time to downsize or perhaps convert Junior's bedroom into that hobby utopia you always dreamed about.

Finally, families often face the prospect of becoming caretakers for an aging relative, or perhaps a spouse falls ill and the home needs to become more accessible. Time for yet another change.

Should I stay or go?

The problem is there's no single motive for each choice and precious little reliable professional help in making that decision. "Contractors won't give you an unbiased opinion because they want the work," Fritschen says. "Real estate agents have a financial stake in you moving. They aren't paid to help you make decisions."

Housing economist Robert Sheehan, president of Regis J. Sheehan and Associates in Woodbridge, Va., says the best place for a family to start their evaluation is with the physical layout of their existing property. Many communities put limits on how big a house can be in relation to its plot of land. "A number of homes are already being built to the dimensions of what can be done," Sheehan says. If your house is as large as it can be, planning an addition would be out of the question; you will need to either work within your existing footprint or move. On the other hand, simply because you are able to expand your home doesn't mean it is a good financial move.

Beware the white elephant

First, get a cost estimate. Then figure how much that work would add to your home's value. Finally, compare your new value with comparable home prices in your neighborhood. "In some neighborhoods, you just won't get your investment back," Sheehan says.

Housing values are falling across the country now, too. Homeowners should tread with extreme caution if they own one of the most expensive houses on the block. "You don't want to create a white elephant," says syndicated financial columnist Ilyce Glink. "White elephants are worthless. You have to look out and say 'I don't want to put \$300,000 into a house if in five years the house won't be worth \$250,000.'"

Fritschen agrees, "Almost without exception, if you have a viable neighborhood and if you are bringing your home up to or slightly above neighborhood standards, from the financial side you almost can't go wrong by renovating. On the other hand, if you already have the biggest, nicest house in the neighborhood, then to go in and change that house has some drawbacks. You won't get it back on resale."

That's because neighborhoods only support so much expense for a particular house. If home buyers want to spend \$500,000 on a house, they will spend it in a neighborhood filled with other \$500,000 or even \$1 million homes, rather than \$250,000 homes, Fritschen says.

The worst-case scenario would be doing a renovation and ending up with a home worth less than you put in plus an outstanding mortgage balance, and then being forced to move because of a job change or other life event. "It really depends on where your market is. You might not get your investment back," Sheehan says.

When to remodel

Expensive as it is to remodel, it is tempting to think moving is the safest bet. But that can be far from true, Fritschen says. "In moving, there is no payback. It is a pure expense," he says. "You end up writing an average of \$40,000 in checks, and no matter where you move that money is gone. It doesn't increase your net worth -- it is just gone." People often underestimate the true costs of buying a new home: Real estate commissions, financing charges, moving costs, utility deposits and other unexpected bills pile up.

Then there's the tax shock: "A lot of places don't necessarily reset your property tax every year for every homeowner," Fritschen says. "When you move it may go up dramatically. That may still be a consideration when you remodel, but generally not as much."

Comparatively, a remodeled home could appreciate by \$100,000 or even \$150,000, depending on what changes the owner makes, offsetting the expense of sprucing up things. The remodel could end up being financially neutral even after borrowing a huge sum to pay for renovations. Even if renovating makes sense, ask whether you are financially ready to lay out the amount of cash required to do the work. A \$100,000 addition might increase the value of your home dollar for dollar, but if you can't afford that cash up front, you will never get the job off the ground.

One way to ensure you keep your remodeling job in touch with reality is to consult the annual list published by [HYPERLINK "http://www.remodeling.hw.net/" \t "_blank" Remodeling magazine](http://www.remodeling.hw.net/) and the National Association of Realtors. The list evaluates how much return you can expect from a given home improvement. Some jobs, such as regular maintenance, better siding and minor bathroom renovations, for instance, return more than 80 cents in value for every dollar spent. Others, such as adding a sunroom or a pool, return less than 60 cents on the dollar, or worse. "Anything beyond what you will get back through appreciation is a true expense," Fritschen says.

The difference is a question of land value vs. structure value. "Land appreciates the most, the house not as much," Fritschen says. So, staying on your existing property and improving the home itself could mean a substantial tax savings compared with moving to a new home where the taxable value could increase.

A decision to remodel or move comes down partly to emotions and partly to finances. "One of the first things you should ask yourself is if you really like the location your house is in right now," Fritschen says. Consider your neighborhood, schools and whether your home is average or below cost for neighborhood. "If you like all of those aspects, then it is likely you can remodel and keep the things you like and improve on the things you might not like so much -- size, amenities, things like that," he says.

Even if you are in love with an area and you would certainly get your money back, Glink says it might not make sense for some people to commit to a potentially life-changing remodel. "You really need to be honest with yourself," she says. "Do you want to go through the mess and headache of a remodel? You have to realize, things will go wrong. It will cost more than you thought. It will be a nightmare. And then when it is done, it will be beautiful."

When to move

No matter the increase in value a home renovation can deliver, there are some things you just can't renovate away. "Look at land size, location, schools, neighborhoods filled with ugly houses and no trees -- those are things you can't change readily," Fritschen says. If those are the issues you want remedied, then a move might make the most sense. "If you've always dreamed about living at the top of a hill, there is nothing you can do to change your flat street," Fritschen says.

Hating your neighborhood might not be the only reason to go house hunting. "Say your house was built in the 1950s and they used lead paint. Does your state law require you to strip the paint? Do you have to move out while the work is ongoing? What if you have asbestos insulation? These are things you might not want to touch," says Glink.

Moving isn't all that much easier than remodeling, but it is quicker, says Fritschen. "Remember, you have to pack up. You have to unpack," he says. "Selling a home is also invasive. But we have all moved before, so we are more comfortable with that transaction. You just need to weigh what you would hate less."

Don't run from repairs

Sheehan conducted a study in 1998 commissioned by The Wall Street Journal which showed that maintaining a typical home more than 30 years often costs more than four times the original purchase price. A daunting figure, but Sheehan warns that maintenance alone is no reason to move. "The repair costs may be deferred in a new home, but you have to remember that a bigger house takes more upkeep and you may not be getting the benefit you think you are by moving," Sheehan says.

If you are moving to an existing home, rather than new construction, not only will it be bigger, it will also likely have the same maintenance issues your old house did, but on a larger scale. "It may even cost you even more," Sheehan says.

The emotional bottom line

With some financial decisions it makes sense to remove yourself emotionally and just do a cost analysis. Yet financial planner Ray Ferrara, president and CEO of ProVise Management Group in Clearwater, Fla. says a house is a different matter. "A home, while an investment, is really about lifestyle first and an investment second," he says. "The decision of moving vs. remodeling is: Does your current home, if remodeled, make you happy? If your home, even if remodeled, doesn't meet your needs, and if you can afford something else, then move."

Ferrara says many of his middle-age clients decide that moving makes more sense, even at a cost, because they are now in a position in their lives to pay a premium for happiness. "In your twenties or thirties you can't buy the home you want and are forced to buy something that might be smaller and less glamorous than you would like," he says. "But most of us come home seven days a week. And if you come in and say 'I love this place,' then there is a lot you can overlook. But if you walk in and say 'I hate this place,' then move."

The best thing to do often is to take a close look at what is getting under your skin, and if you can get a few more years out of the home with a remodel, that could be your best bet, Fritschen says. "I encourage people to step back and see the big picture rather than looking at any one thing," he says. "Don't say, 'Oh, my kitchen needs to be updated, I want to move.'"

Michael Giusti is a freelance writer based in New Orleans.