

## Renovation ready - getting your money sorted before you start

Luke Parker Posted 6 November 2014 Westpac Bulletin



Whether it's a new kitchen bench top, building that outdoor deck, or retiling the upstairs bathroom, renovations can become a bit of a moveable feast financially, so it's important to be prepared.

A big mistake homeowners can make is failing to work out how much a renovation will cost, and secondly, how they're going to fund their new project.

Westpac Head of Retail Direct, Jamie Farmer, says preparing ahead of time is key to things flowing smoothly, especially from a financial perspective.

"Even if you're thinking about doing renovations in 12 months' time, it's worth having a conversation with your bank today on how they can help you prepare.

"They'll be able to help you review your financial budget and provide guidance around what sort of funds you could access as well as how to structure your lending requirements."

One of the first questions is whether the renovation is for lifestyle, capital gain, or a combination of both.

"It comes down to objectives. Some of us are looking to improve lifestyle and live in the property for a long time, while for others it's about capital investment with a short-term focus. This can make a difference when looking at funding the project."

Mr Farmer says from here it's assessing whether you have savings, or alternatively looking at other available avenues to borrow money.

"There are a number of options including utilising your home loan by topping it up or redrawing from funds you've paid in advance, accessing a personal loan or new line of credit, or using your credit card, depending on the size of the renovation. These options are all conditional on the usual lending criteria, and some also rely on the amount of equity you've already built up in the property."

Extending the loan term is also something to look at.

"Having this flexibility means lower payments over a longer period of time but often you can pay extra to save on interest," Mr Farmer says. "You can also have certainty in your repayments by taking a fixed-rate for a fixed-term. Another thing to consider is consolidating any debts into a cheaper option."

Finding out whether you could be paying less interest is another simple, but important, check a homeowner can make. For example, have you got a home loan offset account that your salary credit goes into? This offsets the interest you pay on your home loan.

Once a budget has been set, it's important to get every aspect of the renovation quoted up and have a plan A and plan B. In some cases, this means factoring the cost of having to move out while the renovation is being completed.

Renovations are notorious for blowing out so adding a 15-20% buffer on top is a good contingency plan.

"If it does look like you are heading over budget due to a renovation becoming more expensive, please ensure you contact your bank as soon as possible to discuss options," Mr Farmer says.

But best be well prepared.

## 5 tips for costing your renovation

### Expenses breakdown:

Write a to-do list of everything that needs to be done. This includes all the low-cost items as well. There are renovation consultants that can help with this.

### Factor in having to move out during the renovation:

Some renovations may mean that for a period of the renovation you may need to move out of the property. This can blow out your budget so needs to be factored in.

### Quotes – who's getting which materials?

Once you have your itemised breakdown list, figure out which jobs the tradesmen will be required to do and let them know if you are going to source your own materials. Make sure you mention this to the tradie doing the quote. Take into account tradesmen will more than likely add materials to the list that you haven't considered.

### Talk unforeseen extra expenses:

Often certain expenses can be left off the list, ie skip bins, structural surprises, and labour costs that may suddenly be required. Keeping this in mind, it's recommended to always add a 15-20% buffer on top of your initial expenses breakdown.

### Add up the total figure:

Calculate the overall cost and decide whether you're still in a place to renovate. If so, talk to your bank or lender about your savings and/or the other alternatives possible to access funds to complete the renovation.