

Home-Improvement Spending: Looking Up

The housing bust and subsequent tightened credit market put a damper on many homeowners' grand renovation plans.

Now, though, it looks like things might be about to change. Spending on home remodeling is expected to bottom out this quarter and pick up in 2010, according to Harvard's Joint Center for Housing Studies. The center's latest Leading Indicator of Remodeling Activity (LIRA), released last week, projects annual declines in spending to ease from the current rate of 12% to 3.1% in the third quarter of 2010, as remodeling fundamentals turn positive. (The indicator started seeing year-over-year declines in mid-2007.)

Owners spent an estimated \$109.7 billion on home improvements in 2009, down from \$120.1 billion in 2008. The center forecasts that number to reach \$110.9 by the third quarter of this year (for the four previous quarters).

Part of the reason for the turnaround forecast has to do with the housing market in general, which is by some measures showing signs of stabilization.

"We're seeing people seeming a little more comfortable – specifically, people willing to work with larger jobs, do larger investments in their home," says Bruce Case, president of Case Design Remodeling, a home-renovation firm based in Washington, D.C. Whereas about a year ago, most of Case's clients signed up for smaller, need-based projects (like fixing a leaky roof), now they're reaching a little more into the want-based projects, such as remodeling a bathroom or adding an extension.

"But we're still seeing cautiousness," Case says. "People don't want to make a mistake." Indeed, a still-tight credit market is curbing some homeowners' ability to borrow for remodeling projects.

For homeowners who are thinking about giving their place a facelift – to either increase resale value or just because they want to transform the basement into a fourth bedroom – there are plenty of pitfalls to avoid.

"Even though there might be an upswing of work in 2010, it's going to be slow. Homeowners have to figure out how to buy a new kitchen, how to pick a contractor, and figure out how much to spend," says Shawn McCadden, an independent consultant to the remodeling industry in Groton, Mass., who used to own a remodeling business.

Here are a few things to keep in mind before you pull the trigger on a remodeling plan and invite the plumbers and electricians in.

Discount may not equal deal

Just a few years ago, a homeowner planning a renovation could make calls to three different contractors asking for estimates and not one would respond. With the changed market came a silver lining for homeowners who could still afford to renovate: contractors who returned calls and offered lower prices.

But the lowest price on a job may not always be the best deal. Consumers should be wary of heavily discounted prices, says McCadden. It may be a sign that the contractor isn't running his business properly or is cutting corners. "If a contractor is spending your deposit money on a job he's finishing, he may not even show up at your house, or he might not be there to take care of warranty work when the job is done," he says.

When interviewing contractors, ask not just about the work but how the work will get done, says McCadden. Ask how they'll manage the house, how they choose materials and how they'll hire plumbers, carpenters and other workers.

DIY projects

The days of easy financing that enabled homeowners to pay for pricey remodeling projects are gone. Home-equity loans are much harder to come by these days, says Bruce Brown, a certified mortgage planning specialist at Pulaski Bank Home Lending in Kansas City, Mo.

So with an eye to saving money, many homeowners want an a la carte remodel: For example, owners do the painting or buy some of the materials while the contractor installs the new cabinets and does the electrical work. Owners are looking for places where the remodeler can bring most value to the project, says Case. And they're willing to get their hands dirty if it means a lower bill.

But if you want to do part of the work yourself, be realistic about your skill level. Don't try to install a new staircase if you're never picked up a hammer. You'll also have to accept responsibility if something goes wrong: "If you buy the paint and it peels off two years from now, it was your responsibility to provide the right material for the contractor," says McCadden.

Lead regulations

As of April 22, contractors doing repair and renovation work in homes built before 1978 will have to comply with new Environmental Protection Agency regulations. Pre-1978 homes must be tested for lead. If lead is found, certain practices must be followed for projects that will disturb lead-based paint, including laying down new carpet, putting up curtains or painting.

If these new safety guidelines apply to your home, be prepared for a sea of plastic coverings – and a higher price. These new rules “will be a game changer and will be an additional cost to do the work,” says McCadden. It requires containment in the work area to prevent the spread of dust as well as specific cleaning and cleaning-verification practices. The EPA says the regulations will cost contractors an average \$35 per project, including costs for materials, such as plastic sheeting as well as labor. McCadden says that’s a gross underestimate. “It’s misleading for homeowners who might think a contractor is gouging them on price because of this extra cost,” he says.


On this, too, homeowners should ask prospective contractors about their plans. The *EPA advises*¹ that homeowners find out if their contractor is trained to perform lead-safe work and to review a copy of their training certificate.

¹<http://www.epa.gov/lead/pubs/renovation.htm>

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