

# Before You Remodel

Maybe It's Time to Remodel . . .

Perhaps it was that moment when you realized that avocado green and harvest gold are no longer the "in" colors for today's trendy kitchens. Or maybe you had an epiphany one day as you stood in line to use your own bathroom. Whatever the impetus, the thought has crossed your mind: Maybe it's time to remodel.

If you decide to follow through on that thought, you'll join millions of others who decide to remodel their homes each year. The reasons for remodeling are as varied as the projects we undertake. Some of these include –

- Adding more space.
- Upgrading cabinets, counters, appliances, and fixtures.
- Creating a floor plan that's customized for your lifestyle.
- Improving energy efficiency with new windows, doors, insulation, and climate control systems.
- Increasing the resale value of your home.

What do you want?

Before you head down the remodeling path, it's a good idea to think thru your wants and needs:

- Decide what changes you want to make.
- Ask yourself and other family members what you like and dislike about the house, then create a prioritized list.
- Look at magazines and collect pictures of what you like.
- Think about traffic patterns, furniture placement, colors, lighting, and how you want to use the remodeled space now and in the future.

## Move or Improve?

If you want to change your home, your other option besides remodeling is to find a new one. But more and more American families are deciding to stay put and improve their existing home. Here are some of the reasons –

- Remodeling allows you to customize your home to meet your needs and desires. The only similar, but much more costly alternative, is to have a brand new custom home designed and built.
- Remodeling means that you don't have to give up a familiar neighborhood and schools.
- Remodeling is a more efficient use of your financial resources. According to the American Homeowner Foundation, selling your home and moving typically costs about 8-10 percent of the value of your current home.

And much of this goes into moving expenses, closing costs, and broker commissions – items that have no direct impact on your home's quality.

- Remodeling can be stressful, but few experiences are more stressful than moving.

Return on Investment:

While there are many reasons that people choose to remodel, the bottom line is that remodeling makes your home a more enjoyable place to live. The intangible value of this added pleasure needs to be considered, along with any resale value you hope to gain.

But there is no doubt that, as far as improving the sale of your home, all remodeling projects are not created equal. The general rule of thumb is that any remodeling project that brings your home up to the level of your neighbors' is a worthy investment. But it doesn't pay to be the most expensive house on the block - real estate experts recommend that a remodeling investment should not raise the value of your house to more than 10 to 15 percent above the median sales price in your neighborhood.

Remember that potential buyers will be comparing your home to ones newly built. Therefore, you'll want to look at the design trends and amenities being

built into new homes. Great rooms (open kitchen/family room arrangements), master bed and bath suites, and higher ceilings are a few of the features sought by today's home buyers.

Each year, Remodeling magazine conducts its "Cost vs. Value" report to assess which remodeling projects create the greatest return on investment.

Not surprisingly, kitchens and baths regularly come out on top. These are two of the most used rooms in the home, and they receive the most scrutiny from potential buyers.

Do-It-Yourself or Hire a Professional?

Do-it-yourself (DIY) projects have skyrocketed in popularity in recent years on the heels of Martha Stewart Living, HGTV, and other popular home improvement shows and publications.

And, for certain small projects, a DIY project can be rewarding and fun - if you are prepared and have the proper skills. But before you start knocking down walls and taking out wiring, ask yourself the following questions:

- Do you have a clear idea of what you want your project to look like?
- Do you have the time to complete this project (be realistic!)?
- Have you ever undertaken a project like this before?
- Do you know everything you will need (materials, tools, etc.) to complete the project?
- Are you familiar with the applicable building codes and permits?
- Do you enjoy physical labor?
- Do you have all the tools you will need?
- Do you have the necessary skills for this project?
- If not, do you have the time and resources to learn these skills?

- Where will you obtain the necessary materials?
- If you cannot complete the project according to your original schedule, are you (and your family) prepared to handle the resulting inconvenience?
- Will you need assistance with this project? If so, who will assist you? Do they have the time and skills required for this project?
- Do you understand all the safety issues associated with this project?
- Are you familiar with the architecture and structural makeup of your home (i.e., how knocking down one wall will affect the rest of the structure)?
- Have you considered the hidden costs associated with doing it yourself - time, tools, and the possibility that you may actually decrease the value of your house if the result isn't up to professional standards?

It is easy to look at the cost of hiring a professional remodeler and think only of labor and materials. But remember that a professional remodeler offers you an important service – years of experience, the right tools, a network of suppliers and subcontractors, and an in-depth understanding of legal regulations, cost estimating, scheduling, and the latest construction techniques.

### Dollars and Cents: Financing Your Project

One of the most important considerations for your home improvement project is financing. After all, the project will go nowhere if you can't pay for it.

Fortunately, there are several options that can provide the dollars you need.

Four of the most common are a home improvement loan, a home equity line of credit, a home equity loan (second mortgage), and a cash-out refinancing of your current mortgage. However, the take simplest method of financing is cash. Cash

If you have cash in savings to pay for your remodeling project, this may be the best way to finance your home improvements. But be sure to consider the fact that, by paying in cash, you tie up money that could be earning interest

in other investments. In other words, you need to look at the interest rate that you would be charged by financing the project and compare this to the interest you could earn by investing these funds. Also remember that interest payments on a home improvement loan are usually tax-deductible, but not a remodeling project paid for in cash. Crunch the numbers and meet with a financial advisor to determine whether paying in cash will really pay off in the long run.

### Home Improvement Loan

Two special loans administered through the Federal Housing Administration (FHA) are the Title I and Section 203(k) programs. A Title I loan allows you to borrow up to \$25,000 for improvements to a single-family home.

These are fixed-rate loans that FHA insures against the risk of default.

Loans must be made by an approved Title I lender. The 203(k) program is not as well known, but if you are looking to purchase a fixer-upper, it is a terrific opportunity. It allows home owners to receive a single, long-term, fixed or adjustable rate loan that covers both the acquisition and rehabilitation of the property. To obtain a loan under the 203(k) program, you must use an FHA-approved lending institution.

### Home Equity Line of Credit

A home equity line of credit is a form of revolving credit in which your home serves as collateral. This allows you to tap into these funds whenever you need it. The credit line is usually set at 75 to 80 percent of the appraised value of your home minus the balance of the mortgage. Your credit history and ability to pay may also be considered in determining the amount of credit available.

Home equity lines of credit usually carry a variable interest rate that is figured by adding a margin to the current Prime Rate. Other costs associated with setting up a line of credit may also apply and will vary from lender to lender.

### Second Mortgage

If you are not comfortable with the open-ended nature of a line of credit (which requires discipline to ensure that you don't go way over budget), a home equity loan, or second mortgage, may be right for you. This is a fixed-rate, fixed-term loan based on the equity in your house that is paid back in equal monthly installments over a specific period of time.

### Cash-Out Refinancing

If interest rates today are significantly less than when you first purchased your house, refinancing your mortgage may be a wise move. This financing alternative involves taking out a new loan that would allow you to pay off your existing mortgage and use the remaining funds for your remodeling project. Make sure you factor in the length of time you plan to live in the house and the number of years left on your current mortgage before you decide to refinance.

### Keeping Your Budget in Line

Once you've decided how much you can afford to spend fulfilling your remodeling dreams, the real challenge is making sure you stick to this budget.

So, how can you prevent your expenses from spiraling out of control?

Plan on spending only 80 percent of what you can afford. Put the additional 20 percent in reserve to cover changes, unforeseen problems, and miscellaneous charges.

Remember that anything not included in the original contract will cost extra.

It's very easy to start tacking on hundreds and even thousands of dollars in change orders that will break both your budget and your timeline.

Stay focused on the task at hand. Stick to the project you have planned rather than deciding that now is the time to overhaul the rest of the house.