

Home Inspections are a “Buyer’s Appraisal

Home Inspections are the most important disclosure document prepared during the home buying process. It is the only disclosure document addressed specifically to the buyer, and provides information that the buyer could only discover after living in their new home for quite some time, even years after the close of escrow. The purpose of a Home Inspection is to fill in the information gaps between the appraisal and the various disclosures provided by the Realtors.

With over 25 years in the Real Estate Industry with the last 5 in the Home Inspection business I have come to realize that Home Inspections are under utilized and misunderstood by the general public. While Home Inspections are not characterized as an appraisal and do not meet the strict guidelines required by the State, they are in fact an appraisal, just in a different form. When an appraisal is prepared on a property it is generally accepted as the “Fair Market Value” of the property, but the appraiser makes certain assumptions that the home is within accepted conditions to sustain the value. The Home Inspection takes the appraisal process further and identifies issues that are beyond the appraiser’s ability to discover.

A properly trained Home Inspector will identify “Material Defects” which can affect the value of the property. It is important to understand that the Home Inspection is a “Negative Appraisal.” When a potentially costly defect is discovered it can only detract from the appraised value. If the appraisal is generally accepted as the uppermost value of a property then when the Home Inspection identifies defective systems, the costs of repairing these defective issues can only detract from the appraised value. The key is to understand that the costs for repairing the defective systems is determined by the buyer, or the specialist hired by the buyer to evaluate issues and determine the costs of repairs. It is these costs of repairs that become the negative value determined by the Home Inspection. It is up to the homebuyer to decide if these costs of repairs are prohibitive.

The appraisal is prepared for the lender, based on guidelines designed to protect the lender’s investment. Appraisals are not prepared for the buyer. Most buyers never see the appraisal on which they make the largest purchase of their lives. A buyer must request the appraisal in writing within a certain number of days in order to be eligible for receipt. The lenders have a built in margin of error that account for unknown defects. This margin many times represents the equity in the home for the buyer. If the buyer discovers a defect after the close of escrow it almost never affects the lender but it can most certainly negatively affect the buyer. I always recommend obtaining a copy of the appraisal on any home purchase.

The educated buyer will always obtain the most detailed Home Inspection available in order to make a properly informed purchase decision.

This is the first in a series of articles regarding the various issues pertaining to Home Inspections. Any questions or comments can be emailed to HomeInspect2020@aol.com and will be answered in following articles.

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