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Home Remodel: Financial Considerations

When the broader housing market feels unpredictable, homeowners may look to refresh their current home instead of relocating. Home renovations can enhance your living space and raise the value of your home, but they also come with many decisions and potential financial pitfalls. If you're considering a home renovation, keep the following tips in mind:

Set a realistic budget. Know how much you can spend before you ask for the moon. Remodeling projects are notorious for running over budget and past deadlines. Once the work begins, your contractor may discover problems lurking behind walls and floors. A simple job can become complex due to unforeseen water damage or foundation issues. To accommodate budget creep, set aside extra funds that can be used if an unexpected expenditure arises.

Save up for your project. Home remodels can cost tens of thousands of dollars. Typically, you'll need to be prepared to make a down payment (ranging from 10% to 50% of the total estimated cost) when you sign a contract, as well as progress payments as the work is completed. The most cost-effective way to pay for a project is to use savings rather than a loan. If you must finance your project, shop for an affordable home equity loan. Select a lender with the most attractive interest rates, fees and repayment terms.

Consider how your plans will impact your home's resale value. In general, kitchen and bath remodels lead the list of value-add projects. Many other home enhancements provide only a nominal return on investment, and some can even lessen your home's resale value. For example, few home buyers are willing to pay a premium for highly custom, high-end upgrades such as a wine cellar or extravagant landscaping. Installing a pool, particularly in regions that don't enjoy year-round sunshine, may make your home harder to sell down the road. At the end of the day, it's not only about the money – projects that don't add to resale value may still be worthwhile if the changes bring you joy and you plan to stay put long enough to make the most of them. Consider the downstream financial impacts before you make any big remodeling decisions.

Choose a reputable partner. It's imperative to find a licensed and insured remodeling contractor who delivers quality work, on time and within budget. Ask people you trust for referrals. Interview multiple contractors and check their references and affiliations with local building associations. Ask for written bids with detailed project cost estimates broken down by line item. Make sure you know who is responsible for obtaining and paying for local inspections and permits that may be needed. The contract you sign should specify agreed-upon materials and describe the process for change orders and other contingencies. One of the best ways to ensure your projects don't break the bank is to have a clearly laid out remodel plan, including cost and payment details. It is important for both parties to understand the expectations of the project prior to its start.

Keep good records. Maintain a paper or digital trail to account for project expenses. Get receipts for all payments to your contractor, whether made by check, credit card or cash. Organize receipts, warranties and manuals in an electronic or physical folder. These can come in handy for maintenance and repairs. They may also help justify a higher asking price when you put your house

on the market.

Whether you are considering remodeling your home to make room for a new family member or make retirement at home more enjoyable, home remodel decisions can have big impacts on your finances. Consider meeting with a financial advisor to determine how remodeling your home may impact your financial plan and long-term goals.

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