



## Real Estate Talk: Income property / 5

### Description

# A look at the promise to purchase conditions: Inspection

By **Joseph Marovitch**

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Visits to multi-residential income property are permitted only upon a prior accepted promise to purchase. Therefore, the buyer requires protection in the offer since the buyer is providing a promise to purchase with a purchase price based on the information the seller-provided before the buyer has examined the property. The buyer is providing this offer because the purchase price is based on the indicated Cap Rate, location, and condition of the building.

The purchase price is not based on comparable properties or city evaluations; it is based on the income stream.

Four conditions that allow the buyer to verify the information:

1. First visit
2. Review of expenses, leases, and any other financial documentation
3. Inspection
4. Financing

When the first condition of “first visit” is performed, it is only to verify if the building appears to be in reasonable condition from its outer appearance, as based on the information the seller has provided. However, this does not indicate if:

- The plumbing works
- The electrical system works
- The building has proper insulation
- The windows are sufficiently sealed
- The brick on the exterior of the building is properly caulked
- The boiler room water tanks will last or are expired and need to be replaced



- The roof is in good condition or requires replacement
- Flashings are in good condition
- Each apartment requires work or not
- The building is up to city bylaw codes

Imagine purchasing an income property, or any property, without an inspection, then finding out after the deed has been signed that almost everything in the property requires repair or replacement. This causes the buyer to invest much more money than the purchase price and anticipated cost. The indicated Cap Rate of 5.7 suddenly becomes a 3 Cap Rate.

There are many more factors to consider in examining the condition of the building that only a trained expert can determine. It is not a law to have an inspection performed by a professional inspector in Quebec, however, I would highly recommend it.

While it is not a law to have an inspection performed by a professional inspector in Quebec, I would highly recommend it.

Therefore, the next condition is **inspection**. In Quebec, an inspector is not required to be certified. Almost anyone with a pad and pencil can be an inspector. Many inspectors may have engineering degrees or have worked as a civil engineer, however, to be safe, some of the certifications the buyer may want the inspector to have are:

- AIBQ – Association of Quebec Building Inspectors
- CAHPI National – Canadian Association of Home & Property Inspectors
- Infrared Certified

There are more certifications available and there are certified inspectors who are working towards government regulation, ensuring professionals have certifications, however, for now, buyers will have to ensure the inspectors they choose have a certification. Many buyers are developers who may use their contractors to perform the inspection. However, certified inspectors are usually up to date on city bylaws while not all contractors are.

The inspection of an income property can take anywhere from three to five hours or more depending on the size of the building. It is always best for the buyer to accompany the inspector during the inspection so that, if there is an issue, the inspector can point out and explain the issue.

Approximately two to four days following the inspection, the inspector should provide a written report to the buyer detailing the condition of the building. Should the buyer be satisfied with the report, the seller would receive a document indicating the condition of inspection has been satisfied and the buyer would continue with the fourth condition, which is financing. It should be noted that, should the buyer not provide a written document indicating there is an issue by the inspection deadline as stated in the promise to purchase, the condition of inspection shall be automatically considered satisfied.

'It is always best for the buyer to accompany the inspector during the inspection so that if there is an issue, the inspector can point out and explain the issue.'

In the event the inspection report indicates there is an issue that must be addressed and can significantly reduce the value of the property and/or the revenue of the property, the buyer has three options:



1. The buyer can cancel the offer
2. The buyer can attempt to renegotiate the purchase price
3. The buyer can purchase the property “as is”.

In option two, the seller can refuse to negotiate and state they are selling the income property “as is,” in which case, the buyer only has options one and three.

Should you have questions or comments, please refer to the comments section at the bottom of the page. As well, to view past articles, [click here](#).

Next article: **Income property /6 – Fourth Condition: Financing**

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## State of the Market

According to a recent article in the *Globe & Mail*, a **Re/max Canada report** indicates home inventory levels across Canada have dropped significantly over the past 10 years and are continuing to decline. The 9-year decline in Quebec of residential inventory is 40%. According to the Re/max report, the contributing factor is a population growth and demand that exceeds production. It is also stated that if more homes are not built quick enough, the shortage will increase with the demand, causing real estate prices to rise further exponentially faster.

‘... even as inflation reduces and rates eventually decrease, demand will rise and with inadequate supply, prices will increase quickly again.’

If one already owns a property or has the ability to purchase now, they would be in a good position in the future. For everyone else, renting will be more in demand, causing rents to increase as well.

Currently, prices are dropping with rising interest rates. However, even as inflation reduces and rates eventually decrease, demand will rise and with inadequate supply, prices will increase quickly again.

Have a great week!

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Feature image: Andrew Burlone

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**Joseph Marovitch** has worked in the service industry for over 30 years. His first career was working with families from Westmount and surrounding areas, hosting children between the ages of 6 to 16 as the owner and director of Camp Maromac, a sports and arts sleep away summer camp established in 1968. Using the same strengths caring for the families, such as reliability, integrity, honesty and a deep sense of protecting the interests of those he is responsible for, Joseph applies this to his present real estate broker career. Should you have questions please feel free to contact Joseph Marovitch at 514 825-8771, or [josephmarovitch@gmail.com](mailto:josephmarovitch@gmail.com)



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