

10 homes first-time buyers should avoid

From hidden damage to crummy neighbors, beware these 10 signs that your dream home may turn into a nightmare -- before you sign the contract.

By Liz Weston, MSN Money



Too good to be true?

You've scraped together a down payment, with just enough money left over to pay closing costs. What you're unlikely to have, as a first-time homebuyer, is a big pot of cash to pay for repairs -- or a clear understanding of how much certain home flaws can cost you down the road.

With that in mind, I consulted with appraisers and inspectors from across the country to uncover the major home problems first-time homebuyers should watch out for and avoid.

Novices should be particularly cautious about "bargain" homes, according to appraiser Dan Fries, of [Daniel Fries & Associates](#) in Cumming, Ga. They may come with problems that are expensive to repair or impossible to fix.

"Avoid the killer deal, as the chances are good there is some issue that made the other owner walk," said Fries. "Buying a dog of a house will always be less desirable than the cream puff with a good location."



No. 1: Foundation problems

The old-school method of detecting foundation problems still works: Drop a marble on the floor and see how far (and how fast) it rolls. Sloping or sagging floors can indicate serious foundation problems that can cost a fortune to fix, inspectors and appraisers warn.

Cracks in the foundation can be no big deal -- or a very big deal, said Alvin "Chip" Wagner of [A.L. Wagner Appraisal Group](#) in Naperville, Ill.

Minor vertical cracks may just need a sealant to prevent water from getting in, while bigger, horizontal cracks indicate "something a little more severe," said Wagner, the president of the [Appraisal Institute](#)'s Chicago chapter. Structural problems can cost tens of thousands of dollars to repair, he said.

If an inspection reveals any kind of foundation issue, you need to call in specialized help to assess how bad the problem is, said Matt George of [Eagle Appraisals](#) in Denver.

"Don't trust your home inspector," George said. "Get a structural engineer."



No. 2: Geological problems

The only sign of trouble at one Laguna Beach, Calif., home was a quarter-inch crack between a laundry cabinet and the ceiling, said economist Randall Bell, who specializes in assessing damage to real estate from environmental and natural disasters.

Six months later, the home tumbled 125 feet down a slope.

Even flatlanders can have geological problems if their homes are built on improperly compacted fill soil. But if a home is built on a slope or has retaining walls, you need to be extra cautious. Cracked stucco or siding, fractures radiating from door or window frames and doors that won't shut properly can all indicate earth movement.

Bell recommends consulting a geotechnical engineer before you buy a home on a hillside to make sure a landslide won't wipe out your investment.

"It will cost you between a few hundred to a couple thousand dollars," said Bell, a partner in [Bell, Anderson & Sanders](#) in Laguna Beach, "but it can be money well spent."

A geotechnical engineer, who studies soil and earth movements, should know where major slide areas are, as well as where fill dirt was extensively used. Some people will go ahead with a purchase even though there's a risk of earth movement, Bell said, even though insurance doesn't typically cover such disasters. It's a potentially expensive gamble.

"It's a trade-off with the spectacular views they get," Bell said. "If you want to play it safe, though, buy a flatlander house."



No. 3: Bad drywall

The four hurricanes that hit Florida in 2004, along with Hurricane Katrina in 2005, set off a building boom that drained domestic supplies of drywall, a board used to create the interior walls of homes. Builders turned to imported materials, much of it from China. But serious problems soon emerged.

"People started noticing there was a strong smell of sulfur," said Jim Katen, a partner in [Associated Master Inspectors](#) of Portland, Ore.

The drywall wasn't just stinky. The fumes, or "off-gassing," also ate into copper wires and pipes, causing air-conditioning units and wiring to fail, sometimes just a few months after the homes were built.

The fix is phenomenally expensive. The Consumer Product Safety Commission and U.S. Department of Housing and Urban Development's [remediation guidance](#) (.pdf file) says homeowners need to replace:

- All the problem drywall, which typically means gutting the house.
- Smoke and carbon monoxide alarms.
- Electrical distribution components, including receptacles, switches and circuit breakers.
- Fusible-type fire sprinkler heads.

The cost for such remediation can spiral to more than \$100,000, inspectors and appraisers said. Insurance typically doesn't cover the cost, and lawsuits are still wending their way through the courts.

The problem primarily affects homes in the Southeastern United States that were built or remodeled between 2001 and 2009. One way to check for problems is to see if copper wiring or air-conditioning evaporator coils have become blackened.

"Go look at the wires and copper and see what you find," Fries said. "Black ashlike is bad, and blue, green (or) red is OK."

Blackened copper "does not mean do not purchase, but be aware," and get additional testing, Fries said.



No. 4: Bad siding

Faulty and improperly installed siding was "a big problem in the 1980s and 1990s," said Katen, a member of the [American Society of Home Inspectors](#) and a past president of the organization's Oregon chapter. Much of the problem siding has been "cycled out," or replaced, but buyers still need to beware, he said.

Replacing bad siding can cost \$25,000 to \$150,000, Wagner said. "Your insurance doesn't cover that. It's out of your pocket," he noted.

Problem siding could absorb or trap water against the house, which could lead to rot. Louisiana Pacific paid out millions to settle lawsuits about its Inner Seal exterior siding.

"Some people received a payment and could have replaced (the siding) or placed the cash in the ol' pocket," Fries said. "So if a (first-time homebuyer) is looking at a home built in the 1980s, this is something that needs to be addressed. If the home has been painted and the painter caulks all the penetrations, it can be OK. If the siding looks like it needs painting, keep looking."

Earlier versions of exterior insulation finishing systems -- also known as synthetic stucco -- sparked lawsuits as well. The problems were widespread enough that the product developed a stigma, Wagner said. That could make it tough to sell the house, even if the siding hasn't failed.

"There are buyers who are going to steer clear because of all the stories they've heard," Wagner said.



No. 5: Bad neighbors

Sometimes the problem isn't the house; it's the neighborhood. You won't be shelling out for repairs, since the issues typically can't be fixed. The real cost is the reduction of your home's value and how difficult your home may be to sell in the future.

Neighbors who are slobs or hoarders can knock up to 10% off adjacent home values, as I wrote in "[Neighbors hurt your home's value?](#)" Getting them to clean up their acts can be difficult, even if your area has zoning and public-health officials who are on the ball. (Judging from my reader complaints about this issue, that's often not the case.)

Some neighborhood features can be "eye of the beholder" issues that may cost you -- or not. Some people will object to being near a cemetery, for example, while others will like the peace and quiet. Some will object to the sounds of shrieking children from nearby schoolyards or playgrounds, while families with young kids may appreciate the proximity of such features.

Other neighborhood problems, such as a bad school district or a lot of traffic (more on that later), are likely to cost you to some extent.

"Remember, you can always modernize or change the structure," Wagner said, "but you can't change the school district or the view of a busy highway."



No. 6: Special assessments

Wagner knows of one high-rise condo conversion project in Chicago that must replace all of its windows. The cost to each owner: \$45,000, on units that are typically worth less than \$150,000.

Any project, repair or unexpected cost -- such as a big hike in insurance premiums -- can trigger special assessments on members of a condo or homeowners association. Residents of unfinished developments, older condo complexes and projects gutted by foreclosure can be particularly vulnerable to such assessments. For example, builders may have gone bankrupt before finishing a development, which means remaining residents may be assessed to pay for amenities the builder failed to provide. A high foreclosure rate may mean higher assessments on remaining residents to pay for needed maintenance and repairs.

Sellers typically would have to reveal any special assessments that are pending, Wagner said, but those that are merely rumored or not yet settled by the association board may not have to be disclosed. Wagner recommends talking to current or former residents of the development to see what might be on the horizon.



No. 7: Busy streets

Traffic noise ranges from a virtual nonissue in urban neighborhoods, where it's expected, to a potential deal killer in otherwise quiet suburban areas.

During the boom, buyers overlooked flaws such as bad traffic because demand outstripped supply, Wagner said. Once the bubble burst and supply overwhelmed demand, buyers eschewed houses on busy streets because they had so many other options.

"Those houses just sat there," Wagner said. "You couldn't lower the prices enough to move them."

Even if you're willing to overlook a busy street, other buyers may not be -- and that could affect your ability to sell.



No. 8: Water damage and mold

Most of the serious problems that home inspector Katen sees have to do, in some way or another, with water: water seeping into basements, pooling in crawl spaces, leaking in from siding or trickling down from roofs. Left alone, water causes rot and mold. All too often, homeowners don't discover the problems -- or if they do, they ignore them. Either way, unsuspecting buyers can inherit expensive repairs.

Some of the worst damage is caused by black mold, which is suspected of causing health problems and which can spread fairly quickly throughout a house.

"It can cost a couple hundred thousand dollars" to remediate a bad case of black mold, Wagner said. "You might have to tear out all the cabinets and treat every surface in your home."

Any sign of water damage or mold should be traced to its source, Wagner said, so that potential homebuyers can get a realistic idea of how extensive repairs will be. Mold should also be tested to determine what type, and how virulent, it may be.



No. 9: Hard-to-insure home

Homes in flood plains, adjacent to wildfire zones and in the likely path of hurricanes can be difficult and expensive to insure. When fire or wind risk is high, many homeowners wind up having to buy coverage from their states' [Fair Access to Insurance Requirements](#) (FAIR) plans, which typically provide bare-bones coverage with high deductibles.

Going without coverage usually isn't an option, since mortgage lenders require homeowners insurance and flood insurance in high-risk flood zones. (The exception is earthquake coverage, which typically isn't required but is a good idea if you have any equity in your home to protect.)

At a minimum, potential buyers should ask to see recent insurance bills to see what they're likely to be charged. Buyers also should keep in mind that if a disaster hits, their premiums could shoot up even higher. After the devastating hurricanes of 2004 and 2005, for example, average premiums for Florida homeowners rose 41%, according to a [National Association of Insurance Commissioners](#) study. Average rates in Louisiana rose 22%.



No. 10: Hard-to-finance homes

A unique home may stir your soul, but you may have a tough time persuading a lender to give you a mortgage. Even if you succeed, the next buyer may not, which could make it tough to sell the house someday.

Unusual houses -- geodesic domes or homes built from straw bales or old car tires, for example -- can be hard to value, since there usually aren't other comparable properties nearby. Without "comps," it can be tough to find a lender willing to make a loan, even in boom times. When lenders are shying away from risk, as they are now, it can make financing virtually impossible.

Another time it can be tough to get financing: when a condo complex is full of renters. Fannie Mae, Freddie Mac and the Federal Housing Administration have tightened their standards so much that it can be tough to get a mortgage if more than half of a complex's units are rented, rather than owner-occupied.

This isn't a complete list of things that can go wrong with a home purchase. Construction defects, aging systems, broken sewer lines and a laundry list of other problems can cost you big time. That's why it's so important to have a thorough, professional home inspection before you buy, and to make your purchase contingent on that inspection. You should know what you're getting into before it's too late to back out.