

## Budget for a Remodel

What's on your remodeling wish list? Maybe you're longing for a spa-like master bathroom, a new eat-in kitchen, or a garage with space enough to fit your cars and your outdoor gear. Well, when it comes to home improvements, knowing what you want is the easy part. The tougher question is figuring out how much you can afford. Follow this four-step plan to arrive at the answer.



*A smart remodel ballpark the costs and adds a 15%-20% contingency.*

### BALLPARK THE COSTS

The first step is to get a handle on how much your remodeling dreams will cost. Remodeling Magazine's 2010-11 Cost vs. Value Report gives national averages for 35 common projects. Or you can use a per-square-foot estimate: In general, major upgrades, such as a bathroom remodel or a family-room addition, run \$100 to \$200 per square foot. Your local National Association of Home Builders (NAHB) affiliate can help with estimates. At this point, you're not trying to nail down exact prices, but to get a rough sense of what your project might cost.

### FIGURE OUT HOW MUCH YOU HAVE TO SPEND

Once you have a ballpark cost estimate, the next question is whether you have the money. If you're paying cash, that's pretty easy to answer. But if you're borrowing, you need to assess how much a bank will lend you and what that loan will add to your monthly expenses.

For the vast majority of homeowners, the best way to borrow for a home improvement is a home equity line of credit. A HELOC (pronounced HEE-lock) is a loan that's secured by your home equity, which means that it qualifies for a lower rate than other loan types, and you can deduct the interest on your taxes. Because a HELOC is a line of credit rather than a lump-sum loan, it comes with a checkbook that you use to withdraw money as needed, up to the maximum amount of the loan. For help shopping for a HELOC, download our free worksheet.

The catch is that the minimum payment on a HELOC is just that month's interest; you're not required to pay back any principal. Like only paying the minimum due on a credit card, that's a recipe for getting stuck in debt. Instead, establish your own repayment schedule. You can do this simply by paying 1/60th of the principal (for a five-year paydown) or 1/120th (for 10 years) in addition to the monthly interest. If you can't afford that much, then you should reconsider your project.

### GET QUOTES FROM CONTRACTORS

Once you have ballpark estimates of what your job might cost and how much you can spend, you know whether it's feasible to move forward. Assuming the numbers are within shooting range of each other, it's time to get a nuts-and-bolts assessment of project costs.

Don't ask contractors for bids yet, though. First, you need to determine exactly what you want, right down to the kitchen countertop material and the type of faucet. By specifying these details up front, you ensure that contractors are all pricing the same things, rather than the countertop and faucet they assume you want. If you're using an architect or designer, bring them in now to help with these choices. If not, consult magazines, go to showrooms, and visit friends' houses for ideas.

Next, get recommendations for at least three contractors from friends, neighbors, and other tradesmen that you trust. Give each one your project description and specific product lists and request an itemized bid. To make a final decision, assess some of their previous work, their attitudes, and their references, and then choose the contractor who impresses you most.

### PRIORITIZE AND PHASE

Take the winning contractor's bid and add a 15% to 20% contingency for the unforeseen problems and changes that occur on every project. Is the total still within your ability to pay? If so, you're ready to get started. If not, it's time to scale back your plans.

Because you have an itemized bid, you can get a good sense of what you'll save by eliminating various aspects of the project. Enlist the contractor's help: Explain that you've decided to hire him (and you're not trying to nickel-and-dime him) but that the bid is over your budget, and ask him to recommend ways to cut costs. He may suggest phasing parts of the job—keeping your old appliances in your new kitchen, for example, because they're easy to upgrade later—or stealing some underutilized square footage for part of your family room to reduce the size of the addition. He may even suggest waiting until the slow winter season, or letting you do some of the work yourself. Once the bottom line on the bid matches the bottom line on your budget, you're ready to transform your home.

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