

## BUYING A HOME

- Advantages of buying or renting
- Setting your housing priorities--a checklist
- Building a new home vs. buying an existing home
- Checking for structural defects, water damage, lack of water pressure, faulty plumbing, inadequate wiring, and energy efficiency
- Considering environmental inspections (indoor air quality, possible contaminants)
- Avoiding the pitfalls of buying to remodel a home
- Evaluating location, floor plans, storage, bathrooms, the kitchen
- Planning ahead for disability
- Avoiding regrets

### Selecting Your House

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Buying a house can be a wonderful experience and a source of great satisfaction, or it can be a financial disaster and a big disappointment. The final decision is a complicated one, often based on emotional as well as financial factors.

When selecting a house, first determine how much you can afford to spend and look only at houses in that price range. If you spend time looking at houses more expensive than you can afford, you may never be truly pleased with those that fit your pocketbook. The wise buyer will decide on the price range *first* to avoid the disappointment of not having "everything" in a house.

Before you select a house, decide on the space you need and the location, community services, and many other personal wants and needs. These are often called *housing values*.

To help you think about how important various housing features are to you and your family, use the "Setting Your Priorities" work sheet in this document. You may want to make a copy for each family member who will be involved in the decision process.

Consider how essential each item is to you and why. Your expectations may be based on past housing experiences and may even reflect your childhood home. Are these expectations compatible with your current lifestyle? If your job keeps you away often, you may not have time to maintain a large yard, water the tomatoes, or trim hedges. If you like the charm of an older home, but also want a good school and neighborhood for your children, you may have to settle for a ranch house in a newer neighborhood. In other words, you probably can't get everything you want in a house. Therefore, it's worth your time and effort to think about what you really need instead of what you would like.

Remember, a house requires time and attention. If you would prefer to use your free time doing something other than cleaning out the gutters or raking leaves, home ownership may not be right for you. Many new home owners soon get the feeling that the house owns them, rather than the other way around. Houses require constant upkeep and attention. Repair people are not always available and they are usually expensive, making at least some do-it-yourself skills essential for most homeowners. Consider the condition of each house you look at.

## SETTING YOUR PRIORITIES

What are your housing values? This work sheet is designed to help you think about how important each of these features is to you. Ask each person in the household to help rate each feature.

*Essential:* A house is not worth considering without this feature.

*Desirable:* A house with this feature is much more appealing than a comparable house without it.

*Acceptable:* This is not a feature that you seek, but it is not objectionable.

*Undesirable:* This feature would make the house difficult to accept.

### Feature

Convenient to schools  
Friendly neighbors  
Safe area  
Near public transportation  
Quiet street  
More than 2 bedrooms  
More than 3 bedrooms  
More than 1 bathroom  
More than 2 bathrooms  
Low utility costs  
Low maintenance  
Space for children  
Space for entertaining  
Large, private lot  
Fenced yard  
Garden space  
Privacy  
Attached garage  
Interior space for hobbies  
Exterior space for hobbies  
Dishwasher  
Space for washer and dryer  
Fireplace

## WHEN TO BUY

When is the best time to buy a house? The answer is not simple. You need to consider more than just having the money for the down payment and monthly payments.

What is the local housing market like now and likely to be in several years? Is it a "buyer's" or "seller's" market? What is happening or is likely to happen to the local economy? Are houses in the neighborhood increasing in value? Will you be able to sell the house for a profit if you decide to move?

## **TO BUY OR BUILD**

Once you have decided to become a homeowner, the next decision is whether to buy an existing house or a new one, or to buy an existing house and remodel it. Many factors may influence your decision to buy or to build. These include: the supply of houses available that fit your family's needs, location(s) where you choose to live, and the amount of time you have available before you must move.

The amount of time that you have to put into the house is a significant factor in whether to buy or build. Some families find that the many decisions that must be made in building a house are so overwhelming that they would rather not spend the time and energy it takes to build. Generally speaking, an existing house is less expensive than buying or building a new one.

## **BUYING A PREVIOUSLY OWNED HOUSE**

Usually, there are more existing houses than new ones on the market. Statistics show that two out of every three buyers select an existing house.

One advantage to buying an existing house is that you will be moving into a neighborhood where other houses are established so you can see and meet the people who live there. You also can get a good idea of what it will look like for several years ahead, and you can see if community services, shopping, schools, and churches are available and convenient.

Another advantage is that many fixtures and furnishings, like draperies, drapery rods, window shades and storage devices, are often already in place and are sold with the house. Landscaping is usually mature, so you may save time, effort, and money. When you are looking at older houses, here are some important things to check for:

### *Structural Defects*

In a crawl space, check the foundation for cracks or water marks. Examine the condition of the floor joists (the wall-to-wall supports) and structural beams. Inside the house, check the floors to see if they are level. You can check whether a floor is level with a marble. It should not roll when placed on a vinyl or wood floor. Uneven floors could be a sign of settling due to age, or it could mean problems with supporting joists. Finally, examine the house from the outside. Does the roof sag? If so, examine the rafters in the attic.

### *Signs of Water Damage*

Look for unevenly painted ceilings or walls, mildew odors, stains or discolorations, or evidence of replastering or re-tiling in just one area of a room. Check under the house in the crawl space for damp ground or standing water. If the house has a basement, look for water stains or dampness on the walls and floors. Check the gutters and downspouts for clear drainage.

You may want to read [Identifying and Correcting Moisture Problems in Homes](#).

### *Lack of Water Pressure*

You can test this by flushing toilets and turning on hot and cold water faucets at the same time.

### *Faulty Plumbing*

Ask what kind of pipes (copper, plastic, etc.) are installed and how old they are. Some older houses have pipes that may have corroded over time and become clogged. Have the system checked for the presence of lead in the water, which can be a health risk. If the house has a private well, ask for records of when the well was last tested. If there is a septic system, ask when it was last inspected and cleaned. Stand near the tank and see if any odor comes from it or if there are any soggy areas around it.

You may want to read [Health Effects of Drinking Water Contaminants](#), or Iron and Manganese in Household Water, or Radon in Water, or Lead in Drinking Water, or Home Drinking Water Treatment Systems.

### *Inadequate Wiring*

Most homes need at least 100 amp service to handle today's electrical needs--200 is preferred. Check the fuse box or circuit breaker system. Appliances that use a large amount of electricity, like an electric range, need a 220 amp line. If you are unfamiliar with wiring, a professional inspector can answer your questions. Look for obvious signs of electrical malfunctions, such as lights that flicker or don't work. Notice the number and placement of electrical outlets. Most experts recommend at least two outlets for each room. The kitchen should have three or more electrical circuits. One circuit is used for the refrigerator and freezer and the others are available for small appliances.

### *Energy Efficiency*

In a home that is not energy efficient, your air conditioning and heating bills could be higher than your mortgage payment. Take time to check these items:

- Last year's air conditioning and heating bills. Don't be shy about asking for bills or canceled checks. Find out whether any supplemental heat sources, like space heaters, were used.
- Air conditioning and furnace. Ask the seller's fuel dealer or furnace service company to verify the condition of the furnace and whether it is adequate for the size of the house.
- Insulation. New houses have insulation in the walls, under the floor, and in the ceiling; however, many older houses do not. Ask if any insulation has been added and where.

### *Termite Inspection*

In North Carolina, lending institutions require that houses be inspected for termites and treated if they are found. The inspections must be completed before closing.

## *Environmental Inspections*

Poor indoor air quality may cause or contribute to health problems, especially for the very young, the elderly, and the disabled. To be sure that you are buying a safe and healthful house, you need to know which products and pollutants you cannot tolerate. High or continuous levels of indoor pollutants may be the result of living in a certain geographic region; the materials, products, and environmental conditions within the house itself; or the result of the practices and activities of the people who live there. For example:

- Formaldehyde has been widely used in products such as plywood, particle board, paneling, permanent-press fabrics, carpeting, and wallpaper.
- Asbestos may be found in older homes in walls and ceiling insulation, in textured paints, acoustic ceiling tiles, home appliances, and wrapped around hot water and steam pipes and heating ducts. The removal of asbestos should always be done by a professional.
- Radon is a colorless, odorless, radioactive gas that comes from the ground. Continual exposure to elevated levels of radon increases the risk of lung cancer. A simple radon test will indicate the presence of the gas.
- Lead contamination in a house is usually the result of lead-based paint or plumbing systems with brass fixtures that contain lead, lead pipe, or lead-based solder in pipe joints. Lead-based paint chips can be particularly dangerous to small children.
- Buried fuel storage tanks, waste dump sites, salvage yards, industrial sites, or agricultural operations can create hazards that may remain hidden for many years. An environmental inspection of the site and survey of the history of the area may help identify potential hazards.

For more information, see [Environmental Considerations](#).

## **BUYING TO REMODEL**

Buying an existing house to remodel can have a number of pitfalls. The biggest one is overspending for the neighborhood or location. The value of adding on and major remodeling can be uncertain. In general, the cost of the improvement should be less than 60 percent of the cost of building a new home of equal size and quality.

Increasing the value of a house more than 15 percent over the top value of houses in the neighborhood is seldom a good financial investment. If you buy a house in a \$50,000 house neighborhood and then add a \$25,000 addition, you are highly unlikely to sell your house to a family looking for a \$75,000 house. They will, instead, look in a \$75,000 house neighborhood. Except for maintenance and basic repairs to keep the house in good condition, improvements and remodeling should be made only for your family's comfort and satisfaction. The financial return will usually yield no more than 50 to 75 percent of your investment, depending on the type of improvement.

In some cases, improving the house can increase its value. For example, adding a second bathroom to a 3- or 4-bedroom house likely will increase the value. Also, updating the kitchen and bathroom(s) may add to the house's value.

However, adding a fourth bedroom in a neighborhood of 2- or 3-bedroom houses may not result in a higher selling price for your home. And, a swimming pool rarely adds value and will increase your maintenance costs.

## NEW HOUSES

New houses may be better insulated, have more energy-efficient appliances and heating and cooling systems, have up-to-date electrical wiring and plumbing systems, and generally be more maintenance free than existing houses. New houses usually have more modern facilities, such as larger bathrooms and closets and state-of-the-art kitchens.

Depending upon the location, taxes in newly developed subdivisions may be less than in some existing neighborhoods. Try to determine if the area where you want to build is appreciating. This will affect not only your property taxes but also resale value.

Building inspectors do not always catch problems with construction. If you are building, you need to pay close attention during construction.

## STOP! LOOK! LISTEN!

The three most important factors in determining whether or not you are making a good financial investment are (1) LOCATION, (2) LOCATION, and (3) LOCATION! Location means one thing to your family when you are thinking of its relationship to where you work and shop and worship. It may mean something else when it is time to sell the house.

The same house in the same city may sell for thousands more because of its address. Location is not as critical in smaller communities or in rural areas as it is in larger ones, but it still may affect resale value.

If you think that you won't be living in a particular location very long, you might choose to live in a smaller house in an appreciating neighborhood rather than in a larger house in a declining neighborhood, because of resale value. For longer term commitments, your family may choose to buy an existing house and fix it up. Your work could motivate the entire neighborhood to update.

Another factor in your choice of a house is construction quality. When you shop for a house, don't be influenced by the pretty wallpaper or curb appeal. Look for sound construction *first!* Quality houses have a "feel" about them. With a little practice, you can learn to sense it. Try to find out:

- Do the doors shut tightly?
- Is the floor solid or does it squeak?
- Is the house energy efficient?
- Is the roof ridge (the line at the top of the roof) straight?
- Are there cracks in the foundation?
- Is there a musty smell (a sign of moisture problems)?
- Does the lot slope away from the house (enough to carry water away from it)?
- What is the condition of the window frames?

It is estimated that two out of every five houses on the market have at least one serious defect costing at least \$500 to repair. Don't confuse maintenance problems with poor quality construction. A house can be in need of a face-lift and still be basically sound. A careful assessment of the physical and environmental conditions of a house *before purchase* can save you time, money, and heartache. If you are in doubt about the construction or safety of a house or site that you particularly like, hire a *professional inspector*. The price you pay for this service could save you thousands of dollars. Some problems can only be detected by a professional. Check the yellow pages for listings of housing inspectors.

## The FLOOR PLAN

The actual layout of the house, traffic flow, and division of the space affects how your family lives in the house and how the members relate to one another. Living space can be subdivided into three zones:

- Work--Contains the kitchen, laundry, utility, and home office with their machines, noises, activities, and general need for efficiency.
- Social--Defined by the living room, dining room, deck or patio, and guest entry and is often the location where guests are entertained and where the household spends leisure time.
- Private--Includes the bedrooms and baths, and usually requires some sound and visual privacy.

Roughly sketch the floor plan of the house you are looking at and identify the three zones. Sometimes zones overlap. Try to identify the traffic pattern(s) in the house. While a central hallway can help distribute traffic to several rooms, it can also use up a great deal of space. Try to place your furniture and possessions on the floor plan, and picture how your family will live in that house. One way to do this is to mentally go through all the morning routine when your family is getting ready for work and school. Visualize where traffic jams or problems might occur. Pick out other events that occur regularly in your family and visualize those events in that space. Will the rooms fit your family's needs? Will the space adapt to your needs as your family needs change?

## STORAGE

The amount and type of storage for clothing is one of the first factors considered by most people when looking a house. Most houses have closets that meet minimum standards, but most of us want or need more than minimum hanging space. Ask yourself:

- Is storage located where my family will need it, and is it adequate for the kinds of items that my family has to store?
- Is there space for cleaning equipment, out-of-season clothing, hobby and sports equipment, and seasonal items?

An often-sought feature is a walk-in closet. In a large house, this may be a good use of space. In a small house, walk-in closets may be a waste of space. A walk-in closet takes up more square feet of floor space for the same amount of storage than does a reach-in closet. The best way to evaluate storage space in a house you are considering is to compare it to the place you now live. Some experts suggest that storage space should be 10 to 25 percent of the total floor area of the house. The amount and type of storage will depend on the activities taking place and the items to be stored.

## **BATHROOMS**

Is there adequate bathroom space to accommodate your family during rush-hour traffic? Research has shown that this is a critical factor in family stress in a living situation. With today's lifestyle, a 3- or 4-bedroom house does not have good resale value unless it has 1 1/2 to 2 baths. If the house you are considering has a single bathroom, is it in a central location?

## **KITCHEN**

The kitchen is not only the most expensive part of the house, it often is the most used space. In addition, it is the most often remodeled room. It can become outdated and rundown quickly. Size is not a key to efficiency; a small well-planned kitchen often works better than one that is too large. Look for adequate work spaces, storage near major appliances, and a good arrangement of the appliances. An island may be a desirable feature, but it does not necessarily improve the efficiency of the kitchen. An island can reduce walking in a kitchen that is too big, but it can make the passageways too narrow in a small kitchen. Don't be fooled by a big pantry. It may be taking up space needed for work surfaces. All the things stored in a pantry could also be stored in wall and base cabinets.

## **PLAN AHEAD**

One final factor should be considered. Few existing houses are designed to accommodate people with disabilities (mobility, vision, hearing). Doorways are too narrow, floor surfaces are uneven, there are stairs, lighting is poor, or there is not enough space in the bathrooms or kitchen. Most people take for granted their ability to live and function easily at home. Yet four out of five people eventually will have some physical problem that could make it difficult to live independently. In addition, your elderly parents or other relatives may need to live with you in the future. A house that meets standards for accessibility can benefit many people. Consider ways to adapt the house should the need arise.

For more information, see *Evaluate Before Buying, Building or Remodeling*.

## **AVOID REGRETS**

To avoid regrets when buying or building, always be sure that:

- You have enough money to cover purchase and maintenance costs.
- You know what to expect in maintenance costs.
- The construction is good quality.
- Neighborhood values are stable or increasing.
- Family income is expected to increase.
- The layout of the house meets family needs.
- The neighborhood is good.

Do your homework. Take time to explore the economy. Be realistic about your financial situation and about what your family wants and needs in a house. Find competent professionals to help you make your selection and don't be in too much of a hurry. Be especially careful about the location to protect your investment and to provide greater convenience for your family.



## **When Choosing a Home to Rent or Buy, Consider:**

### *The Neighborhood*

- Location.
- Appearance.
- Current residents (similar or dissimilar occupational and social interests).
- Whether area is appreciating or depreciating in value.
- Safety and security.

### *Accessibility*

- Convenience to work, shopping areas, school, and church.
- Good roads and streets.
- Available public transportation.

For more information on accessible housing, see *Removing Barriers in a Home*, or *Furnishing a User-Friendly Home*, or *Evaluate Before Buying, Building, or Remodeling*.

### *Community Facilities*

Police and fire stations. Health and sanitation services. Schools and churches. Recreational facilities, such as parks.

### *Family Values*

- Appearance.
- Size versus amenities.
- Special features your family needs.

### *Costs*

- Within your price range.
- Cost of money (both interest rate and terms of mortgage).
- Tax benefits.
- Energy costs.

### *The Apartment or House Itself*

- Space, arrangement, and condition.
- Bedrooms and bathrooms (enough space and privacy).
- Kitchen and work area (well planned and step saving, adequate work and storage areas).
- Dining and living areas (adequate for family entertaining and resting).
- Storage (adequate and well placed in each area of the house).
- Room sizes, shapes, and wall areas to permit use of furnishings and equipment on hand or planned.
- Interior and exterior finishes (types acceptable, condition good, easy maintenance).
- Heating and lighting (adequate and efficient systems).
- Outdoor space (patio, deck, lawn, garden space, outdoor storage).

## How Much House Can You Afford?

Buying a house commits your family to a long-term debt and requires time and energy. American consumers spend from 21 to 54 percent of family income on housing. How much each family spends on housing depends on many factors.

Three basic considerations that can help a family determine how much house they can afford are:

- The amount of take-home pay the family can reasonably expect.
- The family's living costs and other debt payments.
- The total amount of housing expenses, including taxes, insurance, energy, furnishings, maintenance, and mortgage payments.

Because of rising prices and increased housing-related expenses, the old rule-of-thumb on how much to pay for a house no longer apply. Lenders usually follow two basic guidelines in determining how large a mortgage to grant:

- Principal, interest, taxes, and insurance (PITI) should not exceed 25 to 29 percent of gross income.
- PITI plus other long-term debt should not exceed 33 to 41 percent of gross income. (Long-term debt includes car and installment loans, alimony, child support, and charge card balances that will take a set length of time to repay.)

The range the lender uses will depend on the size of the down payment. Lenders probably will use the 29 percent and the 41 percent figures if you are paying 10 percent down. If you are paying 5 percent down, lenders will probably use the more conservative 25 percent and 33 percent. Federal Housing Administration (FHA) loans use 29 percent and 41 percent.

These are general guidelines used by lending institutions. The prospective buyer should find out about these guidelines and then evaluate them in terms of the family: size, stage of life cycle, job stability, amount of savings, present spending pattern, and lifestyle.

To learn what your total housing costs might be, use this formula:

$$P + I + T + I = \text{Monthly Cost}$$

$$\text{Principal} + \text{Interest} + \text{Taxes} + \text{Insurance} = \text{Monthly Cost}$$

For example, a homeowner may have:

$$\$750 + \$75 + \$50 + \$25 = \$900$$

$$\text{Principal} + \text{Interest} + \text{Taxes} + \text{Insurance} = \text{Monthly Cost}$$

NOTE: Insurance costs may include the homeowners policy required by most lenders and also mortgage default and term life. Ask prospective lenders what they include in insurance costs.

Also keep in mind utility and maintenance costs. When shopping for an existing house ask to see the utility bills for the last 12 months. Learn as much as you can about the condition of the house to see if repairs will need to be made.

With a new house, monthly utility and maintenance costs can only be estimated based on similar houses in the neighborhood or those of a similar size, style, and construction.

For more information, you may want to read [Budgeting for Home Ownership](#).

### **Are You Ready for Home Ownership?**

When trying to decide if you are ready to buy a house, ask yourself the following questions:

- Am I sure I want to buy a house?
- Do I have steady income and stable employment?
- Do I plan to remain in the area for the next several years?
- Have I created a budget so that I know how much more I can realistically afford to pay for housing?
- Do I have an established credit record or can I build a nontraditional credit history with records of payments to previous landlords and utility companies? If so, is my credit profile favorable? Do I pay bills on time or before the due date?
- Do I have enough money saved for the down payment (if required) and closing costs? If not, can I enlist the aid of relatives or government or non-profit agencies that might give or loan me money at a low interest rate?
- Have I been "pre-qualified" by a lender so that I know how much I can borrow based on my income and existing debt?
- Is my existing debt low enough that it will not limit my ability to qualify for a mortgage? If not, can I pay down my debt before I attempt to buy a house?
- Have I looked into the benefits and requirements of the numerous financing options that are now available to low- and moderate-income home buyers?

If you can answer YES to all or most of these questions, you may be well on your way to owning your own home.

Adapted from:

Shelby, Wanda W. and Eleanor J. Walls. 1991. *Finding the Right House*. Arkansas Cooperative Extension Service, University of Arkansas. Little Rock, AR.

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