

Home Inspections

One of the most critical pieces of buying a home is the home inspection. Hiring an independent inspector allows a buyer the opportunity to evaluate potential defects and deferred maintenance items in the home that they are purchasing. I have never encountered a home that does not have some issues, even new construction, so an objective inspection can surface those issues and help you negotiate with the seller for potential resolution. However, the inspection negotiation can be a trying and difficult negotiation, often more complex and heated than the initial negotiation about purchase price. A buyer should remember that as technology develops and items are perfected the board that governs inspectors will change their guidelines to include these new items. So even if the inspector flags an item doesn't necessarily mean there's something wrong with it. Good inspectors will make in their notes and/or tell you which of the items falls under that category. Asking the seller to make the home with all the features as a new home is not practical. The exception to this rule are any safety protocols. It is expected that the price you offered for a property takes into consideration any cosmetic items, upgrades or repairs there were visible before the offer was made.

What are my options when I find repair items during the inspection process?

During your option period, you can ask the seller to fix items that need

repair, you can ask the seller for a credit to compensate you for the

future repairs, or you can request a hybrid of these two options. They can accept the requests, reject the requests, or offer an alternative proposal. The seller can say no, and then the buyer has a chance to terminate the agreement if they wish as long as you are within your option period.



The key to successful negotiation

The purchase of a home is often an emotionally-charged process for the buyer and seller. Dollar amounts are large, deadlines are tight, and there is often a lot at stake for both parties. When purchasing a home, you need to remember this and be prepared for the psychology of negotiation. It is human nature that no one wants to "lose" a negotiation. A win-win negotiation allows both parties to feel that they have given something, but the other party also has made concessions. Buyers want to feel that they are getting a fair deal and sellers don't want to feel like they are being taken advantage of. If you remember this one point during your inspection negotiation, the chance for a successful outcome for both parties will increase.

The seller should fix everything, right?

Many buyers, especially first-time homebuyers, expect perfection in the home they are buying. They are spending hundreds of thousands of dollars and don't want to have to deal with home repairs. The natural reaction to an inspection report is to make a list of all issues that were found and then demand that the seller fix them or monetarily compensate for the fixes. Depending on the home and the seller, this may or may not be the right approach to a successful inspection negotiation.

You can often achieve perfection with new construction, as builders will allow you to make a punch list and often have warranties that cover the home for a limited period of time. But for an existing home, you need to come up with a strategy that addresses your major concerns, yet gives you the greatest chance of negotiation success with the seller. Every home has issues. Some of them require immediate attention, but some of them are ongoing maintenance items. You need to evaluate the price you are paying for the home, the age of the home, and the severity of the issues that were found and come up with the best strategy for a successful negotiation. Sellers of older homes often won't fix everything, particularly if you negotiated a large discount on their price.

Strategies for negotiating a home inspection

Every home and every seller is different, so you need to gauge the situation. Here are the most common scenarios that we see, and the inspection negotiations that go along with them.

1. **The issues are already priced into the deal** – Sometimes sellers will build the repairs into their price or tell you that the home is priced for an “as-is” sale. They will be upfront and say “we know the home will need a new roof and our price reflects that.” If you think the price is fair for the condition of the home and agreed that the repairs are included in the original negotiation, then your inspection simply will confirm those issues and you can move forward. If there are new or unknown issues that the inspection surfaces, you will want to negotiate on those items.
2. **Focus on the major items** – The most common result from an inspection is a laundry list of items that need attention. Often sellers will be reluctant to fix every single item on the list. Many inspection items are ongoing maintenance items and are simply part of owning a home. When presented with a long list of repairs, we like to focus on the “big ticket” items that require a significant cost to repair. Let's take a look at a simple example. We'd focus our inspection negotiation on items #1 & #2 in this example, being willing to concede on the low-cost repairs.
 1. **Electrical breaker box is a recalled model and represents a fire hazard – Estimated repair cost \$1800**
 2. **Hot water tank is 15 years old and will likely leak soon, causing water damage to interior – Estimated repair cost \$800**
 3. Bedroom door doesn't latch properly – *Estimated repair cost \$25*
 4. Guest bedroom needs a smoke detector – *Estimated repair cost \$15*
 5. Gutters need to have leaves cleared out – *Estimated repair cost \$100*
3. **Only minor issues found** – Some homes are in great condition, and your inspection may only result in 5-10 minor items. In this case, it can be appropriate to ask for all of the minor items to be fixed. Sellers may feel like they are being “nickel and dimed”, but a savvy seller will not let a good deal get away over a few hundred dollars of tedious repairs. A buyer purchasing a home in great condition should also not get hung up on a list of minor items if the house is a fair deal.
4. **Take on important repairs yourself** – Sometimes major repairs are needed that are fundamental to the integrity of the home. They are costly and time-consuming and sometimes prone to poor workmanship. Let's say there are electrical hazards that need to be rewired, with a cost exceeding \$4000. The seller wants to get the repair done quickly and cheaply, and may use substandard, unlicensed or unpermitted electricians to accomplish the repairs. The buyer has different needs, and wants the work done to the highest quality and to code. In situations like this, it can be wise for the buyer to request a credit towards their purchase price and hire their own contractor to facilitate repairs. Another approach is to request the work to be completed and paid for by the seller, but the contractor will be selected by the buyer, who then has a chance to review the completed work prior to closing.

What about inspections for new construction, short sales and bank-owned homes?

Home purchases from a builder, a financially-distressed seller or a bank are special cases, and inspection negotiations will not proceed the way they do with a typical home seller.

1. **New construction** – Builders often will not allow an “inspection contingency”. Once you sign a contract to buy the home that they are building, you are usually locked-in to the purchase, except for some instances when you cannot obtain financing. Such contracts are definitely slanted in favor of the builder, but the logic here is pretty easy to understand. Builders will offer limited warranties on their homes and any issues that surface during an inspection will likely be covered by such a warranty. They don’t need to allow a contingency, since they will be obligated to fix the issues anyway. Builders also allow you to do a punch list of final items during their walkthrough, giving the buyer an opportunity to have minor cosmetic issues resolved.
2. **Short sales** – In a short sale, the seller is trying to sell the home for less than they owe on their mortgage and doesn’t have money available to cover the balance. They request that their bank take a lower payoff for the mortgage because they cannot afford to sell, yet desperately need to sell. People in this situation are often in financial distress, whether that be from unemployment, an unexpected injury, or looming bankruptcy. If a seller doesn’t have any money to cover their daily living expenses, they also are not going to have money to cover a list of repairs. You will be stuck with an “as-is” purchase in most instances. You need to be comfortable that the purchase price is low enough to take on the list of repairs that will become your problem when you buy the house.
3. **Bank-owned** – When a home is foreclosed by the bank, they will hire brokers to help them sell the home on the open market. They will spend a modest amount of money to clean up the property and make it at least presentable in order to sell. When you negotiate with banks, they will often have strongly worded contracts that insist you are buying the home “as-is”. Most banks will stick to their “as-is” provisions, and they are not in the business of rehabilitating homes. We have seen banks occasionally negotiate or offer to fix very major issues, so you should try to negotiate, but stick to only the really big problems. It is a waste of your time to ask a bank to fix a broken light switch or leaky faucet. They will say no.

Look at the big picture

Try not to forget the big picture when you purchase a home. An inspection is a crucial piece of due diligence to protect yourself, but take a practical approach to your inspection negotiations. It’s too easy to get hung up on small issues or the emotionally-charged negotiations. If it is a good house at a good price, and you are not being asked to take on excessive risk, it may still be worthwhile to purchase the home.