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Using building or pest reports to negotiate price reductions

Finding some minor termite damage is a worry for some property buyers but to a more seasoned investor it can often provide great leverage to negotiate a price reduction from a seller. In this case, the buyer could negotiate for the replacement of termite damaged timber, installation of a termite management system and mitigation of conditions conducive to future termite attack.

This is just one example, I've helped lots of clients negotiate price reductions using reports that I have provided after a pest or building inspection.

How is it done?

Once you have received the reports, read them and then make note of the major defects, safety hazards and significant timber pest issues. Obtain cost estimates for rectification from one of the following sources:

- A building inspector
- Builder
- Cost consultant.

Better still, if time permits, try to obtain written quotes from licensed tradespeople. For example, a licensed roof plumber might provide a written quote for an amount, say \$15,000, to replace a corrugated steel roof.

Examples of negotiable items

Not quite everything is negotiable but many things are. Here are a few:

- Roof is badly rusted and needs replacement.
- Stumps are badly rusted or concrete stumps are cracked and need replacement.
- Penetrating or rising damp.
- Inadequate surface drainage.
- A leaking hot water system.
- A leaking shower(s).
- Unauthorised building work.
- Dented metal roof tiles.
- Retaining wall failure.
- Significant termite, borer or decay damage.
- Significant cracks.
- Leaking swimming pool.
- Ducted air conditioning not working.

The seller is not legally bound to negotiate a price reduction. The willingness of a seller to negotiate a price reduction depends upon a range of factors. In particular, how motivated are they to sell the property? If the seller has purchased elsewhere and is going to be paying expensive bridging finance if settlement is delayed, then you are probably dealing with a highly motivated vendor. On the other hand, if the seller received multiple offers on the property and has a backup contract on it, your chances of negotiating a sizeable reduction are slim.

Understanding the vendor's motivation to sell

An understanding of the seller's level of motivation can give you insight into how far you can push the negotiations.

Agents often say they have other keen buyers. Most of the time this is not true, at other times it is. If you are never desperate to buy, and have other options, then

you can call the agent's bluff (by ignoring what they say). Many agents see you as fair game if you are gullible enough to believe their tactics. So wise up and play the game, knowing that some agents are not to be trusted, and you are on your way to becoming a seasoned property investor.

Getting one or two thousand dollars off the price is fairly common. Maybe the air conditioner doesn't work or the hot water system is leaking. Larger reductions need a combination of identifying the problem, getting a cost estimate or quote, having a motivated vendor and actually asking for what you want. Don't be too greedy.

Negotiating large discounts

Negotiating large amounts off the price is not so common, but it is possible. We helped one client get a \$20,000 reduction – twice (on each of his past two properties). Once because the house had badly cracked concrete stumps and needed complete re-stumping. The other because the two-metre-high brick boundary fence wobbled when given a light push and was ready to collapse at any time, making it a major safety hazard. I expect he will now be looking for a way to get another \$20,000 off the price when he eventually purchases his next home!

Another client was purchasing a \$1.6 million property. I found that the ceiling height to the ground floor bedroom was approximately 50mm less than the minimum legal height of 2.4 metres. This effectively made the room not legally suitable for habitable use – in other words the seller could not call this room a bedroom when advertising the property for sale. The client's own research was that three bedroom houses in this upmarket Brisbane suburb generally sold for about \$40,000 less than four bedroom houses. On this basis he successfully negotiated a \$40,000 price reduction. The contract price reduction was agreed between the solicitors and adjusted on the day of settlement. Happy days for the client!

Even small discounts can help

A client bought a ten-year-old townhouse and while at the inspection (when using an electronic moisture meter) I found the shower was leaking which was causing damage to the ceiling below. I also found that the fire separating wall was incomplete, making the unit and its occupants at a greater risk of death, injury and loss from fire. On the basis of my findings, the client successfully negotiated that the seller agreed to have both issues rectified by suitably licensed contractors prior to settlement. The value of the works was approximately \$7,500. Part of the negotiated agreement was that the seller used only licensed tradespeople and provided a Form 16 Certificate to certify that both the waterproofing to the shower and fire-rated wall were compliant with the

National Construction Code and relevant Australian Standards. The client also arranged for us to ensure that these works were completed by attending the pre-settlement inspection on their behalf.

Not everything is negotiable

Of course, there are many things that are not normally negotiated, such as:

- Leaky taps
- A few cracked tiles
- Peeling paint
- Minor damage to fences
- Marks and scratches
- Chipped floor tiles
- Chipped bath
- A cracked window
- Stiff windows
- Loose towel rail
- Lawn needs mowing
- Minor cracks in the driveway
- Termite barrier expired
- Split system air conditioning needs servicing
- Garage door has small dents.

While minor defects are not usually subject to negotiation, remember that a large number of minor defects is in fact a major defect that you can negotiate on. An example of this is poor workmanship where numerous minor painting, plastering, tiling and carpentry defects can reduce the overall quality of a building and therefore lower the value. If this is the case, email your solicitor or conveyancer a list of these issues along with a cost estimate for their rectification. Attach a copy of the relevant reports by forwarding the email from the inspector(s). Instruct them to request a price reduction for those items.

Warning

I'll leave you with a warning. If a building has major structural defects like subsidence that has caused structural cracks and other damage, or the building has extensive and severe timber pest damage, I strongly advise you do not bother to renegotiate a better price, and instead find a better property. After all, this is what a building and pest inspection is for – to help you avoid buying a 'money pit'. In my experience the cost reductions clients negotiate for these flawed properties often do not meet the costs required for their proper professional rectification.



Andrew Mackie-Smith is a licensed builder, building inspector and pest inspector. He is a regular speaker to groups of property investors and home sellers and has appeared on national television on 'Selling Houses Australia' and 'A Current Affair' to provide expert advice. Together with his wife Trish, he founded BuildingPro in 2002, the leading property inspection company in Brisbane. www.buildingpro.com.au