
July 25-31, 2003

▼ **ARCHITECTS, ENGINEERS, CONSTRUCTION**

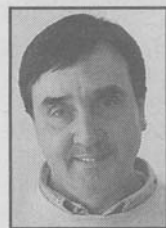
boston.bizjournals.com

Boston Business Journal 33

Before you refinance, know the real cost of renovation

Hastily calculating price can lead to economic and emotional stress

As mortgage rates hit historic lows, many homeowners are refinancing with the intent of taking newfound, ready cash to convert their dated kitchens, baths and master suites into showcases they may have dreamed of for years.



INSIDER VIEW



DAVID MORGAN

High-end appliances in enlarged kitchens, attached family rooms, walk-in closets and multispray body showers now seem not only affordable, but necessary as investments in the strategy to diversify beyond recently depressed equities markets.

In the rush to obtain the latest low rate, homeowners are making hastily calculated guesses as to the amount of cash they need to make their improvements, committing themselves and their investment to disappointment and potentially toxic emotional stress. Budgeting is formulated with a mind's eye set on pricing from the past, almost certainly woefully inadequate for today's true construction costs, which have skyrocketed in recent years. Knowing how the landscape has changed in the construction business will help homeowners better appreciate the costs of home renovation.

clients. These plans are commonplace now, but were the exception rather than the rule for residential construction just a few years ago.

Consumer expectations

As these costs of doing business for builders and remodelers have risen, clients' expectations for quality, service and expanded warranties have risen as well. The plethora of design and product options available via the Internet and in print magazines have inspired consumers to refine their tastes and have whetted their appetites for the kinds of exquisitely furnished designs previously enjoyed by only the very wealthy. Now, even in more modest homes, kitchen and bathroom cabinets are sought with the look and feel of fine furniture. Complex mosaics grace backsplashes and shower enclosures



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Skyrocketing insurance costs

Renovation costs shot upward after an incident in the mid 1990s when an employee of a bed-and-breakfast on Nantucket was seriously injured and not covered by workers' compensation. The plaintiff's attorney successfully sued the town of Nantucket for not enforcing existing laws, resulting in a seven-figure settlement from the town. All across Massachusetts, town managers, mayors and selectmen suddenly decided that it would be less expensive to enforce the existing workers' compensation insurance laws than it would be to face the risk of such litigation. General contractors doing business in their towns would be required to prove that they had proper coverage before they would be issued a building permit by the city or town, for example.

This extends to subcontractors as well. Soon, 10 percent to 20 percent was added for all the related trades: plasterers, painters, plumbers, electricians, landscapers and masons. At the same time, liability insurance costs have also risen dramatically. The September 2001 terrorist attacks, the emergence on a national level of mold as a risk factor and the increasing sophistication of plaintiff litigation have exposed the insurance industry's vulnerability in this new era of risk. As a result, many insurers have left the construction liability business altogether. Those who still offer it are charging much higher premiums for reduced coverage.

As employers, contractors have discovered that keeping the best employees requires them to provide "real job" benefits like health insurance, 401(k) plans and generous holiday and vacation pay, adding to the costs they pass on to their

complemented by frameless plate-glass doors. In kitchens, pairs of dishwashers and refrigerators are found alongside built-in cappuccino machines and thousand-dollar faucets. The exciting part of this is that the options for exquisite, exciting custom designs are endless, but the options are often much more expensive than homeowners expect.

So with all these factors, is it worth it? In most cases, the answer is yes. A well-planned remodeling project can add tremendous value to a home. The key is to plan the project appropriately.

In the beginning, a homeowner should select an architect or designer who: understands and will be upfront about the true costs; has either an ongoing relationship with a respected builder or is a part of a respected design/build team; and has a track record of similar projects, whose clients may be consulted to report on the relationships of trust they have or have not cultivated with these professionals.

Once your team is in place, make as many design decisions and product selections as possible before construction begins — do all your homework before proceeding with your financing plans.

The old adage "measure twice, cut once" means do your homework. Resist the urge to take advantage of refinancing before you understand the full costs. Check and recheck your figures before making a permanent decision that may place you, your family's sanity and your home's equity at risk.

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