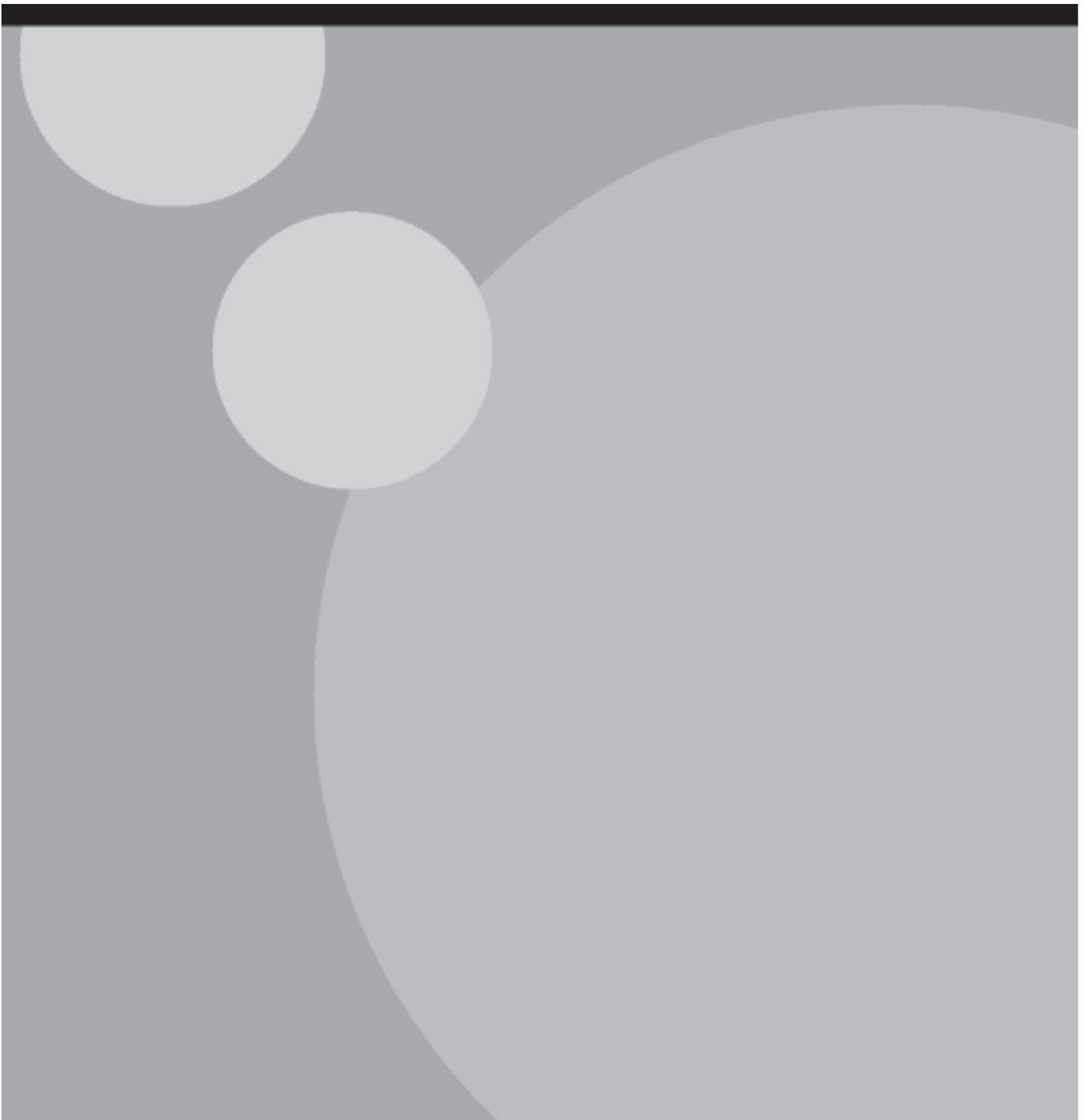




The role of condition information in the home buying and selling process

Key findings from research conducted by Ipsos MORI and DTZ





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Ipsos MORI
DTZ

September 2010
Department for Communities and Local Government

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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 reports¹. Whilst the research covered broader issues and the literature concerned with home buying and selling; and use of mortgage valuations as well as condition

¹ 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*

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 conveyancer² 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 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.

² The term conveyancer is used inclusively to mean either Licensed Conveyancers or solicitors offering conveyancing services.

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 tiers³.

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 £20m⁴.

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 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.

³ 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.

⁴ Full details of the assumptions required for this model are contained in the DTZ report *Home Condition Information: Cost Benefit Report*

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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