How to increase the value of your home without overcapitalising

By Ronald Ennik

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Homeowners who are intent on renovating and / or extending their homes should take care to apply their minds to the process - and not their hearts. With the market coming out of a long quiet spell, many have opted to renovate rather than change homes.

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If there is a chance that you might sell in the next seven years, the tripwire in the home upgrade process is the risk of overcapitalisation. But it gets more complicated than that. Ironically, modern technology is compounding the risk.

My best advice to buyers who are thinking of renovating a property they've bought or sellers sitting tight and choosing to rather renovate, is to avoid improving a house beyond its realistic resale value in these circumstances.

Ideally, a house that is priced in the bottom third of the price ranges offered in a suburb is ripe for renovation. It is easier at this level to attend to most items that need redoing without ending up at the top of the market in an area.

The pace of change

The unprecedented rapid pace of change in automation technology, style and design in recent years has resulted in the shelf-life of new fixtures and fittings being shorter than ever.

In the past, if you overcapitalised on a house, you generally wouldn't wait more than five years for value to catch up. Furthermore, it took up to 10 years before homes began to become technologically outmoded.

In today's ultra-high-tech and gizmo-driven market environment however, it can take just two years for contemporary technology features and design elements to lose their appeal to buyers. Therefore, be careful not to overspend on these items. You'll soon feel a need to upgrade again.

At worst, the combination of overcapitalisation and short shelf-life technology could prevent a full redemption of the capital outlay on a home upgrade – particularly if it pushes the property beyond the ceiling price in its suburb.

Furthermore, make sure your renovation is tailored to suit the neighbourhood. A property that remains in keeping with the profile and style of others in the area is going to attract a buyer more easily than a property that has been renovated for personal comfort and style but finds itself out of step to the surrounding properties.

As a buyer, a fully renovated property that is overcapitalised can be an excellent buy as you are acquiring a great value proposition at a price less than the "sum of the parts". You wouldn't have arrived at the same cost if you had done the improvements yourself.

Check area prices

Too much upgrade investment in the wrong suburb will be difficult, if not impossible, to recoup – so check average home prices in the area before you spend a cent.

In normal conditions, the general rule is not to invest more than 25% of market value of a home on improvements and renovations. In the current market, more prudence is probably warranted.

Care should be taken about overly costly use of the '3 Fs' – fittings, fixtures and finishes – as well as buying too heavily into the fast-moving trends in technology and design.

The reality is that the long-standing process of expanding and modernising a home and then sitting back and waiting for the inevitable return on investment is itself becoming obsolete.

ABOUT RONALD ENNIK

Ronald Ennik is the founder and CEO of Ennik Estates.

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