

Beat the
lottery odds

**THE WEALTHY BARBER'S
INVESTING SECRET P.78**



How to outwit
car dealers

MoneySense

CANADA'S PERSONAL FINANCE MAGAZINE

SUPERSIZE YOUR

RRSP

7 surprising
ways to
**BOOST YOUR
RETIREMENT
SAVINGS** P.29

Introducing
the ETF
All-Stars!



**WE RANK CANADA'S
BEST MUTUAL FUNDS** P.42

FEB/MAR 2013
\$6.95 www.moneysense.ca
DISPLAY UNTIL
APR. 1, 2013
PM40070230

03
0 55113 70013 2

REALITY CHECK



BY SARAH EFRON

Home makeover shows give you the impression you can transform your house in a few short weeks. *MoneySense* shows you why real renovations are nothing like what you see on TV—and what you really need to know to pull off a successful remodeling

Home renovation shows tend to follow a set formula. The real-life couple is overwhelmed by a problem in their home—say a lime green 1970s kitchen or a water-damaged basement. The heroic host arrives on the scene, and with some tough love and a small army of contractors, transforms the home beyond recognition in almost no time, despite running into some unforeseen problems. The finished project is revealed to the couple, who are overwhelmed with joy when they see their gorgeous new home.

We all know what we see on television isn't real, but just the same, a steady diet of home renovation shows over the last decade or so has changed our expectations. We are more educated about design, and increasingly we want the beautiful granite countertops and sleek open interiors we see on TV. But over the years, many homeowners have also picked up misconceptions about the renovation process. If you want to avoid frustrations and disappointment while doing your own home improvements, make sure you know how the TV shows differ from real life.

The costs on TV aren't realistic. On a typical show, you might see a complete renovation of the main floor of a house for \$35,000 or a high-end kitchen installed for \$20,000. But are those figures realistic? "We don't know what's really factored into those numbers," says interior designer Jutta van der Kuijp. "Is all the labour in there? Are the design fees in there? Are all the materials at cost?" >

REAL LIFE RENOS

AT HOME IN THE KITCHEN

When teacher Anthoula Di Gennaro designed a kitchen for her new home last spring in Maple, Ont., she already had some experience, as she had done extensive kitchen renovations in her previous home. "We had heard a lot about contractors not being done on time and

after-sale service not being good, but both times, our company was on time and if we had any concerns, everything was fixed very quickly," she says.

Di Gennaro spent a lot of time looking through design magazines and paid careful attention to her own behaviour in

her existing kitchen. She asked probing questions to find out the proper order to get the work done. The process went smoothly, except the doors on the cabinets above the fridge were the wrong size, a problem quickly corrected by the installer, Selba Kitchens & Baths. **The total bill**

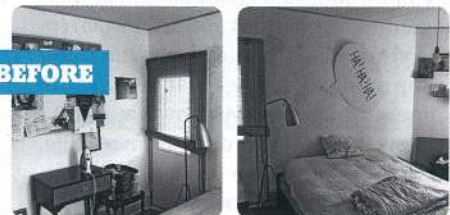
for the kitchen was around \$52,000, fairly close to what she budgeted for.

The end result: a beautiful kitchen featuring white and glass cabinetry and a marble-covered island. **"I walk into my kitchen every day and I'm really happy in the space."**

Robert Koci, associate publisher of *Canadian Contractor* magazine, is skeptical that the budgets you see on TV could be replicated in real life. "The show I tend to get caught up in most often is *Love It Or List It*. When I see their budgets sometimes I'm scratching my head. It seems like it costs half of what it normally would." Koci says viewers should be aware that TV show costs could be lower because they might get donated materials and labour from contractors. "These shows are on really tight budgets," he says. "The likelihood is they're bringing in tilers and drywallers who are doing the work for the exposure." (For a real breakdown of a TV budget, see "Warning: May Not Be Exactly as Shown," on the next page.)

In order to make a realistic budget for your own project, do research before you commit to a number. "Don't set limits in your head if you're not informed," advises Tyrone Stanley, a carpenter and general contractor in Toronto. He says people tend to get anchored on a specific cost before they really understand the scope of the work. "They might think a kitchen renovation is going to cost \$7,000, because they saw it on a TV show. Then later they realize that for it to be done correctly, it costs more, but they don't want to do it right because they're set on that \$7,000."

Renée Verret, a Toronto financial planner, advises her clients to start off by window shopping for materials so they know what they cost before they commit to a project. Then, she suggests, you should bring in a few contractors to get labour estimates. "We usually recommend people apply a 20% to 40% top-up on the labour quote because you never know what you're going to run into in a reno," Verret says. When you go out to buy the materials, make sure you bring your budget with you so you'll stay on track.



BEFORE



REAL LIFE RENOS

ROOM FOR A GROWING FAMILY

Renovations take a long time. On TV, renovations go from conception to perfection in a few short weeks. But there are things the camera doesn't show. "The stuff you see on TV always looks way better than the results you see on the ground," says Koci, who once witnessed almost the entire renovation for a major Canadian show. "They did the big reveal at the end and the customer acted like, oh wow, they've never seen anything so beautiful. But at least 20% of the work hadn't even been finished."

Many renovation professionals complain that TV's shortened timelines set up heightened expectations. "Some shows manage to have a renovation done in three days. There's no way! Those would have been prepared for months in advance," says van

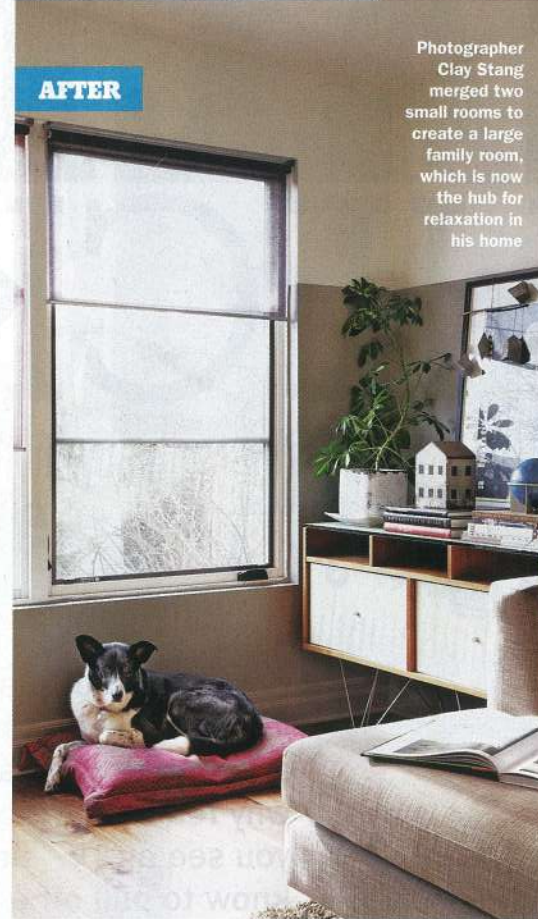
After having kids, photographer Clay Stang and his wife wanted to renovate their house in Toronto's Parkdale neighbourhood to better suit their needs. Their five-year old son Otis was sleeping in the former TV room, so they decided to combine a tiny office/spare

bedroom and a covered sun porch on the second floor into a big family room. "The porch was a useless space," says Stang. "Plus we were worried the kids could potentially fall off."

Stang called three contractors and avoided the ones who gave quotes without

der Kuijp. "People are surprised when I tell them it will be eight weeks before their kitchen cabinets are built. The reality is it doesn't happen faster than that, but the whole HGTV phenomenon has made it seem like they can build your whole kitchen in your driveway in a weekend and you'll be entertaining on Monday. It's unreasonable and it makes it very hard for us to do our jobs."

der Kuijp. "People are surprised when I tell them it will be eight weeks before their kitchen cabinets are built. The reality is it doesn't happen faster than that, but the whole HGTV phenomenon has made it seem like they can build your whole kitchen in your driveway in a weekend and you'll be entertaining on Monday. It's unreasonable and it makes it very hard for us to do our jobs."



AFTER

Photographer Clay Stang merged two small rooms to create a large family room, which is now the hub for relaxation in his home



Previous spread: Courtesy of Selba Kitchens & Baths; Newscom; This page: Photographs by Clay Stang

istock

Alta. "We generally book two to three months out or longer, depending on the job." And no, even though the television programs show five or six trades working side by side, in reality you'll usually want to schedule things so only one contractor (or two at the most) is in your home at once.

To keep things running smoothly, buy all your materials ahead of time, and remember it's common for items to be out of stock or for the wrong product to be shipped. Give your contractor a green light to buy other materials as the need arises—even if he marks up the cost by a few bucks, it's usually worth it to keep the process running smoothly if you aren't around to react quickly.

People often feel under pressure to get their renovations over so they can be done with the stress and enjoy their improved surroundings, but you put yourself at increased risk of problems if you move too quickly. "You don't have to do everything at once," says Alan Elliot, a 41-year-old sound engineer who did extensive renovations

bothering to do measurements or contemplate the details. He chose the contractor who followed up with a detailed quote, even though he wasn't the cheapest. "He really broke it down well so we could see where every penny was spent."

on his home, a former restaurant in Willow Beach, Ont. "I understand no one wants to live through constant renovations, but if you plan it out slowly and wait to do some projects a couple years later, it's a lot easier."

DIY isn't as easy as it looks. Watching the brawny contractors on TV might inspire you to break out your own toolkit. Sometimes the hosts even get hapless husbands to do some drywall or drilling, but sadly, nothing is as easy as it looks on TV. Koci says you need to make an honest assessment of what you can do yourself. "If you have all the time in the world, it's quite realistic to do your own renovations, but often we don't have the time to learn things properly," he says. "If homeowners don't have the patience or time, they won't do it as well as a professional."

If you decide to do some work on your own, make sure to get help from a buddy with some experience. "It's not realistic for someone to read a book and then do >

The contractor knocked down the brick exterior wall and extended the room by 7 1/2 feet. He rebuilt the ceiling so it was higher, put in larger windows, and added insulation to warm up the formerly cold floor. The project came in at close to the budgeted price of \$20,000.

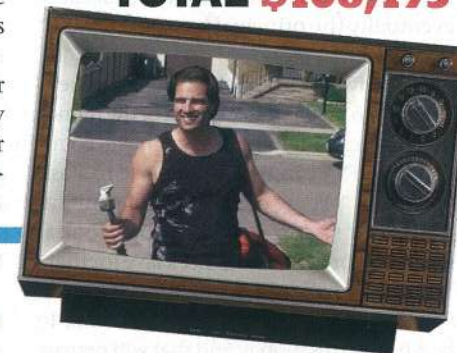
WARNING! May Not Be Exactly as Shown

The real cost of a \$55,000 TV reno

In a recent episode of *Income Property*, host Scott McGillivray meets newlyweds Jerry and Ameer. For \$55,000, he transforms their 1,200-sq-ft basement into a fully furnished three-bedroom income suite, complete with a kitchen with stainless steel appliances. But is the price realistic? We asked two contractors to price out the reno (at right), and even without interior design fees, we found it would cost about twice as much. When asked about the discrepancy, McGillivray's executive assistant Deidre Budgell said the show's figures don't account for contractor's overhead, profit or the cost of furniture.

Demolishing current basement (\$5/sq. ft., includes concrete removal)	\$6,000
Expanding window opening and adding a new window	\$1,500
New framing (labour and material)	\$4,375
Finishing (doors, trim, hardware, etc.)	\$4,559
Drywall contractor (insulation, vapour barrier, drywall, mud and tape, texture ceiling; \$11/sq. ft.)	\$12,100
New floors (\$5/sq. ft. for labour and materials)	\$6,050
Plumbing (includes sinks, toilet, tub, faucets)	\$5,500
Install return air ducts and bathroom fan ducts	\$990
Electrical work and light fixtures	\$3,500
Pour concrete	\$630
Painting	\$4,400
Tile for kitchen and bathroom	\$2,106
Built-in cabinets and storage, kitchen with cupboards, countertop and an island	\$4,200
Project management, superintendent, estimating, material delivery charge, garbage removal, final clean	\$3,050
Dishwasher, fridge, washer and dryer	\$3,100
Window coverings	\$1,000
Furniture and artwork	\$15,000
Contractors' overhead and profit	\$17,688
HST (13% in Ontario)	\$12,447

TOTAL \$108,195



"The space now is by far the warmest, biggest and most inviting space in the house."



REAL LIFE RENOS

UPDATING AN OLDER CONDO



BEFORE

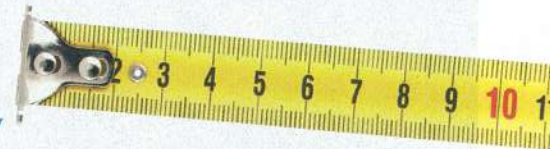


TJ Kang and his wife Grace, both lawyers, moved to Vancouver from Calgary with their one-year-old son Jackson in 2011. They bought an older condo in Yaletown, figuring that even after spending \$130,000 to fix it up, it would still be cheaper than purchasing a newly built unit.

After drawing up a budget, the couple decided to cross off some projects on their list, such as moving the location of the washer and dryer. **"We didn't want to put too much money into the condo renos** because at the end of the day, if you were to sell you wouldn't

get the full value of money you put in," says Kang. Their interior designer Anna Dhillon also helped by finding lower-cost cabinets and mirrors that fit the clean aesthetic the couple was going for. **The project ended up on budget but took four months to complete**—almost

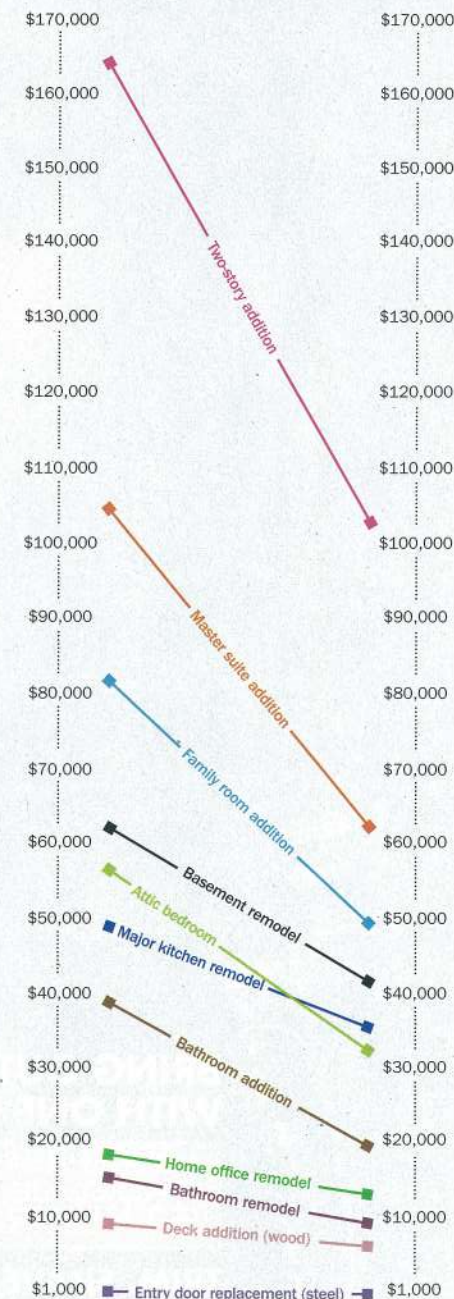
twice as long as it was supposed to. If he were to do it again, Kang would spend more time preparing the project in advance. **"It's amazing how much detail you don't really think about,"** he says. "It's important to think through exactly what you want."



Is Your Reno Really an Investment?

How much will your renovation truly add to the value of your home? Probably a lot less than you hoped. *Remodeling* magazine crunched the numbers to find the typical payback on mid-range renovation projects.

Job Cost Increase in home's value



your lenders cover costs for legal fees and an appraisal, you may need to pay \$700 to \$1,100 to set one up. Most mortgages will allow you to take a home equity line of credit from another lender, so shop around for the best rate. According to mortgage broker Kim Gibbons, expect to pay 3.5% or more, depending on your credit history.

If you get a line of credit, make sure you have the cash flow to make the payments and cover your other financial obligations, and give yourself a deadline to pay it off. Lenders will usually extend credit if your monthly obligations are less than 40% of your gross income, says mortgage broker Robert McLister, but you'll want to stay below that number to protect yourself against rising interest rates.

If you can't pay off the debt promptly, you might be better off refinancing your mortgage. "You're often wiser to get a one-to-five-year locked-in mortgage below 3%," says McLister. "That way you can save interest up front, shield yourself from some variable-rate risk, and pay off lump sums whenever you want, subject to your lender's prepayment privileges." If you currently have a fixed-rate mortgage, find out if you would need to pay penalties for breaking it early.

The reno may not add to your home's resale value. On a recent episode of *Income Property*, host Scott McGillivray tells beaming homeowners Jerry and Ameer that after putting \$55,000 of work into their basement suite, the home that they bought just weeks before just increased in value by \$84,000. (Costs on this reno are broken out in "Warning: May Not Be Exactly as Shown," on page 61.) Homeowners like to justify pricey projects by tossing around numbers like this, but you need to be careful. The truth is, for a kitchen or bathroom reno, you can expect to recoup about two-thirds of your cost. (For more payback estimates, see "Is Your Reno Really an Investment?" on page 63.)

And if you choose the wrong renovation project or make unpopular design choices, you may get no return on your investment, or even reduce the value of your home. "A \$12,000-porcelain sink for your bathroom will be beautiful in that



AFTER

high-end Rosedale home, but it's a really stupid thing to put into a one-bedroom condo because it won't be appreciated," says Vancouver-area realtor Sarah Daniels. "By the same token, if you put a \$20,000 kitchen in \$2.5-million home, you might as well just burn the money. If it's not up to the quality expected in the neighbourhood, don't do it." Also remember your new kitchen won't be considered new unless you sell in the next couple years, meaning it may have no impact on the amount buyers are willing to pay.

If you're concerned about resale value, shy away from ornate designs, bright colours and overly personalized renovation projects. "Pick something relatively neutral for your countertops and cabinetry, and then use bright colours and accents in paint," says Daniels. "If you like bold colour choices, you can change the paint before you sell."

You can't afford to be passive. Our heroic TV hosts tend to dominate the renovation process, giving the owner only one or two chances to have input. Hosts are given free rein and often the homeowner doesn't weigh in again until the project is finished. But in reality, if you take a passive role in your renovations, you're likely to run into problems.

"The number-one reason why renovations fail is because homeowners took their eye off the ball," says Koci. "Some homeowners

Even though his family would have been fine with just a shower, TJ Kang included a tub in his condo's bathroom reno to appeal to future buyers



believe what they're paying for is the ability to abdicate responsibility. They think when you go with a high-priced contractor you should be able to disengage from the process. But when the customer disengages, it allows them to say it's the contractor's fault whenever something goes wrong, and things can spiral out of control."

You certainly don't want to micromanage your contractor's every move, but you do need to stay on top of developments and be responsive when they ask you to make decisions. "Look at the details and listen to your intuition as to whether you like what you're seeing," says Koci.

Properly planned renovations are boring. TV renos are rife with dramatic moments where the contractors suddenly encounter surprises—for example, panic ensues after a wall is removed, revealing that a crucial support beam has been damaged. But while many renovations do encounter unexpected snags, a properly planned project won't create major drama.

Anna Dhillon; Janis Nicolay

iStock

their own renos properly, but it is realistic if they are being supervised by someone who knows what they're doing," says Stanley. Even so, you're probably better off leaving plumbing, electrical and structural work to the pros.

You might regret borrowing to renovate. Ever see a reality TV program that shows an in-depth analysis of whether borrowing to renovate really fits into the homeowner's overall financial plan? Me neither. But homeowners who don't look at the big picture may live to regret it.

Before you commit to a project, get a financial planner to look at your situation, or use the *MoneySense* Complete Financial Plan Toolkit at www.moneysense.ca/plan. "You have to take an honest look at where you stand," says Verret. "Obviously an improvement always sounds better, but your house doesn't have to look like the house from the hospital fundraising lottery that costs \$3.5 million."

The danger with a line of credit is it doesn't require you to repay principal and interest each month. "The lender often only requires interest and people fall under the assumption that they can manage the interest, therefore they can go ahead with the reno. That's not the case at all, because eventually the principal has to be repaid," says Verret.

She advises clients planning major renovations to save a sizable chunk of the money in advance. A high-interest savings account inside a TFSA can be a good place to stash your cash. "We are used to instant gratification in our society, so some people look at me in horror when I say, 'Let's save for that.' They say it will take a long time and I say, 'Yes it will. Then you'll feel what it's like to be without this money and that will prepare you to pay off the rest of the loan.'"

A line of credit secured against your home will give you a lower interest rate, but unless