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Money Tips

Maintaining Your Budget

- Keep the cost of your remodeling project in perspective. According to the American Homeowners Foundation, moving to a new home typically costs 8-10 percent of the current value of your home. On a \$150,000 home, this cost is \$12,000-\$15,000; this is simply what it will cost to move. This is a good base figure for beginning to establish your remodeling budget. A good number of remodeling projects can be done for the money spent in relocation, and remodeling will add value to your current home as well.
- How much remodeling could you do for 8-10 percent of the current value of your home? How much work would you have to do in a new home should you decide to move? If you completed the finance worksheet, you know how much you can spend-but how much should you spend? The answer varies by circumstance. You should spend as much as is necessary to create your dream home if you are staying in the home for a long time and can afford to do so. However, if you are planning on moving in the near future (within 3 years), be sure to remodel within the standards for the homes in your particular neighborhood.
- Once you determine how much you can afford to spend on a remodeling project, decrease that amount by 10-20 percent. This money should be put in a reserve account to cover any change orders or incidental charges accrued along the way, which will prevent a frantic scramble for additional funds at the end of a project. You also might want new furniture, new curtains, etc., when the project is complete.
- Remember that your choice in products will determine the cost of the project. There are many different levels of product quality as well as price ranges. Talk to your contractor about various options to meet your overall goal.
- Project cost will vary depending on your location, the size of the room, and what features or options you choose. Your best bet for establishing and meeting a realistic budget is to hire a professional remodeling contractor. Your contractor should be familiar with many of the financing options available and be able to help you arrange the financing you need. Many are often linked with a lending institution and can act as an intermediary to obtain financing for you. This offers you convenience and a third party interest in the project's success.

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Budget Busters

There are two main reasons for busted budgets: changes and “*whileyas*” (that handy little phrase that often spills out of a homeowner’s mouth, “While you’re here, could you just...”).

Here is how to handle both:

- Determine how changes will be handled before the project starts and include the procedure in the contract. This will help keep change orders to a minimum.
- Realize that any work not specified in the original contract will have an additional cost attached to it. Contractors find that “*whileyas*,” can represent up to 10 percent of their total annual volume. If you do find additional work you would like your contractor to do, by all means discuss it with him or her. However, you should approach the “*whileya*” job as a new project and ask for the contractor to draft another project plan and contract for that particular job. This will prevent you from making an uninformed decision, and also give you time to carefully consider the new project.
- Remodeling often has a domino effect which causes “*whileyas*” to happen: You see one room being transformed and decide that the room next to it doesn’t match anymore. Next thing you know, the hallway looks dingy and needs some fixing of its own. And so it goes throughout the house. This phenomenon can turn into an enormous budget buster if not kept under control.
- Finally, stick to your original plan. If you decide that your budget is “x” and your reserve fund is “y”, tell your contractor to work within those figures. It is easy to say, “A little more on this faucet won’t matter. It’s a small amount of money.” Unfortunately, this is a close cousin to “*whileya*” and another easy way to overextend your budget.