Is 2021 your year to reinvent your home?

By Jesse Karich, CorePath Wealth Partners

For a lot of my clients, 2021 will be a year to make their homes suit them and their families for 10, 20 years or more. There will be Pinterest boards and trips to home stores and sketches and conversations with people who have been through this recently. There will also be conversations about money, though these are sometimes awkward or veiled.

Decisions like this – whether to remodel and how to pay for it – have to be made in the context of an individual or couple's overall financial plan and goals. I talked with building and finance pros in the Twin Cities to help understand the dynamics of remodeling financing.

Patrick Jacobson is the executive vice president of Lake Country Builders, a family-run business that has been designing and building residential remodeling and other projects for 47 years. **Derek Wilkinson** is a project manager with Lake Coutnry. **Gail Vinje** is a mortgage specialist with Supreme Lending. She advises homeowners on financing options for remodeling projects and has worked with many of Lake Country's clients.

Jesse: Often when we do annual check ins on financial plans, clients say they need to make big changes to their homes and wonder how to make it work in their overall plan. I have them decide what they most want to do and then come back to see how it might affect their plans. From your perspective, where does this process start?

Patrick: We hear some hesitation in initial calls because people are worried that they are wasting our time or getting too far down a path they can't complete, but we want people to come to us early. My dad built it into the DNA of our business that we prefer to talk to people even before they can commit to a project so we can create the design and the financing plan at the same time. That way we can think about options in terms of size and scale of the project. I like to show homeowners what a $50,000 kitchen looks like versus a $300,00 project. That's often enough to help them home in on their real needs and what problems they want to solve.

Gail: Like Patrick said, talk to a builder *before* you get locked in to one way of thinking. You can talk through options, including what it would mean to you to do a $20,000 project versus a $200,000 project. Then talk to me – we can both learn a lot in a 15- minute conversation! It's understandable to question lenders' willingness to finance a 6-figure remodeling project, but there are real possibilities to make it work. How sad would you be if you did a $40,000 facelift because you thought it was all you could afford, and then found out you could have gotten a $200,000 loan that worked with your budget and financial plan?

Jesse: Once you've talked with someone like Gail, it's great to check in with your financial advisor about the implications of taking out loans, using your available cash, or taking money out of investments. From there you can decide on your goals for the remodel, the ballpark cost of the project, and your strategy for paying for it. What comes next?

Patrick: Once you've determined that direction, it's time to get serious about design/planning. Your builder will talk you through what's working and not working in your space and how you want to live in it going forward. If we know the approximate amount you can invest in the project, we can put together an estimate of what it would take to address the shortcomings.

Gail: I always encourage people to share their budget with their builder upfront. Sometimes they're hesitant because they worry that will lead to inflated estimates. Sometimes they haven't really landed on a number and want to keep their options open as long as possible. The great thing is that really good builders will work with you to understand all those options. They can give you a design that doesn't overextend the top of your budget but doesn't necessarily use it all either. And along the way you're making trade-offs and setting priorities so that if the design does use all of your budget you know why. The final cost should come down to the selections you make, not bad faith from the builder.

Derek: As we get closer to finalizing a plan, it's really hard on the homeowner and the builder to realize they haven't landed on a budget yet. They might have sketches, or a Pinterest board and then thinking about how much that might cost. It helps to know $20,000 vs $200,000 before we create something that a client falls in love with but can't afford.

Jesse: So how do people afford a $200,000 project if they don't have cash on hand or access to a new mortgage?

Gail: With regulation around these loans loosening and interest rates changing, there are a lot of interesting lending options. For instance, a lot of people don't know that you can borrow against the future value of your home. I can talk them through those options on the front end. You could get a future value mortgage, a straight second mortgage, a cash out refinance. There are a lot of factors that determine what your options are, and a mortgange specialist can help you choose one and find a lender.

Usually, if you've gone through a thorough planning proces with the builder, the estimate is pretty right on with the final cost and the loan amount, or close enough that a client can pay cash if they add to the scope later in the process.

Patrick: While traditionally more than half of our clients have paid cash for their projects, we're seeing more and more choose financing. Loans are more readily available, and interest rates are appealing. I know a lot of people have to re-exmine their attitudes toward debt to get comfortable with this approach.

Jesse: That's a great point, Patrick. During financial planning conversations, we look at people's most important priorities – usually time to retirement – and see how the different scenarios affect those goals. If they can see that one of these options adds just a few months or years to their working time, rather than totally throwing them off course, they can make a more informed decision. Reinventing your home is right in the sweet spot. Who are the most likely candidates for a project like this?

Patrick: When people start to feel like their space isn't working for them – especially as their kids grow bigger or move out or they need more one-level living as they age – they naturally question whether a big remodel is financially feasible. One important question to answer at this stage is: Can this home or this neighborhood support the increase in value a big project would create? What are my long-term plans for this house? Brief diligence with a real estate professional will help clients understand the difference in future value vs. investment. Clients can then balance against time in which you would enjoy these upgrades and make an informed decision. Sometimes the value of enjoyment long term can outweigh the possible financial shortfall when you sell.

If your house is already one of the nicer ones on your street, you should probably think about moving rather than remodeling because you'll never really recoup the investment. From there, it's good to look at what you can afford and how to make the financing happen.

Gail: We also look at how long the homeowner wants to stay in the house. If you're likely to sell in five years, a major remodel might not be the best option for you.

Derek: We see a lot of midcareer professionals who have the means now to move up to a bigger house or more desirable neighborhood, but those often need remodeling. Or, they may want to stay in their current home but need additional or improved space. We also see a lot of empty nesters who want to stay in the family home but need it to be more accessible as they age. We recently added an attached garage for one couple who needed that to manage the cold / snow of winter and create one level living so they could stay in the home while they age.

Patrick: While we always encourage these projects to be done in the context of the neighborhood and potential property value, we also recognize that there are emotional costs to moving, and some people will want to put some extra value into this property to avoid leaving their home.

Jesse: Thank you, Patrick, Gail, and Derek. One big takeaway from this is that it's okay to talk to the builder and mortgage pros before you know exactly what you want to do. I appreciate you sharing that insight!

For my readers: if you're thinking about a remodel this year, remember to talk to your financial advisor, a builder, and a lender early in the process. Together, this team can help you align your long-term financial goals with your current and long-term housing needs. We're all happy to help however we can, even if it doesn't result in new business for us.