# To stay or go is the question

NOEL WHITTAKER

Moving house incurs non-productive costs.

Beware of overcapitalising when renovating and make sure you check the previous work of your intended builder.

FAMILY situations are dynamic. Additions to the family, or a new hobby, may mean you need to upgrade your home. This begs the question – should you move or renovate?

No matter which option you choose, there are going to be hassles. As a person who has both moved and renovated, let me assure you that both create major disruptions in your lifestyle. However, my suggestion is to renovate if possible. Selling one home and buying another could well cost you nearly 10 per cent of the price of the new home. If you sell a home for $600,000 and buy another for $900,000, you would be looking at close to $90,000 in expenses such as agent's commission, legal fees and stamp duty, loan fees and removalist fees. That is a huge loss of capital.

If you renovate, the main danger is overcapitalising – this means you spend so much on your home that it becomes far more expensive than the rest of the houses in the street. You can avoid this by asking an agent to give you an appraisal of your home's value today to see how it compares with those around you. If its price today, plus the renovations, does not exceed the average price in the street, overcapitalising should not be a problem. Let's assume your house is worth $600,000, and the average price in the street is $800,000: you could safely spend $200,000 in renovations. That's just over double the non-productive costs of moving house.

You already know how to buy a house, so let's focus on the steps to successful renovating. Once your budget is clear, have a building inspection on your property to ensure it is structurally sound and capable of being renovated, and a survey to ensure the boundary pegs are in the right position. All too often we hear of renovations that have encroached on a neighbour's property.

Check out your intended builder thoroughly, because if you are unfortunate enough to strike an incompetent or insolvent one, you could find yourself in a state of despair. A slow builder means you could be paying both rent and mortgage payments for many months more than you budgeted. But worst of all is a builder who goes broke in the middle of a job. You will find yourself paying a small fortune for someone to fix the mess.

A good builder will be happy to give you the names of people for whom he has recently completed jobs. Take the time to visit some of them to specifically investigate the quality of the work, and also check if the job was done on time and on budget.

It's important to get the finance right too. The first step is to convince yourself that you can afford repayments on the loan you will have when the job is finished. All you need to do is add the cost of the renovations to the existing loan balance, making sure you make adequate allowance for extras such as landscaping and new furniture. Then do a budget based on repayments of $7 per thousand per month. For example, if your total loan will be $200,000 on completion, budget repayments of $1400 a month. This may be more than the lender will require, but it will give you a buffer to protect you from future interest rate rises.

If you have sufficient equity in your home, I suggest you start with a line of credit loan, which will enable you to draw it down as progress payments come due and will eliminate the hassle of calling for a bank inspection every time a progress payment is due. But experience tells us that line of credit loans should not be used forever, as too many borrowers simply pay the interest and never reduce the debt.

The appropriate loan once the building is complete is a principal and interest loan, where you are required to pay it back.

**Noel Whittaker is the author of *Making Money Made Simple*, and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.**

Q I am a 63-year-old widow, working full-time on a salary of $110,000 and intend to retire in two years. I have rental income from two properties, one of which is mortgaged. My own home has a mortgage of $160,000 remaining. The mortgaged rental property is on the market and I should have about $50,000 left after all debts on it have been discharged. What should I do with it? Should I put it into super or pay it off my home mortgage? I have some super and intend to sell the other unencumbered property before I retire.

A I suggest you pay the money off your home mortgage as this will give you the equivalent of a capital guaranteed tax-free return of around 5.5 per cent – the interest rate you are currently paying on the mortgage. Between now and retirement, you should be salary sacrificing to the maximum allowable to boost your superannuation so you will be able to withdraw funds from it when you retire to pay off your mortgage. The only risk with this strategy is if the investment return in super is negative, and the investment loss outweighs the tax savings through salary sacrificing.

Q I am aged 58 and retired. I have $500,000 in super, $50,000 in term deposits and $15,000 worth of shares. What would be the tax implications of withdrawing my super and investing it myself?

A If you withdrew your super now, there would be some tax to pay on the withdrawal but the amount of this tax will depend on previous withdrawals, if any, you have made and the break-up of the components of your fund. Once you reach 60, all monies can be withdrawn tax-free. Be aware that superannuation offers substantial tax benefits and once you reach 60, you could be in a position where your fund is a tax-free fund while you are drawing a tax-free income from it. If you are keen to do your own thing, a better option may be to take advice about starting your own self-managed fund.

# Beware of that messy relationship with money

By **MELISSA BROWNE**

I'M not sure about you, but a lot of people I know don't have a great relationship with money.

The problem is, money is something we're stuck with. And instead of working out how to have a better relationship with money, I think many of us actually need to break up with it.

I appreciate it's easier said than done. After all, you can spend a lifetime having a better relationship with food, and money can have an even stronger emotional pull.

The problem is most of us have developed an unhealthy relationship that's turning, if we're completely honest, a little bit toxic.

That's why I think many of us need to break up with money. If that sounds like you and you suspect you need to start developing a healthy relationship with your finances, here are my tips.

**Do a financial detox:** If you're going to break up with someone, you need space. You need to unfollow them on social media and start to separate from each other's lives. It's no different with money. In order to break up, you need to start with a financial detox – simply 30 days of buying nothing new or essential.

**Understand how you feel:** Sure, you may have heard of emotional eating, but emotional spending is just as bad for your health. That's why it's important to understand why you're spending. Analysing moments where perhaps you think, "it's been a tough month, I deserve something nice"; "I work hard, I deserve a $100,000 car". That's because you might feel like you deserve it, but you also need to afford to pay for it.

**Understand how you're spending:** If you're in a bad relationship, you need to face what's going on. It's the same with money. After your detox, track your spending with one of the many cloud-based solutions (a simple, free tool is on the Money Smart website or maybe check out Xero), so you can start facing where your money is going.

**Work out your goals:** In order to start viewing money as simply a tool again, it's important to work out your goals in life. Three-year and 12-month goals are essential.

**Understand your values:** In order to transfer your feelings from money on to something really worthwhile, make a list of what you value in life. Maybe it's freedom, family, security, significance or loyalty. Once you've done that, take a look at your goals and work out if they fit with your values. If they don't, make adjustments until they do.

**Work out a plan:** Sometimes our financial goals and values seem so far removed from everyday life that it's easier to just buy a cocktail and continue as you are. Instead, work out how much money it would take to reach that plan and how long it would take. So if your goal means you need $10,000 in 12 months' time, that means you need to save $200 a week.

**Start to become a conscious consumer:** Working out a plan is great, but unless you're monitoring how you're going, it's too easy to go off track. Take time every month to check how you're going, see if you're on track and make any necessary adjustments. It's always easy to lose a sneaky kilo rather than dealing with 20 kilograms, so by jumping on the scale with your money regularly, you're keeping a tight rein on it.

**Remove yourself from temptation:** I don't have chocolate in the house because I have absolutely no willpower. If you know you never window-shop but always window-buy, then don't window-shop. Remove the temptation rather than waving a big stick at yourself.

**Seek help from a relationship counsellor (also known as a money expert):** Sometimes, relationships just end up toxic and messy and we can't extract ourselves. It can be the same with money. You might have a go at all of the above and it just doesn't work for you or you might know yourself enough to know you need help from the start. Seek out great advisers who can help and who will stay in your corner as your cheerleader and coach.

**Consistently monitor, gauge, adjust and track:** Establishing a healthy respect for money is a great thing to do. But it shouldn't be done onceand you never do it again.

This should be a lifetime quest to not just keep money under control, but to use it as a tool to create more freedom, empowerment and options.

**Melissa Browne is an accountant, adviser, author and shoe addict.**