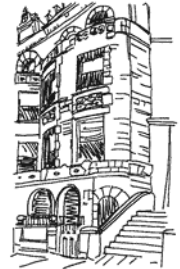


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Is A Pre-Purchase Inspection Necessary?



What's the Deal With Pre-Purchase Inspections?

Those of you who have purchased a real house out in the burbs know that once you agree on the price, you go about the business of having your future home inspected by an engineer or house inspection company to make sure you're not buying a problem. In addition to inspecting the house and out buildings from top to bottom, to determine whether any problems exist, the house is also tested for the presence of termites, radon gas (depending on location), underground oil tanks, septic and water quality problems and sometimes lead and lead-based paint. These tests should be performed by licensed and experienced technicians. The "house inspection" is part and parcel of purchasing a house outside of the apartment dwelling world of New York City. What rules apply to inspections when you're buying a co-op or condo?

If you ask your average Manhattan real estate broker about having an apartment "inspected" prior to the signing of the contract, I think you might get one of the following reactions: "why?"; "no one ever does that" or "the seller can't wait forever". To be fair, once the question of an apartment inspection is raised, brokers (and sometimes lawyers) invariably have someone they will recommend to do a "walk through" of the apartment. Here's the skinny:

Quality of the Inspection

More than anything else, the real issue with an inspection is the ability of the party conducting the inspection. I have seen everything from topnotch engineering firms to someone's uncle Murray. The greatest difficulty is getting a person or firm who understands coops and condos and can interact with the players without offending

anyone. Assuming everyone is cooperating (which is an issue to be covered shortly), the inspector usually interacts with the superintendent of the building (sometimes now known as a resident property manager), possibly the account executive of the managing agent who handles that building, the brokers and possibly even the seller. Unfortunately, it is hard to find an inspector who can perform the balancing act of doing a thorough inspection and not putting a deal at risk.

What Does the Inspector Do?

There are two main components to the apartment inspection. First, the inspector will walk through the apartment and review all of the mechanical systems (electric, plumbing, heating and cooling), then search for problems such as signs of water infiltration, structural issues, possibly code violations (makeshift wiring) and terrace problems. An inspector should try to determine whether the heating and cooling systems are adequate for the that particular unit (the time of the year when the inspection is conducted will limit the value of those conclusions). The inspector will also chime in on the health of the major appliances and other apartment systems. Secondly, the good inspectors will then do a walk through of the building with the super...excuse me, the resident property manager. If possible, the inspector will check the mechanical systems of the building, the roof, the hallways, and other areas that the resident property manager makes available.

Why Do You What to Know This Stuff?

Let's take the building first. The physical state of the building in which the apartment is located, will directly impact on the monthly maintenance or common charges which you will be paying once you take title. If the building needs major capital improvements (like a new roof or boiler), the cost of such capital replacements will be borne by the building's population, that is, your neighbors and you. You will be obligated to pay your pro rata share of such costs. If the building does not have a lot of money in the kitty (which is more often the case than not), then large repairs or replacements will be funded by annual increases in maintenance or common charges or by special assessments when necessary. Conclusion: determining the current physical condition of the building is essential to determining whether to go forward with your proposed transaction.

Now Your Apartment...

Particularly, in a down market, and certainly when prices rebound, you don't want any surprises once you actually own the place. The only way to determine what you're getting yourself into, is to do the investigating. If you're buying an apartment in a brand new building, at least theoretically, there's a lot less to worry about. If

you're buying an apartment in a building built in the sixties or seventies, or in one of those sought after "pre-war" structures, there are numerous issues to be considered. In most cases, a fifty-year old building has fifty-year old problems.

Deal Resistance to Doing the Inspection

There is always pressure on the buyer to get the deal done, irrespective of market conditions. The buyer is always worried that the seller will go to a higher or easier bidder (which can happen, although less often these days as multiple bids are harder to come by). Once the need for an inspection is raised, smiles turn to grimaces, as the seller waits to hear what's on the buyer's mind. Invariably, the seller views the inspection as an attempt by the buyer to renegotiate the purchase price once the inspection is completed. Brokers often worry that "nothing good can come from an inspection." Though sellers don't like it, if the inspection does produce real problems with the apartment (not just a leaky faucet), I have seen the price adjusted to compensate for the existence of problems in the apartment. As you might expect, when there are many suitors for an apartment, adjustments on the price are highly unlikely. When an apartment sits on the market for months, an adjustment on the price for real physical problems is a real possibility. Having said all that, consider the following in making your decision as to whether to have a pre-purchase inspection:

Time Pressure: If delaying the contract process to get an inspection done would put your deal at risk, you must weigh your desire to purchase the apartment against what might be discovered. If you're sure you want the apartment, no matter what, then you may have to forgo the inspection. On the other hand, if you want to be certain about what you're buying, the inspection has to be considered, irrespective of the time pressures.

New Construction: If you're buying from the sponsor in a recently completed building, there is usually little need for an inspection. Unfortunately, there are construction issues that come up with new buildings, but problems generally don't surface until several years down the road, and in such circumstances, an inspection won't help. The offering plan will give a description of the materials to be used to complete the building and that information can be reviewed by your inspector. With new construction, your best protection is knowing the history of your developer and the success or failure of his or her other projects.

Major Renovations: If you're planning major renovations, having an engineer or architect look the place over is a must. What's major: moving the plumbing from one place to another, rewiring, joining two apartments, renovations that might raise structural issues or any improvements that might involve the Landmarks Preservation Commission--in short, those renovations that go beyond cosmetic improvements like

painting and having the floors sanded.

Small Buildings: If you're buying in a building with less than twenty-five units, I think it's essential to have someone look over the apartment and the building. Since major repairs in a small building will have a significant financial impact on each owner, knowing the physical condition of the building is very important.

Notice of a Problem: If you are aware of a problem unique to the apartment or the building, having an inspection can give a lot of comfort. For example, if the apartment has been subject to leaks from the upstairs neighbor's terrace in the past, but you're being told that the problem has been solved, an inspector may be able to confirm the current condition of the terrace by a visual inspection. Also, when the inspector talks to the super or managing agent, they know the same lingo and sometimes the inspector gets a more in-depth explanation of the problem or of its solution.

Residential Reality: Consider a Pre-Purchase Inspection

The purpose of an inspection is not to kill your deal, but to educate you. For many of you, the apartment purchase will be one of the largest investments you may make in your life. Give it a little more consideration than you would buying a toaster. At the same time, the rough waters of New York City real estate require you to act expeditiously to make sure that the great deal doesn't get away.

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