

How To Renovate Your Home in a Profitable and Fun Way

Renovating your home can be a very enjoyable experience, and you can actually get as much a \$3 back in resale for every dollar spent if done right. However, renovating a home can be a train wreck where you don't even get 50 cents on the dollar and be a major disruption of your home life. What makes it fun versus a train wreck is going to depend on what you decide to renovate, who does the work, and how the work is performed.

So what makes sense to renovate?

The most profitable thing to renovate is the “fatal flaw” in the home. What makes something a “fatal flaw” is that the average buyer expects one thing and gets another. For example, I have seen houses that don't have even have a ½ bathroom on one of the living floors. Other common issues are the lack of at least one large bedroom, or perhaps a condo that just simply does not get adequate light. Often there are solutions to these problems and anytime you can eliminate a “fatal flaw” you're going to get a great return on your investment. In my experience fixing these fatal flaws typically increase resale by as much 3 to 5 times the investment.

The next most profitable areas to rehab are kitchens and baths as long as you don't go too high end. It is very typical to spend 10-20K on a kitchen and get a 30-45K resale benefit. It's also very typical to spend 7-12K on a bathroom and get a 15-20K resale benefit as well.

The last area I'd mention as a profitable area to renovate would be the miscellaneous inexpensive things you can updated for noticeable impact. For, instance adding Décor lighting is very inexpensive but enhances a contemporary decor. A nice high tech programmable thermostat is a quick single. Another example of an inexpensive improvement that adds a lot of impact is lighting. For instance, putting in that killer Minka Aire ceiling fan/light in your living room will cost only about \$500 dollars between labor and material, but can really add a dramatic effect to a room. One final suggestion is putting in a organized closet solution. For instance, Elfa closets typically run about \$400 for the material and another \$200 for installation, and for many buyers and users this has a disproportional upside value.

Who does the work?

There are a lot of great contractors out there, but there are also many that are either not good at what they do or outright dishonest. Add to the mix clients changing their minds, surprises that are found once walls are open, and a lack of specificity in the contract on exactly what is to be done, how, when, and what material is to be used, and there are lots of opportunity for disputes between contractors and clients. One of the big disconnects between the client and the contractor is that the Bid process creates an immediate goal alignment issue. Once a set price is established for some work, the contractor's motive is to spend as little on material and labor as possible to maximize profit, which is in direct contrast to the client's interest.

Some contractors, like myself, work on a cost plus an agreed upon profit upfront. In this system, the contractor does not have to gouge the client to cover unforeseen potential risks, plus it eliminates arguments about what is included, types of material, and client changes. Further the client has peace of mind knowing that the contractor is not going to cut corners, and do something dishonest to make an otherwise unprofitable job profitable.

Whether on a bid or cost plus basis, the absolute golden rule is never let the money get ahead of the work. If a contractor wants a large deposit to buy materials before the start of the job, I recommend you do not agree to this. Instead, split the deposit so that half is due at contract signing and the other half is due when he shows up with the materials on the first day. If the contractor does not have the financial capacity to do this, then you probably don't want to hire this person anyway.

The best way to find the right person is by referral. When evaluating multiple bids, weigh the quality of the product that is being offered, the professionalism and comfort level you have with the contractor, the proposed time frame for the work completion, the proposed payment plan, the agreed on work rules, and of course price to determine the best overall value. Keep in mind that the lowest price is not always the best option. Beware that many contractors intentionally underbid to win the business, mis-characterize the work as an “Extra” to justify extra billings, or take a progress payment and run when/if payment gets ahead of the work. Unfortunately, there are far too many lawsuits and disasters out there that come from remodeling, so use an extreme level of caution in picking your contractor.

How the Work is Done

For purposes of resale and for peace of mind, the project should be permitted and inspected. Ensure that the permit is signed off on, and retain the permit and plans as this is great documentation for re-sale. However, be advised that just because the work is up to code and passes inspection, this is not a guarantee of good work. Due to lobbyists and misc government inefficiencies, our city code is too strict in some areas and actually too loose in other areas. Additionally, I have seen inspectors that literally walk in and out in 90 seconds.

Therefore, on projects that cost at least \$25K, I strongly recommend hiring a builder for a few hundred dollars to periodically inspect the work particularly before drywall. I have done this for clients myself and have saved several of them thousands of dollars. There are of course professional inspectors for hire as well, but they tend to be too theoretical and point out little technicalities while often times missing the bigger picture items. For a few hundred dollars, this precaution is well worth the cost in my estimation. Further, letting the contractor know that they will have to go through the city of Chicago inspection process, and that you are bringing in a building consultant to evaluate the work will keep them on their toes.

Other considerations include getting certificates of insurance for both general and worker’s compensation insurance, naming you as being specifically insured, and getting partial and eventually final lien waivers from your contractor and his suppliers can be important.

Lastly, negotiate upfront with your contractor on the work rules for the project.

Specifically:

- Start and End times during the week, weekend, and holidays.
- Cleanup expectations as to frequency, and what is to be wrapped in plastic and covered by tarps.
- How the construction debris will be removed from the jobsite and how often.
- How are bathrooms, electricity, and water going to be provided for at the jobsite.
- Specifics of what work is to be done before each progress payment is to be made and the required paperwork.

When you rehab your home and use sound strategy regarding what items you renovate, if you remodel in a style that has mass appeal, if you select the right contractor, and if you take the time to plan how the work is to be done, the process is usually both fun and highly profitable.

As a residential real estate developer that has hired several general contractors, these are the lessons I have learned myself. I now have my own company called Ask Nagel LLC, a full service multi-unit property solution. Ask Nagel is a development, general contracting, and realty business that specializes in multi-unit investment property in the Chicago neighborhoods. We provide a one stop shop for clients for Realty, General Contracting, Permit Expediting, Property Tax Appeal, Tax Planning, Leasing, Property Management, and Mentoring. Feel free to email us at nagel@asknagel.com for a free confidential consultation.