

Cost of Remodeling House vs. Cost of Building New House

The cost of building a new home may be a better long-term investment than remodeling.

Homeowners may decide its time for a change or upgrade for a number of reasons. Everything from a growing family to increasing clutter or a rising income can make it seem like a good time to buy a new home or remodel an existing one. However, these two options are very different in terms of cost and impact on lifestyle.

Options

Within the decision to pay for remodeling a house or get a mortgage to build a new one, homeowners have several different options. Remodeling an existing home can be a small, inexpensive project designed to add storage space or update fixtures, or a large, costly undertaking that includes every room and leaves very little of the original interior intact. Building a new home on the same lot as an existing home carries the added cost of demolishing the old home, while building a new home elsewhere means buying land and deciding on what type of house to build there. According to MSN Money, building a new home is generally more expensive than remodeling a comparable home.

Interest Rates

One of the biggest factors in the cost of remodeling or building a new home is the available interest rate. Homeowners who choose to remodel may fund the project from savings, but a home equity loan or line of credit is a more common option. The cost of this sort of borrowing depends on the borrower's credit, the terms of the loan (such as a fixed-rate or adjustable-rate loan) and interest rates elsewhere in the economy. The same factors impact rates for a new mortgage.

Location

The cost of remodeling versus building also depends on the location of the home. Remodeling a home in a community with high property tax rates may mean a much higher annual tax bill. At the same time, building a new home gives the homeowner a choice of neighborhoods, making it possible to buy in a low-tax community or buy inexpensive land in an area where home values are low but likely to increase.

Going Green

Remodeling or building a new home is an opportunity to practice good environmental stewardship, which can also have a major impact on costs. A green remodel using energy-efficient appliances can increase a home's value more than installing basic appliances. Building a new home using high-efficiency insulation and energy-saving appliances and water-saving fixtures reduces average utility costs.

Time Frame

Ultimately, the cost-effective decision between remodeling or building a new home may depend on how long you plan to stay in the house. Remodeling may be best for homeowners who either can't afford to build a new home or plan to stay in the home for an extended period of time and want it to better meet their needs. Building a new home,

though more expensive, can pay off when homeowners sell before an adjustable-rate mortgage increases or take advantage of a rising housing market by selling a still relatively new home for significantly