

BUSINESS ADVICE FOR NEW HOME INSPECTORS

This article has been prepared by Pete Wilson, a longtime member of ASHI, Long Island ASHI and NYSAHI, successfully performing home inspections on a full time basis since 1987.

Whenever I attend home inspector chapter meetings or seminars, I see new faces recently graduated from one of the home inspection schools, all eager to enter our profession and to be successful. But after several months I rarely see the new inspectors at these meetings, and based on communications with other inspectors, the same is true throughout NY State.

It has been my experience that very few individuals are successful in the home inspection business over time. Many will drop out of the business within the first year, some will linger for a year or two until all hope is gone and then just fade away. Based on my communications with the new inspectors, there are several reasons why new inspectors are not successful. They include unreasonable expectations, inadequate funding, little or no financial planning, lack of general business knowledge, insufficient "people skills", and insufficient technical knowledge.

At the home inspector chapter level we try to help the new inspectors in all aspects of the business, including but not limited to general mentoring, inspection "ride alongs" and general encouragement if they join the chapter. We cannot help new inspectors if they do not reach out and join a chapter, then regularly attend chapter meetings. It is amazing what can be learned at chapter meetings from experienced inspectors, however, it is sad that so few newly licensed inspectors take advantage of our mentoring programs, possibly thinking that the NY State home inspector license is all they need. Prior to licensing in NY State, we at Long Island ASHI always had 6 - 10 attendees at our "candidates hour", mentoring classes which were given by highly experienced home inspectors, licensed professional engineers and registered architects. Many of the "candidate hour" attendees are now successful home inspectors.

New home inspectors must take it upon themselves to obtain as much continuing education as their spare time will allow; this can be obtained at home inspector chapter meetings, home inspection seminars, and to some extent through distance learning. In addition there are some wonderful adult education courses available at BOCES that can provide excellent technical training that can be very helpful to those who desire to be a "cut above" others in the profession. New inspectors should also consider taking business oriented courses at local community colleges, such as accounting, business organization, and business contract law (if they are really serious about being successful).

I also see many individuals attempting to enter the home inspection profession with little or no business knowledge or experience, which many times results in a business failure and all of the negative ramifications associated with this. Obtaining a NY State Home Inspector's license just the beginning of the process to become a successful home inspector; it is in no way a guarantee of success.

The following are some helpful hints to determine the cost of operating a home inspection business. Please keep in mind that the numbers provided are approximate and will vary from region to region and from among individual inspectors.

A business must be set up as either a sole proprietorship, a partnership, a corporation, (sub chapter "S" is the most popular) or a limited liability corporation (LLC). Check with your attorney or CPA to determine what is best for your needs.

You must pay taxes (both federal and state). Make sure you pay FICA taxes (this is for Social Security and Medicare); this will be a significant expense each month.

Always prepare for the unexpected; slow business due to economic downturn, sickness, accidents, etc. Budget/plan adequate funds for living expenses for one or two years. Where possible, "plow" revenue back into the business for advertising and additional training.

The numbers below do not include the cost of health insurance which is significant; (I pay \$15,000 per year on Long Island for two people). Reason: You may have health insurance through an employer or your spouse's employer.

It is assumed that you have a spare bedroom or some other dedicated space available in your home that can be used as an office. (It must be dedicated to your business for the tax deduction).

Budget adequate funds to purchase the following office equipment: A good quality telephone with answering capability, a good quality combination fax, printer and copy machine that is color capable, a computer that can handle current and planned software, a good quality digital camera, desk, table, chairs and shelving. \$5,000 + (less for used equipment). It is possible you may already have this equipment, or possibly you can borrow it from friends or family.

You will need some basic inspection tools and testing equipment. I suggest purchasing a good quality gas detector, a good quality moisture detector, an AFCI and GFCI circuit tester, a voltage "sniffer", a good quality infra-red thermometer, assorted screw drivers, pliers etc. Don't forget a good quality tool bag. (\$600 - \$1,200)

You will need at least two ladders: I suggest a "Telesteps" or equivalent 12 foot - 16 foot ladder for small spaces, (\$200 - \$300). Also suggest a "Little Giant" or equivalent extension type ladder that extends up to 23 feet. (\$300 - \$500)

Telephone service: Install two separate lines, one for general use and one for fax and a credit card machine (one of the lines could be a dedicated business cell phone). Budget at least \$1,800 - \$2,400 per year (\$150 - \$200) per month.

Budget for the following office supplies: business cards, printer paper, report binders/ covers, and printer ink if you send out a hard copy of the report. Don't forget postage (this can easily cost \$3.00 - \$5.00 per report for regular mail). I suggest budgeting \$300 - \$500 to start, then replenish as needed. Some inspectors provide an onsite multi-part type report. (Costs will vary considerably, depending on supplier and quality). Some inspectors do not send a hard copy of the report to the client (only E-mail the report). Keep in mind that a good hard copy report will act as a repeat advertisement; (if the client likes your report he/she will show it to co-workers, friends and family), all potential future clients. For example, when a prospective client calls our office, we ask them how they found out about us. You would be surprised how many times it was a previous client showing off my report, even reports that are several years old.

Advertising: Budget \$6,000- \$12,000 annually (internet, newspaper, yellow pages, brochures, handouts at real estate sales meetings, etc). Do not skimp on advertising during the first few years in business. A long held rule of thumb for advertising is 10% of gross sales. The startup advertising budget can be offset somewhat by old fashioned door to door sales pitches at real estate offices.

Certified public accountant (CPA). Budget \$3,000 - \$6,000 annually. You can go it alone but be prepared for fines and time away if you really mess things up.

Don't forget to set aside funds for IRS and NY State tax payments; FICA payments, various state fees, disability insurance, etc. Every business must pay FICA tax payments monthly. If you are incorporated, make sure to pay yourself a salary that is considered reasonable in accordance with IRS guidelines. For example, FICA tax payments will exceed \$750 per month for a modest home inspector's salary of \$30,000 per year (there are all kinds of rules and guidelines as to what you must pay yourself, that is why you need a CPA). Be prepared for significant fines and possible time away from home if you don't pay taxes, (ignorance is no excuse with the IRS).

Vehicle: \$7,000 - \$12,000 annually. This can be much higher if you are into "high end luxury vehicles with lots of "bling", or can be somewhat lower if you are into "cheap

transportation". Note: Your vehicle is part of your business image; pulling up to an inspection site in an old rusted and filthy vehicle does not project an image of success.

Insurance: Errors and Omissions insurance is not mandatory in New York State for home inspectors, however it may be advisable if you have any significant assets that might be taken in a lawsuit. General liability insurance is mandatory. Keep in mind the cost of defense in a simple lawsuit with no merit can cost over \$25,000. Also keep in mind that there has been major litigation against home inspectors, (in some cases exceeding \$100,000). The cost of general liability insurance is normally in the \$500 - \$1,000 range (depending on limits, deductibles, etc). The cost of E &O insurance varies significantly, (\$2,000 - \$8,000).

Budget for small claims and insurance deductibles, (no one is perfect). I suggest \$2,000.

Continuing education: A minimum of 12 hours per year is required to maintain your NY State home inspector license. Most home inspector organizations require 20 - 24 approved CEUs to maintain membership for good reason, (12 CEUs is just not enough to keep up with the ever changing inspection environment). Budget \$1,000+ for home inspector organization dues and seminars, (assuming attendance at a local seminar). Add expenses for transportation, hotels, meals and loss of business for out of state seminars.

Figure \$30,000 - \$50,000 per year in expenses (depending on volume) to operate a home inspection business; if you figure much less than this you are only "kidding yourself". Of course this can be modified somewhat, depending on the number of inspections, amount of advertising, the number of claims, and how much effort is given to old fashioned sales calling. If you are a franchisee, don't forget that 5% - 8% monthly franchise fee.

If you perform 100 inspections per year, your expenses could easily be as high as \$300 per inspection. Few new inspectors are likely to get 100 inspections in their first year. As you perform more inspections per year, your cost per inspection may go down somewhat, but the cost of running a business does not go away. If you do not take into account the cost of doing business, **you will not succeed.**