

Home Inspectors Stealing Investor Deals?

Now it's happened twice in a short period of time so you need to know about it so it doesn't happen to you. We have the usual players in the following deals – an investor, a seller, a property inspector, and in the second case we'll discuss, another investor looking to re-sell the property.

In the first case, a mentor student got a property after a tough and extended negotiation with the homeowner, and was about to put it under contract when he decided to have the property inspected. The inspection was to make sure he hadn't overlooked anything even though we had inspected the property, but just in case since the property had structural problems that weren't obvious. He also intended to use the inspection report as additional leverage to get the seller to reduce the sale price.

I am not sure where he got the inspector's name but the student called us saying the inspection report came in and it strongly suggested demolishing the property! We were stunned as the property was built in the past 22 years and we estimated total repairs at \$45,000 including a new kitchen. I told the student that something was fishy and said to go ahead and tell the seller what had happened and send the seller the report. He did just that and called the seller with a substantially reduced offer.

In the course of conversation with the seller, it came up that the inspector had contacted the seller directly with the report and made an offer on the property. Interestingly, the inspector's offer was just slightly over what the "new" student's offer was. The student was stunned, we were bent out of shape, but the seller did accept the student's original offer less \$5,000. So it can be said that the \$350 inspection report netted the student a \$5,000 price reduction. The property was purchased by the student and the rehab was completed for approximately \$52,000 and sold for a \$90,000 net profit. The licensed inspector was added to our "Wall of Shame" and we went on believing it was a once in a lifetime happening.

In the second recent case, I was speaking at a local REIA and an investor who I have known for some time walked passed me and didn't even say "hello". When I called out to her, she barely responded and I engaged her into a conversation to find out what was wrong. Reluctantly, she told me a story of losing an REO 4-plex rental property that she had negotiated for three months and finally got approval from the asset manager. But what happened from there was similarly eerie to the first example.

The property was in poor condition but with a moderate rehab it was rentable. Because it was over 50 years old, it needed to pass an inspection by the City to be habitable. She called us and asked for a referral to an inspector and we referred a long-time associate who had literally done hundreds of "complicated" inspections for us. He went to see the property and wouldn't even go inside. He said the property should be condemned and demolished. Whether he was right or not, he wouldn't do the inspection and walked away.

The investor called me and asked for another referral, and quickly, because her inspection period was drawing to an end and she needed to try and get a further price reduction. At that time I remember another student telling me about an inspection he had done on a 4-plex that got his REO reduced by \$50,000. I called and asked about the inspector and got his number and referred him to the original investor the same day. This “new” inspector did the inspection the following day and came back with a report showing that \$50,000 was needed to make the property livable. The original investor was very happy despite the \$800 inspection fee. She went back to the listing agent and requested a new price with a reduction of only \$20,000. The listing agent said the asset manager wouldn’t do anything and the investor was stressed to make a decision because much of the inspection was right on about the repairs.

At one point I asked her if she would still want the property for the original offering price that was approved and she said “No” because of the inspection report. She persisted that she did want the property but not at the original price. I told her she had to make her mind up and either pay the original price or cancel the contract so as not to lose her deposit. She opted to cancel the contract and get her deposit back, which was the last that I had heard from her.

At the REIA meeting she informed me that she was mad at me because only two people knew about the deal – me and the inspector. What happened was that after she cancelled the deal, five hours later she got a call from another investor offering her the property for the price she had offered originally! The investor was the same one who ironically had referred the property inspector to me and that I referred to her. He had purchased the property in just hours for the price she was trying to get the asset manager to accept.

How was it that the listing agent had gotten the asset manager to reduce the selling price in just hours after she had cancelled her contract! She believed that I had called the investor who had been a student of mine and told him to go for the property. I was floored and couldn’t believe that she felt I was the culprit.

Let’s look at who the players really were in this deal –
First, the realtor, who suddenly got a price reduction for someone else in a matter of a few hours after negotiating for three months with the first investor and telling her the final price reduction couldn’t be done.

Secondly, is the inspector who I referred to her, but who was referred to me from the same investor who got the deal. This non-coincidence is further supported by the fact that the final sale price was exactly what the first investor was trying to get.

Finally, the investor and former student that bought the deal – I would think that if he was knowingly stealing the deal from the first investor he would not have called to offer it to her, especially if he knew she had cancelled her contract at the same price he was offering it!

The regrettable part of this mess is that the first investor was a personal friend who we had dinner with in her home and that I helped for a long time to purchase rental properties, and never asked for any payment of any kind for my time. What could have ended this issue for her would have been to say something to me as soon as she was called by the investor who was offering her the property. Instead nothing was said and a friendship was sacrificed.

I never knew what happened to the property, whether the second investor and former student, actually sold it and made a profit. If he did sell it at his asking price, from what the original investor told me, he would have made a \$20,000 profit.

It really doesn't matter as the lessons from this article should be to talk about what is bothering you as soon as it happens, and to whom you think have wronged you and why! Also, you better watch for home inspectors who ask too many questions about a property they are inspecting for you, and who are investors themselves. Don't forget the realtor seemingly lied about the facts in this case to the original investor, but that's to be expected - as we have always said "Sellers are always liars".

To your limitless success,
Dave Dinkel

P.S. I just released an industry changing e-course called "48 Ways to Build a Super Buyers List in Hours Instead of Weeks or Months" – a long title, but a text and software that can literally change your investment career and forever stop any issue or fear of not having buyers for your deals. I have been criticized for releasing by the local wholesaler's union and you'll see why when you read the text at – www.MakingaBuyersList.com