Find the Funds for Home Upgrades

Daydreaming about swapping that little-used closet for the extra bathroom your family desperately needs? To spruce up your space—without sledgehammering your pocketbook—read this.

By Kate Rockwood

1

Determine whether the project is a good investment.

Some renos start paying off right away: Outfitting your house with Energy Star appliances (washer, dryer, water heater) can cut your energy use by 35 percent—and slash your bills significantly. Other upgrades might not save you money in the near future but will help you fetch a higher price when you eventually sell. "Anything that gives your house more curb appeal can really boost its value—and help you enjoy your home more while you're living there," says Sarah Feezor, a real estate agent with Dream Town Realty in Chicago. Buyers searching online might scroll past a listing with peeling paint or a dilapidated porch before looking at interior photos. In fact, the latest Cost vs. Value Report by Hanley Wood, a residential data provider, found that curb-appeal projects, including changes to siding, doors, and windows, had an average payback of 75 percent, compared with 64 percent for interior upgrades. Inside, kitchen and bathroom renos get the most return on investment. Even so, you'll want your spending to be compatible with the house's total worth—a $90,000 kitchen remodel doesn't make much sense for a $200,000 property. "One of the worst things people can do is overimprove their homes," says Feezor. "If the upgrade means you're now the best house on the block, you're never going to get as much of your money back when you sell." Checking out comparable listings in your area can help you keep pace with—but not exceed—the local market.

Illustrations by Andrea Mongia

2

Make a budget before borrowing.

You probably have a gut sense of whether you want to spend $5,000 or $50,000 on that kitchen renovation. To turn your ballpark estimate into a budget, first browse home improvement stores and sites for an idea of which materials and fixtures you like and how much they'll cost. For smaller projects, lean on sales associates to walk you through your options and answer questions. For larger upgrades, spending a bit up front for a design consultation can get you valuable info about your options and help ensure every necessary item makes it into your budget. A good rule of thumb is to pad contractor estimates by 10 percent. With a DIY project, pad the estimate by 20 to 30 percent, because hiccups happen—especially when you're not a pro. For city-by-city estimates on typical costs, go to houzz.com/remodeling-costs.

3

Use promotions to float smaller projects…

If you don't want to tap your savings for smaller projects, you might qualify for a credit card with 0 percent interest for 12 months or longer. Citi's Simplicity card, for instance, offers 0 percent interest for 21 months. "Store credit cards tend to offer less flexibility, but if you know you're going to always shop there, they do have perks, like special promotions and higher cash-back rewards on purchases," says Kimberly Palmer, a credit card expert at NerdWallet. Just make the minimum payment each month and pay off the balance in full before the promotional period is over or you'll wind up spending a pretty penny for that new patio.

4

…or foot the bill with equity.

If you want to use your home equity to pay for upgrades, you've got a few options. The most flexible may be a home equity line of credit, "which is like a credit card attached to your house," says Alex Margulis, vice president of mortgage lending at Perl Mortgage in Chicago. The upside: You can take out funds and repay them as often as you like for the duration of the draw period of the credit line (usually 10 years)—and you pay interest only on the money you've drawn. But the interest rate is variable, which could burn you if it climbs while you're in payback mode. If you prefer the security of a fixed rate, choose a home equity loan. You get a lump sum and pay interest on the entire amount until it's paid back. Run the numbers carefully before borrowing, says Margulis: "Sometimes moving makes more sense, and sometimes staying put—minus the renovation—is the smarter choice."