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HOW TO DETERMINE YOUR REMODEL BUDGET!

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SEMINAR PURPOSE: Educate consumers on how to approach a remodel project from a budget standpoint.

Questions for consideration (take the time to write down your answers to these questions):

I. What remodeling project(s) am I contemplating?

- a) If more than one, prioritize them. Depending on your budget, you may be able to do just one large project, or multiple smaller projects.

II. Why am I doing the remodel?

- a) Repairs (such as mold, water damage, broken fixtures or appliances)
- b) Need more space (i.e. bedroom, bonus room, bathroom)
- c) Update (in anticipation of selling)
- d) Update for my families' comfort and to better fit our wants or needs
- e) **To preserve my investment (this means keeping your home up to date so that when you do sell, even years down the road, it isn't still a '70s home and you have to remodel the whole thing before you can even put it on the market)**
- f) Energy savings

III. How long do I plan to stay in my home?

- a) Is this the last home you plan to purchase? Then make it your dream home.

IV. How much can I *afford* to invest on this project?

V. Should I hire a contractor or do it myself?

- a) Mainly, this will depend on the size of your project.
- b) Will I need to hire subcontractors? (electrician, plumber, etc.)

VI. How will I pay for the project?

- a) Savings?
- b) Line of credit?
- c) Construction loan?

Note: a general rule of thumb is for every \$1,000 you borrow, your monthly payment will be \$5.40. So, if you borrow \$20,000, your monthly payment would be around \$110 per month. Also, if you need to borrow, you should get *prequalified* before moving forward with a design or remodeling contract.

VII. How much will the project cost?

- a) This is usually the step where consumers will contact a contractor and ask for an “estimate”. The problem arises when the contractors then ask: “What is your budget?” The consumer replies, “I don’t know until I know how much it will cost.” Or “I don’t want to disclose that because it will have an effect on your bid”.

Note: If you are dealing with a reputable contractor, it is important to discuss your budget in an effort to properly design your project and protect against wasting valuable time “chasing an impossible dream”. We won’t use it against you! We ask because if, for example, you have a \$2,000 budget but we know based on experience that a project of your type will cost at least \$5,000, we can let you know immediately.

VIII. How much return will I get from the project when I sell my home?

- a) This depends on multiple factors, but will you recoup 100% if you sell your home right away? No! Everything you do to your home will have a “return” value, just not 100%.
- b) The Cost vs. Value report generated by Remodeling Magazine tries to shed some light on this question, but it is still speculation and based on averages.
- c) The report suggests in part that your biggest return these days will be on exterior improvements, i.e. siding, windows, roofing because these things are necessary upkeep to maintaining the value of your home.
- d) If you’d like to review a copy of the Cost vs. Value report, you can download it at www.remodeling.hw.net.

IX. What intrinsic benefits will I realize from the remodel while I live here?

- a) More modern and/or comfortable
- b) Energy savings
- c) Better suited to my families needs

Quote from an actual client: "We LOVE our new bathroom. Several times a week my husband and I remind each other how puzzling it is that the new floor plan and the wonderful finishing could make such a big difference in attitude, comfort and enjoyment. We are continually amazed at how much satisfaction we get from the larger shower, the beautiful tile work and the softer lighting. We definitely should have done it years ago!"

X. How much equity do I have in my home currently?

- a) A good place to start to see if you have any equity in your home is with your assessed value. You can go online to <http://www.adacountyassessor.org/propsys/> and pull up your current and passed assessed values. This value may be low or high depending on where you live in the valley and how much houses in your neighborhood are selling for. Some neighborhoods are retaining their value, while others are not. If you know of houses that have sold in your neighborhood, try to find out how much they sold for.
- b) Next, you'd look at how much you owe on your home. The difference between the assessed value and your outstanding balance would be a rough gauge of your equity.
- c) Some banks, like Idaho Banking Co., will loan on "end value", which means they will finance your project based on the value of your *remodeled* home.

BACK TO: HOW MUCH CAN I AFFORD TO INVEST?

If you're going to get a line of credit or a conventional loan, the bank will want to know your Debt-to-Income Ratio. Here's a quick calculation:

- 1) Enter Your Monthly Expenses \$_____ (This includes: mortgages, car loans, credit cards, and other items with fixed monthly payments. This does not include your groceries, utilities or other general expenses.)
- 2) Divide by your Total Gross Monthly Income \$_____
- 3) This is your DTI %: _____

The rule of thumb is that banks aren't going to loan to you if your DTI is greater than 45% (depending on your bank and credit score). So, if you're close based on your current DTI, adding an additional monthly payment is going to increase your DTI and could potentially make you ineligible for a loan.

If your DTI is less than 45%, you can think about how much additional monthly expenses you could incur and still be eligible for a loan. (You can use the \$5.40 per \$1,000 borrowed to help you come up with an estimated monthly payment.) For example, if your current Gross Monthly Income is \$3,000 and your Current Expenses are \$1,200, your DTI is 40%. If you get a loan for \$20,000 of \$100 per month, your DTI will be 43%. Now you're getting close to the max DTI a bank will loan on.

4) Don't forget about your other expenses and discretionary income. Obviously, you don't want to have your monthly expenses such that you can't have any fun or put money away so be cautious. Also, remember that the "expenses" don't include *taxes* or other necessary expenses, such as utilities and groceries. Your taxes could be 25% (more or less depending on your income) and only you know what your utility and grocery expenses might be. Just don't get over extended or you won't be able to enjoy your remodel.