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High-End Remodels in a Down Economy

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According to an April study by American Express Publishing and Harrison Group, more than half of affluent consumers feel guilty making luxury purchases in this economy, while 53 percent worry they could actually run out of money.

While “luxury purchases” typically include items like high-end jewelry, clothing and cars, they could also include high-end home remodels, which these days are fewer and farther between, says remodeler Chris Donatelli, president of Wheaton, Ill.-based Donatelli Builders Inc.

“There are fewer projects available right now,” he says. “So when the larger ones do appear, you really have to make sure you’re offering homeowners value for the money they’re spending.”

Creating value while making money, while sometimes difficult, is critical since high-end remodels typically demand more time, effort and attention to detail—although not always in exchange for more money.

“High-end projects are probably twice the amount of work,” says remodeler Steve Gray, president and CEO of Indianapolis-based Steve Gray Renovations. “Do you make twice the profit? Probably not.”

Because “high-end” doesn’t always mean “high profit,” value is just as critical to the high-end contractor as it is to the high-end customer. To find it in a down economy, remodelers must continually keep their challenges, opportunities and expertise top-of-mind.

Low times for high-end

Because of the recession, among the biggest challenges, according to Donatelli, is financing. “Lending has really tightened up in our industry,” he says, “so contractors need to be careful about making sure the funds are available for the project before they accept it.”

To avoid footing the bill if the bank bails, Donatelli recommends remodelers bill more frequently—at least every two weeks instead of every 30 days—and seek clients who will fund their high-end remodels with cash rather than credit.

Another challenge facing high-end remodels, according to Gray, is the housing slump, as some consumers are reluctant to invest in their homes for fear their properties have lost value.

“Although home values are down now, we’re encouraging our customers to go ahead with projects if they’re planning on staying in their home for a few more years,” Gray says. “They’re realizing, ‘Our house isn’t worth as much as it was a year ago, but we’re not selling right now anyway. If we do this now, it will add value for when the market comes back in a couple of years, when we are ready to sell.’”

The benefits of high-end

Perhaps the largest benefit of high-end remodels is more work, which often leads to a bigger bottom line, says Donatelli.

“The name of the game right now is workload because there are fewer clients in the market,” he says. “High-end projects aren’t more profitable in terms of profit margin, but what they do offer is more volume.”

When clients can afford higher-end remodels, they typically can afford to do more, which in turn translates to fewer empty squares on a remodeler’s calendar.

According to Gray, the economy has lowered material costs significantly—creating high demand among bargain hunters, and keeping a remodeler’s schedule busy.

“Now’s the time to remodel because the price of materials is going down,” he says. “Lumber, for instance, is at a 20-year low, and we’re passing those savings on to our customers.”

Although some are reluctant to spend money, Gray says smart consumers understand that doing a high-end remodel today will likely cost less and potentially make them more—especially kitchen and master bath remodels, which historically have offered homeowners the highest return on investment.

“If you can bring value to a customer, there’s margin to be made out there,” Gray says. “Remodeling couldn’t be in a better position now because people are staying in their homes, and when they stay in their homes they get tired of them.”

And as long as you provide high-end service to match your high-end product, customers will keep coming. “Our clients are our selling force,” Gray says. “When we take care of them, they send us referrals.”

High-quality over high-end

Referrals, value and volume all are good things for remodelers, and high-end projects often offer them in spades. But that doesn't mean that every contractor should be chasing them, according to Donatelli. In every economy—up and down—he says remodelers must pursue projects within their areas of expertise instead of projects that merely sound like good ideas. If you specialize in economy projects, then luxury probably isn't your most realistic target.

“Know who you are and who you aren't,” Donatelli says. “Just because the economy is tighter doesn't mean you should stray from who you are and what you do. Decide what you're best at, because that's what determines how successful you are, not the economy.”