The New York Times

Renovation vs. Relocation in Retirement

APRIL 10, 2015

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SHOULD you downsize and move to a new neighborhood? Or renovate the family residence to suit your retirement needs and lock in for the long term? It is one of the most vexing questions older people face as they plan the shift from a working life to retirement.

Mary and Christopher Anderson, who live on the western edge of Milwaukee, know the situation well. They wrestled for several years with whether to renovate their 1953 ranch house in preparation for retirement, or leave it and move to the suburbs. But every time they tried to buy a house, someone beat them to it.

They took that as a sign that they would be better off updating their home of 18 years and staying put.

“We might not even get the money out dollar for dollar,” said Mrs. Anderson, 54, who is still employed as a special-education teacher “We’ll get the living out of it. You can’t put a price on comfort.

A crowd gathered for a political rally in 2012 in the Villages, a retirement community that is also the center of its own census-designated statistical area in Florida. Last year, the community’s population rose more quickly than that of any other census area in the United States.

The Andersons appear to be in good company. An estimated 36 percent of retirees plan to stay in their homes, according to a Merrill Lynch and Age Wave report released in February. Most said that was because they loved their home and neighborhood or because they valued the ability to remain independent while still having friends and relatives close by.

The relationship between financial and emotional value shifts over time, however, according to the report, which is based on a national survey of more than 3,600 people. Between the ages of 55 and 64, half said their home’s financial value was more important, while half said its emotional value was. From ages 65 to 74, 56 percent said home’s emotional value was more important, compared with 44 percent who said its financial value was. At 75 and older, 63 percent said emotional value while 37 percent said financial value.

Furthermore, baby boomers spend more money than any other group on renovations, accounting for 47 percent of the home renovation market and spending $90 billion annually, the report said.

Home is not just a building but a place to enjoy life, "to build deeper and more fulfilling connections," said David Tyrie, managing director, head of personal wealth and retirement solutions at Bank of America Merrill Lynch.

As people approach the years when Americans typically retire, 55 through 66 or older these days, they also want, and often can afford, more comfort.

Although the economic downturn that began in 2008 tempered some renovation spending. Vince Butler, co-owner of Butler Brothers Corporation in Clifton, Va., and a member of the National Home Builders Association, said his average project dropped to $70,000 from $130,000.

But other remodelers say they are seeing an uptick in business again. In the last 18 to 24 months, "the dam just opened," as people jumped back into the renovation game across the country, said Kevin Anundson, president of the National Association of the Remodeling Industry, who is based in Elm Grove, Wis.

Yet, "people are still a little more hesitant to spend on a very big project," he said. They just wanted to remodel their bathrooms by gutting them and rearranging them a little bit for $25,000 to $35,000 in his area, he said. "They scaled back what they were going to remodel," he added. "The larger projects did go away."

Deciding whether to stay in your home and renovate rather than move to a different home, whatever the size, is complicated. But, after clearing the emotional hurdles, it is important to take a methodical approach to the project.

"Write down your wish list," Mr. Anundson said. "Decide how much you want to spend and see how far down you can get" on the list. Allow yourself to dream, as a way to figure out whether and how much you want to change your house. "Pretend like you've got all the money in the world," he said. "How would you change your house? That really frees up the mental limits you put on yourself."

Once you've considered all the things you might want to do, consult experts, including remodelers, designers, architects, real estate professionals and financial advisers to figure out how much your dreams will cost, whether the expenditure is appropriate for your neighborhood and how you will pay for the improvements.

Will you pay cash, use a home equity line of credit or loan or tap your 401(k) or Individual Retirement Account? Keep the tax implications in mind if you decide to withdraw money from a retirement account, said Jared Snider of Exencial Wealth Advisors in Oklahoma City. Consider whether your assets are better kept in investment vehicles that will yield more than the interest on a home equity line at roughly 5 percent will cost you.

If your mortgage is paid off, you might want to use the equity in your home for a home equity line of credit or loan, or, if you have money that is not giving you much of a return, you might want to use it. If you take money from a 401(k) plan or an I.R.A., you will have to pay tax on the income, which might put you into a higher tax bracket, Mr. Snider said.

The Andersons decided to use money from her inheritance. It was important to them to create a kitchen and family room space that could accommodate gatherings of their extended family. Mrs. Anderson and her seven brothers and sisters promised her parents “we would continue to get together once a year,” she said.

They finished the project late last summer. At Christmastime, when the Andersons hosted the family gathering, the group included the three siblings from Illinois, one from Michigan and four from Wisconsin and their families — 40 people in all, she said.

Robert Tardiff and his wife, Kathleen, made a similar choice. They decided to renovate their Vienna, Va., home in stages, beginning about 10 years ago. “We’re really comfortable living in this environment,” said Mr. Tardiff, 73, who has a doctorate in toxicology and pharmacology and works part time at Georgetown University. “Our connections are all here,” including their three grown children and five grandchildren, who live in Northern Virginia and Washington. He estimates he and his wife spent $150,000 in the last decade to enhance their home.

Here are guidelines for remodeling:

■ Gauge how long you plan to stay in your home. Is it five or 10 years, or do you plan to live in your house for as long as you can live there independently? “Spend the money that’s comfortable for you and enjoy it,” Mr. Anundson said. There is no way to gauge precisely how much you’ll get for your house when you or your heirs sell it.

■ Think through all the ramifications of your plan so remodelers or architects can avoid having to “undo” or “redo” parts of previous jobs, Mr. Anundson said. “Tell all up front,” in case water and sewer lines, for example, have to be run to turn an attic into an additional bedroom and bathroom, he said.

■ Consult a real estate professional in your market and neighborhood who knows the value of comparable houses and whether they have been renovated. “They are the eyes and ears of what is in demand right now,” Mr. Anundson said. “They are hearing why people buy or not buy places all the time.”

■ Consider changes that will affect the curb appeal of your home, such as minor upgrades in the kitchen, replacing a front door with a sturdy steel door, replacing garage doors, adding a deck or replacing siding with energy-efficient siding for better insulation, said Sandra O’Connor, regional vice president, National Association of Realtors, Greensboro, N.C. Whatever the return you receive when you sell, you are also “getting the enjoyment of it while you’re living there,” she said. “It’s rare to get back the money dollar for dollar.”

The Andersons spoke with three companies and obtained two bids before proceeding. “You can’t put a price on family, on living comfortably when you retire,” Mrs. Anderson said.

Original URL: http://www.nytimes.com/2015/04/11/your-money/renovation-vs-relocation-in-retirement.html?_r=0