

Do It Yourselfers Increase Their Wealth Through Remodeling Project

Should Families Remodel or Buy Another House?

Pay Attention Would Be Real Estate Investors! This is how it's done.

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Remodeling Reports

January 12, 2010

With home prices falling and growing families needing more space in their homes, many homeowners are turning to remodeling to meet their needs. Maybe they would like to buy new, but the numbers don't add up for them and they like where they live. This is the story of one such family that I was able to help. It's really about them and the effort they put into their home.

About the numbers adding up. When a move-up buyer sells his old house and buys a new one, there is what I call the Moving and Buyers Penalty. The family buys at retail since a sales commission is paid. However they sell at wholesale, since they pay a commission here too. They have the cost of financing, closing, and moving. In addition, I have always advised buyers to budget a minimum of ten percent of the selling price for the first year of expenses in their new home. (A resale is still a new home for the buyer.) These items range from window covering, a few new pieces of furniture, hardware to hang pictures, landscaping, and all the little things that they had done to make their prior house livable. It's important for you to calculate these costs before making a decision. In addition to the financial impact, evaluate the plusses and minuses from a social prospective for each family member when determining whether to move or stay and remodel.



Family Remodels Home Using a Remodeling Coach

In August of 2007, Alice and Ralph (they asked me not to use their real names), with the help of a relative who was an architect, developed a plan to turn their existing 1950's Cape Cod 1450 square foot house into their 2700 square foot dream home. It would require expanding and reconfiguring the existing house. They loved their neighborhood in Fair Haven, New Jersey, it was the perfect place to raise their two young daughters, and they had developed ties to the community. Their home sat on a large lot with great potential on a lovely street and they had no intentions of moving. They had done their research. The fact was that to find what they wanted in another house in town would cost them much more than the original cost of the house plus the cost of expansion. In addition, there would be the cost of selling, moving, financing, and buying another home, as well as fixing it up to the way they would want it. Every existing room would be affected for this project. The windows, siding, and roof would be replaced. Dormers would be added to bring in light to two 2nd floor bedrooms in the front of the house. A covered arched entryway with

columns would be added to the front door entrance to protect family and visitors in inclement weather. A second front door into a mud room would contain any mess (and keep the rest of the house clean) from their children's outside play or Mom and Dad's outside work. Alice's new dream kitchen would be an addition and open up into the Family Room. The old kitchen area would become a new dining room and a second floor master bedroom suite (with a walk in closet and private bath) would be built over the new Family Room. The remodeled second floor roof would allow space for a new second floor heating and air conditioning system. The main bathroom for the children would be rearranged and upgraded as part of developing new halls and better traffic flow for the second floor. Energy efficiency upgrading would not be forgotten. The existing, one zone low efficiency HVAC system would be reconfigured into a separate high efficiency system for each floor. The exterior walls would be insulated to meet today's standard. Three quarter inch foam would be added to the exterior underneath the new siding to exceed the standard. The windows chosen surpassed the present building codes and qualified for a energy rebate. Out of date electri-



Critical information that you need to know.

www.thediycoachusa.com



cal wiring would be replaced. By August of 2008, The family had received several bids from general contractors. Established contractors' prices seemed to be a lot more than they could afford or wanted to spend. Low priced general contractors were either not established or their contracts left out a large number of items and their related costs that would be required to complete the project. In some cases there were allowances without specific specifications. Ralph's education and vocation gave him a reasonable understanding of budgeting. Without having an itemized cost of everything that would go into the project, the project would have no financial controls. Ralph and Alice discussed this and it made them both uneasy. What happened next must have been fate. A friend named Scott introduced the family to Jerry Spumberg and his company called "The Do It Yourself Coach, LLC". The business was started in July of 2005 by taking some of the ideas from television home improvement shows and his forty years experience in the construction industry. You can find more information about Jerry at <http://www.thediycoachusa.com/>. The main purpose of the web site is to educate the consumer about the advantages and disadvantages of taking on any size project without the proper expertise. It also gives consumers a look into the cost structure that most remodeling contractors use to be financially successful by linking the browser to trade publication web sites.

When Jerry met with Ralph and Alice, he explained that his business model was uniquely different from a general contractor. They would hire him (by the hour and on an as-needed basis) to work with them through the planning stage, run the project on site, help with selecting vendors and trade contractors, advise them during product selections, and handle technical issues. In some cases, when it was productive and cost effective, Jerry would also work using his tools and skills. In several instances, when the owners decided to take on aspects of the project themselves, he

would advise them and show them how. At other times, the client would assist Coach Jerry with the work and learn how it was done. But for the most part, Ralph's employment in New York was demanding. It would limited him to participating in only a small portion of the work. Most would fall on the shoulders of others.

Jerry then explained to them, that the role of project administrator that they would take on would save them the most money by replacing the need for a General Contractor or Builder. He would help them develop a budget, but not by guessing. He would request proposals for everything that is known. He would use estimates for that which was undetermined and develop a contingency allowance. He would use his resources and they would use theirs to obtain the best deals by using competitive bidding. All contracts would be directly between themselves and vendors and trades people. They would be able to compare direct costs in a transparent relationship with their Coach.

In essence, Coach Jerry would be more like an employee or consultant than a contractor. He would become their project manager in the same way that general contractors assign a project manager to a project. If they did this, they could eliminate the mark up and profit that general contractors have to add to a project because of overhead, sales commissions, and a desire for profits. (If you go to our web site there are links to industry documentation that states this additional cost is 35-67%.) In essence, they would become their own remodeling company and know what things cost builders before mark-ups. Almost

sounds too good to be true, but it's not. The contract between Alice and Ralph and The DIY Coach, LLC was signed in September of 2008. The selection process was detailed and time consuming. Plans were updated, the master bedroom was expanded, and structural changes were made to reduce cost. Improvements in functionality within the kitchen and bathrooms was developed through meetings with the architect and kitchen cabinet designer.

Prices were then obtained from multiple sources. The preliminary budget was developed and refined. The decision was made to go forward. Permits were applied for and received. In the middle of winter, the project was begun. Because of the extensive work on the house, the family had to move out of the house for about four months. But they moved back into the house in June. As you can see, there was a lot to do before the first shovel could be put in the ground.

Was it worth it? First let me say that Ralph and Alice were great students. They learned about the real estate market in the area and understood about the relationship of cost to value. They worked together to find great products that matched the price points of their goals, met their needs, and were esthetically pleasing without overspending. In some cases, when they needed to balance something they really wanted versus the pain of going over budget, the budget usually ruled.

I think the toughest choice they made had to do with whether to add the two dormers for the second floor children's bedrooms. This option would put them over the budget, but if done at a later





time, it would cost them 3 times as much and the construction would disturb them while living in the house for several months. They decided to do it now. It added great curb appeal, expanded the bedrooms, brought light into the rooms, and added many times its' cost to their house's value.

A second important choice came during the framing phase. We determined that by framing the roof in a way that created a higher peak, we could convert the second floor furnace room into an additional hall closet space and increase the size of one of the girls bedrooms. We would then move the furnace into the attic. This would have little effect on cost. To suppress noise and increase energy efficiency, we would insulate the second floor ceiling as well as the attic roof rafters. Thus, the furnace and the duct works would be in conditioned space. This would increase costs somewhat by requiring the additional insulation of roof rafters that would also meet a required fire rating. However the return was that we increased the usability of the second floor by adding living space and the overall energy efficiency was improved. This added considerable value to the home at a small price.

In certain construction phases, they even did some of the work themselves with the help of family, friends, and the DIY Coach's guidance. They accomplished items such as demolition, painting, and clean-ups. Ralph became the assistant finishing carpenter and helped with the crown molding in the kitchen and family

room.

There are still projects around the "new house" for them to do. Maybe the backyard will be next. What they have learned will make it a sure thing that they'll get the most for their money as well as what they want.

There are misleading advertisements from home improvement companies that talk about investing in your home and adding value to it. What they don't say is that when using a general contractor, as industry studies prove, most home improvement projects cost more

money than they add upon an appraisal or the selling of a home. (See our web site Cost vs. Value link.) Being budget minded, concentrating on adding more value than they spent, the family significantly increased the value of their home above what they spent. This was confirmed by the recent appraisal they had. It's not all about money. Their home fits them. It's a joy to see the family living in it and how it brings them together. This is what gives Coach Jerry his greatest satisfaction. The knowledge that "I have made life a little better for someone else using my skills".

But who you really need to talk to is the family. After all, this is a story about them and how they went after and built their dream home.

Investors Tip: Investors, using Real Estate as a vehicle, you can build wealth in the same way as the family above did with professional guidance. This can be done in two ways of which there are several variations. The first is by increasing the value of a property substantially above the cost of purchasing and improving it. The second is to consider renting it as an alternative to selling it.

Our next article is what I call a Hot Topic:

Things you need to know that cause a wet basement.

Finding out the problem by a process of elimination.

If you wish to see photos of the project you can go to our web site - look under projects titled: Kitchen Renovation, Additions.

