

HOW TO ADD MORE LIVING SPACE TO YOUR HOME

By: *Kevin Ertl, Vice President, Private Banking Relationship Manager*

People are definitely spending more time at home these days, and it's only natural that your house may seem too crowded and inefficient for the times we're living in. You're not alone if you find yourself looking around for ways to give you and your family more living (and working) space.

With a nationwide shortage of housing and record-high home prices, more homeowners prefer to stay in their properties versus moving. Nearly half of American homeowners are living in the first home they purchased. Of those who have lived there for longer than six years, 61% will choose to renovate instead of moving.¹

If you're leaning that direction too, here are a few things to consider to ensure you're getting the most value from renovation and remodeling upgrades you may be considering for your property.

IMPROVE APPEARANCE AND FUNCTION WITH TIMELESS STYLE

There are so many interesting options and technological enhancements homeowners can do to upgrade their houses; it's no wonder popular trends change from year to year. New changes are always on the horizon for upscale renovations, including spacious chef-style kitchens, indoor and outdoor pools and spas, elaborate home offices, state-of-the-art home theatres and music rooms, and destination-themed bars and wine cellars.

However, according to the home improvement website HomeAdvisor,² if you want a good return on your remodeling investments, going with what's "hot" might not always be a good idea. This year (and pretty much every year before and after), the best remodels are likely to focus on upgrades that will improve appearance or function now and continue to be attractive additions in the future. To understand what's getting the best returns in your area right now, talk with a local realtor.

With that being said, the return on investment (ROI) is the bottom line if you're looking to sell your home quickly and make a profit. If you plan on flipping your property soon, be aware of popular trends and what the likely return on remodeling costs is for particular projects.

FIVE POPULAR HOME IMPROVEMENTS: WHAT THEY COST AND YOUR ROI³

SUNROOM OR ENCLOSED PATIO. Affordable and popular, sunrooms are usually made from vinyl or aluminum. The average cost per square foot can range from \$50 to \$200, depending on the size and features. Generally, you'll pay

AMERICANS SPEND CONSIDERABLE RESOURCES ON HOME IMPROVEMENTS¹

The U.S. home improvement industry is stronger than it has been in over 10 years. It encompasses the sale of building materials, appliances, décor, and other home enhancements, and the services offered by contractors, tradespeople, and other workers who help to build, install, modify, and upgrade homes. The business of home ownership represents a significant portion of the U.S. economy. Total home improvement sales in the U.S. in 2018 were \$394 billion. The forecast revenue for DIY home improvement market in 2025 is \$680 billion.

anywhere from \$20,000 up to \$75,000, including labor costs for painters, carpenters, and electricians. The ROI on this addition is 50%.

OUTDOOR KITCHEN. The features you choose drive the costs on this project: the type of grill, fire pit, oven, sink, cabinets, refrigerator, countertops, and the materials for the structure. The cost can be as much as \$150,000, with the average cost per square foot \$25 to \$75. The ROI on this investment is 100% when it comes to enjoyment. For financial gain if you decide to sell, you could get 100% to 200% return if you live in a warm, sunny climate.

GRANNY FLAT OR IN-LAW APARTMENT. This is one of the most popular home addition trends hitting the market this year. This little detached home-away-from-home is great for visitors and relatives. The average size is 600 to 750 square feet and costs an average of \$90,000 for a structure that includes a bedroom, bathroom, kitchenette, living room, and laundry area. The ROI for a long-term rental and for selling your property is 100%.

DETACHED GARAGE WITH SECOND-STORY LIVING/OFFICE AREA. Cost will be determined by the size (single, double, triple, compact, storage space), building materials, and window and door selections. Generally, you'll pay \$15,000 to \$25,000 including labor and materials. Add another \$5,000 to include a second level, and expect to pay more if you're putting in plumbing, electrical lines or HVAC. The cost per square foot runs from \$35 to \$50. The ROI on this structure is 100%.

CHANGES TO AN EXISTING FLOOR PLAN. In a nutshell, the more you change the more expensive this project will be. If you add extra square footage, it will cost even more. The architectural design and necessary local approvals and building permits will cost from \$1,000 to \$5,000. For the project itself, depending on the scope of your changes, the cost could be up to \$200,000 or more. The ROI is difficult to calculate as there are so many variables. But, on average, you can probably expect an 80% return on your investment at most.

PAYING FOR YOUR HOME IMPROVEMENTS

Should you decide to finance your home addition or renovation project rather than pay cash, home equity lines of credit are one attractive option. We offer a home equity line with no bank fees at closing and interest rates are at historic lows. Or, depending on the terms of an existing first mortgage, a refinance cash-out mortgage may be a solution if you can reduce your existing interest rate and/or reduce the term of an existing mortgage. Contact Commerce Trust Company today for more information.

¹Source: Jaleesa Bustamante, iPropertyManagement.com, "Home Improvement Industry Statistics, Trends & Analysis [2020]," <https://ipropertymanagement.com>. ©2020.

²Source: HomeAdvisor, "This Year's Popular Remodeling Choices," <https://www.homeadvisor.com/r/popular-remodeling-projects/>.

³Source: Home Remodeling Costs Guide, "Top 20 Home Addition Ideas, Plus Costs and ROI Details in 2020," <https://www.remodelingcosts.org/home-addition-costs/>

The opinions and other information in the commentary are provided as of September 30, 2020. This summary is intended to provide general information only, and may be of value to the reader and audience.

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ABOUT THE AUTHOR



KEVIN E. ERTL

Vice President, Private Banking Relationship Manager

Kevin is a private banking relationship manager for Commerce Trust Company. As a member of the private client team and an experienced, tenured private banker, he and his dedicated client support staff are responsible for ensuring each client's experience with Commerce Trust exceeds expectations. Kevin's specific responsibilities include management of our clients' day-to-day banking, cash management, and credit needs, while also helping them navigate the wide array of our financial services to find the solutions that best fit their needs. He joined Commerce in 2003 as financial manager of student loans before taking his current position. Prior to joining Commerce, Kevin was employed at Saint Louis University as a director of development, scholarship coordinator, and a counselor for prospective families and alumni on accessing higher education financing. Kevin earned his bachelor of arts degree in communications and promotion and master of business administration degree from Saint Louis University. Kevin serves on the Executive Advisory Board for the John Cook School of Business at Saint Louis University and as a volunteer and fundraiser for Good Shepherd School for Children and Saint Louis University High School.



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