

Excluding Properties with Chinese Drywall from Homesale Assistance

This paper describes how recent developments related to Chinese Drywall compromises traditional homesale transactions and inventory management.



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Introduction

There's a new inspection issue to contend with in the U.S. Real Estate Market. In 2009, a new nemesis, Chinese Drywall, has become positioned to join the ranks of radon, synthetic stucco, and toxic mold. During the housing boom, new construction was at an all time high and domestic producers of drywall were unable to keep up with the demand. To fill that void, China offered a viable solution: the necessary supply of goods as well as lower costs to builders. However, as homeowners have settled into their new homes, many are reporting issues ranging from unpleasant sulfur ("rotten egg") odors to corrosion of electrical and HVAC components which are being linked to the Chinese Drywall.

While it has yet to be determined if Chinese Drywall poses a real health issue, damage to the property can be substantiated. There are several lawsuits pending against manufacturers and builders as homeowners attempt to recoup monies spent on medical bills and repairs. In response, many insurance companies are excluding claims submitted for damages as a result of Chinese Drywall.

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Health Concerns

Sensitive to the potential hazards related to Chinese imports, environmental consultants have started investigating any health issues related to the gas purportedly emitted by the drywall product. While the largest concern is related to respiratory problems, early emissions testing conducted by the Florida Department of Health showed no "immediate health threat." Further fact-finding and testing may be required before an official position can be declared.

Financial Considerations

Many insurance companies are considering Chinese drywall a pre-existing condition that may lead to future damage, ultimately excluding claims filed to be rejected. Further, unless the homeowner remediates the drywall issue, homeowners' insurance policies may be dropped or denied. According to a recent AP article by Brian Skoloff, "at least three insurers have already canceled or refused to renew policies after homeowners sought their help replacing the bad wallboard. Because mortgage companies

require homeowners to insure their properties, they are then at risk of foreclosure, yet no law prevents the cancellations. The homeowners have little recourse since neither the Chinese manufacturers nor the Chinese government are likely to respond to any lawsuits or reimburse them for the defective drywall.”

Paragon’s Response

Paragon is sensitive to the financial implications to our clients for properties containing Chinese Drywall. In response, Paragon has instituted additional disclosure measures to help mitigate the additional risk. In November of 2009, Paragon added a specific line item to the Homeowner’s Property Disclosure form related to Chinese Drywall. In some cases, the employee may not be aware if the home contains Chinese Drywall, so the assigned Relocation Consultant in conjunction with Paragon’s partners (real estate agent, appraisers, and inspectors) will look for additional cues provided by that may lead Paragon to believe the home contains the product. If suspect, additional inspections may be ordered on the property for further discovery.

1. Sulphur odor
2. Pitting faucets, appliances, and chrome, or blackening of silver jewelry
3. Soot-like blackening on the copper wires
4. Smoke and carbon monoxide alarms, cable boxes, televisions, and computers begin to fail, and light switches stop working
5. Copper air conditioning coils pit, creating holes and releasing freon gas into the homes
6. Brass and other metal fittings in natural gas furnaces corrode
7. Inspect drywall for a “Made in China” label
8. Newer homes in the Southeast United States, especially Florida

Because of the additional costs and risk of being unable to secure homeowners’ insurance, Paragon is unable to acquire properties known to contain Chinese Drywall.

About the Author

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Karen has over 10 years of professional experience including positions in account management, recruiting, and event planning. Her relocation experience includes 8 years with leading service providers in operations and consulting. She has successfully designed and implemented new relocation programs for numerous client organizations by applying her front-line experience to cultivate approaches to policy design that both appeal to the client's bottom line while providing relevant benefits to increase employee satisfaction. In addition, Karen's portfolio includes research projects and benchmark studies, as well as recently being published in Mobility Magazine. Karen holds a B.A. in English from Northern Illinois University in DeKalb, IL. In addition, she has continuing education credits in Illinois Real Estate Practices, Real Estate Appraisals and is presently pursuing her Project Management Professional (PMP) designation.

About Paragon Decision Resources

Originally founded as a relocation consulting company in 1987 specializing in domestic and international relocation and global assignment program development consulting, our mission is to develop cost-effective mobility programs that offered more services to the transferring employee at less cost to the organization. Today we maintain an extensive consulting practice focused on global mobility issues in their entirety.

Paragon Decision Resources Inc. (PDR) is a wholly owned subsidiary of Paragon Global Resources, Inc. that is dedicated to strategic US domestic and global corporate relocation consulting services targeted at the executive level of organizations desiring to fully analyze their corporate relocation spending as well as supplier relationships.

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