PORT FINANCE GROUP
MORTGAGE & FINANCE SPECIALISTS

THE 5 STEPS
TO DO A KNOCK DOWN & REBUILD

Renovate the old house?

Sell it and buy again?

OR knock it down and build a new one?

In this eBook Andrew will take you the through the steps to successfully navigating the knock down and rebuild process from start to finish & the keys to financing the project. We worked with many clients who have been on this journey.

CONTENTS

STEP 1

The most IMPORTANT factor to consider – the NUMBERS!

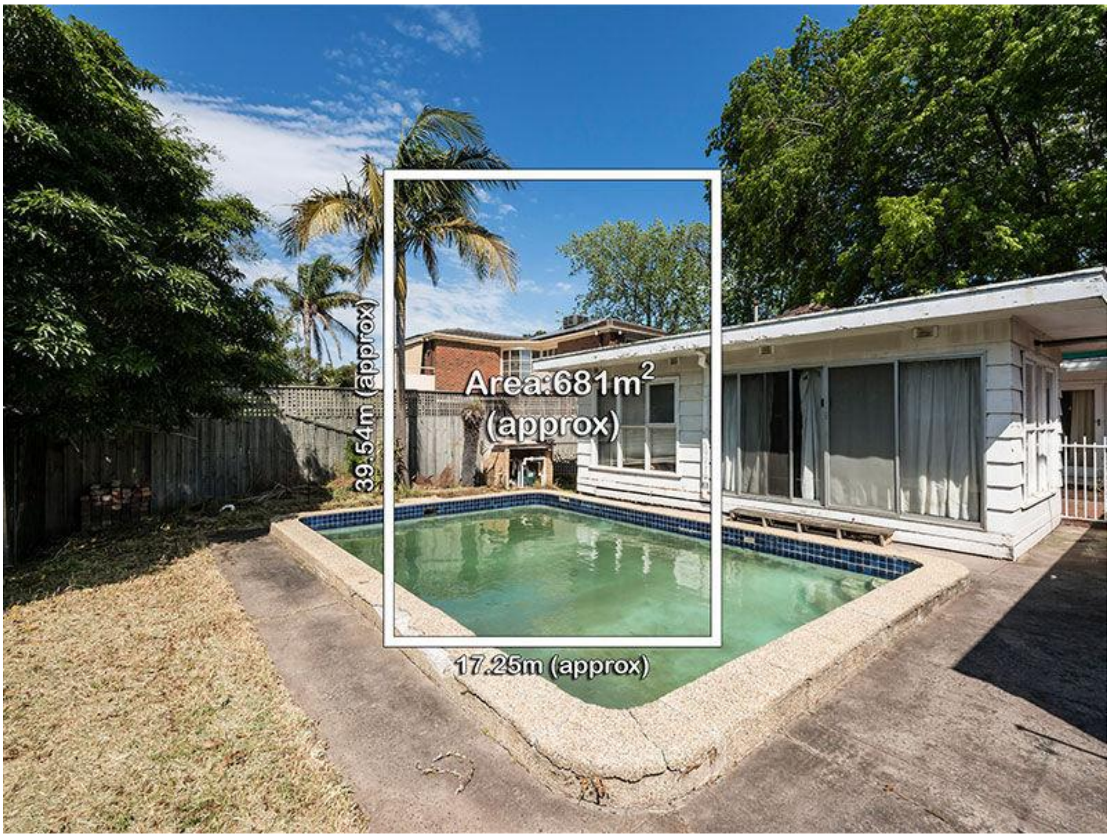
Is it the right thing to do financially…………...?

Three questions to answer:

- **What is the property currently worth?**
- **How much will it cost to renovate?**
- **What will it cost to build a new home?**

We will help with obtaining bank valuations to assess current value and what is the land value.

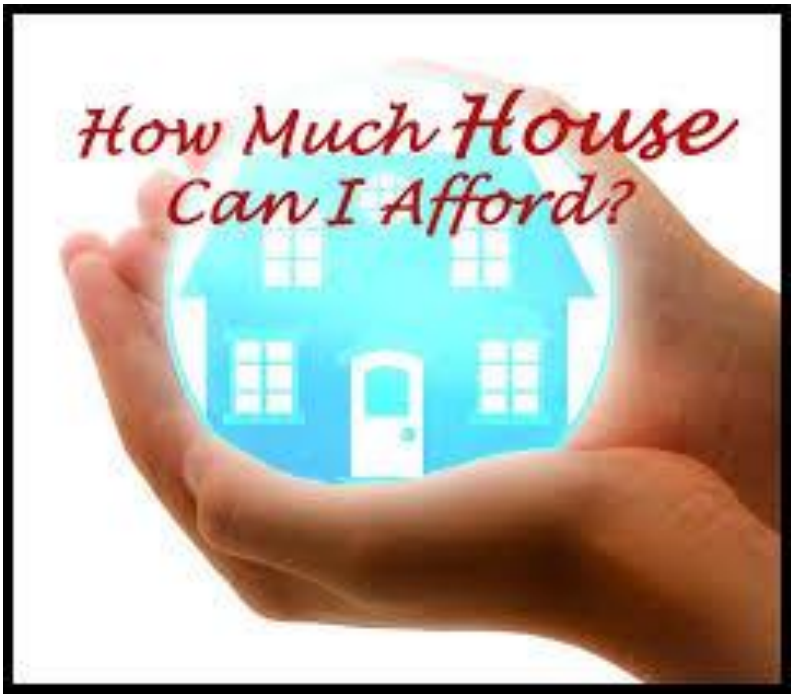
Quite often clients overcapitalise because the current home is worth the same amount as the land it sits on. The cost of building a new home may not be that much more, and in most cases the end value of the property is in fact much higher than the renovated property. The benefits of a completely new home including lower on-going costs, more energy efficient, full 7 years builder's warranty, a 'modern' floor plan and many others. In our experience clients tend to have far fewer issues dealing with builders on a new home than some of the unexpected things they encounter with renovating.



Can I afford the loan, how much can I borrow, and will the bank lend me the money?

Before engaging a builder, you need to work out what the total budget is going be. Speak to your mortgage broker and make sure you have completed a comprehensive assessment of your financial situation to understand exactly what you can or can't borrow. There are extra factors that need to be taken into consideration when undertaking a knock down and rebuild.

You will need to work out where you are going to live while the new home is being built. Usually you will need to rent a house for the period between demolition and completion.This will need to be factored in when working out the cash flow or funding required.



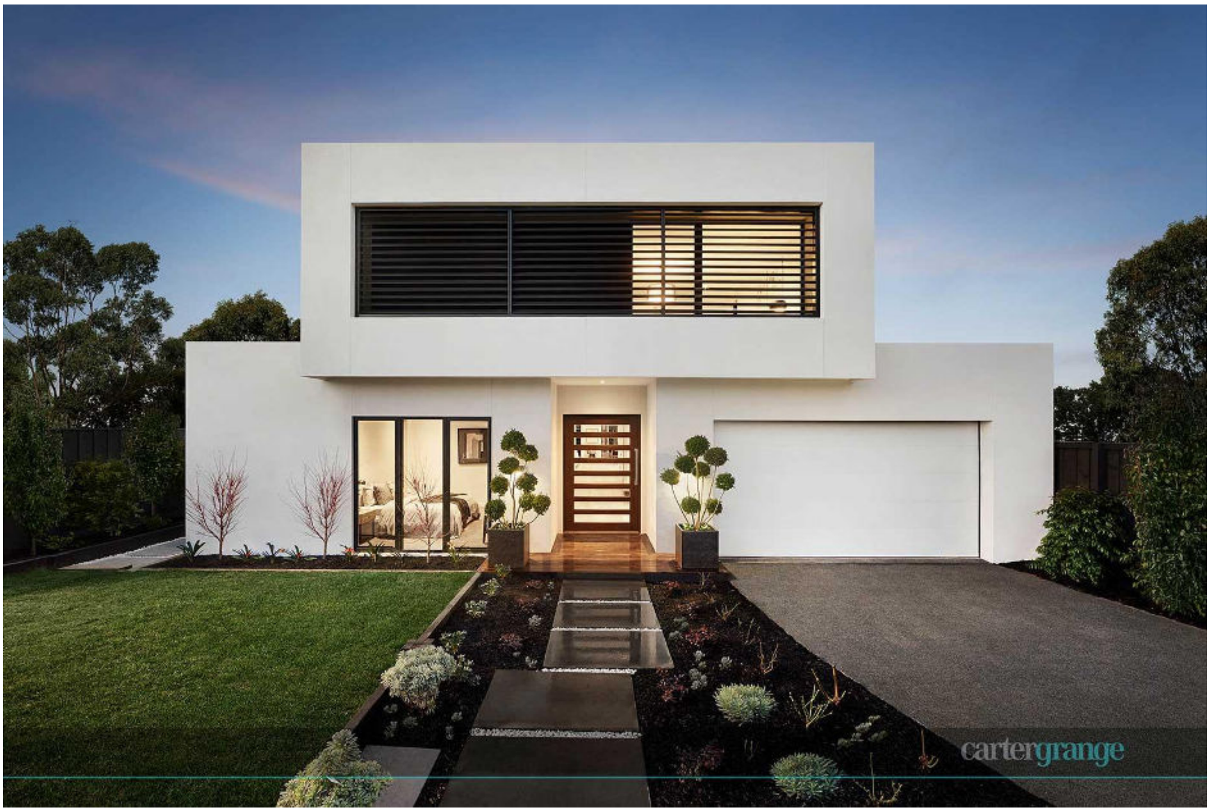
STEP 3

Choose the builder, choose the house.

It is important to choose a builder who not only suits your budget, but who also has a good reputation of building the right type of home in your area. Have a look at their display homes or other houses they have built in the area.

Make sure the builder has a good reputation for not only a quality product but also completing the build in a timely manner.

Banks will usually only lend to people who are using registered builders with a fixed price contract in place.
Get a recommendation from your broker, friends or colleagues and read the reviews!
You want to make sure the process is as smooth as possible.



STEP 4

Financing the construction. It's time to get a loan!

A construction loan is a little different to a standard home loan. Loans are drawn down in stages, known as progress payments. The payments will set up to match the building contract. This will usually be 5-6 payments.

When the builder reaches each stage of construction the bank will send a valuer to inspect the property & release each payment directly to the builder.

During the construction period the loan will be an 'interest only' loan. Therefore, you pay interest on the amount that has been drawn at any stage. Once the build is completed, the loan can be switched across to Principle and Interest.

If you are not financing 100% of the construction, the bank will require you to contribute your funds before they pay any payments. That's why it is important to know what extra money will be required for extras in step 4 when calculating the loan amount required.

As well as the all the usual documents, the bank will need to see copies of the following:

- **Builders Insurance.**
- **Signed Building Contract.**
- **Building Plans and permit.**
- **Full list of Specifications.**

STEP 5

Demolition and other costs that are involved.

You are ready to go. The builder is ready. The bank is ready.

It's time to demolish the house.   Demolition can be done once the services (Gas/Electricity) have been abolished and usually costs around $15,000 - $25,000.

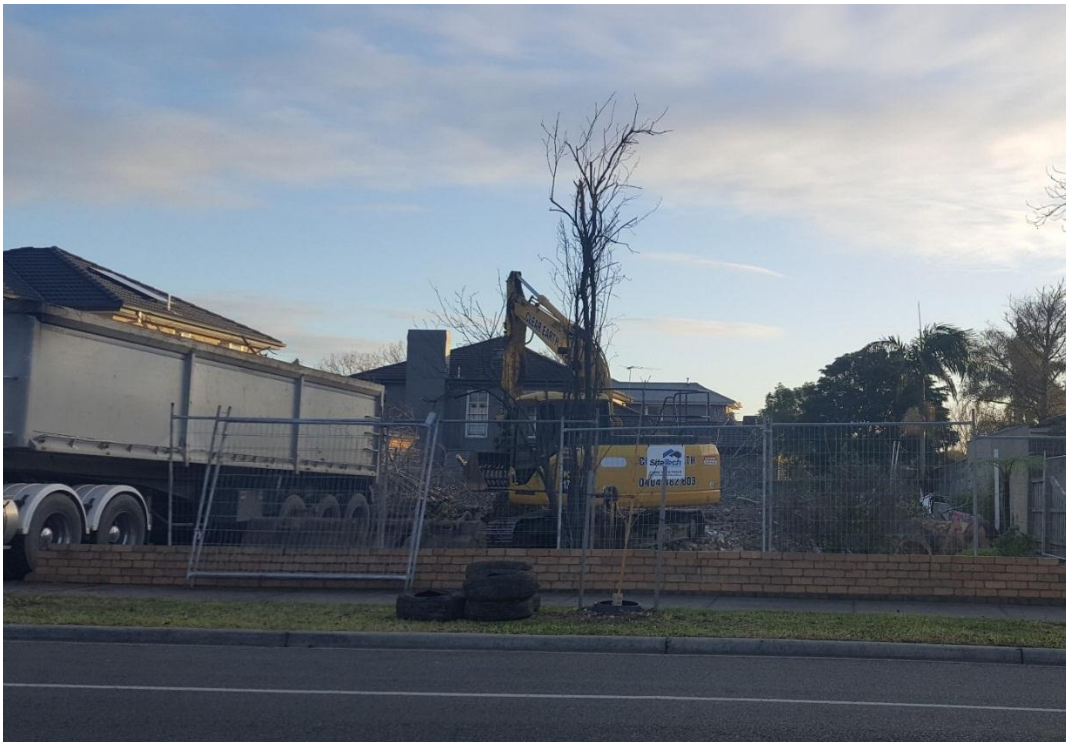
Does the build contract include any allowance for landscaping or driveway? Some do, but most don't. in our experience clients can spend anywhere from $20,000 and beyond just on the basic landscaping.

If the build cost is over $1M, most lenders will require a quantity surveyors report to be done. A quantity surveyor will breakdown the cost of the build and inspect the property for the bank along the way to make sure the progress of the build matches the amount of money being spent.

A QS report can range from $2,000 - $6,000 depending on the size of the build and up to $1,000 for each inspection.

Work with a good broker who has experience in construction finance.They will be able to help you understand all the little expenses that come with building, from asset protection permits to remembering to allow for curtains and blinds!

"Beware of little expenses. A small leak will sink a great ship."   Benjamin Franklin



For any advice on funding a new home or a recommendation to a builder, quantity surveyor, demolition company just click on the link below and we will help you through every step of the way.

https://portfinance.com.au/contact-us/