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5 Steps to Avoid Buying a Money Pit

What did Cary Grant, Tom Hanks and Richard Pryor have in common? They all starred in hilarious movies with plots built around their money pit homes ("Mr. Blandings Builds His Dream House" [1948], "The Money Pit" [1986] and "Moving" [1988], respectively).

But buying a home that turns out to need much more extensive (and expensive) repairs than originally thought is only funny in the movies. In real life, buying a money pit can nearly drive a new homeowner to lose their mind - and their shirt.

Fortunately, there are a number of real-life strategies that real-world buyers can act on to prevent their own home-buying plot line from including an unfunny lemon of a home. Here are 5 of my personal favorite steps that will help you avoid buying a money pit.

1. Attend Inspections. There are lots of things you can outsource and rely on your professional representatives to do when you're buying a home, but I'd suggest you keep attending your home, pest and roof or other specialty inspections on your own personal to-do list. When you're there in person, the inspector is able to physically show you the items that may need repair, and give you their professional opinion of how serious and large needed repairs may actually be at a level of clarity a written report may lack.

Sometimes, written inspection reports convey minor items (like reversed hot and cold faucets) as a red-flagged health and safety issue, and more major items (like a problematic foundation) as something that needs further inspection. If you are at the inspection in the flesh, you can brief the inspector on what level of cost and effort you consider major (and vice versa), and ask them to help you understand roughly where the property overall and any individual repairs needed fall, from that perspective.

2. Read the Reports and Disclosures. Attending your inspection is just the first step. Reading the inspectors' reports is critical to avoiding a money pit - both the reports generated by your own inspectors, and any reports and disclosures provided to you by the seller. Things to watch for and investigate further in the sellers' reports and disclosures include:

- repairs the seller completed themselves,
- repeated repairs to the same home system,
- water and leakage issues, and
- any reports of non-functioning mechanical or other systems in the home.

In your inspectors' reports, make sure to notice:

- repair estimates they offer,
- items that seem like they will have to be completed soon (versus upgrades you can do over the long run)
- items that seem like they might run into big ticket dollar amounts, and
- *especially* watch for any recommendations that you get a specialist to look at something - some of the largest potential repairs are often dealt with in this way by a general property inspector.

It behooves you to follow up on your reading of reports and disclosures by working with your agent to:

- list your questions and concerns,
- ask the inspector(s) and seller any follow-up questions you have,
- obtain follow-up inspections (including obtaining an extension of your inspection contingency, if needed) and
- obtaining reliable repair estimates.

3. Get Multiple Repair Bids. While your pest, roof and other inspection specialists may offer you a repair cost estimate with your report, most general property inspectors do not - many states even forbid it by law. Money pits often occur when buyers take a place knowing it needs what they thought was a little work, that actually turns out to be a much more costly or involved repair, once the actual repair contractor takes a look or starts the work.

Avoid surprises by getting multiple repair bids from reputable contractors while you are still within the inspection contingency time frame of your contract. These repair estimates can also provide the basis for any renegotiation you and your agent choose to initiate with the seller for price reduction, repairs or increased closing cost credits.

4. Stop Overconfidence In Its Tracks. Having managed two extensive remodeling projects myself, I can vouch - unless you are a construction professional (and sometimes even then!), all but the most minor home improvement or repair projects tends to take more time and money to do yourself than you expect at the outset. (With my own two hands, I took down wallpaper and painted a room in January of 2002, and am still experiencing symptoms of post-traumatic stress disorder. One room, people.)

Even if you expect to cut costs by doing some work yourself, I urge you to contact and obtain bids on the repairs and upgrades you plan from actual professionals, so you can at least be armed with the information about what it will cost to get them done if you can't complete them for any reason.

5. Prioritize Price Reductions and Credits over Seller Repairs. For the most part, I feel that buyers will select their own materials and repair contractors with more care and are generally more deeply invested in ensuring that repairs are completed to their satisfaction than an outgoing seller. If you are negotiating with your home’s seller over repairs that need to happen, discuss with your agent whether it might make sense to ask for a price reduction or a closing cost credit to offset the cost of the repairs so you can have them completed to your standards, and with the materials and by the contractors of your choice, after closing.