

Home Inspectors Provide Savings, Peace of Mind to Homebuyers

By Michael J. McDermott

For most people, buying a home represents the single largest purchase they will make in their lifetimes. That being the case, it's not surprising that a certain amount of angst often accompanies this transaction. When buyers are committing the lion's share of their financial resources to a single purchase, they want all the assurances they can get that they are making a sound

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investment.

For the majority of homebuyers, their first line of defense is contracting the services of a qualified home inspector, many of whom are members of large and rapidly growing franchise networks.

According to a study by the U.S. General Accounting Office (GAO), 86% of homebuyers who used a mortgage insured by the Federal Housing Authority (FHA) to buy their homes in 2004 voluntarily sought home inspections. Eighty percent of buyers reported that having the home they were buying inspected by a professional increased their confidence in their purchase decision and provided them with greater peace of mind.

Homebuyers surveyed by the

GAO most often cited making sure there were no serious problems with the house they were thinking of buying as the main reason for getting a home inspection.

"Homebuyers reported several ways in which they benefited from getting home inspections, which typically cost less than \$400," said Thomas McCool, GAO's managing director of financial markets and community investment.

"Two thirds of the inspections identified problems with homes, most of which buyers characterized as minor," he said. "This benefited buyers by allowing them to renegotiate the terms of their purchases so that sellers fixed these problems before closing."

Most often, the problems identified were minor in nature, with 65% expected to cost \$500 or less to correct. However, almost 30% of the problems identified were more extensive and would cost significantly more to correct. In 6% of cases, homebuyers were unsure whether the problems identified should be classified as minor or major.

BETTER DEALS

When the inspections did identify problems—regardless of whether they were minor or major in nature—buyers were able to renegotiate one or more terms of their purchase deals as a result, according to the GAO report.

"Most often, they did so by convincing sellers to fix the problems," McCool said. "In addition, about

one in five buyers reported that they benefited from their home inspection because it allowed them to learn about home maintenance."

Other studies suggest that the small amount of money typically invested in a home inspection can provide a prodigious return. One recent survey found that homebuyers who pay \$250 to \$350 for a home inspection save an average of almost \$1,600 on the ultimate cost

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of their purchase transaction—a rate of return equivalent to 450% to more than 600%.

Homebuyers in that study reported saving money on their transactions in a number of different ways, including the pre-purchase repair or correction of problems not disclosed prior to the inspection that were paid for by the seller and by a reduction in the purchase price paid for the home as a result of the inspection.

While not every homebuyer in the study reported saving money as a result of having a professional home inspection performed, in 76% of those transactions flaws identified by the inspection were repaired or corrected at the seller's expense prior to or as a condition-

al requirement of closing.

About 60% of survey respondents indicated that a home inspection had influenced their decision to buy, and 70% stated that having a professional inspection report made them feel more comfortable with their purchase decision. Significantly, homebuyers in this survey rated the additional peace of mind resulting from a home inspection as more important than any monetary benefits they might have received.

The predominantly positive tone of the GAO report and other studies is good news for the estimated 30,000 home inspectors in the U.S. “The study results indicate a trend that will keep home inspectors busy, given that more than 74 million Americans will own their own

Homebuyers value the peace of mind a professional home inspection provides.

home after this year’s buying and selling season,” said Don Norman, president of the American Society of Home Inspectors (ASHI).

It is also good news for homebuyers who make the smart decision to protect their investment by having a professional inspection done—but only if that inspection is conducted by a highly qualified, experienced professional. As the GAO report noted, even though most homebuyers were satisfied with their inspections, some cited concerns with their cost or quality.

Of the buyers who got home inspections in the GAO survey, 19% were unhappy with the cost of the inspections. In addition, 16% said that in the first year of owning their homes they experienced prob-

lems they believed the home inspectors should have caught.

Most often those problems were related to plumbing. Appliances, air conditioning systems and electrical systems also were frequently cited as the source of discontent. Roofs, heating systems and structural components were mentioned less often.

EXPERIENCE MATTERS

“While the majority of homeowners are on the right track with obtaining a home inspection for buying, selling and maintenance purposes, the difference in quality and, therefore, protection of a homeowner’s financial interests can best be realized when the inspection is performed by an experienced, professional home inspector,” Norman said.

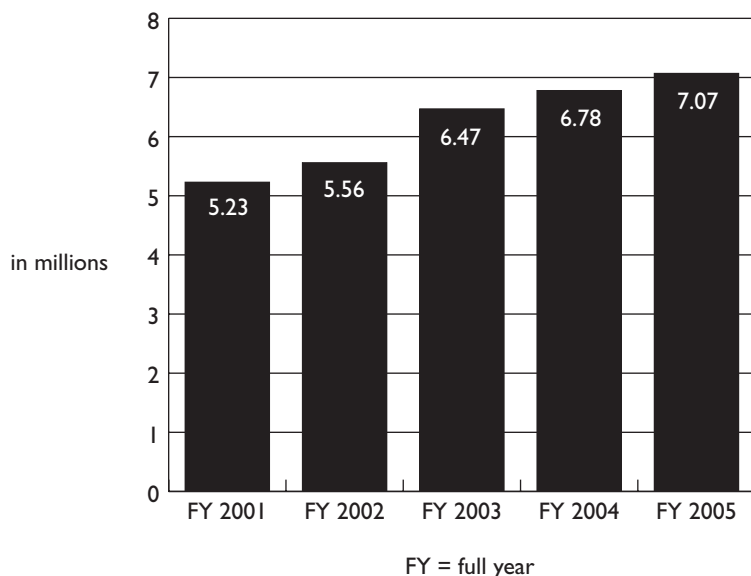
Therein lies a potential problem, both for potential homeowners relying on an inspector’s expertise and for the thousands of qualified, ethical professionals who have chosen to make home inspection their career.

Because barriers to entry in the home inspection field are relatively low, it has attracted some practitioners whose qualifications and expertise are sub-par. While their numbers are small relative to the overall size of the industry, as indicated by the overwhelmingly positive homeowner experiences reported in the GAO study and others, it is nevertheless a fact that a few bad apples can spoil the whole barrel.

Several national organizations, such as ASHI and the National Association of Home Inspectors (NAHI), offer certification and provide practice standards and ethics policies for their members, which can help boost their credibility in the marketplace. Some states have also adopted various levels of licensing requirements for home inspectors.

While such initiatives can be useful in helping to support consumer confidence in the industry, many current and aspiring professional home inspectors find that allying themselves with a widely recog-

Growth In Sales of Existing Homes



Source: National Association of Realtors

nized and respected franchise system provides the most beneficial approach to participating in this fast-growing field.

Franchising's benefits are well known and well documented. According to a recent study conducted by PricewaterhouseCoopers for the International Franchise Association (IFA), franchising provides employment for almost 10 million people in the U.S. It is a force in almost every industry—from foodservice to hospitality to home repair and remodeling to health care—and it is growing at a faster rate than the nation's gross domestic product.

More than half the retail sales made in the U.S. are rung up at shops belonging to franchise systems, and franchising's greatest growth is now taking place among service-sector businesses, such as home inspection. The same benefits are behind franchising's impressive success no matter what the industry or sector in which it is deployed.

"When you buy a business format franchise, you can expect that

the franchisor will supply you with training, marketing materials and operating systems, as well as a manual for how to operate that franchise," said James Amos, Jr., the former president and chief executive officer of one of the most successful brands in franchising history, Mail Boxes Etc., which was later purchased by UPS and re-branded as The UPS Store.

TWO-WAY STREET

The assistance franchisees receive from their franchisor also includes extensive management systems to help make their business ventures successful. In return, franchisees pay a fee and ongoing royalties to the franchisor, and they agree to adhere to the franchisor's quality standards and maintain the company's image and brand integrity in the way they conduct their business.

"That's true for any type of business format franchise, whether you are buying fast food or looking to mail a package or get your home inspected," Amos said. "The name

brand of the franchise system is what customers and prospective customers know, and it's what they depend on to get the quality product or service they want. They don't know the franchisee, but they do know the brand."

Among the most important advantages home inspection services and other businesses get from being part of a franchise system are:

- Positive exposure from national advertising that helps attract more customers.
- Economies of scale, such as the combined purchasing power that comes from being part of large, national organization.
- Effective marketing techniques that have been proved in marketplace.

Identification with a recognizable brand is one advantage of owning a franchise.

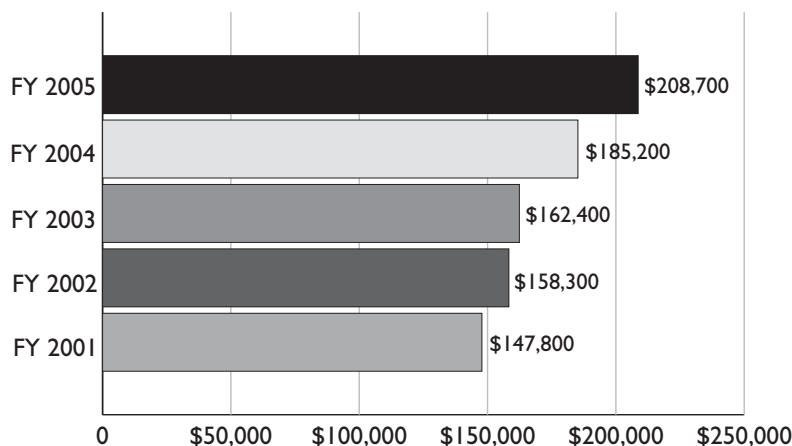
- Operational systems, tools, controls and procedures developed by the franchisor.

- Consumer awareness and recognition from the use of the franchisor's name brand, trade dress, trademarks and other brand-identity elements.

Perhaps one of the most important things prospective home inspection franchisees can expect from a franchisor is comprehensive training in areas including marketing, equipment, management, report preparation and conducting the inspection process itself.

Many home inspection franchise systems also provide their own proprietary certification programs or align themselves with a program offered by one of the industry's

Growth in Median Price of Existing Homes



Source: National Association of Realtors

national certification organizations.

Last year, ASHI, in conjunction with Perception Solutions, reached out to nearly 18,000 home inspectors across the continent for one of the largest business operations studies conducted exclusively for the home inspection profession. The study gathered general demographics and measured home inspectors' business activities during the year.

The results of the study provide a distinct profile of today's professional home inspector, based on education and training, inspection standards, reporting timing and methods, quality assurance and business promotion. Among its notable findings:

- Home inspection is considered

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their full-time profession by 81% of the inspectors polled.

- Home inspectors have more than eight years experience, on average, in their industry.

- The nationwide average fee charged for a complete residential inspection is \$318.

The ASHI research also identified multiple sources generating demand for the services provided by home inspectors. Pre-listing inspections account for 2.6% of the average home inspection firm's business, up from 2.5% in 2002; new home construction inspections account for 7.9%, up from 7.3% in 2002; and relocation inspections account for 7.6%, up from 5.7%.

Like many professionals, home inspectors are becoming more

reliant on technology to do their jobs more efficiently and effectively these days. "Home inspectors effectively utilize the latest high-tech capabilities to allow for an efficient and cutting-edge business," said a spokesman for ASHI.

"Nearly 80% of inspectors produce computer-generated forms versus hand-written reports, and 64% of inspectors bring a laptop computer with them when they go to perform an inspection," the spokesman said. Even more (83%) utilize digital cameras in their work.

Year-to-year trends illustrate the inroads technology is making into the home inspection profession. In 2002, less than half of home inspectors produced computer-generated reports, and only about 60% were equipped with digital cameras for job-related purposes. Overall, 72% of home inspectors now incorporate photography into their inspection reports, an increase of 32% over 2002.

TIES TO REAL ESTATE

The home inspection industry is closely tied to the real estate industry, and the booming market in new and existing home sales over the past several years has been a factor in the robust growth of home inspection franchise systems. While the real estate market has begun to cool off a bit in some parts of the country, experts say activity will remain at levels that should sustain continued growth for home inspection businesses.

Sales of existing homes—which generate the bulk of demand for home inspection services—hit a record-high 7.08 million units in 2005, according to the National Association of Realtors (NAR). New-home sales also set a record last year, with owners closing on 1.28 million newly-constructed residential units.

It is unlikely either record will be threatened in 2006, according to NAR chief economist David Lereah, but home sales should generally level out and remain at historically high levels.

"Economic growth and job creation are providing a favorable backdrop for the housing market, but rising interest rates have an offsetting effect," Lereah said. "Home sales will move up and down somewhat over the remainder of the year but stay at a high plateau, meaning 2006 will be the third-strongest year on record."

One offshoot of five consecutive record years of existing-home sales has been a steady run-up in housing prices, and that trend shows no signs of abating. The national median existing-home price for all

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types of housing at the close of 2005 was \$211,000, up 10.5% from \$191,000 a year earlier, according to NAR. The national median is projected to increase another 6.4% in 2006, approaching \$222,000.

"Steadily rising home values will drive growth in home inspection services," said a spokesman for the U.S. Department of Labor's Bureau of Labor Statistics, which projects increased demand for home inspectors in its *Occupational Outlook Handbook, 2006-2007 Edition*. "As the value represented by the home-purchase transaction continues to climb, homebuyers will have even more motivation to take every possible precaution to protect their investment."