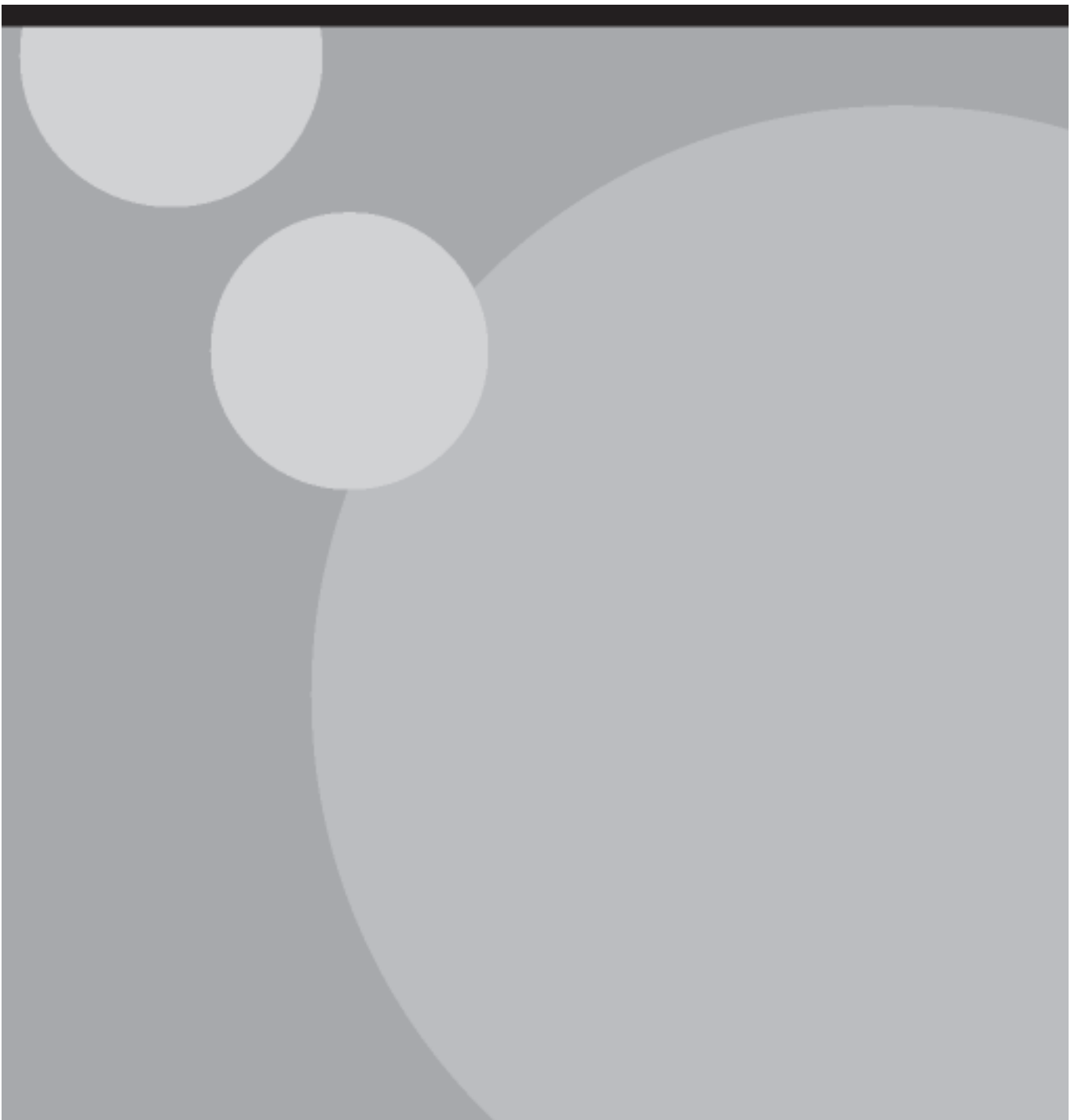




Condition information in the home buying and selling process

**Final report from the working group**





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# Report of the Working Group on condition information in the home buying and selling process

## 1. Introduction

Consumers need to be and should expect to be better informed about the home buying and selling process. They need the right information at the right time to help make what for the majority of people is the biggest financial decision of their lives. They want an efficient process that delivers better value for money.

The introduction of the Home Information Pack (HIP) has kick-started this process and is starting to deliver these benefits. Buyers now receive information about a property earlier in the process, helping them to make more informed choices about whether or not to make an offer. However, despite anecdotal evidence that consumers want information on the condition of a property before committing to buy and the availability of a number of condition products already in the market place, relatively few people actually purchase this information.

## 2. Background

On 8 December 2008 Margaret Beckett, former Minister for Housing and Planning, announced her intention to establish a working group to consider what more might be done to explore options to ensure that consumers have access to appropriate information about a property's condition. She stated that this would build on the work undertaken by the Stakeholder Panel on Home Buying and Selling to develop market-led models which could be delivered by existing practitioners, including Home Inspectors and surveyors.

The Working Group consisted of representatives from industry and consumer groups and from bodies with an interest in the home buying and selling process. The terms of reference together with a full list of working group members is at **Appendix A**.

Specific outputs of the Working Group were expected to be:

- research into the use of condition information in home buying and selling, the associated cost benefit analysis, and actions for taking forward research findings as appropriate
- an agreed core set of condition information
- a final report including actions and timetable for delivery of condition product(s) to market

### 3. Summary

This paper draws together the barriers and potential solutions identified by the Working Group to encourage and facilitate an increase in the take-up of condition information; delivering better informed consumers within an expanded market which provides greater commercial opportunities for industry.

The Working Group identified a number of objectives for a successful approach and recommended an outline proposition it believes could deliver this. The main elements are:

- the market provision of various condition reports based on a defined set of core requirements which could in the future be authorised for inclusion in the HIP
- a certification scheme framework to ensure a competent and suitably qualified workforce
- an agreed set of robust service standards across industry
- action to promote to consumers the importance of condition information in the home buying and selling process and clarity about the various products

The following sections discuss the key factors and issues to be addressed in order to facilitate the proposition. The Working Group noted that a high degree of interdependency exists across these measures which are mutually reinforcing and need commitment and action from industry, consumer groups and government to succeed.

### 4. What is the problem?

For many people, buying a home is the most significant spending decision they will make in their lives. However, while most people may only go through the process a limited number of times and therefore, lack experience, many are prepared to purchase a property based on less information and understanding than other purchases. This is illustrated by a Which? study<sup>1</sup> of May 2008 which reported that fewer than 50 per cent of people buying a home in the previous five years had actually commissioned a survey. The rationale for why some buyers proceed without important information is unclear, although cost or desire to avoid a 'deal breaker' late in the transaction process are often advanced.

A lack of awareness among consumers about the potential benefits of condition information may be contributing to low take-up. However, the Which? study demonstrated that where a condition survey had been commissioned and a problem was uncovered, 44 per cent of respondents negotiated a reduction in price for the property they purchased and a further 10 per cent ensured that the problem was rectified before completing the

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<sup>1</sup> The Point of Viewing - published by Which? May, 2008

purchase. The study also reported that respondents who did not identify problems before purchasing a property spent an average of £2,500 rectifying them, with one house buyer spending more than £10,000.

This illustrates the positive advantages to buyers of making more informed decisions about a property they are interested in purchasing at an early stage. Viewed from a seller's perspective, however, the dynamic changes and this potentially becomes a difficult and protracted negotiation. Recognising that buyers and sellers are often driven by different needs and motives is an important factor.

Traditionally, evidence in this area has been limited and typically anecdotal. Therefore, to assist in the development of the evidence base for the Condition Working Group, Communities and Local Government (CLG) commissioned Ipsos MORI to undertake a short research exercise. The exercise took place in June 2009 and consisted of:

- an online survey of 2,000 respondents who had either bought or sold a home in the last three years, were actively trying to buy or sell at that moment, or were considering buying a home in the next two years
- four focus groups conducted among home buyers and sellers to supplement the survey findings
- a desk review of the existing literature on condition information
- twelve in-depth interviews with solicitors and lenders
- an assessment of the likely cost and benefit implications of increasing take-up of condition reports alongside mortgage valuations (CBA)

A summary of the key findings from the qualitative and quantitative work is reproduced at **Appendix B**. Headline findings were:

- ninety-six per cent of consumers considered condition information to be an important part of the home buying and selling process
- eighty-seven per cent of buyers and sellers felt that condition information should be available as early as possible in the home buying and selling process
- seventy-one per cent felt that buyers should see the information when viewing a property
- seventy-five per cent of sellers said that they would be comfortable with providing full details about the condition of their property
- seventy per cent found condition information to be useful for informing their decisions about a property regardless of its source
- seventy-eight per cent of respondents agreed they would only trust condition information provided by an independent surveyor who they had appointed themselves

The research reported that consumer take-up of condition information remained low, estimating a likely range of 20 per cent – 40 per cent. This is in line with a recent survey undertaken by the Office of Fair Trading<sup>2</sup> which

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<sup>2</sup> Home buying and selling Market Study 2009 - Quantitative Consumer Survey Report

found that 43 per cent of buyers questioned said they had purchased a home buyer survey with 28 per cent saying that they commissioned a full structural survey. However, RICS analysis of the market suggests that the true figure is likely to be at the lower end of the range, with only around 20 per cent of those buying a home commissioning any type of condition information. The disparity could be due to confusion among consumers about the difference between a mortgage valuation and a survey, the mistaken assumption being that the former includes property condition information, rather than understanding that it is primarily used for the lender to assess whether the loan is worth the risk against the value of the property. Results from the online survey and focus groups supported the view that consumers are often confused about what constitutes condition information.

A specific output sought from the Working Group was an analysis of the potential costs and benefits of the effect of providing upfront condition information during the home buying and selling process. DTZ were commissioned by Ipsos MORI to undertake this strand of the research. The initial desk-based review was constrained by a lack of existing literature beyond that already explored on the Home Condition Report. To illustrate what the potential costs and benefits might look like, DTZ were requested to produce and analyse a model predicated on a combined condition and valuation product, which assumed consumers commissioning direct from a surveyor rather than through a lender. The assumptions and outputs from this exercise are set out in the research summary at **Appendix B**.

However, the Working Group noted that although the analysis demonstrated a potential positive outcome on cost and benefits for both consumers and industry, the model of a combined condition and valuation product on which the analysis was based is not currently available and nor is it being pursued by industry. It was further noted that the model was based on a significant industry restructuring, with buyers commissioning the combined condition/valuation report directly from practitioners rather than via the lender which is the common route at present. Therefore, the Working Group were clear that this was not an option it wished to support at this time, given the limited and narrow evidence and the fact that in the current market it would not be a realistic option.

A further strand of the research saw a series of in-depth interviews conducted with solicitors and lenders to consider the relationship between condition information and valuation. Whilst those interviewed did not see any immediate benefits for practitioners in increasing the use of condition information, there was a consensus that buyers could be better informed about the types of product available and the differences between them. This supported the findings from the quantitative work which identified a lack of consumer awareness in this area.

The Working Group noted the relationship between condition information and lenders' requirements for mortgage valuations would remain an important

issue for consumers. Although it was not within the Working Group's remit to identify how to resolve these specific issues, it was agreed this topic should be revisited in the future.

## 5. A possible way forward?

The Ipsos MORI research provides evidence to demonstrate that a majority of consumers want condition information about a property and believe this information should be available as early as possible in the process. In spite of this, the apparent demand does not translate into action given the low level of consumer take-up. The research also points to tension between the views of buyers and sellers over making condition information available earlier in the process, with significant issues of trust and integrity around a buyer's willingness to rely on information commissioned by the seller.

To overcome these obstacles and achieve a positive change, consumers will need access to a market that provides them with high quality condition information products, which are more relevant to their needs and on which they can rely. In looking at options to achieve this goal the Working Group agreed a set of key objectives:

- increase consumer understanding of and confidence in condition information products
- increase the provision of condition information for prospective home buyers
- develop a solution that works equally in a market where the report is commissioned by either the prospective buyer or seller and; could be included in a HIP
- facilitate the market provision of various competing condition products, while avoiding adding to consumer confusion
- allow qualified and competent property professionals to access an expanded market for their skills

Working within these parameters, the Working Group has identified an approach which it considers offers the potential to deliver these objectives. The main components of the proposition are:

- condition reports which deliver industry agreed core information requirements, which ultimately could be capable of inclusion in a HIP
- industry agree and adopt standards for assessment and reporting of information
- a certification scheme framework to ensure a competent workforce
- ensure effective consumer redress arrangements
- address issues of trust and independence by retention of multi-party liability in respect of prescribed condition reports (as a preferred solution subject to insurance availability)



## 6. Core condition information

Securing industry consensus on a core set of information and a commitment to all condition products incorporating this as standard is an important step to addressing consumer confidence. Establishing a consistency of approach including assessment and reporting of information will help consumers to build familiarity and understanding with condition information and its purpose as part of the home buying and selling process. This will help address concerns about awareness and confusion over products, removing one of the obstacles to greater take-up of condition reports and facilitate the aim of bringing to market various, competing products delivered by multiple practitioners.

The core set will need to present consumers with sufficient information to enable their purchasing decisions to be informed by an understanding of a property's physical condition and; any defects or problems that may need further investigation and remediation.

Cross-industry agreement on standardised assessment and reporting will also give consumers condition products which contain a consistent set of information, while allowing practitioners to provide additional services. Consumers will benefit from this consistency and the ability to compare products, which should create greater familiarity and trust, leading to greater reliance on condition information.

RICS and SAVA have led on the work within the Working Group, reviewing the content of existing condition products in the process, including the HCR. Some key points to emerge are the importance of differentiating between:

- information that is a minimum requirement to ensure that consumers have essential information on the condition of the property they are proposing to buy
- those matters that could be required in the future if a condition report was to be adopted by a lender as a basis of valuation/risk assessment
- information that a report provider may wish to make available to add value to their product offering

The table below sets out the range of physical elements that the Working Group propose should form the core information of future condition products.

<b>Core Information</b>	<b>Details</b>
1. Internal condition	<ul style="list-style-type: none"><li>• roof structure</li><li>• ceilings</li><li>• inside walls and partitions</li><li>• floors</li><li>• fireplaces and chimney breasts, including flues</li><li>• built in fittings</li><li>• internal woodwork</li><li>• bathroom fittings</li></ul>

	N.B. Decorations either a separate item or included under each appropriate element
2. External condition	<ul style="list-style-type: none"> <li>• chimney stacks</li> <li>• roof coverings (main and extensions)</li> <li>• rainwater pipes and gutters</li> <li>• main walls (and claddings)</li> <li>• windows</li> <li>• outside doors</li> <li>• conservatories and porches</li> <li>• other outside woodwork</li> </ul> <p>N.B. Decorations either a separate item or included under each appropriate element</p>
3. Services	<ul style="list-style-type: none"> <li>• electricity</li> <li>• gas/oil</li> <li>• water</li> <li>• heating (including water heating)</li> <li>• drainage</li> <li>• shared services (for flats etc)</li> </ul>
4. Grounds	<ul style="list-style-type: none"> <li>• garages</li> <li>• other permanent outbuildings</li> <li>• boundary walls and fences</li> </ul>
5. Risks	<ul style="list-style-type: none"> <li>• structural movement</li> <li>• dampness</li> <li>• dangerous materials (e.g. asbestos)</li> <li>• flooding</li> <li>• contaminated land</li> <li>• other health and safety risks</li> <li>• legal matters (planning/building regulation consent requirements, guarantees and warranties (including service records), use restrictions etc)</li> </ul> <p style="text-align: right;">} pulled together from elements</p>

Although this core set of information has been agreed by the Working Group, buy-in from across the property condition industry will be important to drive change and therefore, may require additional consultation. Where consensus to this approach is achieved, further work will be necessary to confirm industry action to move from concept to practical delivery. Clarity will also be required on any specific changes to the Home Information Pack (No. 2) Regulations 2007 to make the proposed core set of information the requirement for physical condition information in the HIP.

## 7. Enabling delivery

Following agreement in principle of the core set of information, the Working Group considered the key issue of delivery routes to give effect to the proposal. The Working Group have identified two key areas:

- A) the nature and extent of any changes necessary to the statutory framework for property condition information to be included in a HIP; and
- B) changes to agree cross industry standards

### **A) Statutory framework (CLG)**

The statutory framework for the provision of information on the physical condition of a property, known as a home condition report (HCR), is set out in Part 5 of the Housing Act 2004 ('the 2004 Act'). This provides the Secretary of State with powers to make regulations regarding the content of the HCR, approval of certification schemes and the keeping of a register. The current arrangements governing the HCR and its status as a voluntary component within the HIP are set out in the Home Information Pack (No. 2) Regulations 2007 ('the 2007 Regulations').

Understanding how the proposition might impact on the current statutory framework, whether any limitations exist and what changes might be required was an important task for the Working Group. Following initial consideration, the Group favoured the option of building on the existing statutory arrangements governing the HCR, rather than wholesale change to the legislative framework. The Group considered this route to be less disruptive and potentially simpler and faster as any future changes could be achieved through secondary rather than primary legislation.

The following section, therefore, considers key issues identified by the Working Group, necessary to facilitate the proposition in the context of the existing statutory framework.

### **A) INCLUSION IN A HIP OF DIFFERENT CONDITION REPORTS BASED ON DEFINED CORE REQUIREMENTS**

The proposition is dependent on the delivery of various condition products to market which could in the future be authorised or required for inclusion in a HIP.

The agreement of a core set of condition information and implementation plans are discussed in section 6. For this information to be included in a HIP it would be necessary to amend the content of the HCR currently defined in Schedule 9 of the 2007 Regulations. If this proposal was agreed then the outcome would be a revised statutory definition of what the HCR must contain. This would require CLG to identify and agree specific changes to the 2007 Regulations, which would be subject to consultation in the usual way.

Section 163 of the 2004 Act allows information to be included in a HIP about the physical condition or energy efficiency of a property and the name 'home condition report' can be applied to any document dealing with those matters (s. 164(2)). Amending the 2007 Regulations as suggested above will enable different condition products meeting the core information requirements to be authorised for inclusion in the HIP. It is important to note that any such product would, for statutory purposes, be known as an HCR, although there would be no obstacle to the product being marketed under a different title.

The Working Group felt that flexibility for industry to innovate by providing products that offer consumers alternative services and functions in addition to the core information would be important to ensure a thriving and competitive market. It is important, therefore, that any proposed revisions to the statutory HCR framework do not unduly stifle such developments while ensuring content is appropriate. Examples of the type of additional information that industry might wish to offer consumers put forward by the working group include

- reinstatement cost
- valuation
- electrical safety check
- gas safety check
- comprehensive structural condition report
- ground contamination report
- specialist report on building conservation issues
- ground stability report
- arboriculture report

Through the 2007 Regulations (Part 9), a mechanism already exists whereby documents that would be of interest to potential buyers can be authorised for inclusion in a HIP. The information must, however, relate to one or more of the matters described in schedule 10 to the 2007 Regulations, which sets out what any addition relevant information can be.

The Working Group have accepted that rather than a list of additional information which would by its very nature be limited by any omissions, amending the 2007 Regulations to include a permissive phrase or 'envelope' would be a more appropriate and effective solution.

## **B) CERTIFICATION SCHEME ARRANGEMENTS**

Given the prospect of different condition products meeting the statutory requirement for inclusion in a HIP, it is necessary to examine the implications for the existing certification scheme arrangements overseeing production of the HCR. The current statutory framework provides that a HCR can only be produced by a person who is a member of a certification scheme approved by the Secretary of State - at present BRE, SAVVA and RICS have approved certification schemes. A fourth organisation (PSG) is also approved to manage a certification scheme, but this scheme has not been operational.

The development of a range of condition information products raises important issues about the need for safeguards to ensure consumers receive

a consistent and good quality service from a competent and suitably qualified workforce. Industry has already recognised this need and has begun working towards putting in place the framework for an agreed set of standards and governance arrangements for all property professionals to operate within.

The Working Group proposal to operate within the existing legislative framework as the mechanism to deliver core condition information capable of inclusion in the HIP means that the existing certification scheme framework would be retained. It was noted that the Secretary of State would need to be satisfied that the original approvals granted to existing certification schemes would remain valid and enable their members to produce HCRs under the changes proposed to the 2007 Regulations

It was also noted by the Working Group that the existing statutory certification arrangements would need to extend to all individuals who in the future may wish to produce condition reports for inclusion in a HIP, but who are not currently members of an approved certification scheme. This approach would potentially create a wider workforce, enabling qualified and competent property professionals to access an expanded market for their skills.

How such an extension might work would need to be explored in more detail, including examining the existing criteria which the Secretary of State must be satisfied are met before approving a certification scheme. These require that a scheme contains appropriate provision:

- (a) for ensuring that members of the scheme are fit and proper persons who are qualified (by their education, training and experience) to produce home condition reports
- (b) for ensuring that members of the scheme have in force suitable indemnity insurance
- (c) for facilitating the resolution of complaints against members of the scheme
- (d) for requiring home condition reports made by members of the scheme to be entered on the register mentioned in section 165 of the Act
- (e) for the keeping of a public register of the members of the scheme
- (f) for such other purposes as may be specified in the regulations

Retention of the existing statutory framework means the Secretary of State must retain responsibility for the approval of certification schemes for property condition information which is intended for inclusion in a HIP. However, the Secretary of State has discretion as to how such functions are managed on a day to day basis and which for example could include delivery through an independent body.

The Working Group supports the idea of an independent body which it believes could ultimately help to deliver improved standards across industry, as part of a wider package of work looking at improving service standards consumers receive from property professionals. Possible functions identified

by the Working Group that a body might provide or manage on behalf of the Secretary of State in relation to the certification schemes could include

- advice to the Secretary of State on whether or not a body meets the criteria for the approval of certification schemes
- advice to the Secretary of State on withdrawal of approval in appropriate cases
- ongoing compliance assessments of approved schemes against the criteria for approval
- periodic advice on the need to amend or update the approval criteria where appropriate

Details of how such a relationship might operate on a day to day basis would require further review and agreement by CLG. In the first instance, consideration will need to be given to whether the existing CLG functions for the approval, regulation and administration of certification schemes would remain appropriate under the proposed new arrangements. Further issues for consideration will include

- assessment of which CLG functions are appropriate for delivery by an arms-length body and those which should be retained
- route to establishment and delivery of such an arms-length body including competence, expertise and timescales

### **C) MULTI-PARTY LIABILITY IN RESPECT OF PRESCRIBED CONDITION REPORTS**

Key to building consumer confidence in respect of a proposed condition report are the issues of trust and independence and the availability of appropriate consumer redress. The Ipsos MORI research demonstrated that home buyers were very concerned about being able to trust condition information they received. Whilst 60 per cent of respondents agreed that the seller should be responsible for supplying information on the condition of their property, only 16 per cent would trust the information if it came from the seller and; 78 per cent of respondents agreed that they would only trust condition information provided by an independent surveyor, who they themselves had commissioned.

A key distinction between the HCR and other existing condition reports concerns liability - ie who has the right to rely on the contents of the report. The terms under which an HCR is prepared mean that the Home Inspector is liable for the accuracy of the report to the seller, the potential/actual buyer and any lender relying on the report (Schedule 9 paragraph 3 of the 2007 Regulations).

The statutory provision relating to HCRs applies to documents included within a HIP which are commissioned by the seller, but would not apply to HCRs not included in a HIP, such as those commissioned by a buyer.

Resolving these matters associated with multi-party liability insurance is a key dependency, particularly in the context of a long term goal of encouraging

more sellers to provide condition information which may in the future be authorised for inclusion in the HIP. The Working Group has noted that this is an area which industry could explore further with insurance providers, regarding the viability of a commercial product that could offer consumers equivalent protection.

#### **D) HOME INSPECTOR TITLE**

If the option to extend certification scheme arrangements to different condition products capable of inclusion in the HIP is pursued, the appropriate title for individuals who will produce the reports could also be reconsidered.

At present, the 2007 Regulations directly link the term Home Inspector to HCR production. However, there is no requirement under the 2004 Act to use this term, which was originally introduced as a shorthand description for a member of an approved certification scheme.

This means flexibility exists to introduce a revised term as part of a certification scheme framework which covers a wider existing workforce. For ease of reference the Working Group agreed to using the term 'competent and suitably qualified' in this report. However, the final decision on a suitable term and what that would mean in relation to appropriate experience and qualifications is something that will need to be explored in more detail.

It is important to note that a change to the statutory term would not have a direct impact on how an individual or scheme may choose to describe themselves in terms of marketing. So for example, those wishing to continue to refer to themselves as Home Inspectors would be able to do so.

#### **E) THE HCR REGISTER**

At present an HCR which is produced for inclusion in a HIP by a member of an approved certification scheme, must be lodged on a register. This would continue to apply under the new arrangements proposed by the Working Group, where different products could be produced for inclusion in a HIP. These arrangements would not, however, apply to products commissioned by buyers.

The Working Group has noted that decisions on the future role and purpose of an HCR register were linked to the proposal to explore the creation of a body to manage the proposed new certification scheme arrangement.

In considering the future arrangements for a central register of HCRs the Working Group have put forward the following options:

- i) operate a register of basic details that a report has been produced, who produced it and which scheme they belong to and; make this information freely accessible
- ii) operate a register that holds electronic versions of the full reports, but restrict access to official bodies (including the proposed management body) for the purposes of monitoring and; as a formal archive for dispute resolution or litigation purposes

## **B – Industry framework for improving standards**

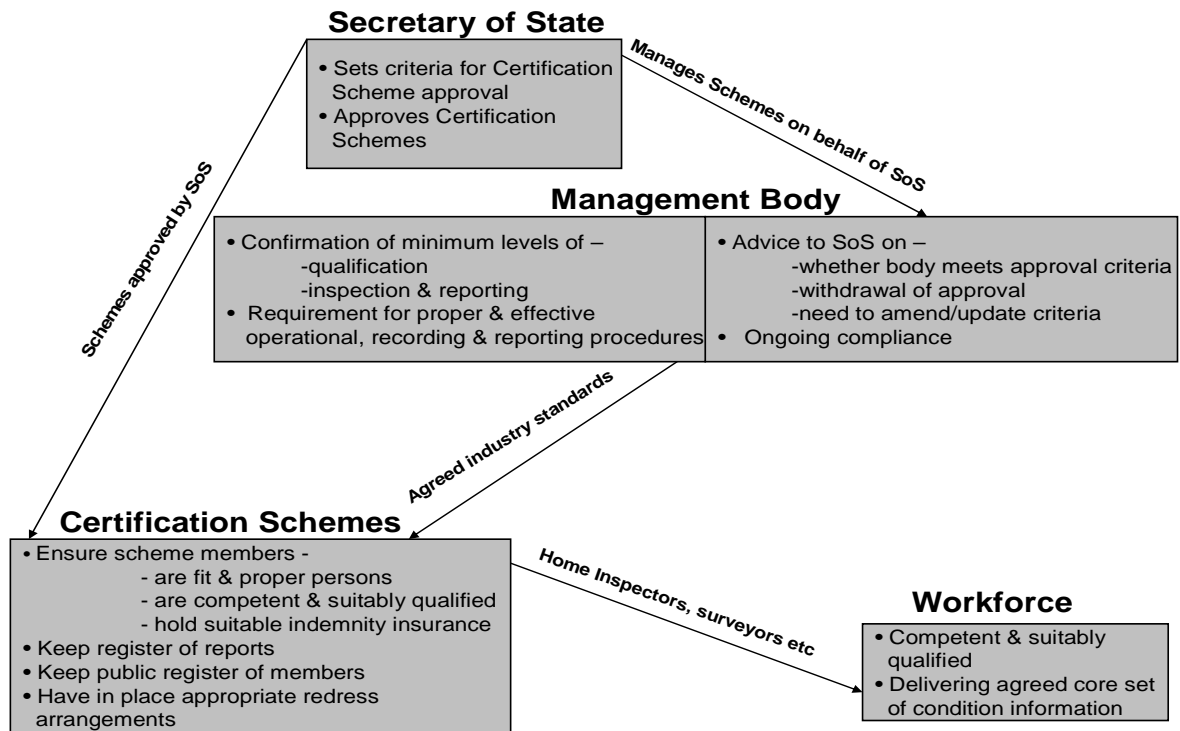
The Working Group has identified the need for industry to agree and implement a single assessment and reporting framework to underpin the move to incorporating a core set of information in all condition products. To make this effective it would need to operate within a framework that secures buy-in across industry and at the same time provides consumers with assurance and confidence. This links strongly to the industry led approach to driving up standards of the services which consumers receive from all property professionals mentioned previously.

A single body or organisation with responsibility for the regulatory framework would create greater coherence across industry and increase effectiveness. Such a body would need transparent and effective governance arrangements put in place to demonstrate independence, but would also require significant weight in terms of enforcing compliance against standards to ensure credibility. The Working Group has suggested that this is an area of work that could be carried out by the proposed arms-length body, sitting alongside those functions being carried out on behalf of the Secretary of State. This could include such things as:

- confirmation of the minimum level of qualification required for persons to produce condition reports under the proposed new arrangements
- confirmation of the requirement for the minimum levels of inspection and reporting
- requirement for certification schemes to prove that proper and effective operational, recording and reporting procedures are in place to demonstrate that:
  - i) individuals delivering condition reports are fit and proper persons
  - ii) individuals delivering condition reports are competent and suitably qualified
  - iii) adequate monitoring and compliance regimes to ensure the maintenance of standards are in place
- development of a 'kite mark' for products meeting the agreed industry standards

A flow chart to show how the relationships between the Secretary of State, the proposed arms-length body, the certification schemes and those delivering property condition reports for inclusion in HIP might work is below.





## Action to promote consumer take-up

In parallel to reaching a consensus to support the proposition and proposed route-map for delivery, encouraging greater consumer demand for condition products is critical. Research provides clear evidence that consumers are interested in condition information and where it is commissioned, the information can lead to more informed decision making as part of the home buying and selling process. However, the research also reports that actual take-up is low, indicating obstacles exist including a lack of awareness among consumers about the different types of condition products available.

Clearly, property professionals have a pivotal role to play since they provide the key interface with consumers as they move through the different stages of the home buying and selling process. The raising of consumer awareness on the importance and advantages of condition information at the appropriate points of contact in the process has been recognised as key to helping to improve consumer take-up.

Although there is further work required from industry to explore in more detail what could be achieved on a practical level, the Working Group have put forward a number of suggestions including:

- use of relevant industry publicity material for consumers including leaflets and advertisements on property portals
- suppliers of condition reports ensuring estate agents, lenders and conveyancers are provided with better information as to the various condition products that are available

- better advice to consumers on the difference between a mortgage valuation and a condition report
- use of estate agent's particulars to promote condition reports
- getting the message to buyers via the HIP (i.e. - adding a paragraph on condition information to the property information questionnaire)

The Working Group has also put forward the suggestion that should the proposed changes come into effect, CLG could run or support a consumer and industry awareness raising campaign including through the use of leaflets and media advertising (local press, property websites, DirectGov and BusinessLink websites etc). Consumer groups will also have a role to play through their own websites, articles and publications. However, in order for any proposition to be successfully implemented, a commitment to the need for change in industry behaviours is necessary and this is an area where the whole range of property professionals will need to do more, both to educate consumers and encourage take-up.

# Appendix A

## Working Group on condition information in the home buying and selling process: terms of reference

### **Policy context**

On 8 December, the Minister for Housing announced her intention to establish a working group to consider what more might be done to explore options for making sure that consumers have appropriate information about a property's condition, building on the work carried out by the stakeholder panel to develop market-led models that can be delivered by existing practitioners, including Home Inspectors.

### **Scope of the working group**

The work will be split into four phases and it is expected that the group will:

#### *Phase 1*

- a) Consider the role of condition information in the home buying and selling process – what are the costs and benefits of its inclusion: a) to consumers; and b) on the wider factors in the home buying and selling process, including valuation.

#### *Phase 2*

- a) Assess existing condition products available to buyers and sellers in the home buying and selling process – are they delivering what the consumer wants and needs? Is there confusion among consumers as to the role of each product; and if so can this be clarified?
- b) Propose a core set of condition information that consumers would like as part of any condition product. The corollary of that being, would consumers bite if there were different types of survey of varying detail?
- c) Consider whether the provision of a core set of information should incorporate information required for financial valuations, (such as automated mortgage valuations).

#### *Phase 3*

- a) Identify what additional training might be required to enable existing practitioners, in particular, Home Inspectors to prepare existing and proposed condition products.
- b) Consider how those delivering proposed condition product(s) will be regulated including the need for accreditation and personal indemnity insurance.

#### *Phase 4*

- a) Determine plan of action for roll out of the condition product(s) to the market and the respective role of industry and Government in that roll out.

- b) Think about approaches to encourage consumer take-up of condition products.

### **Outputs of the working group**

Specific outputs of the working group are expected to be:

- phase 1 – report into the use of condition information in home buying and selling , associated cost benefit analysis, and actions for taking forward research findings as appropriate
- phase 2- agreed core set of condition information
- phase 4 – Final report including actions and timetable for delivery of condition product(s) to market

### **Membership of the working group**

The working group will have specific expertise to cover the areas outlined above. As such, the membership will need to cover each of the following sectors:

#### *Phases 1, 2 and 3*

- Consumer interest – any product(s) will need to be of benefit to the consumer and be both more relevant and informative.
- Surveyors and representatives of other existing survey practitioners – This work is not about ‘reinventing the wheel’. It is right that those existing practitioners are represented on the group and that any product(s) are capable of being produced by these practitioners. Part of the work of this Group will be to look at upskilling those providing condition information to provide valuation advice to the lender in their report.
- Lenders – Linking survey data to lenders automated valuation models provides a unique opportunity to provide double benefits to the consumer and was one of the key aims of the original HCR. Any condition information provided to lenders is an important part of their risk assessment.

#### *Phase 4*

As above and in addition:

- Solicitors and licensed conveyancers – Historically this group would strongly encourage clients to commission a survey on any property they were interested in purchasing. Although this practice seems to have become less common in recent years, this group could be key to facilitating market rollout and encouraging consumer take-up.
- Representatives of the insurance trade – Clearly, given the links between lending and buildings insurance, it is important to involve this group at some stage. However, given the CML/BSA’s involvement in the scoping and design, we would anticipate that proposed condition product(s) would satisfy the insurers.

**Proposed membership of the working group:**

<b>Membership of the Working Group</b>
<ul style="list-style-type: none"><li>• Communities and Local Government (Chair)</li><li>• Royal Institution of Chartered Surveyors</li><li>• Association of Home Information Pack Providers</li><li>• Council of Mortgage Lenders</li><li>• Which?</li><li>• Building Societies Association</li><li>• SAVA</li></ul> <p>Phase 4 only</p> <ul style="list-style-type: none"><li>• Law Society</li><li>• Council of Licensed Conveyancers</li><li>• Association of British Insurers</li></ul>

**Timetable**

It is proposed that the group meet for the first time and thereafter meet monthly or as required, reporting in early September 2009.

# Appendix B

## **The role of condition information in the home buying and selling process**

Key findings from research conducted by Ipsos MORI and DTZ

### **1. Background**

1.1 This paper summarises the key findings from a short research exercise conducted by Ipsos MORI and DTZ to assist in the development of the evidence base for the CLG Working Group on Condition Information in the Home Buying and Selling process.

1.2 The research comprised:

- an online survey of 2,000 respondents who had either bought or sold a home in the last three years, are actively trying to buy or sell at the moment, or are considering buying a home in the next two years (Ipsos MORI)
- four focus groups conducted among home buyers and sellers to supplement the survey findings (Ipsos MORI)
- a desk review of the existing literature on condition information (DTZ)
- twelve depth interviews with solicitors and mortgage lenders (DTZ)
- an assessment of the likely cost and benefit implications of increasing the take up of condition reports alongside mortgage valuations (DTZ)

1.3 The research was conducted in June 2009 and the project was limited to a size that was achievable in the time available. Whilst the qualitative research among home buyers and sellers, solicitors and mortgage lenders was therefore relatively small, there is consistency of findings across the interviews that implies that larger projects would draw broadly the same conclusions, but in greater depth.

1.4 Full details of the individual strands can be found in the relevant research reports<sup>3</sup>. Whilst the research covered broader issues and the literature concerned with home buying and selling; and use of mortgage valuations as well as condition reports, this summary focuses on the evidence on the potential for increasing the use of condition information in transactions and the potential costs and benefits.

## **2. Consumer knowledge and awareness of condition information**

2.1 Home buyers and sellers have a good understanding of the basic mortgage valuation process but both the online survey and interviews with professionals revealed consumer confusion over condition information products (commonly the Home Buyer's Survey or Building Survey), particularly among inexperienced buyers.

2.2 The qualitative research indicates that both buyers and sellers are confusing the Home Buyer's Survey with information contained in the Home Information Pack, and that home buyers and sellers have a better understanding of the term *Full Structural Survey* rather than the industry term *Building Survey*. Although those new to home buying might take advice from their conveyancer<sup>4</sup> or friends and relatives, there was a common demand for independent, authoritative advice on the different types of condition reports available and when it would be appropriate to use them. Inexperienced buyers can, for example, mistakenly believe that a mortgage valuation will contain more condition information than is the case.

2.3 Similarly, whilst mortgage lenders and conveyancers did not see any benefits for themselves in increasing the use of condition information, there was a consensus that buyers could be better informed.

*"There is not a full understanding of all the processes and products available. [There is] quite a lot of confusion about what the best option is for them."*

Conveyancer

## **3. Consumer demand for condition information**

3.1 Current take-up of condition information is low and, given consumer confusion, is hard to assess from public surveys. Better estimates may be obtainable from among mortgage lenders. However, it is estimated that between 20 per cent and 40 per cent of buyers commission either a Home

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<sup>3</sup> Ipsos MORI (July 2009) *The role of condition information in the Home Buying and Selling Process. Findings from an online survey and qualitative research among home buyers and sellers*

DTZ (July 2009) *The role of condition information in the Home Buying and Selling Process. An assessment of the projected costs and benefits of upfront condition information on the home buying and selling process, and the potential cost savings for consumers.*

DTZ (July 2009) *Home Condition Information. Supplementary Cost-Benefit Report*

<sup>4</sup> The term conveyancer is used inclusively to mean either Licensed Conveyancers or solicitors offering conveyancing services.

Buyer's Survey or other specialist investigations (such as damp, dry rot etc). Building Surveys are commissioned by a smaller proportion of buyers who tend to be buying older or larger properties.

3.2 Among those not commissioning condition reports, some buyers were provided with NHBC guarantees, others relied on informal advice from builders, plumbers or electricians that they knew or simply accepted the condition information that the vendor had told them.

3.3 In the survey, 70 per cent of buyers considered that the condition information they received, from any source, was 'very' or 'fairly useful'. Whilst nearly two-thirds of respondents (65%) say that they would pay for the most comprehensive report they could afford, in practice, over half of purchasers remembered spending less than £500 on their valuation or survey. However, three in ten respondents could not remember what they paid.

3.4 Expenditure on surveys seems small given the size of the purchase but reflects growing concerns about budget as the costs of buying a home mount up.

*"Customers have little understanding of the process. They will go for the least pricey option when it comes to conveyancing as they are already paying a substantial amount for the property."*

Conveyancer

3.5 Of those who bought or were buying a property where a condition survey had identified defects, 37 per cent used the information to renegotiate price and a further 20 per cent insisted the vendor undertake repairs, but over one-third (35%) did not take any action.

3.6 Conveyancers felt that consumers most commonly renegotiated price or arrangements for repair upon discovery of defects rather than pull out of the transaction.

#### **4. Preferences for condition information**

##### **TIMING**

4.1 In the consumer survey, 87 per cent of all buyers and sellers felt that condition information should be available as early as possible in the home buying process and 71 per cent felt that buyers should see the information when they are viewing a property. Furthermore, 75 per cent of sellers said they would be comfortable with providing full details about the condition of their property. The sentiment throughout the qualitative research was that buyers would like the process to be simpler and the condition information to be supplied earlier.

*"When you get a valuation and pay how ever much for that, then get a structural engineer in and look at all that, then you may find there are*



*problems so have to change the offer. It would be nice to have all of that first of all.”*

Buyer

4.2 Some sellers were concerned that if responsibility for condition information did transfer to the seller, this would increase their upfront costs of moving, but they did understand that this would usually be recouped from a saving on their purchase costs.

4.3 Whilst conveyancers and mortgage lenders saw no particular benefits to them from upfront condition information, they saw it as a valuable to the buyer. However, as condition information can detrimentally affect the price of a property if it raises buyer concerns at the initial viewing (even if the issues are not serious), sellers would be reluctant to take up such a product in a voluntary market – as has been exemplified by take up of home condition reports. Instead, only a mandatory scheme would allow for a fair comparison of properties. Professionals also raised concerns about how long such information remained valid.

#### **CONTENT**

4.4 When selling a property, it was felt that condition information should be provided on structural issues in particular (92%), major repairs (83%), the condition of exterior aspects (83%) and the condition of internal aspects (80%). Minor repairs and health and safety risks are seen as less important. When considering their preferences, new buyers were amongst the most likely to suggest that sellers should provide more condition information, while owner occupiers are less enthusiastic fearing the implications for their own sale.

### **5. Delivery**

5.1 Home buyers were very concerned about trust in the information that they received. Whilst 64 per cent of respondents agree that the seller should be responsible for supplying information on the condition of their property, fewer than one in six (16%) would trust condition information if it came from the seller. Instead, 78 per cent agreed that they would only trust condition information provided by an independent surveyor that they had appointed.

5.2 Some more experienced buyers prefer to use an informal inspection by a builder, plumber or electrician who they already know rather than use a condition survey.

*“We have a builder friend who we use a lot because he really knows his stuff, almost as good as a survey. The thing with surveyors anyway is that they don’t always rip the floor boards up or look that thoroughly. Then at the end you have them saying if we didn’t spot this because of so and so then we are not going to be responsible.”*

## Buyer

5.3 This clearly reveals a tension between the demand for condition information at the earliest stage and a mistrust in the seller or their agent who would have to provide it. If sellers are to provide condition information, buyers are looking for guarantees of authority and independence.

5.4 Mortgage lenders interviewed did not see the increased use of combined valuation and condition reports as at odds with use of automated valuations. As such valuations are generally only used for re-mortgages or where the loan to value ratio is low. Lenders also felt that with increased scrutiny in the lending market, the number of automated valuation was unlikely to increase for new lending. However, they were concerned that they would need to trust the source of the valuation contained in the combined report to prevent any recourse to a further valuation.

## 6. The costs and benefits of bringing condition information into mortgage valuations

6.1 CLG, on behalf of Ipsos MORI, commissioned DTZ to consider the cost implications of increasing the voluntary take up of condition reports that include a mortgage valuation (taken to mean the equivalent of a 'Level 2' Home Buyer's report that includes a valuation) under the current structure of buyers purchasing valuation and condition surveys soon after placing an offer on a property. The model assumes that the product will be delivered by chartered surveyors in order to be acceptable to mortgage lenders without recourse to a further valuation.

6.2 Given consumer concerns about costs, communication campaigns alone are unlikely to improve take up of home condition reports greatly. Alternatively, the assessment considers a model where the current administration costs of the three tier system where a buyer uses a lender to find a surveyor through an appointed panel of approved surveyors can be streamlined through a more direct purchasing relationship.

6.3 Indications from mortgage lenders are that a Level 2 survey (a Home Buyer's report that includes a valuation) for an average property of between £200,000 and £250,000 costs the consumer from £500 to £700. Indications from surveyors canvassed by DTZ are that the same product, when purchased directly would cost in the region of £350-£550. There is therefore potential for a saving to the consumer of around £150 if the process is handled by fewer tiers<sup>5</sup>.

6.4 If we take the proportion in the consumer survey who considered condition information to be useful as a guide, potential take up of this more competitively priced product might achieve a ceiling of 70 per cent, which compares to a current figure of c. 20 per cent – 40 per cent. Using a midpoint of 30 per cent uptake, we are therefore looking at a potential 40 percentage point increase in take up. For this high case scenario, the market size of the surveying industry would increase by 133 per cent from an estimated £122m pa to £284m. However, the 70 per cent figure is a theoretical maximum, and one that would not be realised under a voluntary system, due to the presence of significant market information failure among consumers and relative price inelasticity of demand. Under a low range assumption of an increased uptake of 5 per cent, market size would increase by £20m<sup>6</sup>.

6.5 Assuming an average unit cost saving of £150, the aggregate savings to consumers would range from £95m p.a. in the 70 per cent high take up scenario to £47m p.a. in the low take up scenario of 35 per cent. In turn, there is direct inverse relationship between cost savings to the consumer and revenue to the lending sector. Hence, under the 'low case' scenario, lenders

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<sup>5</sup> Note that these figures are indicative and based on estimates from a small number of mortgage lenders and surveyors. More thorough data collection would be required if this option is to be pursued.

<sup>6</sup> Full details of the assumptions required for this model are contained in the DTZ report *Home Condition Information: Cost Benefit Report*

will suffer a reduction in net income of £47m, but this will be offset by the elimination of their handling and administrative costs associated with the organisations of these surveys.

6.6 There is evidence that about 20 per cent of those commissioning a condition report use the information to renegotiate on price or seek the rectification of problems through remedial works before completion with an approximate average of £2,000 saved by the buyer in these cases. Using these assumptions, increased take up of condition information would lead to a saving to buyers ranging from £18m p.a. under the low take up scenario to £144m if 70 per cent of all buyers commissioned such reports.

6.7 The cost benefit analysis did not quantify the impact of these changes on transaction failure rates and average transaction duration. However, we believe that the impact of property condition information is more likely to increase the rate of transaction breakdowns and increase average duration, although the significance of this is debatable.

6.8 The consequence of all of the above is that buyers and sellers exchange properties with more accurate information, which results in a market competitive price being offered and accepted which reflects the true condition of the property. This should be the goal of all those who are engaged in home buying and selling process.

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