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Renovating your home



Some people love to renovate. For others one renovation is one too many.

The more research and preparation you do, the better your renovation experience will be. This LifeGuide is designed to help.

Setting your budget

You should start with a clear understanding of your financial limits and the impact that spending to that limit will have on your finances. In many cases there are cost overruns and it's better to factor these in before you start. If the project finishes under budget then that's a bonus.

Will I overcapitalise on my property?

Overcapitalising means spending more money on the renovation than the value it adds if you eventually sell your home. If you're renovating to build your dream home and plan to live in it for the next 20 years, then overcapitalising may be less of an issue.

To determine if you're overcapitalising, you'll first need an estimate of the current value of your home. This can be done with a professional valuer. If you're seeking to borrow money for the renovation, the lender may require a professional valuation.

You could ask three local real estate agents to give you an honest appraisal. Why ask for three? Some estate agents are known to exaggerate the price in the hope of winning a listing. If you find three agents giving you around the same figure, then you should have a reasonable ballpark estimate. One may be wildly optimistic, so it could be best to base your assumptions on the more conservative opinions.

Along with the appraisal of the current value, ask for an opinion on what your home may be worth after the renovation. This second opinion will be easier if you're extending, rather than simply updating the look of your home. For example, turning a two bedroom home into a four bedroom home will allow the agents to analyse the sale prices of four bedroom homes in the area.

These figures from the estate agents are estimates, as opposed to valuations. Make sure the agents are accessing data for property sales in your area and do your own research by attending inspections of similar properties and check to see what prices are eventually achieved.

If you are deciding between renovating your existing home or buying a new property don't forget you have to include the cost of stamp duty on any property you are buying.

What will the renovation cost?

If you're using a builder, architect and/or renovation company, you should receive quotes from them on which to base your decisions. If you intend to do-it-yourself, then you'll need to do a lot of research to determine the likely total cost.

You're the most important member of the building project team. Take an active role in the whole process. If you have a vision for the final result, make sure you communicate your wishes clearly with everyone involved.

There are many consumer affairs organisations with websites listed later in this LifeGuide that may help. The building advisory service for the Royal Australian Institute of Architects, Archicentre, produces a cost guide.

See www.archicentre.com.au or call 1300 134 513.

The Archicentre Cost Guide is a fact sheet which will give you a rough range for the likely costs of various building work. These costs will be affected greatly by your choice of fittings. For example, the Archicentre Cost Guide provides an estimate for a mid-range bathroom fit-out, but if you decide to buy the most expensive bath, toilet, shower and vanity on the market you'll be up for much more.

Renovating for profit

Overcapitalisation becomes a critical issue to consider if you're renovating to sell and make a profit. If your home is currently worth \$400,000 and you're planning to spend \$100,000 on the renovation, you'll have wasted your time if the home eventually sells for only \$500,000. Remember, the market does experience short-term fluctuations and there have been sustained periods when house prices have fallen. Should the market experience a downturn, you could end up losing money.

Apart from the overall market you need to consider the individual home, the street and suburb.

Some areas will always achieve higher prices than others. Don't create a palace in an area that simply won't attract a buyer who'll pay the price you need.

If you're renovating to make a profit, be absolutely clear about your end goal. The more expensive fittings that you really like, may not add an extra cent to the sale price.

As a simple guide, money spent on kitchens, bathrooms, master bedrooms and the family room are often considered good investments. Renovations that create or enhance a water or bush view are also smart – provided it's done at the right price.

Check that all items such as fittings, appliances and tiles are the exact models you want. The quote should be much more accurate.

Only you know what you can and can't afford.

Financing your renovation

Once you have decided to go ahead with a renovation it's important to set a budget and decide how you are going to pay for the work.

If you are buying an old home and want to renovate before you move in it may be worth taking out a slightly larger mortgage in the first place and using some of the extra funds to renovate.

If you have owned the house for some time you may want to talk to your bank or financial institution to work out the best way to finance the renovation.

There are several options to consider. You may want to increase your current home loan. Some financial institutions allow you to borrow against the increased value of your home.

You may be eligible for a redraw on your existing loan. This could give you easy access to any additional payments you have made to your loan without going through a complete application process.

The decision to renovate could also be a good time to think about refinancing your home loan. This could enable you to draw down any equity you may have built up in the home over the years you've owned it. You should shop around for the latest loans and rates available, they could be better than your current loan but depending on your circumstances, there may be drawbacks like exit fees that are charged before you can be released from your old home loan obligations. Sometimes these fees can be quite substantial, especially in the early years of your existing mortgage. You may also be liable for fees to set up the new loan. A low interest rate loan could actually cost you more when all the fees and charges are added up.

Make sure you know how much you want to spend and have a budget in place before you go to your financial institution. They will want to know how the money will be spent and what value it will add to your property.

Living through a renovation

Living through a renovation can test the strongest relationships. Depending on the size of the job, it may not be possible to remain in the house. If you do have to move out for some or all of the time, remember to factor this into your total budget. Living out of your home may also affect your home insurance cover, so speak to your insurer about your plans to ensure you're adequately covered.

Staying on site mightn't save you as much money as you think. You will save money on rent but some builders will put up the price once they learn you're planning to live on site during a major project. Think of it from their point of view – they're forced to work around you. Picture the plumber waiting to turn off the water while you're getting the kids in and out of the shower. Remember also that tradespeople start early so your privacy may suffer. If you're removing the kitchen, are you prepared to eat lots of take-away food? You'll also need to get ready for dust to invade your home in ways you could never have imagined.

Living on site through the renovation may add to the time and the total cost. However some people, particularly owner-builders, believe this a small price to pay for constant communication with the subcontractors.

Choosing building professionals

We'll look at doing it yourself in a moment. For now, here are some thoughts on choosing building professionals.

Architects

Architects are university-qualified building designers and project managers. In most cases they're accustomed to handling the entire project and should have experience coordinating project teams – including builders, tradespeople, landscape architects, engineers, quantity surveyors and interior designers.

Their designs usually consider important things such as site conditions, sun and views.

The cost depends on the level of involvement you request. You may want the architect to handle the entire project, leaving you to head off on holidays and come back and pick up the keys to your newly renovated home. Or you may want to be involved and take on some parts of the project on yourself.

If you want the architect to run the whole project, they'll sit down with you and work out what you'd like from the renovation. They'd then seek council approval and negotiate with the builders to manage the actual construction.

Each individual project and architect is different but to do a project worth \$250,000 an architect may typically charge around \$25,000. The 10 percent premium is usually paid by instalment with a certain percentage for each stage.

You could save 50 percent of the fee by taking over the project after the council has approved it. However, this means you'd

Before you start renovating it may be a good time to review your finances. Ask for our LifeGuide *Understanding Financial Planning*.

have to negotiate with the contractors and project-manage the construction. In many cases, the expertise of the architect can keep costs down and save you plenty of headaches.

Tips for choosing an architect:

- make sure you get what you are paying for and insist on dealing with a registered member of the Board of Architects or equivalent body in your state or territory
- ask to see other projects the architect has designed and managed
- speak with other owners who have worked with the architect
- check the architect has professional indemnity insurance so that you're protected in case there is a claim arising from your job.

Builders

An experienced builder should have access to a range of specialised tradespeople, knowledge of materials and where to get them at the right price.

Some builders organise a team of tradespeople to do a range of jobs and control the purchasing and delivery of essential materials.

Your architect might recommend a builder they're happy to work with. Estate agents may also give you the names of builders. Talk to friends who've had work done – after all, the most important thing is seeing a good finished product and knowing it was done on schedule and on budget. If you speak with a builder who hasn't been recommended to you, ask for the names of people they've worked for. As a rule, try to get at least three written quotes for the same job.

Renovation companies

There are many companies specialising in renovations. They can help with council approval and remove many headaches along the way. They have access to architects, builders, plumbers, electricians, etc. – either on staff or on contract. You'll pay a little extra for this service, but it may simplify the process.

Don't ever settle on the first renovation company you find, particularly if the sales representative isn't prepared to examine your property thoroughly and discuss several options. As with builders and other tradespeople, aim for at least three quotes.

Tips for choosing a builder or renovation company:

- ensure you're dealing with a professional – see the Getting help section at the end of this LifeGuide
- find out how long they've been in business and if they

have always traded under the same name – you can check this through the Australian Securities and Investment Commission at www.asic.gov.au

- speak to people who've had work done before and find out if it was finished on time and on budget
- check the builder or company has the required level of insurance – see the legalities section in this LifeGuide
- find out how many jobs they have on at the moment and who'll actually work on and/or supervise your project
- ensure the scope of the work is clearly defined in writing so both you and the builder know exactly what you want done
- be wary of a quote that appears too low
- be wary of a builder who encourages you to get an owner-builder permit while they organise the work – it could be the builder can't get the necessary insurance or may even be unlicensed.

Doing it yourself

Doing it yourself is a big responsibility and isn't a good option for busy people.

However, if you have a really tight budget, a small job and a bit of time on your hands, running the renovation can be satisfying and the savings can be substantial.

Here are some tough questions you'll have to ask yourself.

- Am I a good project manager?
- Do I have the time and skills to research all the issues involved, including my legal responsibilities?
- Do I have the skills to physically do any of the work?
- Do I have the patience and knowledge to negotiate with contractors?

If the honest answer to all four points wasn't yes, you'll probably be better off leaving it to the professionals.

Owner-builders

An owner-builder takes full responsibility for the project. This includes getting the necessary permits and taking on responsibility for the safety of the worksite, for you, your contractors and members of the public. You may contract professionals to help you but you're the one responsible for the job and therefore you take on the risks normally accepted by the registered builder.

The advantages are obvious – you have control over the project, the flexibility to work to your own schedule and you may make some savings. However a bit of paint and paper is one thing – a major extension is quite another. If you're a first-time owner-builder, don't overstep the mark

Try to talk to someone who's done the job before and can offer tips and warn you of problems that may arise.

by taking on a huge, difficult project. Make sure your plans are realistic. Remember that when you do it yourself, you pay to fix the mistakes – which can be very costly and disheartening. If you hope to save money by being an owner-builder, be careful. Contractors enjoy better rates from their subcontractors and get discounts on materials.

If it's a big job, you'll need to hire tradespeople, builders and other service suppliers. In each case, shop around and negotiate on price and service.

Make sure that you're adequately insured and have the necessary permits. The legislation for owner-builders varies from state to state and you should check with the relevant body listed in the Getting help section of this LifeGuide.

As an owner-builder you don't necessarily need to take out Builders' Warranty Insurance. That's because this insurance is designed to protect the home-owner against negligence by the builder. In this case you would be asking for insurance to protect yourself against yourself. However, if you plan to sell the home within a certain period (check with consumer affairs in your state or territory) and the project is valued above \$12,000, you'll need Builders' Warranty Insurance.

If you're doing it yourself and the job requires a building permit and council approval you may choose to contact a building surveyor to help with the process, or contact the local council yourself or visit their website for details of your building code.

Contracts

Issues surrounding contracts, permits and insurances vary for each state and territory. You should check with the Department of Fair Trading or relevant body in your area.

Whether you need a written contract will depend on the size of the job. For example, in Victoria builders and consumers are required by law to have a formal major Domestic Building Contract for most domestic work that costs more than \$5,000.

The Department of Fair Trading (or equivalent body) in your state or territory may provide standard contracts which can be adapted to most home renovations. However, be sure you understand everything in the contract and get legal advice on any aspect that isn't clear.

Choose a company with a long history in the area where you live. It'll be more convenient, plus their knowledge of the area should help.

Before signing a contract:

- check that you know the total contract price and what factors can affect it
- check that the contract states when the work will start and finish
- ensure that the contract gives a detailed description of the work to be completed
- if there's anything you don't understand seek independent legal advice
- ensure the builder is adequately insured to cover mistakes and incomplete work. If the value of the work to be done exceeds \$12,000, the certificate known as Builders' Warranty Insurance must be attached to the contract. This will cover you for any structural defects for up to seven years
- ensure you don't pay more than the legally allowable maximum deposit – for example, in Tasmania a deposit of 10 percent is required if the job is worth less than \$20,000 but you're only required to pay three percent for jobs valued at \$20,000 or more.

Cooling-off period

Check to see if there's a cooling-off period in the contract. For example, in Victoria and NSW, there should be a cooling-off period of five working days, during which you have the right to withdraw. If you do decide to withdraw you must give the builder notice in writing. You can't withdraw if you had independent legal advice prior to signing the contract. If you do withdraw, the builder can retain \$100 from your deposit plus agreed out-of-pocket expenses.

Cost overruns

Anything from bad weather to lack of materials can affect your building plans. It's important the contract safeguards you and your architect or builder from expensive legal wrangling over unforeseen circumstances.

Cost overruns aren't always the builder's fault, but the builder can anticipate them. Don't accept overruns tacked onto the final bill without your knowledge. Permission to increase costs should be sought by the builder before amending the bill. Thoroughly check all costs the builder claims so you can satisfy yourself of their validity.

Negating the possibility of cost overruns also comes back to what is and isn't included in the initial contract. This comes down to the amount of detail you had in the initial brief.



Avoid a cost-plus contract. Insist on a fixed-price contract. There may be some provisional sums quoted in the contract – these cover work difficult to estimate.

The fittings, tiles and any other items not specifically identified in the contract are known as ‘prime cost’ items. If you don’t provide your exact choices to the builder, they must estimate the likely costs. If your final choices are higher than the estimates included by the builder in the contract, then you’ll have to pay the difference. The flip side is you’re entitled to receive any savings made along the way. If the builder’s quoted for taps that are more expensive than the ones you eventually choose, this saving should be passed on to you.

Insurance

Generally, building contracts contain obligations that require the builder to take out all necessary insurances. It’s in your interest to check with the builder that these things are covered.

- **Workers’ Compensation Insurance** covers any accident or injury to the builders’ employees.
- **Builders’ Warranty Insurance** is mandatory for jobs over \$12,000 and is designed to protect you against the builder failing to complete the work to a certain standard.
- **Professional Indemnity Insurance.**
- **Public Liability Insurance** covers any costs relating to accidents, ranging from damage to the next-door neighbour’s house to pedestrians falling into holes.
- **Fire, storm and theft insurance** protects against natural and criminal elements. You should check whether this risk is covered under your existing house insurance or if you need separate cover because the home isn’t as secure during the renovations as it would normally be.

Getting help

The following is a list of organisations that’ll help you to check the credentials of the people you’re dealing with and gain further information on a range of issues. Some of the best information comes from the state and territory Government websites listed below. Many have published helpful step-by-step guides on a range of issues.

Government contacts

- **Consumer Affairs Victoria** at www.consumer.vic.gov.au or call 1300 558 181.
- **NSW Office of Fair Trading** at www.fairtrading.nsw.gov.au or call 13 32 20.
- **Queensland Office of Fair Trading** at www.fairtrading.qld.gov.au or call 13 74 68.
- **ACT Office of Regulatory Services** www.ors.act.gov.au or call (02) 6207 3000.
- **Consumer Affairs and Fair Trading Tasmania** at www.consumer.tas.gov.au or call 1300 654 499.
- **Consumer and Employment Protection Western Australia** at www.commerce.wa.gov.au or call 1300 136 237.
- **Office of Consumer and Business Services South Australia** at www.ocba.sa.gov.au or call 13 18 82.
- **Northern Territory Government** at www.nt.gov.au or call (08) 8999 5511.

Industry Associations

- **Australian Institute of Building Surveyors** at www.aibs.com.au for the various state chapters or call the head office on (02) 9712 8822.
- **The Royal Australian Institute of Architects** at www.archicentre.com.au or call 1300 134 513.
- **Master Builders Australia** at www.masterbuilders.com.au or call (02) 6202 8888.
- **Real Estate Institute of Australia** at www.reiaustralia.com.au or call (02) 6282 4277.
- **Housing Industry Association of Australia** at www.hia.com.au or call 1902 973 555.

Be sure you’re getting professionals. Check with the relevant authority in your state or territory.

NSW

All trades people – Office of Fair Trading 13 32 20.

ACT

All trades people – ACT Planning and Land Authority (02) 6207 1923.

VIC

Builders – Building Practitioners Board 1300 815 127.

Plumbers – Plumbing Industry Commission 1300 815 127.

Electricians – Energy Safe Victoria (03) 9203 9700.

SA

All trades people – Office of Consumer and Business Services 13 18 82.

WA

Builders – Builders Registration Board (08) 9476 1200.

Electricians – Energy Safety (08) 9422 5200.

Plumbers – Plumbers Licensing Board (08) 9282 0478.

QLD

Builders – Building Services Authority 1300 272 272.

Electricians – Business Occupational Licensing 1800 177 717.

Plumbers – Plumbers and Drainers Board (07) 3235 4149.

TAS

Builders – Tasmanian Compliance Corporation (03) 6223 3315.

Plumbers – The Plumbers and Gas Fitters Registration Board (03) 6233 7657.

Electricians – Electricity Standards and Safety (03) 6233 7851.

NT

Builders – Building Advisory Services Branch (08) 8999 6435.

Plumbers and Electricians – The Plumbers, Drainers and Electrical Licensing Board (08) 8923 9310.

You may decide to have someone else manage the project to 'lock-up' stage, and then take over for the finishing touches. In some cases this may save you money but only if you have the skills to do a professional job.

For more assistance

Contact your local branch



Phone or visit anz.com

General Enquiries

P. 13 13 14
INTL. +613 9683 9999
24 hrs / 7 days

Home Loans

P. 1800 035 500
8am – 9:30pm (AEST) Weekdays
8am – 4:30pm (AEST) Weekends

ANZ Financial Planning

P. 1800 305 058
8am – 8pm (AEST) Weekdays

ANZ Mobile Lenders

P. 13 25 12
8am – 11pm (AEST) 7 days

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