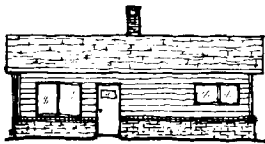


by Michael Lennon

GETTING INTO HOME INSPECTION

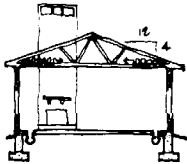
Big opportunities & deep pitfalls await you in this fast-growing business

HOUSE TYPES WITH TYPICAL PROBLEMS TO LOOK FOR:



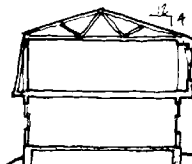
SLAB RANCH HOUSE:

Higher vulnerability to termites, carpet moisture spots, water in perimeter floor ducts.



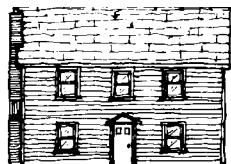
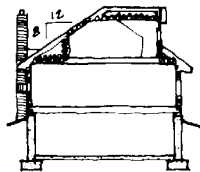
GAMBRELL ROOFED HOUSE:

Leaking dormers, rot on face trim, ice damming. Gutter likely to overflow or be bypassed. Poor ventilation in attic.



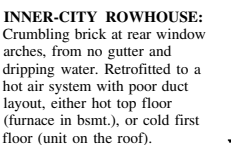
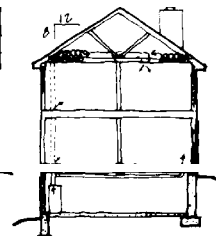
CAPE COD:

If modified to finish the second floor, minimal ducting or no return. Condensation and roof sheathing rot from insulation stuffed between sloped ceiling and roof sheathing. Eave-edge chimney with smokey fireplace from poor draw.



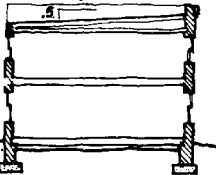
TWO-STORY FRAME:

Poor air flow in areas farthest away from the furnace.



INNER-CITY ROWHOUSE:

Crumbling brick at rear window arches, with no gutter and dripping water. Retrofitted to a hot air system with poor duct layout, either hot top floor (furnace in bsmt.), or cold first floor (unit on the roof). Inaccessible crawlspace, uninsulated, and vulnerable to termites. Occasionally has an exterior DWV system and sometimes has a freeze vulnerable drain. Roof leaks.



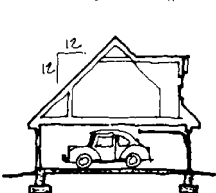
HIPPED ROOF HOUSES:

Bad attic ventilation common, ice damming higher probability, rising truss more common. Large overhangs require hurricane clips for uplift.



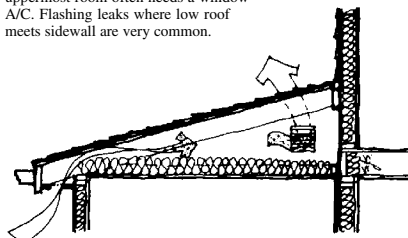
ROOM OVER GARAGE

Room usually cold. Poor roof ventilation can cause damage.



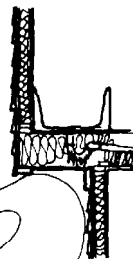
MULTILEVEL SPLITS:

Poor air flow. On a five-level split, the uppermost room often needs a window A/C. Flashing leaks where low roof meets sidewall are very common.



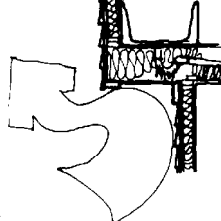
SHED ROOF ADDITION:

Often leakage where addition roof meets house, poor or nonexistent flashing.



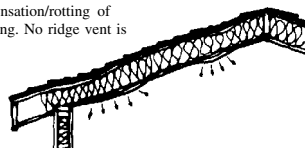
OVERHANGING SOFFITS:

Cold drafts can freeze unprotected plumbing.



CATHEDRAL CEILINGS:

Bellied drywall on the ceiling beneath soft spots on the roof indicates condensation/rotting of the roof sheathing. No ridge vent is the clue.



Compared to other businesses, the failure rate of new home inspection companies is surprisingly low.

Unfortunately, the success rate (as measured in after-tax dollars) is also surprisingly low. Success demands hard work, sound business practices, and careful planning.

If you are just getting into the business, you will probably love it, especially if you have been a remodeling contractor or small builder. You will find the work easier, and will receive a large measure of appreciation from clients.

Looking Back

Remodelers have turned to house inspection since the '50s and '60s, and not always with the purest of motives. Some early practitioners offered the service free in the hope of gaining remodeling work. Others charged for a service that was becoming increasingly popular. The clients were buyers or their real estate brokers, who were interested in houses with obvious repair needs.

In that era, the service was a sideline, primarily in the aging cities along the East Coast. Fees started at about \$30. Many home inspectors simply identified major structural problems, explained the general nature of how things work and approximated the life-expectancies of the systems. An inspection took about an hour, and a report was written on one or two pages.

In the '60s and '70s, as consumer issues came into the fore, the demand for inspection services increased to the point where some entrepreneurs were able to make it a full-time business.

Real estate brokers were the primary intermediaries between these entrepreneurs and the people who needed their services. The working relationships between inspectors and real estate brokers did not always work to the best interest of clients, and some negative fallout occurred.

Major Recent Changes

But much has changed in this 30-year-old industry, especially in the last five years. Inspectors see themselves become more as generalists, for one thing, and some in the business prefer to call themselves inspector/surveyors to reflect that change. In general, professionalism has increased, greater attention is being paid to important details, and fees have increased.

Most inspection techniques are more intense than they used to be, with considerable concentration on items such as cracked heat exchangers and overfusing within electrical panel boxes. The reports have become longer and more detailed. There are many differences among firms, but today a typical inspection/survey takes several hours and the fee is \$175 or more.

Field Procedures

Field procedures might include the following:

- Crawling under the property to look for rotted sill plates or joists, wood borer damage, etc.
- Opening the distribution panel to look for over-fusing, multiple connections, aluminum wire, etc.
- Removing the flame shield and looking inside the heat exchanger with a folding mirror and powerful flashlight to find any visible evidence of holes, cracks, or other problems.
- Examining plumbing and bath tile work to determine potential problems and any evidence of water damage.
- Scanning wall surfaces for mildew or swelling, tapping the finished floor materials to find any areas that have become loose from water seepage, and noting any potential for radon infiltration.
- Scanning the upstairs ceilings with a powerful flashlight for signs of roof leakage and ice damming.
- Opening the fireplace damper, and looking inside for creosote or broken flue liners.

- Walking on the roof if it is accessible, making note of any problems requiring repairs.
- Scanning the grading, making note of any potential for roof or yard water to seep into the basement.

Reports

Reports can be made as typewritten narratives, checklists, combinations of the two, or with packaged systems.

A narrative report summarizes the general overall description of the property and points out actual problems or points of concern. These are generally accomplished with computer assistance, and may run 15 pages or more.

A disadvantage to the narrative is that there is a long lead time between the field inspection and the report. Clients waiting for the report are inconvenienced by the delay in their negotiations, and must read a lengthy document all the way through (including much material of little interest to them) to learn of any problem areas.

Checklists are convenient, and can be turned over to the client immediately. However, checklists have a hard time addressing anything more

A checklist, with plenty of room for notes, provides a convenient way to summarize problems with the various systems of a house. Most clients appreciate an estimate of the cost of repairs.

The Handbook by Michael Lamm

WRITING DEFENSIVELY

Satisfaction in the home inspection business is tempered by the enormous potential liability.

Because of the trend toward litigation, home inspection/ survey companies are increasingly viewing themselves as "documenters" of actual conditions at a particular point in time, rather than as all-knowing experts. As a result, practitioners are more carefully defining and documenting their limitations.

The service is being redefined as a survey, rather than an intensive inspection. Clients are being advised that the survey is nothing more than a generalist's overview. They are advised, in writing, that the survey is not an electrical circuit or impedance check, a geologic or earth science review, a heating and cooling load survey, a dismantling of systems inspection, or any other specific type of inspection that demands the services of a specialist.

Protect Yourself

As an inspector/surveyor, it is important that your client understands the limits of your service, both from the standpoint of business ethics and from the standpoint of protecting yourself. These limits should be disclosed in a written contract, signed by both parties. Oral disclosure is not likely to carry any weight in a court of law.

The disclosure statement should announce to the world what you are and are *not* responsible for. For example, you may say that you will not accept responsibility for things on the ground under a blanket of heavy snow. There may be an open storm drain pipe in the rear yard of the property, but it was covered by 2 feet of snow at the time of the inspection/survey, and you couldn't see it.

Another example would be underground pipes leading away from downspouts. Your disclaimer should note that you will not hold yourself responsible for the condition of the pipe, since you can't see it.

In a risk-evaluation service like this, you had better spell out which risks, you are evaluating, and the

depth of your evaluation. You must list the risks you are not accepting, and explain carefully the risks the consumer or client is left with after the service is complete.

To further manage your risk, I recommend that you include a clause in your contract limiting your liability to the amount of your fee. It's wise to add the statement, "No warranties are offered, either explicit or implied."

Waivers of this nature are usually upheld by the courts. The exception would be if there were a flagrant disregard of duty or serious oversight that directly leads to damages suffered by the client. You can never disclaim your own negligence, and a waiver will not protect you from gross incompetence.

The scope of your work must be spelled out, and it must be performed competently, with due care. Your report must list the extent of your physical inspections and the observations you made without implying anything beyond that. Then you must do what you said you would do, and outline what you have done in the report. Otherwise, you can expect to be sued.

Not Insurance Brokers

A major source of your inspection/surveying business will be from real estate brokers who view your service as a litigation shield between them and the purchasers. You must realize this and that the very parties who bring in business may end up suing you.

So be clear. It is foolish to allow people to believe that an inspection/survey report is the complete documentation of risk, when we know they cannot be. Realtors should see the home inspection/survey not as a shield, but as a relative comparison device.

The concept of paying money to insure against unknown, un-found, unanticipated risks is an insurance concept. The home inspection/survey industry must begin broadcasting that while our service can help to diminish risks, we are not in the insurance business. ■

— NEB

than the general overall condition of the systems. A long checklist—some are 12 or more pages long—can convey more information, but may be a chore to fill out in the field and difficult for the consumer to follow.

A checklist/narrative combination can be a good reporting system. The consumer can usually initiate negotiations based on the checklist, and wait for the more detailed information that will come in the narrative report. Checklists can also be supplemented with addenda, with information relevant to general problems found. In our area, where wet basements abound, a typical addendum would describe ways to relieve the sources of water in basements.

Packaged systems are elaborate checklists backed up with pre-printed information. They use "key" sheets to direct the reader to the relevant backup information. The most extensive packaged systems are about 300 pages long. Their value is immediately recognized by the consumer. The total cost per package can be \$35 or more, but that is competitive with the cost of creating a quality computer-generated report.

Packaged reports must be explained at the site, and can add 20 minutes to the average inspection. However, they eliminate the need for computers and operators, and the need for inspector/surveyors to constantly return to the office to create reports.

Starting Your Business

Most home inspection businesses are founded by a single person, working out of his or her own home. Such a business is viable and pays a comfortable return if you average five surveys per week. If the business grows to ten or more appointments per week, you will have to decide whether to expand, or to limit the work that you will accept.

Hiring additional personnel will, at least initially, reduce your return. The break-even point with expansion comes when you have enough work for three additional inspector/surveyors. Therefore, a carefully-drawn and thoroughly researched business plan is essential.

Franchising

The growth of the industry has led to the emergence of networking or franchised systems. You may want to consider joining one of these.

The two major tasks of any business are marketing and training. Sole proprietorships have advantages and disadvantages in both departments. The individual who is responsible for only him or herself can maintain consistency, but may not be able to keep up with everything that is going on in the industry. And although a sole proprietor will immediately feel any downturn in business and has a huge incentive to respond to it, his resources are often too limited to do so adequately.

Networking and franchised systems have the benefit of scale. They can afford to invest the time to develop materials and package them for a large number of users. They can afford larger outlays for ads and other outreach.

Market Quirks to Keep in Mind

First, remember that the bulk of this business is contracted by buyers in resale house transactions, which means this is a risk-motivated buy. The client's motive is lack of knowledge, rather than knowledge of the services we offer. Clients are often high-anxiety people who are fearful of those around them. The entire transaction is generally one of distrust.

Another thing to keep in mind is that the volume of business available is directly proportional to the number of homes sold and to "penetration." Penetration refers to the number of home inspection businesses in the area. If services are sufficiently available, there will be more sales contracts with contingency clauses requiring an inspection.

Frictions Within the Industry

Be prepared to enter a field that is suffering from some dissension. Many long-time practitioners are now forced to compete with aggressive business ventures, and feel threatened in the areas of marketing and training. They see themselves pitted against the hordes coming over the fence, and are sometimes tempted to work to make the trade associations exclusionary. I think that's unfortunate. It may work for a while, but once the newcomers realize that they can't readily gain admittance, they'll simply form a new trade association. That has already happened in Texas.

Another point of contention among inspector/surveyors involves technical conclusions regarding specific problems with properties.

An example is the issue of aluminum

lower branch wiring. There are individuals and companies who downplay this safety hazard to the benefit of sellers and real estate agents. If Company A makes easy calls on its use, real estate firms in an area with a lot of aluminum wiring will channel business to Company A. Company B may be righteously indignant, and not at all saddened if a consumer sues Company A.

Other issues of dissension include the validity of visual inspections of heat exchangers in forced-air furnaces, and radon evaluation. Industry standards will probably have to be overhauled to address such issues.

The Question of Licensing

This industry has formed so rapidly that it has not had time to develop working standards. In theory, licensing would assure consumers that they are dealing with someone who is competent and who performs to certain standards.

But in practice, licensing is a potential disaster to the industry. Licensing establishes minimum standards, not optimum ones. It's possible for a person

with little experience to meet them. This has already proven to be a problem in Texas, where more than 1,200 licensed home inspectors now service an economy that can barely support 200. The most common previous occupation of these practitioners is hairdressing.

One result is consumer dissatisfaction. There is an enormous tendency to use simple checklists, with recommendations for additional inspections by other specialists such as a roofer, a plumber, a structural engineer, or electrician. The consumer wonders what he or she has paid for.

A Warning About Independent Contractors

Many companies in our industry have long operated with inspector/surveyors acting as "independent contractors."

The 1987 tax overhaul changed the rules regarding independent contractors, and the Federal Government is now actively going after some of the tax money it believes it has been losing.

If you call your people independent contractors, but the government finds that they are actually employees, you will be forced to pay back taxes, interest, and penalties. A corporate shield is to no avail—your personal assets are at risk as well.

Quality Will Make the Difference

Rapid growth in the industry can be expected to continue for the next decade. Except for the major metropolitan markets on the East Coast (and Texas, where the market has been flooded, thanks to the licensing law), the market for our services is either growing phenomenally or completely undeveloped.

While this means new opportunities are likely, it is also true that the industry is becoming increasingly competitive. As consumers begin to differentiate between the performances of various companies, those that perform quality work will leave the others behind. If you're considering getting into the field and plan to succeed, I'd sincerely advise you to do a first-rate job. ■

Michael P. Lennon owns Home Pro Systems Inc., a leading inspection/survey business in the Washington D.C. area, and has developed a "packaged" inspection/survey system now used in 20 different markets. The above article is adapted from material in The Business Of Home Inspections/Survey Book, which is available from Home Pro Systems Inc., 6715 Lowell Ave., Suite #2, McLean, VA 22101.

For More Information:

Here are some books on the home inspection/survey business.

The Complete Book of Home Inspection by Norman Becker; McGraw Hill; New York; 1980; \$8.95.

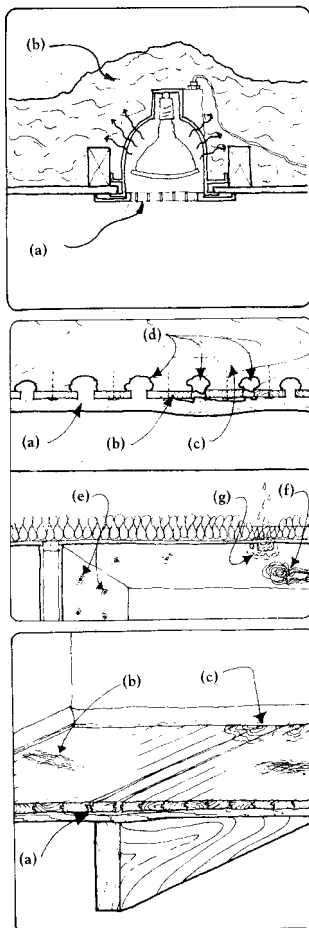
The Principles of Home Inspection by Joseph McNeill; Van Nostrand Reinhold; New York; 1979; 346 pages; \$25.95.

Diagnosing and Repairing House Structural Problems by Edgar Seaquist; McGraw Hill; New York; 1980; \$27.50.

What's It Worth? A Home Inspection and Appraisal Manual. TAB Books; Blue Ridge Summit, PA; 244 pages; \$12.95.

The Homebook by Michael P. Lennon; Home Pro Systems Inc., McLean, VA; Loose Leaf; \$75.00

A Training Manual for Home Inspectors by Alfred Alk; ASHI, 3299 K Street NW 7th Fl., Washington, D.C. 20007; chapters sold separately, range from \$20 to \$25 (\$40 to \$50 for non-members).



The Homebook by Michael Lennon

Illustrations like these provided in a popular inspection package make it easier to explain to the homeowner. From top to bottom: the first demonstrates how a recessed light projecting through ceiling materials (a) and covered with insulation (b) can pose a serious fire hazard. In the second, typical problems with plaster and drywall are depicted: In older houses where plaster (a) is attached to lathing (b), which is nailed over framing (c), the keys (d) eventually break, causing loosening. Other problems include nail pops (e), water stains (f), and spalling (g). The third drawing addresses loose flooring (a), which is almost always caused by drying and shrinking. Marred flooring (b) often results when chairs and beds are housed along the floor, while stains (c) often originate with water or pet messes.