Is your home improvement adding value?

Caroline Saxon in her newly refurbished bathroom at her home in Harborne, Birmingham Andrew Fox

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Difficulties finding finance can also make certain projects pointless

Eighty per cent of UK residents think that renovating or improving a home is better than selling in the current environment, according to a survey by the storage company Safestore.

New families may want to create extra space if they cannot afford to move to a bigger property; others may simply want to make the best of their homes while they are unable to move up the ladder. Some homeowners may be planning to boost their property's value before an eventual sale, but this needs careful consideration as it is easy to spend more on renovations than any gain in house price that you may make.

Mortgage brokers say that many lenders are stricter than they once were when offering further advances to existing borrowers, but they will usually offer additional lending for home improvements if the borrower's total debt does not exceed their maximum loan-to-value (LTV) threshold. Borrowers may also be turned down if their income has gone down since they originally took out their mortgage or if they have missed a payment since then.

Before increasing your borrowing to fund renovation plans you should decide whether your main aim is to add value to the property that you hope one day to recoup, or whether you simply want to improve your living space.
If you aim to make a profit over time, you need to do your research on the types of renovations that add the most value for the least outlay. Do not expect to get your money back immediately, as much will depend on wider house price trends. If you are looking on the renovation as an investment, aim for a quality finish, but do not get carried away or you will wipe out any potential return.

Research by the Royal Institution of Chartered Surveyors' Building Cost Information Service (BCIS) and estate agent Savills indicates that loft conversions and extensions can add up to 20 per cent in value. However, they can cost anything from £13,000 to £37,000, which means that you may not make a profit when you sell.

Whether you gain will depend on the type of buyer that your property is most likely to appeal to, and whether space is at a premium in the area in which you are selling. Joe Martin, executive director of the BCIS, says: "In this country we don't tend to sell properties in square metres but by the number of bedrooms, so an extension can add significant value in some cases."

A new kitchen will typically cost about £20,000 but the value that it is likely to add varies between 5 and 20 per cent. "If you have a really dowdy kitchen, replacing it can make a big difference," Mr Martin says. But, he adds, upgrading your kitchen when it is already good-quality is unlikely to make much of a difference to the property's value.

Cheap cosmetic changes, such as redecorating, often give the biggest value boost relative to expense, typically costing about £1,500 but with the potential to increase a property's value by up to 12 per cent. DIY renovations may seem to make money-saving sense, but if the finish is not up to scratch, you can damage your property's appeal. A recent survey of estate agents by the insurer LV= found that poorly executed DIY could lower a property's value by up to 5 per cent and invalidate home insurance.

Aaron Strutt, of Trinity Financial Group, the broker, says that before borrowing more to do up your home you should consider the impact on the LTV of your mortgage. Bear in mind that, by increasing your LTV, you are likely to pay a higher rate when you come to remortgage.

David Hollingworth, of mortgage brokers London & Country, says: "If you are tied in on your existing deal or have a very good rate that you don't want to give up, a further advance from your existing lender could be a good option."
Find out whether your current mortgage deal is subject to an early repayment charge; if not, your best option for raising new finance may be to remortgage with another lender offering a cheaper rate. In doing so you must take into consideration any fees that apply and also whether you are sacrificing any element of security, eg, if your current rate is capped so that it cannot increase above a certain level. Borrowers with lenders that have since stopped offering new mortgages will not be able to take out a further advance and will have to remortgage with a new lender or take out a separate loan if they want to borrow more.

Melanie Bien, a director of mortgage broker Private Finance, says: "Watch out for lenders moving the goalposts and tightening their lending criteria." She says that one of her customers was recently refused a further advance because his mortgage was interest-only and the lender had introduced tougher rules since the initial loan was taken out. The customer would have had to switch to a repayment mortgage, significantly increasing monthly costs, to borrow more. The best option was to pay the early repayment charge and switch to another lender.

If you are close to your maximum LTV but the renovations that you are planning will increase your property's value, many lenders will take this into account. You will usually need to provide the lender with plans produced by an architect or builder. The lender will typically value the property before work begins and work out the increase in value . The lender will release the additional funds when the work is completed, subject to a reinspection to check that it is of an acceptable standard.

On large renovation projects you may be able to release money after each phase is completed if the lender reinspects the property and finds that value has been added at each stage in the process. The borrower would usually have to pay for the initial valuation and then a slightly lower charge for each reinspection after that.

Ray Boulger, of mortgage brokers John Charcol, says that borrowers who have a minor blip on their credit file because of a missed payment may find that their existing lender is not prepared to offer them a further advance. But a secured loan from a second-charge lender is an option, even if it means paying a higher rate.

'Rental funds renovations'
Case study

When her daughter moved away for university, Caroline Saxton, 53, a primary school teacher, decided to earn money to reinvest in her property.
Homeowners can make up to £4,250 a year tax-free under the Government's Rent a Room scheme, so Ms Saxton, above, used Mondaytofriday.com to find a part-time tenant.

Her current lodger is a graduate and she says that she likes the company in the week but that it is nice to have the house to herself at the weekends. She earns about £300 a month from her lodger and has used the money to renovate her bathroom, which cost £2,000. Her next plan is to install a double-glazed roof over her laundry room.
She says: "I wouldn't have been able to afford this work without a lodger. I plan to stay in this property for the long term, so earning this rent is enabling me to make it a nicer place to live."