

How the Rich Renovate

When wealthy homeowners renovate, they typically pay with cash or a home-equity loan or line of credit. And they're less likely to consider whether upgrades will pay for themselves when it comes time to sell.



ENLARGE

A homeowner in Newport, R.I., is restoring Belcourt Mansion, which will be used as an event space. Above, the great room. *PHOTO: JULIE BIDWELL FOR THE WALL STREET JOURNAL*

By **ANYA MARTIN** April 13, 2016 9:03 a.m. ET

Homeowners are getting the itch to renovate, adding things like a new master suite or finishing a large basement.

Annual spending for home improvements is predicted to grow to 7.6% from 4.3% from the first to the third quarter of 2016, the highest amount since 2006, according to the Harvard Joint Center for Housing Studies.

About 62% of Americans are planning some sort of renovation this year, up almost 9% from 2015, according to a survey of 1,258 homeowners released in March by LightStream, the online lending division of [SunTrust Bank](#).

Jumbo-mortgage holders typically pay for upgrades in cash or with a [home-equity loan or line of credit](#). And unlike the average homeowner, wealthy borrowers are less likely to consider whether

improvements will pay for themselves when it comes time to sell, says Judy Mozen, president of the National Association of the Remodeling Industry and owner of Atlanta-based Handcrafted Homes.

In New York's Hamptons, a \$2 million renovation on an \$18 million home is simply routine, says Jason Fisher, principal of Melville, N.Y.-based Fisher Real Property Advisors LLC, which specializes in luxury-home appraisals. "You buy something in the eight figures and put in these exotic and personalized features because you want them," he adds.

Wealthy people not only can afford to renovate but expect to, says Diane Saatchi, associate broker for Bridgehampton, N.Y.-based Saunders & Associates, a real-estate firm. "You buy a \$25 million house and you put in a new gym for \$800,000 because you're tired of the old gym in the basement and you want an outside gym," Ms. Saatchi says.

Middle-class homeowners tend to place more emphasis on materials and finishes than affluent homeowners, who believe the next buyers will redo the home to their personal tastes, says Svenja Gudell, chief economist for home listing site [Zillow.com](https://www.zillow.com). High-end homes get top dollar because they're located in an exclusive area or have a great view—not necessarily because they have been renovated, she adds.

Mr. Fisher says he ignores most improvements when appraising Hamptons homes because the next owner can afford to redo them. Land value accounts for as much as 50% of the home value, he adds.

About 62% of homeowners planning renovations this year will dip into savings, according to the LightStream survey. The use of cash increases as the price goes up, and sometimes coincides with a windfall such as, for example, a work bonus, exercise of stock options, or a sale of business or other property, says Mike Chadwick, president of Unionville, Conn.-based Chadwick Financial.

However, with [sustained low mortgage interest rates](#), even the rich sometimes may choose to refinance or get a home-equity line of credit or loan to avoid cashing out stocks, which may be appreciating at a higher rate. A sale would also trigger capital-gains taxes, he adds.

Here are some more considerations when financing a luxury renovation:

- **Higher deductions.** Homeowners who refinance their loans or get home-equity loans can generally deduct up to \$1.1 million in mortgage interest without limitations when the money is used for home improvements. A tax professional can give more details on what qualifies as a deduction.
- **Unsecured loan.** Long-term credit-card rates tend to be substantially higher than home-equity loans and lines of credit, but some lenders offer other types of loans not secured to the real estate with qualification based only on income, assets and credit history. For example, SunTrust's LightStream division has loans with two- to seven-year terms and rates starting at 3.99% and no origination fees, says Todd Nelson, business development manager. On the downside: no tax deduction.
- **Pay as you go.** Homeowners typically don't need all the money at once, but high-end contractors will require periodic payments to cover ongoing work, Ms. Mozen says. Handcrafted Homes clients pay once every two weeks, and some amounts can be substantial. Depending on the materials and labor costs for that time period, one payment could be \$25,000 and the next \$100,000, she adds.