Quick House Sales

Market Study

Office of Fair Trading

Contents

Introduction

This report will be of interest to businesses that operate in the 'quick house sale' sector; to homeowners who are considering, or going through, a quick house sale; and to enforcers. It will be of some interest too to surveyors and other businesses that provide ancillary services to the sector.

Quick house sales can be beneficial to home sellers who want a quick, guaranteed and hassle-free sale. Our study has shown this to be a dynamic and innovative sector where some businesses have modified their business models to try to offer a better service to home sellers. However, we have also identified business practices that may not comply with the law and practices that fall short of the standards we would expect of businesses in this sector. Our report gives businesses in the sector a clear steer on what they should and should not do. At Annexes A and B, we also summarise the main legal obligations and offer suggestions on good practice.

We found that home sellers are not always able to make confident use of the quick house sale service. This includes sellers in vulnerable situations, such as those in financial difficulty and, sometimes, older people. Our report provides an overview of the sector and the process, and offers suggestions on how sellers can help themselves as they engage with the sector. At Annexes C and D, we summarise the alternatives to quick house sales and list our top tips for home sellers.

Thank you

This market study has been possible thanks to the individuals who shared their (sometimes stressful) experiences of quick house sales and the companies that explained how their business models operate. We also heard from consumer groups, charities, industry professionals, and government departments and agencies. We are grateful for all these contributions and the willingness to assist the Office of Fair Trading (OFT) in our work.

Summary

In April 2013, the OFT launched a study looking at the UK's 'quick house sale' sector.

By carrying out the study, we wanted to find out whether this sector works well for home sellers. We had particular concerns about the risks to sellers in vulnerable situations, such as older people (for example when they need to move due to declining health) or those who need to clear debts and/or avoid repossession. We also noted that where sellers get a bad deal, they could lose a lot of money.

What is a quick house sale?

Businesses that specialise in quick house sales, referred to as 'providers' in this report, claim to offer a much faster sale than the home seller might hope to achieve on the open market. In return, though, the home seller must accept (usually) a 'below market value' price for their home (for example 80 per cent of the full market value).

What we have found

The practices of most concern

From our study, we have identified business practices that may not comply with the law. These practices risk harming home sellers by limiting their ability to make free and informed choices. They also risk giving the industry a bad name, undermining the providers that do deal with sellers fairly and putting off sellers who might benefit from the service.

The practices of most concern relate to:

- **Offer prices.** Home sellers are not given enough information about the status of the initial offer price and that factors such as an adverse survey may cause it to be reduced later on. Last minute and often significant reductions in the offer price raise concerns that providers may be exploiting sellers' circumstances, especially when providers do not give the reasons for reductions in the offer price.

- **The speed of the service.** On their websites and in other marketing, providers tend to stress the fastest possible times to completion (for example 'seven days'), rather than the more typical times (three to four weeks). Few explain clearly the basis for their claims or the factors that may lengthen timescales. We are also concerned when providers require home sellers to sign long-term exclusivity agreements. We cannot see how lengthy tie-ins square with the promise of a quick house sale. Home sellers who want a speedy sale should question why quick house sale agreements should last much longer than four weeks.

- **The identity of the actual buyer**. Not all providers are being clear with home sellers about their service: are they going to buy, find a buyer or pass on details to another provider?

- **How the purchase will be paid for**. Not all providers are explaining clearly the buyer's financial position: does the buyer have cash funds available now or must they borrow or raise finance first?

Overview of the sector

The quick house sale sector is a very small part of the overall housing market in the UK, representing one-half to one per cent of all UK residential property sales (by number of transactions). Nonetheless, sales are likely to be in the region of £0.5 billion to £0.9 billion based on an average quick sale estimated at around £100,000. Home sellers that complete a quick house sale typically forgo between 10 and 25 per cent of the market value of the property (although we have seen much higher figures on occasions). In each case, this can amount to several tens of thousands of pounds.

> Quick house sales make up one-half to one per cent of all UK residential property transactions and are worth in the region of £0.5 to £0.9 billion.

Home sellers use quick house sales for all sorts of reasons. For example to:

- avoid repossession, clear debts or sort out financial problems

- dispose of an inherited property
- move for age or health related reasons
- sell as a fallout from a divorce or relationship breakdown
- relocate due to a change of job or to emigrate
- repair a broken property chain
- try a different approach when they have failed to sell through a traditional estate agent
- get around difficulties that make the property hard to market, such as a flooding risk or a short lease.

Quick house sale providers offer home sellers an alternative way to sell their home. When things go well, they deliver a quick, guaranteed and hassle-free sale. Some sellers, given their circumstances, are happy to accept a lower price for their home to achieve this.

The basic service that home sellers get from providers falls into one of three types:

- **buying**: some providers buy properties direct from home sellers, either for resale or to let
- **brokering**: some providers seek to introduce home sellers to third party buyers and may take steps around progressing a sale
- **'lead generation'**: some businesses identify home sellers who are interested in a quick sale and pass on details (or 'leads') to other quick house sale providers.

Some providers buy some properties and broker the sale of others. Some lead generators may also sometimes broker.

Once the home seller is dealing with a provider that buys or brokers, the stages of the process before exchange of contracts are much the same: initial contact, valuation and first offer, and survey and final offer. However, some providers' services do offer additional or slightly different features, so it is worth sellers shopping around to find what works best for them.

What affects how the sale turns out? Hold-ups are possible when providers need to find third party buyers, when properties are leasehold or when buyers must obtain finance. Offer prices are affected by the property's location and condition, while hitches with finance, third party buyers and/or a survey may affect the final offer.

Lead generators have little (if any) control over the purchase. However, it is also evident that providers when they broker have less control over the purchase than when they buy: they have to find a buyer, one who will pay at least the offer price, and one who can finance the deal quickly. There seems to be a greater risk that home sellers' expectations might not be met.

Depending on the type of work the provider is carrying on, they may be regulated by sector-specific legislation – namely, the Estate Agents Act 1979 (EAA) and associated legislation. The EAA places requirements on those doing estate agency, which are designed to protect sellers. Where providers carry on the activities described above as brokering, the OFT considers that they are likely to be carrying out estate agency work as defined by the EAA. This will ultimately depend on the specific circumstances and the provider may need to seek independent legal advice. If they do carry out estate agency work, they must comply with the requirements of the EAA and associated legislation, for example those doing residential estate agency must be registered with an approved estate agents redress scheme.

Next steps

As a result of our study, the OFT has:

- **published top tips for home sellers** (see Annexe D in this report) and engaged with several stakeholders to ensure that these tips are disseminated in a targeted way. We are encouraging providers to share these tips with home sellers too

- **written, following discussions with Trading Standards' representative bodies across the UK, to almost 120 providers** to advise them of the issues in this report, remind them of their legal obligations, and ask them to check that their business practices and contract terms comply with those obligations. This includes a warning to any providers that carry out estate agency work that they must comply with the requirements of the EAA (and associated legislation) or else face the risk of action

- **opened an investigation** into three providers which focuses on business practices that potentially raise serious concerns

- **opened a dialogue with the sector encouraging them to develop some form of self-regulation**

- **engaged with other relevant bodies** – such as the Royal Institution of Chartered Surveyors (RICS) and the law societies of England/Wales, Scotland and Northern Ireland – asking them to notify their members of this report and raise awareness of the issues faced by home sellers in quick house sales.

Our market study

Why we carried out the market study

On 18 April 2013, the OFT launched a market study looking at the UK's quick house sale sector. We wanted to find out whether this sector works well for consumers, whether any practices give cause for concern and, if so, how such practices should be remedied. We had also noted potential similarities with the sale and rent back sector and wanted to establish whether similar concerns arose.

Quick house sales can be beneficial to home sellers who want the certainty of selling their property relatively quickly, without trying to sell on the open market. There was concern, however, that some unfair trading practices may prevent home sellers from making informed choices when selling their home. In addition, there may be a disproportionate impact on vulnerable groups, such as those in financial difficulty who need to clear debts and/or avoid repossession, and older people. Some trading practices may lead to sellers receiving not just a below market value price for their home, but a sum much lower than the amount the provider had led them to believe they would get.

Practices that gave rise to concern included:

- reducing the price offered at the last minute after the seller is financially committed to the transaction
- making misleading claims about the value of the property or the level of discount to be applied to the sale
- falsely claiming to be a cash buyer
- unclear fee structures, for example, imposing an unexpected fee following an initial valuation, as a condition for progressing the service
- inducing home sellers to enter into agreements that prevent them from selling to other buyers, with severe penalties for breach of contract.

How we carried out the market study

The launch of the market study included a public request for information, seeking to hear from people with experience of this sector, including home sellers, providers, valuation experts, estate agents and debt advisors. We also carried out a survey of providers and held roundtables with providers and with a number of stakeholders. The information received helped us to build up a picture of the sector.

As part of our research we:

- Analysed over 160 websites, for information about providers and to see their claims about the service they provide; and reviewed Companies House data, for company and officer information
- Considered 23 provider survey responses (out of 74 providers approached), and held a provider roundtable (attended by 13 companies), for more detailed information about providers and their practices, processes, business models and customer feedback
- Reviewed 111 public responses to our request for information, including 72 home seller complaints, plus follow-up telephone interviews with 20 complainants and analysis of other complaint data, to understand home sellers' experiences and identify possible breaches of consumer protection law
- Engaged with stakeholders including government bodies, enforcers, consumer bodies and advice services, charities, professional standards organisations and trade bodies, for information that would inform our study
- Organised a roundtable workshop with consumer stakeholders to examine how the quick house sale process affects particular consumer groups and what good and bad business practice looks like
- Obtained HM Land Registry research, to provide data on properties bought and sold within a six month period, and conducted a survey of RICS surveyors, to help estimate the size of the quick house sale sector.

The quick house sale sector

Size of the sector

According to HM Revenue and Customs statistics, there were more than 930,000 residential property sales in the UK in 2012. As there are no official statistics available for the quick house sale sector, its share of these sales is difficult to estimate. However, from our discussions with providers and analysis of other data, we assess that the sector accounts for around one-half to one per cent of all residential property sales in the UK (by number of transactions). The value of quick house sales are therefore likely to be in the region of £0.5 billion to £0.9 billion, based on an average quick house sale estimated at around £100,000.

Nor can we easily say whether the sector is growing or shrinking. Some providers told us that market conditions have been tough since 2008 and profit margins are tight.

As the housing market picks up, homeowners may become more confident of selling on the open market through traditional estate agents and so less interested in alternative ways of selling property. However, a rise in interest rates could push more homeowners into mortgage arrears and potentially increase demand for quick house sales.

Providers

Quick house sale providers are businesses that offer to buy a property or find a third party buyer very quickly, but usually at a 'below market value' price.

We have identified almost 120 such providers operating in the UK. It is hard to count them because some providers operate multiple websites. There are probably many more providers, particularly local ones advertising through the local media and by leaflet drops.

Not all providers offer the same service:

- some buy properties direct from home sellers, either for resale or to let (when they do this, we refer to them in this report as 'buyers')
- some broker sales, that is they seek to introduce home sellers to third party buyers and may take steps around progressing a sale (when they do this, we refer to them in this report as 'brokers'). Brokers can be instructed by either sellers or buyers, or both. When a prospective seller gives the go-ahead, a broker looks for a buyer from their list of investors, from quick house sale buyers and other contacts, or by advertising the property on the open market
- some identify home sellers and pass on details (or 'leads') to other quick house sale providers (they are sometimes called lead generators).

Some providers buy some properties and broker the sale of others. Some lead generators may also sometimes broker.

How do providers profit from quick house sales?

- Most buyers try to resell the property as soon as they can for a higher price than the one they paid the home seller.
- Some buyers let out the property and receive a rental income (and sell later).
- Some brokers are paid a fee by the seller (like a traditional estate agent).
- Some brokers are paid a fee by the buyer.
- Some brokers agree a price with the seller and another price with the buyer, and receive the difference between the two prices.
- Lead generators receive a fee from the buyer or broker: a fee per lead (or batch of leads) and/or a referral fee if a deal goes through.

From the upfront claims they make on their websites, most providers appear to be buyers. However, from close examination of their websites and from what providers told us, we believe this may not be the case.

Whether the provider is buying or brokering can have implications for both the speed of the sale and the discount on market value. Brokers have less control over the purchase than buyers: they have to find a third party buyer, one who will pay at least the offer price, and one who can finance the deal quickly. There seems to be a greater risk that home sellers' expectations might not be met. Home sellers should therefore seek extra assurances that brokers can deliver deals as promised before doing business with them.

Providers that fail to explain their services adequately to home sellers may be in breach of the Consumer Protection from Unfair Trading Regulations 2008 (CPRs) for misleading claims and/or omissions in particular. When providers broker, the OFT considers those activities are likely to involve estate agency work (as defined by the EAA), in which case they must comply with the requirements of the EAA and associated legislation.

The service on offer is one key feature to consider when looking at providers. Another is how the purchase will be paid for. Quick house sale buyers or, in the case of brokers, third party buyers, may pay with cash funds that:

- are available immediately
- will be freed up once another property is sold
- will be raised from investors, or
- will be borrowed from a lender.

This too has possible implications for the speed of the service and the final offer price. A buyer with funds available immediately is likely to be in a better position to finalise a quick sale than one that needs to free up funds or secure finance. Problems with funding may cause both hold-ups and an attempt by the provider to renegotiate the sale price. Home sellers should ask questions to clarify whether the buyer can pay for the property and will have funds ready on time. Providers, to minimise the risk of a breach of the CPRs, should disclose how the buyer intends to pay for the property. Similarly, in order to minimise the risk of breaching estate agency legislation, brokers should not misrepresent the status of a prospective buyer, which would include their financial standing.

Lead generators are not really providers at all. They do not make deals with home sellers. They are themselves unlikely to be able to deliver either a speedy sale or a particular sale price because those things depend on buyers or brokers. We include them as 'providers' only because, from their upfront claims, they are currently hard to distinguish from buyers or brokers and will look like a provider to the home seller. What they actually do is an ancillary service. They attract interest from sellers and sell on the details to other providers. Not all quick house sale buyers or brokers use lead generators, but some do.

Lead generators must comply with the CPRs too. Their claims, for example about their service, the speed of the quick sale, the offer price and the financial status of the buyer, must not mislead. Lead generators should also check whether they are engaging in any activities that fall within the definition of 'estate agency work' under the EAA. If they are, they will need to comply with the requirements of the EAA (and subordinate legislation) when they carry out those activities. If necessary, they should take independent legal advice on this matter.

Ancilliary Services

Lead generation is not the only ancilliary service in the quick house sale sector.

Estate agents:Some providers pay local estate agents to inspect the property and provide a valuation. This helps them to determine what their provisional offer should be. As the provider may not know much about the local housing market, they get the benefit of the estate agent's knowledge. The home seller may take some reassurance that the valuation is made by a third party.

Surveyors: The quick house sale buyer or broker will want to know if there is anything wrong with the property that might affect its marketability. They will usually instruct a surveyor to assess the property's condition. Using a RICS accredited surveyor seems to be common practice. The surveyor will also provide a valuation of the property.

Solicitors: The provider will also instruct a solicitor to check whether there are any legal issues that could affect the property's marketability, for example restrictive covenants, adverse searches, onerous lease terms or no planning permission. Obviously both the buyer and the home seller will normally each use a solicitor to draw up final contracts.

Surveys can be commissioned and completed quickly, so arranging them should not be a cause of delays. As with any house sale, an adverse survey or legal hitch can cause hold-ups and affect the final offer price that the buyer is willing to pay. Home sellers, therefore, should not commit to the sale until the survey and legal checks have been done and the provider has made a final offer in writing.

Home sellers

Who uses quick house sales and why?

Home sellers use quick house sales for all sorts of reasons. For example, to:

- avoid repossession, clear debts or sort out financial problems
- dispose of an inherited property
- move for age or health related reasons
- sell as a fallout from a divorce or relationship breakdown
- relocate due to a change in job or to emigrate
- repair a broken property chain
- try a different approach when they have failed to sell through a traditional estate agent
- get around difficulties that make the property hard to market, such as a flooding risk or a short lease.

These home sellers are attracted by the promise of:

- a speedy sale. Some home sellers need to sell urgently; some have waited a long time for a buyer on the open market and lost patience; others just want the peace of mind that the sale will be settled quickly.

Quotes from home sellers:

“My husband became unwell with Parkinsons and we needed to move to a bungalow fairly quickly”

“My wife and I were going through financial difficulties and were threatened with repossession of our property, we saw this type of sale as a good way to clear debt and we could possibly move into rented accommodation and re-set our finances”

- a certain sale. Home sellers welcome not having to wait for a buyer. For home sellers whose properties are hard to market – for example due to a structural defect, being on a flood plain and un-insurable, or being affected by large infrastructure projects – quick house sales may offer a way out.

Quotes from home sellers:

“We found a suitable bungalow and decided that we could take a bit of a loss on the sale price in order to move quickly”

“Didn't want to use an estate agent. Didn't want the property on the market for ages, with all the hassle of viewings”

“For a variety of reasons he wanted a quick, hassle free sale of his bungalow so that he could move on with this next chapter in his life”

The cost to be paid for these benefits is a reduced sale price. It is these three main factors – **speed**, **certainty** and **sale price** – that the home seller weighs up when deciding whether to use a quick house sale. How badly do they want a quick guaranteed sale? How much of the potential sale price are they willing to forgo in order to achieve it?

To make the best decision, homeowners should always consider their full range of options. An alternative may remove or lessen the urgency to sell, in which case they may not need to accept a low price for their home. For example, where a homeowner is struggling with mortgage arrears, their lender may be able to offer the help they need to keep their home or at least sell at a slower pace. Similarly, if the prospects of finding a buyer on the open market are good, they may be encouraged to use a more traditional method of sale that will probably deliver a better price. See Annexe C for information about alternatives and suggestions on where to go for advice.

Vulnerable home sellers

Some (but not all) home sellers who make these choices are in vulnerable situations. A high proportion (70 per cent) of the consumer complaints we received about the quick house sale sector came from such consumers. Older people may wish to sell their property quickly in order to move closer to family or to accommodation that better meets their needs. Homeowners in financial difficulty may look to a quick sale as a way out of their problems. Home sellers in relationship breakdowns may want a quick clean break or may need to sell because they cannot afford to pay the costs of two households. Sellers in vulnerable situations may be particularly attracted by any claims that the service is hassle-free, with no viewings and no hold-ups.

Consumers in vulnerable situations need to take particular care when considering big financial and/or life-changing decisions, for example when selling their home (probably their most valuable asset). They may already be under significant stress trying to cope with their other worries. This may make it harder for them to obtain and digest the information needed to make informed decisions. If things go wrong, the financial detriment could affect them disproportionately. Consumer law takes particular account of vulnerable groups of consumers and what is required for these groups to make free and informed decisions.

The quick house sale process

Marketing claims and initial contact

What we found

Providers find sellers in a number of ways, for example advertising in local newspapers or on television, through web pages or by leafleting homes directly. They invite sellers to contact them by phone, email or webform. Some providers also get referrals from lead generators, brokers and/or traditional estate agents; some look out for properties that have been on the market with a traditional estate agent for some time.

We have looked in particular at providers' websites. Main features include:

- website names that stress a speedy sale (fast, quick, rapid), a buying service, the promise of a cash purchase and/or the type of home seller that can be helped. In other words, they mirror the search terms that home sellers are likely to use when looking for a quick house sale service

- upfront claims about the service, typically stressing that the provider can buy the property, buy any property whatever its condition or location, deliver a quick service, and offer a competitive purchase price. Many also say they charge no fees and/or will pay some of the seller's legal costs

- claims that offer assurances about, and reasons to trust, the provider. For example, some providers emphasize that they have been in the business for a long time, have a successful track record, have ready cash funds, and/or are members of trusted bodies. Lots of providers claim on their websites to be the biggest, or one of the biggest, in the quick house sale sector.

If marketing claims are not true or could mislead, the seller may be misdirected from the outset. They may make decisions they would otherwise not make, dismissing alternatives that might suit them better or missing out on a potentially better deal offered by another quick house sale provider. We have particular concerns about any misleading claims made about the speed of the sale, the 'below market value' price and the certainty of a sale. The OFT considers these are material information and a home seller needs accurate information on these in order to decide (a) if a quick house sale is right for them and (b) which provider will suit them best.

How home sellers can help themselves

- **Take time to find out about the quick house sale process.** What does it look like? What are the pros and cons? Will a quick house sale suit their specific needs?

- **Consider the alternatives**. Home sellers should consider alternatives to a quick house sale, such as using a traditional estate agent or, if they are finding it hard to keep up mortgage payments, negotiating with their lender. See Annexe C for further information about alternatives and suggestions on where to go for advice.

- **Shop around for the services that work best for them** and try to compare several providers before deciding which ones to approach. Not all providers are the same, so it is worth looking at what different ones can offer. Home sellers should also read webpages and marketing material carefully, as the detail may be revealing. For example, if the provider refers to a 'list of investors' or to 'assigning' the agreement, this may indicate that it is (at least sometimes) a broker, while if it talks about passing on details for a fee, this probably means it is a lead generator.

- **Check providers' credentials**:

  - If the provider is brokering (that is, their activities involve: introducing home sellers to third party buyers and, if an introduction is made, any steps taken to progress a sale), the home seller should check that it is registered with an approved estate agents redress scheme. There are currently two such schemes. Home sellers can check on The Property Ombudsman's website or the Ombudsman Services: Property's website for confirmation whether a business is registered for redress.

  - If the provider says it has signed up to a code of practice; is approved, endorsed or authorised by a public or private body; or is a member of a professional body or trade association, this too can be checked by visiting the relevant organisation's website.

  - Home sellers may also consider looking at Companies House WebCheck to gain more information about the provider.

- **Be clear about what the provider is offering**, especially:

    - the service (whether they are buying, brokering or passing on leads)
    - how the purchase will be financed
    - the timescales: what will happen, when and what might cause the timescales to slip?
    - the 'below market value' offer price and how it might be adjusted later on
    - the fees and charges that may apply (see page 27 below).

  If in any doubt, ask the provider questions and, if they are brokering, seek extra assurances that they can deliver deals as promised.

- **Treat marketing claims with caution**. Home sellers should not rely solely on the marketing claims made by the quick house sale provider, but should ask questions. For example, some providers claim to be able to offer close to 100 per cent of the market value. If they are buyers, how are they going to make any profit on the deal? If they are brokers, what will they do to deliver a quicker sale than a traditional estate agent? Similarly, some providers say they have funds available immediately. If so, the home seller can ask them for proof. A genuine cash buyer will be able to provide it.

What providers should do

- **Comply with the law**. When businesses market their services (whatever the medium they use), they are required to comply with relevant legislation, in particular the CPRs. Providers should also ensure that they meet their obligations under the E-Commerce Regulations 2002 and Data Protection Act 1998. See Annexe A for more detail on the laws that may apply to quick house sale providers.

- **Not mislead in their marketing claims and when making initial contact with sellers**. Providers must not mislead home sellers (whether by act or omission) about:

    - the sort of service they provide. For example, saying or giving the impression that they are a buyer if they are not

- the likely timescales for the sales process. For example, giving a false or unrealistic timescale for completion of the sale
- the price that they, or a third party buyer, may be prepared to pay
- how the purchase will be paid for. For example, claiming to be a cash buyer, or to have cash buyers lined up, when this is not true
- their affiliations to public or private bodies. For example, they should not give the impression that their membership of a body covers their quick house sale service if, in fact, it only relates to another part of their business.

- **Comply with relevant advertising codes**. Providers should comply with the Advertising Standards Authority's Code of Non-broadcast Advertising, Sales Promotion and Direct Marketing (the 'CAP Code') and Code of Broadcast Advertising ('BCAP Code').

- **Consider whether they are carrying on estate agency work if, for example, they are brokering**. If they are doing estate agency, the EAA and associated legislation requires them to take, or avoid, specific actions. For example, they must: give certain information to their clients, declare any personal interests in a sale, avoid specific misrepresentations and handle clients' money in specific ways. There are also requirements to join an officially-approved estate agents redress scheme and to register for anti-money laundering purposes. Again, see Annexe A for more detail.

Initial valuation

What we found

Once the homeowner has given the provider the details of the property to be sold, an initial valuation is undertaken by the provider. This seeks to assess the property's 'market value', that is the best price that a seller might hope to achieve in current market conditions.

Valuation methods used by providers vary. Some use specialist online valuation services such as Hometrack and Rightmove Plus; others use information provided online from property websites such as Zoopla and from Land Registry. We also heard of providers speaking to local estate agents about similar properties that have been sold or drawing on their own knowledge of a local housing market. A few providers do not rely too much on 'desktop valuations' and will only make an assessment once they have inspected the property. Clearly, the more thorough the research, the more credible the estimate. However, all valuations include a degree of judgement.

How are properties valued?

Valuations should be based on some or all of the following:

- details of the property to be sold
- research into 'comparables' (that is, what similar properties in the same street or area have sold for)
- local knowledge
- physical inspection of the property
- evidence of market conditions.

Having assessed the property's 'market value', the provider makes their first 'offer'. They will already have a 'below market value' percentage in mind, for example 80 per cent of the full market value, but may offer more or less than this depending on the property's location and condition. These offers are usually made subject to survey and contract and/or other conditions such as inspection of the property. **They are not firm offers, but only indications of what the sale price might be assuming various conditions are met**.

This initial 'offer' is important because of the way that home sellers frame their decisions. Not surprisingly, they are drawn to what looks like the most attractive offer/valuation, for example to the provider that offers 90 per cent of the market value rather than to the one that offers only 80 per cent. However, if the provider's valuation is over-optimistic, it is more likely that its offer will be reduced later on in the process.

We have concerns about the degree of transparency shown by providers around their initial valuations and first offers. Providers do not always clearly explain:

- their valuation methods. Is the valuation the professional assessment that the home seller would expect it to be?

- how their initial offer has been calculated. For example, is the provider offering 80 per cent of the market value or 80 per cent of the market value **and** a further reduction to cover the legal and survey fees it has said it would pay?

- the status of the initial offer – in other words, the fact that there will be a second (or third) valuation that will determine the final offer price

- the factors that may cause the initial offer to be revised downwards later on.

Without this information, the home seller may put too much weight on the initial offer and later, having invested in the process (for example having committed to an onward house purchase), may find it hard to walk away and start again if the offer is reduced.

How home sellers can help themselves

- **Do their own homework on their property's market value**. They should not rely on the provider's assessment, but form their own view. There are a number of online resources to help them (such as Mouseprice, Nethouseprices, Zoopla) and they can ask traditional estate agents too for a view on the likely selling price. It is best to use several different sources of property price information and to compare them.

- **Be honest and accurate when giving details about the property**. Giving incorrect information or leaving important things out is likely to be uncovered later in the process and may cause hold-ups and even reductions in the offer price.

- **Quiz providers on their initial offer**. How has it been calculated? Is it subject to change? If so, what might cause it to change? When will the final offer be made? Some providers claim to be able to give instant offers. However, home sellers may wish to question the reliability of a valuation that is produced in a matter of seconds or minutes.

- **Consider the overall deal**. If the initial offer appears reasonable, home sellers should check that the provider can also deliver what they want in terms of the speed and certainty of the sale.

What providers should do

- **Comply with the law**. When businesses engage with consumers, they are required to comply with relevant legislation, in particular the CPRs. In respect of valuations and first offers, the CPRs' requirements on businesses to act in a professionally diligent way and not to mislead consumers (whether by act or omission) are highly relevant. See Annexe A for more detail on laws that may apply to quick house sales.

- **Conduct valuations in a proper manner, fairly and in good faith**. Businesses must meet the CPRs' requirements on professional diligence. If they describe their estimate as a 'valuation' or an 'appraisal' (or similar), then the OFT considers the estimate must be credible (while allowing that valuation is not an exact science) and justifiable (that is, the provider can explain how it arrived at its figure).

- **Not mislead about the initial valuation and indicative offer price**. In particular, providers must not mislead home sellers about

  - how they (or someone instructed by them) will value the property

  - the quality of the valuation – for example saying, or giving the impression, that it is based on thorough research, expert analysis and/or a precise calculation, if this is not true

  - the basis of the offer price and its status. If it is conditional, they should explain how – for example, is it 'subject to survey and contract', 'subject to finding a buyer', 'subject to mortgage approval'?

- **Be transparent in their dealings with home sellers**. It will help the process run smoothly, and to treat consumers fairly, if providers are open from the outset about the process, the timescales, how they calculate their offer price, and any risks that could affect the sale, cause delays or result in a revised offer. For example, if the provider is likely to reduce its offer if it finds, on inspection, that the property needs renovating or decorating, then this should be explained to the seller upfront. Providers must disclose the information that an average consumer would need to make informed decisions or else they will be in breach of the CPRs (for a misleading omission).

Surveys, final offer and completion

What we found

If the seller remains interested in a quick house sale after the first valuation, the provider will usually arrange for a survey to be undertaken. This will check the condition of the property and give another valuation. Most providers seem to use independent RICS accredited surveyors.

The surveyor's valuation helps to determine the final offer price. If the surveyor finds problems with the structural condition of the property, this may affect the valuation. As with any house sale, this may cause the buyer to lower their offer or pull out of the deal.

How often this happens with quick house sales is not known. However, from consumer complaints, it seems that the surveyor's valuation can lead to significant reductions in final offer prices. We have seen price drops ranging from 7 per cent to 53 per cent of the initial offer (already lower than the full market value) and averaging 22 per cent across the complaints we have received.

Case study

A home seller close to retirement had borrowed money and wanted to sell quickly as they could not keep up the repayments. They accepted an offer of £73,000. On the same day the provider called to say they were reducing the offer to £58,000 as that was all they could now afford. A courier was sent round that evening for the seller to sign new documents. The seller agreed to the new offer as they felt 'between a rock and a hard place' having already committed to the purchase of a new property.

In some instances, home sellers have not been shown the survey findings that explain these reductions. This has even happened when the provider has required the seller to pay for the survey.

Surveyors' findings and valuations seem to be a common reason for late drops in the offer price, but we have heard of other reasons too. For example, adverse searches, lenders refusing to lend to the buyer, and 'market conditions'. Sometimes, though, no reason is given.

When the offer price is dropped, some home sellers walk away from the deal. Not always without cost, though. If they paid for the survey or incurred legal costs, these may not be reimbursed. If they signed an exclusivity agreement with the provider (see page 27 below), they may remain tied to it until it expires.

Some home sellers accept the reduced offer. We have seen examples where sellers have accepted offer prices that were tens of thousands of pounds lower than the initial 'offer' (which was already a below market value price). These tend to be sellers with an urgent reason to sell, for example because they are already committed to a purchase of another property, have debts to pay off, or are in poor health. When these significant drops in the offer price come at the last minute, at exchange of contracts, and without any good explanation, we have concerns that providers may be exploiting these sellers' circumstances.

Case Study

An elderly home seller, 87 years old, who was moving into a rented apartment, was offered £120,000. The provider took time on the purchase and proceeded only when they had found a buyer. The home seller was told that market conditions had changed since the first offer, so the offer price was reduced to £85,000. Completion occurred towards the end of the fourth month. The seller became really depressed and stressed at the failure of people to keep promises and the lack of information at all times during the process.

How home sellers can help themselves

- **Do not commit to the sale too early.** Perhaps most importantly, home sellers should not make major financial commitments, or other decisions they would regret if the sale did not go through as expected, until: all surveys and legal checks have been carried out; the provider has made a final offer in writing; and they have obtained independent legal advice.
- **Quiz the provider.** If the provider reduces the offer price, home sellers should ask why.
- **Do not rush decisions**. Home sellers should obtain sufficient information to allow them to make an informed decision whether to proceed with the sale. They should also think about the alternatives. It may be better to withdraw from a deal and lose some money than to carry on and sell at a grossly reduced price.

What providers should do

- **Comply with the law**. When businesses engage with consumers, they are required to comply with relevant legislation, in particular the CPRs. In respect of surveys and final offers, particularly relevant are the CPRs' requirements not to mislead consumers (whether by act or omission) and not to use harassment, coercion or undue influence (that restricts how the average consumer would act or their ability to make free or informed choices). See Annexe A for more detail.

- **Not mislead about surveys and final offers**. For example, if the survey findings have led the provider to revise its offer, the provider should show the relevant findings to the home seller. Not to do so may be a misleading omission under the CPRs, since it will affect the seller's decision whether or not to proceed with the sale.

- **Not pressurise home sellers**. For example, reducing the price late in the process without a valid reason, where this puts undue pressure on the home seller and restricts their ability to make informed choices, might constitute an aggressive practice and unfair commercial practice under the CPRs.

- **Be transparent in their dealings with home sellers.** There may be times when providers will lower their offer to reflect new information about the property's condition and marketability. It will help the process run smoothly, and to treat consumers fairly, if providers explain early on what factors may affect the final offer price and when they may do so. If price reductions are required, providers should explain why.

Fees, lock-ins and solicitors

What we found

Along the way, from initial contact to completion (or withdrawal from the deal), the home seller may be required to pay fees, sign an agreement and/or instruct a solicitor.

The charging of fees does not appear to be common. Many providers do not charge any fees to home sellers and will even pay some or all of the sellers' legal costs (provided the sale goes through). Some providers do require sellers to pay an upfront fee for the survey, but this is usually paid back when the sale is finalised. Very few providers charge the seller commission on the sale.

Sellers may be liable for costs if they pull out of exclusivity agreements, sometimes called option to purchase agreements. These agreements appear to be more commonly used by providers that broker or buy some properties and broker others. In the examples we have seen, the costs for withdrawal can run to several thousands of pounds. They also tend to lock-in the seller for long periods of time (for example six months or a year). During this time, the exclusivity agreements tend to state that the seller cannot sell to or through anyone but the provider, but offer no guarantee that their property will be sold at the end of the term. We cannot see how these long tie-ins square with the promise of a quick house sale.

Some providers recommend that the seller uses one of their panel solicitors, on the grounds that this will help to push through a speedy sale. A few sellers, though, told us they felt pressed to use the provider's choice of solicitor rather than their own.

Case Study

The home sellers were splitting up and for that reason wanted a quick sale. They accepted an offer to purchase the property of £135,000. The offer was then reduced to £94,000 following the valuation survey. The home seller found another buyer prepared to pay £100,000 but were told that the agreement they had signed meant they could not sell to another buyer for six months. They lost the other buyer and had to wait until the restriction ended as they could not pay fees and charges worth several thousands of pounds to get the restriction lifted.

How home sellers can help themselves

- **Find out what the costs will be**. Ask what fees and charges will have to be paid (such as surveys and solicitor fees), both if the sale is completed **and** if it is not. If the seller ends up wanting to pull out of the deal, will they be able to afford these costs? Will they stick with the deal just to avoid incurring the costs?

- **Before signing any agreement, read it carefully and obtain independent legal advice if they are at all unsure**. Do they understand what they are being asked to sign and its implications? They should not sign an agreement unless they know what they are agreeing to. They should look out for clauses that place restrictions on what they can do or which may make them liable for future costs and charges, and weigh up the pros and cons of the overall agreement.

- **Never be shy about negotiating on price**.

- **Watch out for long tie-ins**. A typical estate agency contract lasts 8-12 weeks. Home sellers who want a speedy sale should question why a quick house sale provider would need an agreement lasting much longer than four weeks? If the provider needs more time than this, whether to finalise the purchase or find a buyer, the seller should reassess the deal: is the offer price acceptable given the speed and (un)certainty of the sale.

Case Study

A retired couple decided on a quick house sale as they were moving in with an elderly relative who was very ill. They were offered just over £100,000 which they accepted. Completion day came and went. A new completion date was set for a week later and the offer was reduced to £55,000 as the provider said it had to finance the deal directly as the bank would not pay. The home sellers said that in theory it would be possible to walk away and reject the lower offer but they were already a long way down the process. They were also concerned that they would face solicitor's costs if they did not complete the sale.

- **Make comparisons.** Use the information on fees, lock-ins and restrictive clauses, together with other information, to compare different providers. Sellers should consider how the comparisons look if the sale goes through and if they choose to pull out.

- **Never be rushed or pressured into a decision that they are not comfortable with**. For example, the provider cannot require a seller to use a solicitor of its choice. Everyone has the right to take their own independent legal advice.

What providers should do

- **Comply with the law**. When businesses engage with consumers, they are required to comply with relevant legislation, in particular the CPRs. In respect of standard contract terms, the Unfair Terms in Consumer Contracts Regulations 1999 are also relevant. See Annexe A for more detail.

- **Not mislead home sellers about fees**. They must not mislead home sellers (whether by act or omission) about any fees and charges that the home sellers may be required to pay. Providers should explain what amounts will be due, when they will be due and what factors might affect the amount and/or the due date.

- **Not use unfair terms in agreements**. Standard terms should be expressed fully, clearly and legibly. Important contractual terms, for example that might disadvantage consumers, should be prominent in documents and actively brought to the home seller's attention in good time before they are asked to agree to them. For example, if the seller will become liable for any charges if they pull out of a agreement, this should be explained clearly before they commit to the deal.

- **Not lock a seller into an excessively long agreement**.

- **Explain exclusivity agreements carefully.** Bring to the seller's attention how long any contractual agreement will last, what costs and charges would apply if the seller pulls out of the agreement, and any notices that will be placed at HM Land Registry, Registers of Scotland or Northern Ireland's Land and Property Services (placing a restriction on the sale of the property) whilst the agreement is in place. It may be considered good practice to remind home sellers that they may wish to obtain independent legal advice before signing an agreement.

- **Not require the seller to use a particular solicitor or one of your panel solicitors**.

Consumer complaints and redress

What we found

We have little information on how providers handle complaints. From the information available to us, few providers that broker seem to be registered with an officially approved estate agents redress scheme.

How home sellers can help themselves

- **If appropriate, complain**. Home sellers may reasonably expect businesses to act with integrity, reasonable care, skill and good faith. If they are not happy with a provider's conduct, they have the right to complain and to expect the provider to investigate and try to resolve the complaint.

- **If necessary, complain to a third party**. If sellers are not satisfied with the way the provider has dealt with the complaint, they can refer the matter to, for example

  - the officially-approved estate agents redress scheme to which the provider belongs (but only if the provider's activities involve: introducing the seller to third party buyers and, if an introduction is made, any steps taken to progress sale)
  - the Advertising Standards Authority (if the complaint is about the provider's advertisements online or in print media)
  - Citizens Advice, or
  - their local authority Trading Standards Service.

  See Annexe D for more detail.

- **For certain types of misconduct, if the seller feels they have a strong case, consider court action**. If the provider is in breach of contract or makes a misrepresentation, the home seller may have a claim for damages to compensate them for their losses. Consumers can also take their own legal action in respect of unfair terms. If a court finds a term used in a consumer contract to be unfair, it would not be binding on the consumer. Home sellers should consider obtaining legal advice before threatening or taking court action.

What providers should do

- **Comply with the law**. For example
    - Check whether they are engaging in any activities that would fall within the definition of 'estate agency work' under the EAA. If they are, ensure that they are meeting their legal obligations, including the requirement to be registered with an officially-approved estate agents redress scheme where they do residential estate agency work.
    - Be aware that the Provision of Services Regulations 2009 require businesses to respond to customer complaints as quickly as possible and to make their best efforts to find a satisfactory solution to the complaint.
- **Ensure that their staff and representatives are complying with the law**. They should have appropriate training in place so that anyone representing their business, or trading in their name, understands their legal obligations. They should also have appropriate controls in place to check compliance.
- **Deal with consumer complaints promptly, effectively and in a professional manner**.
- **Act professionally throughout the process and with a high level of consumer service**, since this will help to avoid complaints. For example
    - using sales scripts , techniques and practices that treat home sellers fairly
    - taking all reasonable steps to avoid unnecessary delays
    - keeping the home seller updated throughout the process.

Conclusion

Our study identified concerns around providers' compliance with consumer and estate agency law. It also noted that home sellers may find it hard to engage confidently with the quick house sale process as a result of some practices in the sector.

With this report (and its annexes), we have supplied information that will help:

- quick house sale providers to understand the law that applies to their sector and the steps they may need to take to deal with home sellers more openly and honestly. In addition, we have written to almost 120 businesses in the sector to remind them of their legal obligations and to ask them to check that their practices are not unfair to consumers. This includes a warning to providers that carry out estate agency work that they must comply with estate agency legislation or else face the risk of action.

- home sellers to raise their awareness of quick house sales, enabling them to make more informed choices and to engage with providers more confidently and successfully. We are working with partner organisations to ensure that our top tips for home sellers are disseminated in a targeted way, especially to vulnerable consumer groups.

In addition to this report, we have

- opened an investigation into three providers, focusing on business practices that potentially raise particularly serious concerns

- opened a dialogue with the sector encouraging them to develop some form of self-regulation

- engaged with RICS and the law societies of England/Wales, Scotland and Northern Ireland, asking them to notify their members of this report and raise awareness of the issues faced by home sellers in quick house sales.

Annexes

A. What are the main laws that may apply to quick house sales?

Giving quick house sale providers a summary of the key legal requirements that may apply to them depending on what services they offer, and suggestions on where they can go for more information.

www.oft.gov.uk/shared_oft/market-studies/oft1499a.pdf

B. Business good practice

Giving quick house sale providers suggestions on practices and behaviours that we think would help them to demonstrate compliance with the law and meet the professional standards that home sellers might reasonably expect from them.

www.oft.gov.uk/shared_oft/market-studies/oft1499b.pdf

C. Alternatives to quick house sales

Giving homeowners a summary of the main alternatives to quick house sales and, for each one, suggestions on where they can go for help.

www.oft.gov.uk/shared_oft/market-studies/oft1499c.pdf

D. Top tips for home sellers

Giving home sellers advice on how to deal with quick house sale providers, the things that can go wrong which they should watch out for, and what they can do to try to ensure that the sale goes well.

www.oft.gov.uk/shared_oft/market-studies/oft1499d.pdf

References

A list of the weblinks included in this report

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OFT website: Estate Agents Redress Schemes

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OFT website: Anti-money Laundering Registration

www.oft.gov.uk/OFTwork/aml/guidance

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Example sources of property price information

www.mouseprice.com

www.nethouseprices.com

www.zoopla.co.uk/house-prices

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HM Land Registry: Practice Guide 19 – Notices, restrictions and the protection of third party interests in the register

www.landregistry.gov.uk/professional/guides/practice-guide-19

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