

Real Estate

Remodeling firms look for spark

Worried Homeowners delay projects

By MARY AMOROSO
SPECIAL TO THE RECORD

Allan and Elizabeth Rosenstein began talking to a remodeling company a year ago about adding a family room to their Old Tappan home.

Work began last month

“We had originally planned to start the project last fall,” said Allan Rosenstein.

“We had been saving for this for quite some time. But, based on

what was happening in the financial markets and our general concerns about the economy, we put the project off.”

The Rosensteins’ concerns and delay reflect what’s happening throughout the remodeling industry. Harvard’s Joint Center for Housing Studies reports that homeowner spending on improvements has dropped almost 16 percent since the end of 2007 and apparently has not hit bottom.

That number contrasts with the flush period between 2003 and 2007, when homeowner spending on improvements increased by 60 percent.

“There’s no doubt it’s a much different environment,” said Glen Lumia, owner of Creative Design Construction and Remodeling in Northvale and president of the Builders and Remodelers Association of Northern New Jersey. “It’s more difficult to get financing. People are losing their jobs. People are feeling insecure that they might lose their jobs.”

Plus, as Harvard’s Joint Center for Housing Studies points out new owners of existing homes tend to spend 20 percent to 25 percent more on remodeling when they first move in. When home sales are in the doldrums, so is remodeling activity. And homeowners are less confident they can recoup the cost of deluxe kitchen and bath remodels when the real estate market is hurting. In fact, in their most recent survey, Remodeling Magazine and the National Association of Realtors found that the number of remodeling dollars sellers recouped declined steadily from 87 percent in 2005 – the real estate market high – to 67 percent in 2008.

When home prices are slumping, homeowners tend to think twice – even thrice – about remodeling, and they become very budget-conscious.

Lumia said more homeowners are controlling costs by remodeling within the footprint of the house, foregoing additions. And whereas a couple of years ago an average remodeling job might have been several hundred thousand dollars, today the average job is under \$100,000, Lumia said.



Homeowners' budget-consciousness is driven, in large part, by the difficulty in getting financing. Two years ago, one in five homeowners had a home equity loan, one in five had a home equity line of credit and one out of three consumers reported using them to pay for home improvements, according to an Experian/Gallup poll.

But today, banks have more stringent standards for the loans, people's net worth has been sapped by the stock market, and the decline in home prices has taken a toll on homeowners' equity.

The good news is that many manufacturers and retailers are offering incentives and discounts to increase business.

"We have manufactures giving great incentives," Lumia said. "Free upgrades in wood species on kitchen cabinets. Free upgrades in glazes."

In addition, there are new federal tax credits for remodeling projects that increase home energy efficiency.

Tax credits are available, at 30 percent of the cost, up to \$1,500, in 2009 and 2010 for installing energy-efficient windows and doors, insulation, roofs, air conditioning, furnaces, non-solar water heaters and biomass stoves in existing homes.

Tax credits also are available at 30 percent of the cost (with no cap) through 2016 for installing geothermal heat pumps, solar panels, solar water heaters, small wind energy systems and fuel cells in existing homes and new construction.



Harvard's Joint Center for Housing Studies Predicts that homeowners' interest in "greening" their homes and improving energy efficiency will help drive the eventual rebound in the remodeling industry.

"With homes built before 1970 [before the first OPEC oil embargo, when energy was relatively inexpensive] responsible for about 40 percent of residential energy use, the stock of older homes provides a prime market for energy-efficient upgrades," according to the center's 2009 report, "The Remodeling Market in Transition."

The Harvard Center also predicts that the current wave of foreclosures will provide a market for the remodeling industry, since foreclosed homes are often poorly maintained and often vandalized.

Back in Old Tappan, the Rosensteins are dealing with the tumult of construction of an addition to the home where they have lived with their two children for more than six years. If all goes according to schedule, the new family room should be done by mid-October.

"We knew we wanted to do this for a long time," Allan Rosenstein said. "We're making the house more livable for ourselves, not aiming to sell the house in the next few years and recoup the cost. It's kind of a long-term play for us."