



Renovation Planning
Where to start?

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Renovations are one of the most common additional expenses that clients want to include in their financial plan, and it is often an expense that individuals plan to undertake once they are done their primary working years. However, many struggle with making the commitment, despite being able to afford it.

Wealth management is not just about investing and numbers; there is a very significant emotional component to money. Many have spent their working years saving up, and the transition to spending in retirement can understandably cause discomfort.

Sometimes, our role as your wealth advisor is to guide you with spending your money. We aim to give you the tools and education to feel comfortable using your savings.

The purpose of this article is to provide some support in exploring your renovation goals.

How much does it cost?

According to [Homeguide.com](https://www.homeguide.com), “the average cost to remodel a house is **\$19,800 to \$73,200**, depending on the extent, home's size, and quality of materials and appliances. Whole house renovation costs **\$15 to \$60 per square foot** on average, while only remodeling a kitchen or bathroom runs **\$100 to \$250 per square foot**”.

COST TO REMODEL A HOUSE

AREA	Average cost
WHOLE HOUSE (LOW-END)	\$15,000 – \$40,000
WHOLE HOUSE (MID-RANGE)	\$40,000 – \$75,000
WHOLE HOUSE (HIGH-END)	\$75,000 – \$200,000
HOUSE EXTERIOR	\$6,000 – \$20,000
ROOFING	\$5,000 – \$11,000
KITCHEN	\$10,000 – \$50,000
BATHROOM	\$5,000 – \$25,000
BEDROOM / LIVING ROOM	\$1,500 – \$10,000
BASEMENT / ATTIC	\$20,000 – \$75,000

*Prices are in USD

What is my budget?

What you *want* to spend, what you can *afford* to spend, and what *makes sense* to spend does not always match up. Using some of the rough estimates outlined above, you can get a decent idea of what you may intend to be spending but determining what you can and should spend are more complex concerns. Here are some considerations:

1. Generally, it is not recommended to spend more than 10%-15% of your home's value in a single room, because it will likely not proportionally increase the home value by the same degree.
2. When setting a budget, it is also recommended to set aside 10%-20% of your budget as a buffer for unexpected expenses.
3. Once you have an idea of your budget, the next step is to run a financial planning scenario to see how it impacts your long-term financial picture and plans. You should have a base financial plan in place with your wealth advisor off which you can run different scenarios. This can be used for any scenario apart from home renovations, including what it would look like to increase travel costs over the next 10 years, what it would take to buy a second home, or if you can gift funds to people or charities. Whatever the reason, it is important to run a financial planning scenario first, to ensure it works from both an affordability perspective and tax perspective.
4. Tax planning is an important part of your financial plan, as you will want to ensure the timing and sources of spending are being managed strategically.

How do I prioritize my renovation goals?

After creating a budget, you can move on to forming a list of projects, and then further separating the list into needs versus wants. If your budget is limited, or if it is advisable to delay some expenses, you will need to prioritize.

If there aren't any urgent repairs, it's a good idea to think about how the work you are doing improves the value of the home. Prioritizing the right kinds of improvements will increase your chances of getting a better return on investment when you sell your house. [The Appraisal Institute of Canada](#) measures the value of a renovation in three ways: increased selling price of your property, enjoyment of renovated space, and maintained worth of your property.

Top 5 Renovations with the Highest Return on Investment

- Kitchen - renovation or update with quality of materials and design consistent with the area
- Bathroom - renovation or addition with quality of materials and workmanship consistent with the home and the area
- Repainting Interior / Exterior - completed in tones with wide-ranging market appeal
- Updating Décor - lighting and plumbing fixtures, counter tops, replacing worn flooring (vinyl or carpets) or refinishing hardwood floors
- Decluttering - removing all excess items to showcase the features of your home

Top 5 Renovations with the Highest Enjoyment Value

- Basement finishing
- Garages
- Sunrooms / Additions
- Decks / Fences

Landscaping Top 5 Renovations to Maintain Worth

- Replacing the roofing
- Updating the heating / cooling system
- Replacing windows & doors
- Updating electrical (panel, wiring, sockets, fixtures)
- Repairing structural defects

Also consider the time it takes to complete the renovation and the possibility of disruptions. For example, updating kitchen cabinetry with custom design work will take longer due to material sourcing and installation time.

How do I create a detailed cost plan?

Creating a detailed budget associated with your projects will help you to communicate with contractors.

Build a spreadsheet that includes each portion of the project and the estimated cost for labor and materials. Estimate labor for engineers, architects, plumbers, and carpenters. Labor usually accounts for 20 to 35 percent of a project's budget.

- Choose fixtures and finishes and calculate what you will spend on them. Include the costs of paint, knobs, faucets, tile, flooring, and other smaller details. Don't forget to include taxes and shipping costs in the estimates for your materials.
- Include the appliances you want and what you expect to spend on them. Include costs for installation, delivery, and how you plan to dispose of those appliances or waste.
- Consider what living expenses you will incur during your project. For example, while a kitchen is being renovated, you are likely to incur additional dining costs or potential alternative living arrangement costs.

How do I save on renovation costs?

There are several ways that you can reduce the cost of your renovation, but in doing so you are shifting the burden onto yourself. Ensure you work within your level of expertise and comfort.

Complete the initial part of the renovation, the demolition, yourself or with the help of a friend. For example, if you're removing cabinets and pulling up carpet as a part of your renovation, consider doing some of this work yourself.

- Order materials and fixtures yourself. Your contractor will probably charge you an hourly fee to do your shopping for you and may even charge a markup.
- Be your own project manager.
- Do your own painting. Having a room painted by a professional can be quite costly and is one of the tasks in a renovation that tends to require less expertise.



How do I fund my renovations?

When it comes to financing the renovation, your options are to use personal savings or debt.

Typically, it is recommended to first use cash savings to fund the renovation, and then to turn either to your non-registered investments or tax-free savings account, if using non-registered funds would cause unfavourable tax consequences. At times, it may make sense to use retirement funds in a RRSP or RIF account depending on the individual tax situation, but it is important to seek professional advice before making these withdrawals.

Borrowing funds to complete renovations may be an option when savings or use of investments are not available or recommended, or possibly if the property is being sold soon after the renovation is complete. If you buy a home that needs renovations, you may consider applying for additional funding for your mortgage and/or remortgage your home later to complete the renovations. You alternatively may consider applying for a personal line of credit to fund the renovation, which is also commonly recommended for renovations prior to selling a property. The line of credit may act as a bridge loan until the property sells and the debt is re-paid. Note that any borrowing options would be subject to meeting your financial institution's requirements for additional funds and/or refinancing.

Please contact ridd.associates@nbpcd.com to learn more about renovation planning.