



COUNCIL of MORTGAGE  
LENDERS

# Future Developments in Home Buying and Selling



**CML** | Research

---

# **Future Developments in Home Buying and Selling**

**Michael Wagstaff**

**and**

**Douglas Robertson**

**SPARK Research**

**September 2002**

**ISBN: 1 872423 94 9**

---

---

## The Council of Mortgage Lenders

The Council of Mortgage Lenders (CML) is the trade association representing the mortgage industry. Its members comprise banks, building societies, insurance companies and other specialist residential mortgage lenders, which together represent around 98% of the UK mortgage assets.

This publication forms part of the research programme commissioned by the CML on issues related to the mortgage and housing market.

A list of recent research reports and CML publications can be found at the end of this report.

© Copyright 2002 Council of Mortgage Lenders.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic or mechanical. Photocopying or other means of recording are forbidden without the prior written permission of the publishers.

The Council of Mortgage Lenders , 3 Savile Row, London, W1S 3PB  
Telephone: 020 7437 0075 Fax: 020 7434 3791  
Web: [www.cml.org.uk](http://www.cml.org.uk)

ISBN 1 872423 94 9

Every effort has been made to ensure the accuracy of information contained within the report but the CML cannot be held responsible for any inaccuracies that remain. The opinions expressed in this report are those of the authors alone and are not necessarily the views of the CML.

---

# Contents

|   |           |
|---|-----------|
| <b>Executive Summary</b>  | <b>4</b>  |
| <b>Chapter 1</b>  | <b>8</b>  |
| <b>Introduction</b>   |           |
| Background to the study   |           |
| Research method   |           |
| Why the CML commissioned the research   |           |
| <b>Chapter 2</b>  | <b>11</b> |
| <b>What are the problems in the current system and how has the Government responded?</b>                                    |           |
| The comparative slowness of the system in England and Wales   |           |
| High rate of failure and waste in the system  |           |
| The process is susceptible to delay and other problems during the period between offer acceptance and exchange of contracts |           |
| The process causes considerable consumer stress and dissatisfaction   |           |
| The Government's response   |           |
| The Bristol seller's pack pilot   |           |
| How the seller's pack is viewed by the property industry  |           |
| The Homes Bill and other legislation  |           |
| Are the problems identified in the Government's review still relevant?  |           |
| <b>Chapter 3</b>  | <b>20</b> |
| <b>What innovation has already taken place and what is likely to happen in the next 5 years?</b>                            |           |
| Introduction  |           |
| Information and communications technology (ICT)   |           |
| Estate Agency   |           |
| Conveyancing  |           |
| Mortgage lending  |           |
| Surveying   |           |
| <b>Chapter 4</b>  | <b>41</b> |
| <b>Consumers' views</b>   |           |
| Introduction  |           |
| Seller's packs  |           |

|  |           |
|--|-----------|
| Pre-sales surveys  |           |
| Direct conveyancing  |           |
| What is in the consumer's best interest?                       |           |
| <b>Chapter 5</b>   | <b>44</b> |
| <b>Future developments and their impact</b>                    |           |
| Introduction   |           |
| CML members' views on factors that will have a future impact   |           |
| Selling without packs – what developments would happen anyway? |           |
| Is there enough critical mass to make a difference?            |           |
| A future with seller's packs                                   |           |
| <b>Chapter 6</b>   | <b>51</b> |
| <b>Conclusion</b>  |           |
| Overall  |           |
| <b>Chapter 7</b>   | <b>55</b> |
| <b>List of organisations consulted</b>                         |           |
| <b>References</b>  | <b>56</b> |
| <b>Index of Tables and Charts</b>                              | <b>57</b> |
| <b>Recent CML Publications</b>                                 | <b>58</b> |



## Executive Summary

### Introduction

- This report was commissioned by the Council of Mortgage Lenders to assess what developments there have been in the home buying and selling industry in the last five years and to assess what future developments there might be in the next few years. The overall aim is to gauge the impact of market developments on the problems in the current system and to assess whether a compulsory seller's pack would bring about a material difference to the industry.

### Research method

- The research was conducted through qualitative and quantitative methods including:
  - A review of property related journals, websites and publications,
  - In depth interviews with key businesses and Government officials,
  - A survey of mortgage lenders.

### The problems in the current system and the Government's response

- Since 1997 reform of the home buying and selling process has been high on the Government's agenda. A number of research studies have been commissioned to explore problems in the current system and possible solutions. Research has found that:
  - The time taken from accepting an offer to exchanging contracts is slow by comparison with international standards.
  - There is a high rate of failure that leads to waste in the system – 28% of all transactions are estimated to fail after offer acceptance.
  - The process is susceptible to delay and other problems during the period between offer acceptance and exchange of contracts.
  - The process causes considerable consumer stress and dissatisfaction.
- In response to this the Government announced its intention to introduce a compulsory sellers pack that would require a seller to compile legal documents and a survey of the condition of the property before the property was marketed. The aim would be to bring greater certainty, transparency and less waste into the system.
- However, not all sectors of the property industry are convinced that seller's packs are the way forward and point to innovation and market developments both now and in the future as bringing about organically the sort of system the Government wants to legislate to introduce.

### **Market developments**

- The report highlights a number of developments in the last five years and looks ahead to developments that are likely in the next five years. The possible impact of these are then discussed. Some of the major developments that have happened or will happen are summarised below:
  - Information and Communications Technology (ICT) has had a significant impact in the way services are provided and the information consumers have access to.
  - Greater use of technology and instant credit referencing has led to a speeding up of the time taken to issue a mortgage offer.
  - Electronic conveyancing and the National Land Information Service (NLIS) will considerably speed up the conveyancing process by providing online access to title deeds, contracts, searches and other key data required in the process.
  - Greater system integration will happen in the next five years with XML protocols enabling the speedy transfer of data between businesses using different IT systems.

### **The impact of change**

- The key issue is how do developments over the last five years and those anticipated in the next five years impact upon the problems identified by the Government in its major review of the process published in 1999 (Randolph et al, 1999)?
- The time taken from accepting an offer to exchanging contracts is slow by comparison with international standards.
  - The greater use of online mortgage applications, instant credit scoring and more streamlined application processes has seen a significant improvement in the last five years in the time taken to issue a mortgage offer. The average time among lenders responding to the survey was 15 days. In the 1998 Government review the average time for a mortgage offer to be issued to the buyer was 22 days.
  - E-conveyancing and NLIS will further speed up the process meaning that in five to 10 year's time the gap between offer acceptance and exchange of contracts should be much narrower than that seen in 1998 (62 days). It is possible that it could take hours rather than days to get to exchange.
- There is a high rate of failure that leads to waste in the system.
  - A combination of pre sales surveys or much speedier 'buyer surveys' and better consumer information could help address this concern. Failure is also caused by problems with title and by a perception from consumers that professionals are not doing the job quickly enough.



- The process is susceptible to delay and other problems during the period between offer acceptance and exchange of contracts.
  - Delay and problems that jeopardise the transaction all stem from the length of time it takes to complete key milestones in the process. It is clear that market developments and greater use of technology will close the gap between offer and exchange. While this will not eradicate problems it should give them less opportunity to occur.
- The process causes considerable consumer stress and dissatisfaction
  - Considerable consumer stress and delay is caused by uncertainty over whether the transaction will go ahead (fuelled in part by a lack of information) and delays that can occur in the process often as a result of a valuation or survey identifying problems with the property. Customer satisfaction with pre-sales surveys and direct conveyancing (events that address the main causes of stress and delay) is high. If estate agents concentrate improvement on how they handle the relationship with their customers and continue to integrate with other service providers, satisfaction levels should improve.

### **Conclusion**

- NLIS, e-conveyancing and the innovations in service delivery in the mortgage and conveyancing sector will have a significant impact on the process. So too will information technology and the consumers use of the internet to help them buy and sell property.
- A significant issue is how long it will take to get to this situation and whether it can be reached without Government intervention. Many of the market developments discussed in the report are small scale and highly localised. The use of NLIS is increasing but it could still take 10 years for it to be fully online. Electronic conveyancing, however, could be the impetus needed to scale up some of the innovations that have occurred in the property industry over the last five years.
- The Government believes that seller's packs would better serve the consumer. While there is general agreement in the industry that earlier certainty and information to the consumer is a good thing, there is considerable doubt (especially among estate agents and some major lenders) about whether the disadvantages of seller's packs (costs in assembling, problems with information going out of date, effect on volume of homes coming to market) outweigh the benefits.
- The overall conclusion from the research is that, on balance, seller's pack legislation is not necessary provided that the industry places greater emphasis on embracing innovation and technology, improving customer service and providing the consumer with better information earlier in the process. Not introducing seller's pack legislation could send a

signal to the less reform minded elements within the industry that they do not need to change. This would be the wrong signal. The CML and its members have the opportunity to champion reform and innovation. They need to rise to the challenge.

# Chapter 1

## Introduction

This report looks at developments in the home-buying and selling industry over the last few years, highlights innovation and reports on how the residential property industry might develop in the next few years. The report identifies the driving force behind innovation and discusses the possible impact of seller's packs and electronic conveyancing.

### **Background to the study**

This is an opportune time for such a study. The Government has reaffirmed its commitment to introduce seller's packs once Parliamentary time allows. The indications are that a consultation paper on the content of the pack and on whether there should be exemptions from some or all of the pack for lower value properties (likely to be under £30,000) will be issued in 2002. Legislation would be expected in the following November's Queen Speech. Implementation of the legislation would be in late 2005 or early 2006 with the latter being the most probable. Officials for the sponsoring department – the Office of the Deputy Prime Minister (ODPM) (formerly the Department for Transport, Local Government and the Regions) (DTLR) were interviewed for this research, but could not confirm whether or not seller's pack legislation would be a priority in the next session of Parliament.

The Lord Chancellor's Department (LCD) has been promoting the Land Registration Act 2002 through Parliament. This will facilitate both online title registration and establish the framework for electronic conveyancing. The Government has announced an intention that stamp duty should be processed electronically. Electronic conveyancing is promoted on the basis that it will bring greater speed, certainty and transparency to the home-buying and selling process.

There have been a number of innovative developments in the home-buying and selling industry over the last few years. Many of these have been stimulated by the Government's intentions to reform the system. Examples include more streamlined lending processes by certain providers, the development of a national land and property register, centralised conveyancing and electronic surveys by certain providers. There has also been innovation in how existing services are delivered to the consumer and the rise in use of the internet and sms text messaging.

The report highlights what change is happening within the industry and whether this on its own will bring about the improvements desired by Government, without having to resort to

legislation. The potential impact of e-conveyancing is discussed alongside the Government's objectives for seller's packs and how the industry itself is responding to these challenges. The future of home-buying and selling both with and without seller's packs is discussed.

### **Research method**

The research has been undertaken through a combination of desktop research, key player interviews and a survey of mortgage lenders. A number of property related journals and internet sites were consulted to link into the current debate within the industry on the way forward. These included:

- *The Negotiator magazine*
- *Estate Agency News*
- *Estates Gazette*
- *The Property Forum*

A number of key players ranging from Government to private businesses were interviewed in order to find out more about what they offer and how it related to seller's packs and e-conveyancing. A full list of organisations consulted is given in Chapter 7. Finally, a short questionnaire was sent to all mortgage lenders to find out about innovation in the lending industry and the view from lenders on what the future would hold.

The response to the lenders' survey was disappointing with only 49 lenders responding, but those that did represented over 55% of all residential mortgage lending. The questionnaire was also available for non CML members to fill in through the Propertyforum.net website. This resulted in eight other responses. The survey is referred to in various places throughout the report. The qualitative (open ended) questions have been used to help develop the analysis of developments in the industry both past and future. The findings have also been used to provide a quantitative assessment of the importance of various factors.

Overall the report concludes with a discussion on whether seller's packs will represent a material gain over where the industry is likely to be in five years' time.

### **Why the CML commissioned the research**

Since the Government launched its review of the home-buying and selling process in 1997 there has been much innovation both in processes and customer services. Innovations include pre-sales services, centralised conveyancing, online searches and internet based property listings.

The CML are keen to find out what impact market developments have had in the last five years and, crucially, what impact such developments might have in the next five years.

The driving force behind such change needs to be identified to see where the momentum for future change might come from. This is an important consideration because if the driving force behind market developments is the threat of reforming legislation (seller's packs for example) then if that threat is lifted what will happen to innovation? The CML are keen to know to what extent the market would change if there was no legislation for seller's packs and whether seller's packs would represent a material improvement on where the market is likely to be in 5 years time.

## Chapter 2

### What are the problems in the current system and how has the Government responded?

Before highlighting some of the innovation that has arisen, it is important to discuss what some of the key problems are within the industry. This section is not intended as an exhaustive list of issues but serves merely as a checklist against which the discussion of innovation can be placed in context.

In 1998 the Government commissioned research into how the current system of home-buying and selling operated in England and Wales and how it compared with those in other countries, including Scotland. The research (Randolph et al, 1999) was commissioned, in part, in response to the Labour Party election manifesto commitment to eradicate gazumping – the practice whereby a seller accepts a higher offer on a property having already accepted an offer from a different buyer.

The research was the most comprehensive investigation ever of the home-buying and selling process consisting of tracking 800 transactions, undertaking a survey of 700 recent buyers in Great Britain as well as extensive interviews with conveyancers, estate agents and surveyors. It highlighted a number of problems in the current system that can be summarised as:

- The time taken from accepting an offer to exchanging contracts is slow by comparison with international standards.
- There is a high rate of failure that leads to waste in the system.
- The process is susceptible to delay and other problems during the period between offer acceptance and exchange of contracts.
- The process causes considerable consumer stress and dissatisfaction.

#### **The comparative slowness of the system in England and Wales**

Research for the Government by Harvey and McNaughton (1998) estimated that the time from offer to completion in England and Wales was between 10 and 12 weeks. This was longer than other countries studied for the research (see table below).

**Table 1: Number of weeks from offer to exchange of contracts**

|                   | Number of weeks |
|-------------------|-----------------|
| New South Wales   | 8               |
| Ontario           | 5 – 6           |
| Denmark           | 6               |
| France            | 6 – 13          |
| Hong Kong         | 6               |
| Netherlands       | 4 – 6           |
| Portugal          | 6 – 8           |
| South Africa      | 5 – 9           |
| Sweden            | 4 – 6           |
| USA               | 6               |
| England and Wales | 12              |

Source: Harvey and McNaughton (1998)

Of the countries studied only in France was the time taken to reach exchange of contracts comparable to that of England and Wales. Denmark, the Netherlands and Sweden were estimated to have times half that of England and Wales. It might be significant that countries where exchange happens quicker use conditional contracts committing the buyer and seller at an early stage and there is greater use made of rented accommodation, both of which dilute the effects of chains.

It was felt that the long time taken to reach exchange of contracts created uncertainty in the system and gave a greater opportunity for things to go wrong.

### **High rate of failure and waste in the system**

The review of the home-buying and selling process in 1998 (Randolph et al, 1999) estimated that 28% of transactions failed after the seller had accepted an offer. The research also estimated the cost of failed transactions. Based on survey data it was estimated that the average cost for the buyer of a failed transaction was £680 and the average cost for a seller was £226. These costs were made up of conveyancing costs (for both buyer and seller) and mortgage arrangement and valuation fees.

Taking the above costs into account and applying them to an estimate of how many transactions each year are likely to fail, the Government estimated that the total cost of failure was about £350m per year (Office of the Deputy Prime Minister, 2000).

### **The process is susceptible to delay and other problems during the period between offer acceptance and exchange of contracts**

The report *Key Research into Easier Home-buying and Selling* (Randolph et al, 1999) found that about one third of buyers experienced problems between putting in an offer on a property and receiving a mortgage offer. On average it took 31 days for a mortgage offer to be received. A valuation on the property was undertaken after 22 days on average. Other problems included down valuations (where the mortgage lender's valuation of the property is lower than the agreed selling price) and conditions attached to the mortgage.

The research also suggested that half of all buyers and sellers experienced problems between the buyer receiving a mortgage offer and exchange of contracts. These related to the condition of the property revealed by a valuation or survey, perceived delays caused by conveyancers or the difficulty in coordinating completion dates in a chain of transactions.

These delays caused the average period between offer acceptance and exchange of contracts for a buyer to be 60 days.

### **The process causes considerable consumer stress and dissatisfaction**

The research showed that dissatisfaction with the current system was high particularly among buyers. At the end of the process, 40% expressed dissatisfaction with the experience that they had just been through. The research showed that dissatisfaction doubled as the transaction progressed. The report concluded that the current process was not designed with the consumer in mind (Randolph et al, 1999).

### **The Government's response**

Following publication of the research the Government issued a consultation paper (*The Key to Easier Home-buying and Selling*, 1999) outlining a number of different policy options including that of a seller's pack.

Responses to the Government's consultation paper showed that there was strong support for a seller's pack as a solution to the problems identified by the Government's review (64% of those making a comment approved of a seller's pack), although concerns were expressed about the costs of putting a pack together, and what to do if the searches expire. The contents of the seller's pack were a point of contention – legal searches and reports were felt to be advantageous but there was disagreement over the inclusion of a survey commissioned by the seller. It was felt that these could add to the costs of selling a property and could have a limited usefulness in areas where properties take a long time to sell.



Research for the Government in 2000 (Wagstaff et al) examined a wide range of seller's pack related initiatives across the country which were started by different groups of professionals in response to a perceived need or an expected change in the system. Broadly speaking schemes were one of three types:

- A pack containing legal documents and a survey
- A pack containing legal documents only
- A survey only

This research suggested that initiatives such as voluntary seller's packs, pre-sales surveys and upfront legal work could bring benefits to the consumer in relation to greater certainty and better information. However, the voluntary initiatives were small scale and tended to be taken up by experienced sellers who had a greater understanding of the potential pitfalls in the process.

In October 1999 the Government announced its intention to legislate for the introduction of a compulsory seller's pack that would bring to the start of the process the assembly of important legal and property related documents needed by buyers and sellers to make informed decisions and to identify potential problems which could affect the transaction. The Government's objectives for the seller's pack were to:

- Increase openness and transparency
- Demonstrate the seller's seriousness and discourage timewasters
- Help the seller decide upon an appropriate asking price
- Enable the buyer to make more informed decisions and decide whether the property meets his or her requirements
- Help the buyer to decide how much to offer
- Help buyers and sellers to commit themselves to the transaction
- Reduce the number of factors that might cause transactions to collapse after terms have been agreed
- Reduce the need for renegotiating the price
- Draw attention to additional points that buyers of leasehold properties should consider
- Shorten the period of uncertainty between offer acceptance and exchange of contracts

### The Bristol seller's pack pilot

In 2000 the Government ran a pilot of a seller's pack in Bristol. The aim of the pilot was to test out how a pack might work, who needs to do what and how long it would take to be assembled. The pilot ran for eight months and during that time 190 seller's packs were issued for free including 30 compiled on new properties by Beazer Homes.

The contents of the seller's pack used in Bristol were:

- copy title deeds (office copy entries, including the filed plan of the property) and/or copies of the original title deeds held by mortgage lenders or epitome of title in the case of unregistered property;
- a property information form containing the seller's replies to standard pre-contract enquiries; replies to standard search and other enquiries made of the local authority and drainage company;
- a mining search;
- a report on the condition of the property, including requirements for urgent or significant repairs or matters requiring further investigation - the Home Condition Report (HCR);
- a report giving a rating of the energy performance of the property using the Government approved Standard Assessment Procedure (SAP) together with information about possible improvements;
- a summary of the contents of a draft contract.

Where relevant, the seller's pack also contained the following:

- copies of consents relating to planning and listed building consents and building regulations;
- any available guarantees for works carried out (eg, damp proofing, timber preservation, cavity wall insulation etc);
- for Beazer Home properties, copies of National House-Building Council (NHBC) warranties, a NHBC energy survey but not a HCR;

For leasehold properties, the seller's pack also contained copies of:

- the lease;
- the most recent service charge accounts and receipts;
- the insurance policy covering the building and receipts for premiums;

- a seller's leasehold information form, giving further information regarding accounts, payments, complaints etc;
- where there was a management company, a company search report from a specialist supplier of this information.

The results from the pilot showed that a seller's pack typically took 11 days to compile. Research with consumers showed that 58% of buyers stated that the pack helped them in giving early information about the property. Nearly two-thirds (64%) of buyers consulted the Home Condition Report (HCR) prior to making an offer, and over 90% consulted the HCR at some stage in the process. Six in ten buyers felt that the legal element of the pack was comprehensive and gave them the detail they required (Source, Office of the Deputy Prime Minister, 2000).

In the trial properties reached exchange of contracts 14 days quicker than under the current system. Satisfaction among buyers with the seller's pack system was high - 75% expressed satisfaction with the seller's pack. Sellers were less satisfied with only 37% expressing satisfaction. The lower level of satisfaction among sellers was attributed to the fact that sellers expected that the pack would enable them to sell their property quickly. In reality this did not happen and many properties remained unsold at the end of the trial.

The pack made only a marginal difference to transaction failure rates. The failure rate in Bristol was 25% (compared to 28% under the current system). However, it should be remembered that only one property, where a chain of sales existed, was using a pack.

The Bristol pilot has been criticised for a number of reasons. Critics point to the low take-up in Bristol despite the Government paying for the pack as proof of its unpopularity with the consumer. There was also a worry that the HCR would mean that people with properties in poorer condition would not be able to sell their home. The cost of pack assembly variously estimated to be anywhere between £500 and £1,000 is felt by critics, especially in lower value areas, to act as a major impediment to selling a home. Other concerns were expressed about the trustworthiness of a survey commissioned by the seller and the possible criminal sanctions for non compliance.

### **How the seller's pack is viewed by the property industry**

Most of the key players interviewed (Chapter 7) agreed that the house buying process needed reform but many felt that it would be better if all the legal work could be brought together during the marketing period rather than before marketing the home. There was also disagreement with the Government's intention that a home should not be marketed until the pack is ready because

this ignores how estate agents work and how consumers behave and was felt to be unenforceable. The difficulty here is that by adopting this approach the incentive to get the pack ready quickly would be lost, and potential buyers would not be getting all the information up front at the point of initial marketing.

All businesses interviewed felt that the introduction of greater certainty into the process would be a significant benefit of introducing a seller's pack. Some expressed the view that those estate agents unwilling to embrace a new way of working would be forced out of the market.

Surveyors saw it as significantly changing the nature of their business with the survey work growing at the same time as valuation work declined.

All respondents noted the benefits of having good quality up-front information supplied to the consumer so they can make an informed decision at offer. One interviewee stated:

'If the title has a problem better finding out at the start than in week 27'.

Some interviewees felt having the legal information up-front was core to any reform, and that the HCR could come slightly later. The Bristol pilot noted, however, that it was the HCR which the buyers focussed on, rather than the sometimes impenetrable legal documentation. Others said that it would increase the certainty of securing a purchase, usually noting that their operational innovation was designed to ensure this happened. The speeding up of the entire process was also considered to be a strength.

Some mortgage lenders felt that seller's packs would not work because:

- The HCR was not considered to be robust because it could not serve all the distinct needs.
- There are not enough surveyors to turn around the work, and recruiting Home Inspectors from other disciplines represents a downgrading of professional surveying skills. A depressed housing market would lead to fewer sales and therefore fewer Inspectors would be required. Even if the number of sales fell to 1m from 1.4m per annum the number of HCRs required will still represent a tripling of the number of surveys currently undertaken.
- Searches would go out of date and have to be refreshed.
- In a slow market much work and expense will be wasted as properties do not sell but packs will have to be paid for.
- Chains will continue regardless of whether there is a seller's pack.
- If the seller does everything the buyer does not have to show commitment.

### **The Homes Bill and other legislation**

Despite the criticisms, the Government introduced a Homes Bill in 2000 that would have made a seller's pack mandatory. The Bill ran out of time as a result of the General Election in May 2001. The Government has reaffirmed its commitment to introduce a seller's pack once Parliamentary time allows. The indications are that a consultation paper on the content of the pack and on low value exemptions will be issued in 2002. Legislation would be expected in the following November's Queen Speech. Implementation of the legislation would be in late 2005 or early 2006 with the latter being the most probable. Officials for the sponsoring department – the Office of the Deputy Prime Minister (ODPM) - were interviewed for this research but could not confirm when seller's pack legislation would be re-presented.

The Lord Chancellor's Department (LCD) has been promoting the Land Registration Act through Parliament. This, when enacted, will facilitate online title registration and will establish the framework for electronic conveyancing. Electronic conveyancing is promoted on the basis that it will bring greater speed, certainty and transparency to the home-buying and selling process.

### **Are the problems identified in the Government's review still relevant?**

During the key player interviews respondents were asked what they thought the problems were with the home-buying and selling system. The issues described included:

- Buyers and sellers changing their mind once they had agreed an offer on a property.
- Lack of certainty that the deal will go through to completion.
- Too much paper shuffling and not enough action especially on the part of solicitors and lenders.
- Takes too long.
- Too many vested interests.
- Chains.
- Lack of honesty among buyers, sellers and the professions.
- High number of abortive sales leading to waste in the system.

One of the key problems in the current system is chains of transactions. A chain is a particular feature of the English and Welsh system. It exists when a number of buyers and sellers are linked together with a buyer depending on the sale of their own property to enable them to buy another. Problems in any one of these links has the potential to effect many other transactions. Innovations that help to speed up the process and make it more certain will help, but will not address entirely the problems caused by chains. The same is true with a seller's pack. Greater

use of short term rented accommodation, binding contracts at offer stage and bridging loans would have greater impact.

It can be seen that the view from the property industry on what the problems are is very similar to that of the Government.

Another consideration was that both the estate agency and the legal profession are considered to be cottage industries. This meant that there are too many organisations working individually rather than working in cooperation with other sectors of the industry. This inevitably meant that new technology is slow in taking off and that innovation (both in relation to market developments and IT use) is lacking among the majority. At the same time, however, it meant that there is plenty of choice for the consumer in who they could appoint to sell their property or undertake their conveyance.

This was part of a wider series of points raised about the need for the property industry to adopt a more professional approach to working. Some non estate agents felt that entry into estate agency is too easy and that selling a house in a buoyant market is not difficult. This led to a call for licensing of estate agents and greater regulation. However, not everyone interviewed felt this way. A consumers group believed that regulating entry into estate agency might limit consumer choice in the market. The organisation believed that there should be a more professional approach to estate agency with national bodies, such as the National Association of Estate Agents, taking the lead.

The Office of Fair Trading (OFT) is currently investigating the estate agency sector to see whether practices, particularly in relation to selling commissions, are anti competitive. Any recommendations made by the OFT would need to be implemented in full in order for the consumer to be confident in the trustworthiness of agents. It would seem prudent not to entrust estate agents with assembling seller's packs until any OFT recommendations have been implemented.

This is the context against which market developments should be assessed. The next chapter discusses developments in the market both during the last five years and those anticipated in the next five years. This leads on to a discussion in subsequent chapters about the impact of market developments on the consumer (chapter 4) and on the problems within the current system (chapter 5).

## Chapter 3

### What innovation has already taken place and what is likely to happen in the next 5 years?

#### Introduction

This section looks at the key changes in the last five years relating to a number of different service areas. These are:

- Information and communications technology.
- The mortgage lending process.
- Estate agency services.
- Legal services.
- Surveying services.

Each one is now discussed in detail by highlighting the developments that have taken place in the last five years, identifying what developments might take place in the next five years and analysing what impact past and future developments would have on the issues discussed in chapter 2.

#### Information and communications technology (ICT)

##### The last five years

The impact of ICT has been significant in altering how the house buying industry is marketing property and organising its operations. Email and the internet have had a great impact in changing the way things are done. Many estate agents have their own website and there are property portals that enable users to search a number of different property databases. The most commonly used is rightmove.co.uk (two million 'hits' per month according to its website) which is a pooling of resources from five of the biggest estate agents. According to the estate agents interviewed the ultimate property database containing every home for sale is probably still a long way off as, apart from rightmove.co.uk, there is an uneasiness in sharing information in the estate agency sector. This is demonstrated by the failed attempts to construct a database of all properties for sale.

While consumers often search initially via the internet this is still a partial facility, as it is neither complete nor in real time (because of time lags in updating websites). It does mean, however, that the traditional trawl through local newspapers and then on to the estate agent's offices for particulars is quickly altering.

Some estate agents offer virtual tours of property or video streaming. This means that a potential buyer can travel from room to room and get a detailed view of the property without having to leave their PC. While most of the top 40 estate agents offer virtual tours, the facility is currently only available on a small number of properties because of the cost. The market leader in providing virtual tours told us that e-tours are usually reserved for 'the better instructions' meaning properties at the upper end of the market.

In the USA the internet has changed the way properties are bought and sold. Surveys show that internet buyers go about the home-buying process very differently to traditional buyers. They look at fewer properties - eight compared to 15 in the more traditional route. Internet buyers spend three times longer investigating the market than traditional buyers. They have a much better idea of the property they want, where they want to buy it and how much they can afford. Internet buyers take fewer weeks to buy their properties than traditional buyers (National Association of Realtors, 2000). As internet connectivity in the UK increases to near USA levels (75 of households) the same pattern of usage could emerge in the United Kingdom.

Email has also had a profound effect on the way that professionals exchange information and contact their customers. A direct conveyancer interviewed for this research estimated that 50% of the contact that they have with clients is through email. A leading provider of title insurance pointed to email as the single most important development in their industry over the last five years because it offers immediate contact between professional and consumer as well as between professionals.

Text messaging to mobile telephones is also playing a growing part in the home-buying and selling process. In 1997 10% of the population of Great Britain had a mobile telephone. By May 2002 the figure was 75% (MORI Technology Tracker). Some estate agents use it to inform potential buyers of properties that have come on the market. Conveyancers use text messaging to inform their clients that documents have been received or to remind them to return forms.

The use of ICT driven workflow systems was seen on a number of occasions. Centralised conveyancers in particular have been quick to see the advantage of computerised workflow systems that are task oriented and enable the automated generation of letters to the client and the



completion of non specialist tasks by lower grade workers. Users of these workflow systems believe that it can speed up tasks and ensure they are performed more efficiently.

Personal Digital Assistants (PDAs) such as Palm devices are being used in the collection of information. Devices exist to enable estate agents to produce floor plans and particulars on a PDA which can be uploaded to a computer for printing. Other developers have programmed handheld devices to undertake a Home Condition Report. These both enable key information to be collected and analysed much quicker than paper based systems. However, the take up is not good with less than 1,000 agents (out of a total of 10,000) using such devices. No figures are available on the number of surveyors using PDAs to undertake surveys but it is not thought by practitioners within the industry to be high.

The rise in the use of the internet over the last five years has enabled consumer access to much more information. MORI's Technology Tracker survey (see [www.mori.com](http://www.mori.com)) shows that in 1997 10% of the population of Great Britain had internet access either at work or at home. In May 2002 the proportion was 46%.

Websites such as [Upmystreet.com](http://Upmystreet.com) offer access to neighbourhood level information on house prices, crime statistics, local schools and leisure facilities in the area buyers want to purchase in. Other websites offer information on the environment and geological issues that might impact upon house purchase. WAP technology means that these information sources can be accessed by mobile telephone as well as the internet.

Other websites provide information about the buying and selling process often with 'how to do' guides helping buyers and sellers through the process. Some websites offer access to local estate agents, solicitors or surveyors as well as removal companies and interior decorators.

The extent to which these sites are actively used in home-buying and selling is not known but the potential is great.

### **The next five years**

The use of technology both in relation to business to consumers and business to business communications is likely to increase significantly in the next five years. As the price of broadband internet access reduces to the consumer and 'always connected' packages become more widespread, the internet will play an increasingly important role in buying and selling a home. The role is likely to have two main components:

- Greater integration between software systems enabling data and information to be exchanged more efficiently. This will be essential for electronic conveyancing (see later) and should speed up the process by cutting out the need to do tasks manually or send documents by post.
- Greater consumer access to properties for sale online and greater access to information will help buyers make decisions about whether they want to live in a certain area. This will involve more use of information portals (such as upmystreet.com), virtual tours and database sharing between estate agents of properties for sale.

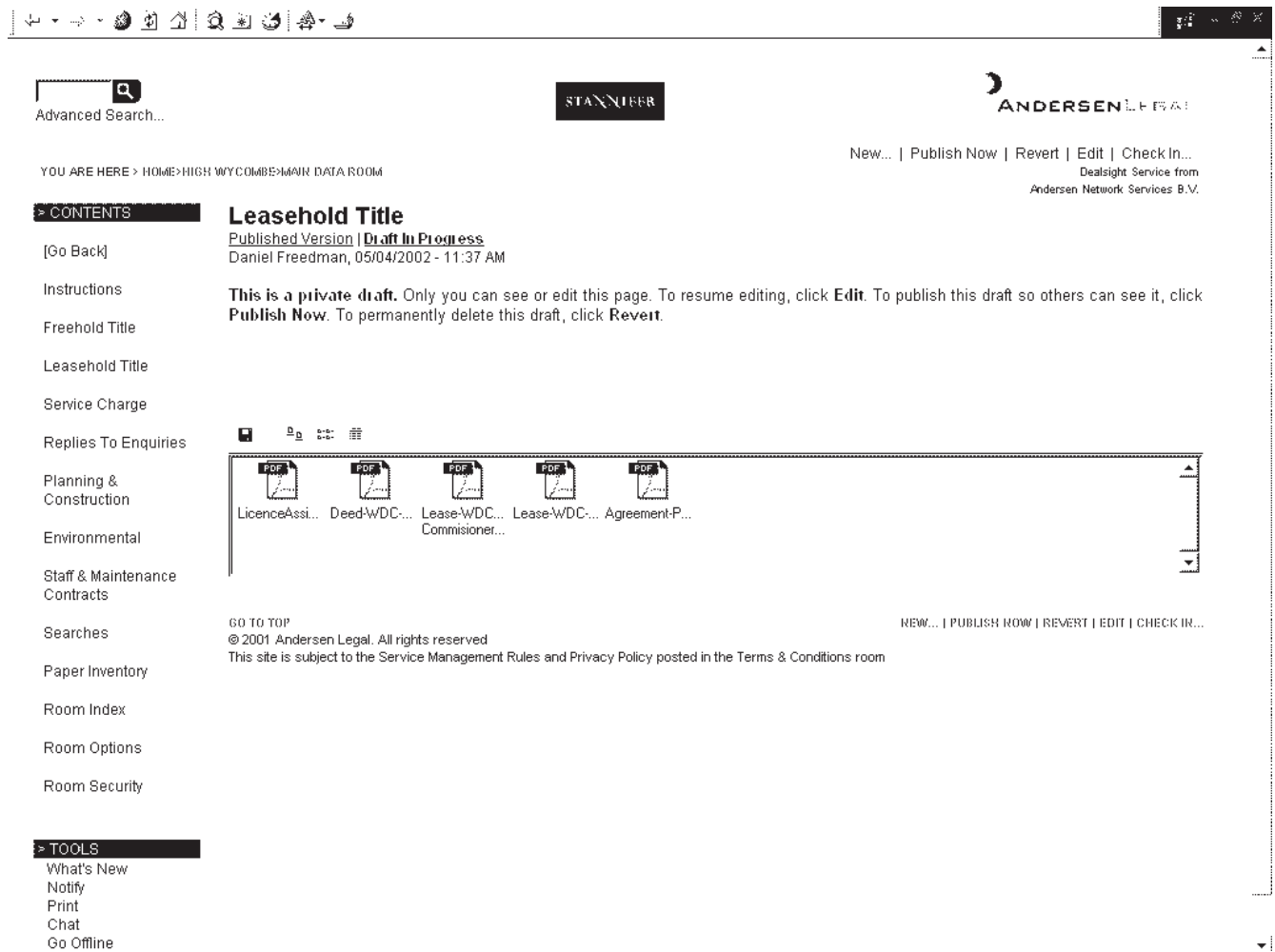
The need for greater system integration has been recognised in the commercial sector. It is probable that the developments in the last five years in the way commercial property is bought and sold will transfer to the residential sector over the next five years.

In the commercial sector a number of organisations have developed PISCES which is a XML based protocol to enable the exchange of legal, marketing and valuation data between organisations that have different software systems. Put simply, XML (extensible markup language) is a code that can be attached to a word processing, spreadsheet, accounts or desktop publishing file. The recipient of the file can pass it through a XML reader which can be programmed to extract automatically data that the organisation needs for their part of the transaction. For example, there might be a number of legal documents relating to a purchase each of which contain important information on the title of the property. The recipient's XML reader would be programmed to extract from the documents information relating to covenants, easements and ownership. This data would be extracted and input automatically into the recipient's datafiles.

PISCES enables data to be transferred between systems that would not otherwise be compatible. At present the predominant use of PISCES is for valuation of properties, forecasting of yields and in internal integration of business systems. PISCES is being developed to integrate with the financial aspects of transactions (such as accountancy matters and fund transfer) as well as the conveyancing process (via a legal working group of PISCES members).

The developers of PISCES believe that it saves time in the sale of commercial properties and enables sales to be undertaken online in 'virtual deal rooms'. An example of a virtual deal room, constructed by Dundas and Wilson, commercial property lawyers, is shown in Chart 1.

### Chart 1: Virtual deal room



The chart shows a page from a website where legal, marketing and financial information about a property is stored. The legal information is compiled as the property is marketed rather than after an offer has been accepted (which is what happens in residential sales). Paper documents relating to the title and lease are scanned into portable document format (pdf) and are PISCES compatible. Access is password protected which means that access is restricted by the owner to those people (or in this case organisations) that have an interest in buying. As the documents are PISCES compatible, data needed by potential buyers to undertake legal checks on the property or to undertake a (desktop) valuation can be automatically extracted.

The web page has a link to a section where bids can be left without other bidders seeing the amount offered. Eventually contracts will be able to be exchanged electronically.

It is likely that the PISCES standard, or one similar to it, will become increasingly more significant in residential sales in the next five years. It is possible to see it being the system integrator that enables both e-conveyancing and NLIS to develop.

Other technology related developments for the next five years include e-conveyancing, NLIS and online mortgage approvals. These are discussed later in the chapter.

### **Impact of developments**

Developments in technology to date and those anticipated for the future are likely to address a number of Government concerns over the current system. The greater integration of systems and the greater use of workflow technologies and devices such as PDAs will help to make the home-buying and selling process more efficient and quicker. Although increasing the speed of the current system is not a Government priority, closing the gap between offer acceptance and exchange of contracts is. It is in this period that Government believes that transactions are at most risk of delay and failure (see chapter 2). If this gap is closed through more efficient working then there should be less delay and transaction failure.

Technological developments will also mean that buyers and sellers will have more information about properties for sale, their location and the environmental factors that might have a significant impact upon the sale.

### **Estate Agency**

There are 10,000 estate agents that are members of the National Association of Estate Agents. A further 1,000 are members of the Guild of Independent Estate Agents. An unknown number of estate agents belong to the Royal Institution of Chartered Surveyors.

No figures are available on the number of estate agents that use ICT to run their businesses.

A number of estate agents were interviewed for the study. These ranged from small independent one or two branch agents to large corporate bodies that have branches nationwide.

### **The last five years**

Estate agency firms interviewed believe that the structure of estate agency has remained very much the same in the last five years. Independent estate agents – that is, those agents that are not tied to corporate structures, comprise about 60 per cent of the market. Corporate estate agents such as those owned by Your Move (part of Aviva), Royal and Sun Alliance (rebranded as Sequence), Halifax and Countrywide have about 40 per cent of the market and, in the main, have invested heavily in technology to run their business.

There have been two significant changes in estate agency in the last five years. These are the use of the internet as a tool for listing properties and greater integration between estate agency and legal and surveying services.

### **Internet listings**

Most major estate agencies have an internet capacity either through:

- Their own website (such as Andrews the largest UK independent).
- Belonging to a property portal (for example Rightmove or Fish4homes).
- Belonging to an affinity group such as the Homesale Network or TEAM Association (the largest independent grouping) who display all property for sale through their members.
- Subscribing to a group that hosts property pages for smaller estate agencies (for example thelondonoffice).

Most property websites enable the user to specify their requirements relating to location, type of property, number of bedrooms and price range. A photograph is usually available along with a description of the property. Some websites offer an email link to the agent so that appointments to view can be made. The largest website according to the number of visitors is rightmove.co.uk with 2 million 'hits' per month. This site has on it all property for sale through five of the largest corporate estate agents and a small number of independents who pay a fee for each property listed. Agents interviewed believe that improving access to information is seen to be core to improving the workings of the market.

Over the last few years many organisations (eg. assertahomes.com, and goodmigrations.co.uk) have tried but failed to assemble an online property database that contains all (or at least the majority) of properties for sale in England and Wales. This would enable a potential buyer to see all properties available from one site rather than having to log on to three or four different sites. Disagreements over referral fees and the reluctance to share listings with competitors has meant that the complete property database has not happened yet.

The nearest thing to the nationwide online property database is the concept used in the United States of America of multiple listings. A multiple listings operator in England adopts a US model that allows estate agents to list their properties with other agencies. The public cannot sell directly, they need to list their property with a lead estate agent who agrees to their way of working and agrees to adhere to the Estate Agents Ombudsman scheme. All agents in the scheme are sent a list of properties for sale through other agents.

Other estate agents in the multiple listing scheme can introduce buyers to the property for sale through the lead agency. An agent supplying a buyer receives 40% of the fee, the lead agent gets 40% with the operator getting the remaining 20%. The core idea is that whoever visits an estate agents is a potential customer even though that particular agent does not have the property on their books. By linking an existing network of estate agents the sum of the parts can be made into a bigger whole.

The multiple listings scheme is in its infancy and the number of users is small. The model has been imported from the United States where multiple listing is the norm. Given the problems that organisations have experienced in trying to get set up an online property database for the UK it is doubtful whether the scheme could be scaled up to a nationwide level. It is likely that it will be used by agents as a means of differentiating themselves from other agents in the market. It is possible to see multiple listings that are regionally based - for example all properties in the North West or in the South East. The motivation for this might come from the regional press who currently carry the majority of newspaper based property listings. As 'all embracing' property websites become more popular, the regional media might see providing multiple listings on a regional basis as a way of protecting their income.

### **Integration with conveyancers and surveyors**

A number of organisations have brought together estate agency services with legal and surveying services to provide greater integration in the home-buying and selling process. One such company connects estate agents with a panel of independent solicitors and further panel of surveyors. All members of the group work to an agreed standard and use software provided by the company. This software is used to keep each organisation (and the consumer) informed of progress in the sale or purchase of the property.

The idea is to offer the buyer or seller a one stop shop for all services they will need in the process. Part of the reason for setting up the service a few years ago was the likely introduction of the seller's packs. The integration between estate agent, solicitor and surveyor would enable the assembly of seller's packs in a few days and probably on a no sale, no fee basis. The company when interviewed felt that it would be important to be able to compete with corporate estate agents that also had their own legal and surveying arm.

### **Voluntary seller pack schemes**

Research for the Government (Wagstaff et al, 2000) showed that there were a number of organisations running seller's pack schemes. Two schemes featured a complete pack, that is legal

work and a pre-sales survey on the property. Another scheme consisted of legal documentation only.

However, such schemes were generally small scale and operated in a local area. None of the schemes researched had a national presence although one has subsequently expanded with limited success.

### **The next five years**

All estate agents interviewed believed that the internet will play an increasingly important part in estate agency through listings and in providing the consumer with information about the area in which they intend to buy.

Agents interviewed believed that buyers will use the internet more to identify properties they wish to view. However, estate agents did not see online home sales replacing the traditional way of selling a property. Agents believed that branch based estate agency will not change over the next five years. Agents will still be required to act as a negotiator between buyer and seller and liaise with conveyancers, surveyors and mortgage lenders.

One important change, however, is likely to be in the relationship between consumers and estate agents. One corporate estate agent interviewed believed that consumers should be given more information about the status of their sale or purchase and that estate agents should act as facilitators within the selling process. This means helping buyers and sellers access services such as mortgage lenders, removal companies, conveyancers, surveyors, interior designers, utility companies and other service providers. The idea of the service is to make the moving process less stressful by recommending businesses that can help from a panel maintained by the estate agent.

The agent has also used ICT to enable the buyer or seller to check the status of the sale or purchase through an online tracking facility. Training and continuing professional development of staff was considered a high priority so that estate agency would be undertaken in a more professional manner.

In relation to system integration it was felt that the larger independent agents and corporate agents will become increasingly more integrated with other service providers (such as conveyancers). The motivation for this was to provide a more complete service for customers. From the interviews it was doubted whether small independent agents would integrate with other

systems because of the cost involved. Joining up with affinity groups such as TEAM or the Home Sales Network was considered to be a possible option for these companies.

### **The impact of developments**

There is no conclusive evidence on the impact of voluntary seller's packs scheme on the home-buying and selling process. An estate agency in Bristol marketing a voluntary seller's pack claims that 98% of their sellers choose the pack over traditional selling methods. The agency claims a fall through rate of eight per cent, and a withdrawal rate of 90%.

While this Bristol estate agent seems to show it is addressing many of the Government's concerns over waste and transaction failure, it has to be remembered that the figures relate to a small estate agency operating in a small part of the Bristol market. Other estate agents interviewed for this study believed that similar low failure rates could be achieved by 'good estate agency' - this meant keeping in regular contact with buyer and seller, liaising with professionals and progress chasing.

Voluntary schemes have two problems that makes testing their impact difficult. The first is that they are localised and small scale. The number of seller's packs sales are usually too small on which to measure success or failure. They tend also to focus in on a particular market that is not representative of the market as a whole. Second, where there is a chain of properties for sale the pack offers no advantage because no other property is for sale with a pack. Voluntary seller's pack schemes have made little difference to the home-buying and selling process. The Government believes that unless the scheme is compulsory seller's packs are unlikely to work.

A more professional estate agency sector (licensed and properly regulated), greater integration and more emphasis on customer service could take some of the consumer stress out of the process and at the same time deliver greater efficiency. However, it is doubtful whether the majority of small estate agents will have the resources or the willingness to change the way they do things unless they are compelled to do so. Seller's pack legislation might be able to effect a change but without licensing and greater regulation it is doubtful whether it would have much impact.

### **Conveyancing**

#### **The last five years**

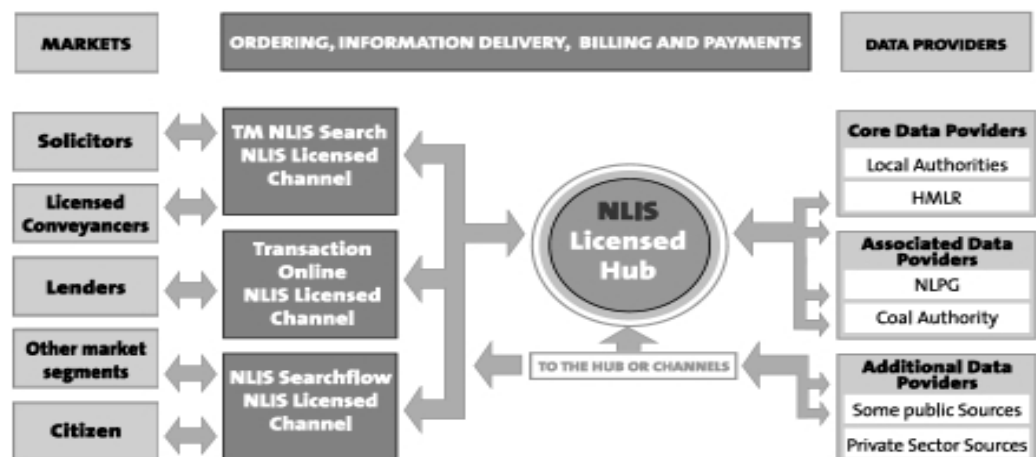
The last five years have brought two significant developments in the conveyancing field. These are the National Land Information System (NLIS) and the advent of bulk conveyancers.



## NLIS

NLIS is a Government initiative to automate and speed up the provision of property related information held by local authorities. The idea is that information currently requested of local authorities through the Con29 and LLC1 forms can be requested online and received back in minutes rather than in days as at present. It is hoped that other search providers such as Water Companies will provide data through NLIS in the future. NLIS also has access to the Land Registry to obtain title information, office copy entries and file plans via Ordnance Survey. The NLIS structure consists of a hub and three channels (see Chart 2).

**Chart 2: The NLIS Process**



Source: NLIS website

The hub, operated by Macdonald Dettwiler, has access to the local authorities while the three channels operate between the hub and conveyancers. In effect the hub is a wholesaler with the channels acting as retailers.

Since it went live, NLIS has provided its clients with an electronic interface to all 375 local authorities. As at July 2002, 41 local authorities have what is known as level three connectivity. This means that they can receive a request for a search online and deliver the results online. In addition, there are 90 local authorities at level two whereby they can receive a search request electronically but process it manually. It is anticipated that a further 40 local authorities will be at level two by the end of 2002. The remaining local authorities currently deal manually with search requests and delivery of results.

NLIS went live in April 2001. Up until May 2002, 100,000 searches have been requested through the channels. It is estimated that there will have been 150,000 NLIS searches undertaken by the

end of 2002. To put this into context there are typically 1.4 million searches in the residential property market undertaken per year.

If NLIS is to have an impact on home buying and selling its market share has to continue to expand. There are two things that are holding NLIS back. The first is that the modernising agenda in local authorities is proving both slow and expensive. The Government's e-envoy has set a target of 2005 for all local government services to be online. However, the scale of the task of dematerialisation needed means that searches might not be completely online until 2012 .

The second challenge for NLIS is price competitiveness with traditional search methods. To date all central government data providers and a number of local authorities have agreed to a pricing structure to ensure that electronic services are equal to or less than equivalent paper-based services. Currently this requires individual agreements with each local authority. The pricing strategy of the three channels varies. Where the search price includes an element for the development and operation of the system, the cost can be between £4 and £8 more expensive than a paper search. One of the channels does not include an operational charge and its fees are equal to a paper based system.

In level three authorities the search will be quicker through NLIS but in those authorities that have to process the search manually there will be no speed savings. In many cases a personal search can be undertaken quicker and cheaper than an NLIS search.

Another problem for the channel providers is that the use of ICT among solicitors is not high.

### **Direct conveyancing**

There are a number of bulk or direct conveyancers operating within the market. It is estimated by the Direct Conveyancers Association that 20-25% of all conveyances (between 280,000 and 350,000) are undertaken by a centralised conveyancer.

Different operators have their own way of working but the principles are more or less the same for each operator. The direct conveyancer receives referrals through estate agents, lenders or directly from the public in response to advertising or online through the internet. The conveyance is undertaken by staff at a central location. These staff consist of a combination of a small number of legally trained conveyancers (solicitors or licensed conveyancers) and a greater number of staff with no formal legal training who undertake most of the tasks to process the conveyance. The legal staff are used to solve problems and to quality check the work undertaken by non trained staff.

At the heart of the direct conveyance system is an ICT based workflow system. This will tell the operative the tasks that need to be undertaken and the order in which they should be done. In one system visited, staff are not allowed to move onto a task until a previous one is completed. The workflow systems generate letters to clients or requests for information automatically using templates. The direct conveyancers make money by not using expensive legal staff to do routine tasks.

Direct conveyancers can be contacted well into the evening and at weekends. Most provide internet based tracking so that clients can see online what stage their conveyance has reached. Some direct conveyancers scan every document as it comes into the office in order to create an electronic environment. They also place the emphasis on meeting time targets not just for them to do a task but to chase up the information from a third party.

There has been considerable debate in the industry about whether the consumer gets a good deal from direct conveyancers. A direct conveyancer interviewed believed that direct conveyancers provide a better service than the 'High Street' solicitors because:

- The fees are fixed and work on a no sale no fee basis.
- All calls are returned.
- High Street conveyancers are not focussed on the transaction, in that when better paying work comes along it takes priority.
- High Street conveyancers are not open when needed.
- They use ICT to support the process.

Opponents on the other hand believe that knowledge and a personal service is important to the consumer. These are two things that direct conveyancers cannot provide. In response, the direct conveyancers point to their high customer satisfaction ratings as evidence to the contrary. Customer satisfaction is discussed later.

Direct conveyancers could have a significant impact on the market in the future. Most have invested heavily in computer equipment and will be well placed to take advantage of e-conveyancing. This is a point recognised by mortgage lenders in the survey. Half responded that direct conveyancers would be in a better position than High Street solicitors to take advantage of the new system. None thought that High Street conveyancers would be better placed. Direct conveyancers are already making links with mortgage lenders and see further linkage as the way

forward. It is felt that the remortgage conveyance might be the first to go completely digitalised because it is considered by conveyancers to be less complex.

### **Alternative to direct conveyancers**

An alternative to the direct conveyancers is a grouping of High Street conveyancers under a collective banner. One such grouping brings together a number of independent solicitors. It was set up due to concerns about solicitors not offering the type of service that the direct conveyancers offer. Solicitors joining the scheme have to purchase software that enables a centralised office to track progress and handle client liaison. Solicitors are required to operate on a no sale no fee basis, and to a fixed fee. The seller's estate agent can check on the progress of the conveyance via a password protected website.

The central office can monitor case load and manage the flow of work so if the solicitor does not achieve the service standard required the business relationship ceases.

EasyMove take a different approach to conveyancing. Their approach is to install a conveyancing sales person in the estate agent's office. The assistant is not legally qualified but has been trained in the conveyancing process. It is their job to liaise between the seller and buyer and the other conveyancers in the chain to make sure that all the information required from each is provided. The conveyancing work is undertaken by a network of independent solicitors. A central office monitors progress and provides web based tracking of the progress of the sale. EasyMove believe that their in office presence and progress chasing means that they can reduce the time from offer to exchange. This is returned to later.

### **The next five years**

A major development to affect the conveyancing industry in the next five years will be electronic conveyancing. This involves conveyancers, estate agents and mortgage lenders undertaking business with each other and the Land Registry online using a secure nationwide network. E-conveyancing involves giving professionals who are involved in the home-buying and selling process the tools to transfer property ownership, exchange contracts, obtain deeds, deal with mortgage offers and complete the purchase electronically.

E-Conveyancing will not be compulsory at least to start with. However, the Land Registry expects that some practitioners will resist using the new system and so compulsion might need to be introduced.

The survey of lenders asked what impact e-conveyancing would have in the next five years. The findings are shown in the table below.

**Table 2: Percentage of business estimated to be undertaken by e-conveyancing in five years' time**

|                           | Number | %   |
|---------------------------|--------|-----|
| Less than 10%             | 4      | 8   |
| Between 10% and 25%       | 13     | 27  |
| Between 26% and 50%       | 18     | 38  |
| Between 51% and 75%       | 10     | 21  |
| More than 75% but not all | 2      | 4   |
| All                       | 1      | 2   |
| Total                     | 48     | 100 |

Source: CML members survey 2002

Over one third (36%) of respondents believe that between 26% and 50% of their business will be conducted electronically. Three quarters of respondents believe that e-business will constitute 50% or less of their business in 5 years. The view from the lending industry is that it will take much longer for e-conveyancing to reach a point where it becomes the norm.

The general feeling among those interviewed is that e-conveyancing will speed up the process. It is likely to reduce turnaround times by which professionals respond to documents. Many also felt that it will give customers earlier information on which to make a decision and should reduce the number of abortive sales because the process is more efficient and speedier. Core to this was the possibility of buyers being able to trace progress through the conveyancing process.

Conveyancers and lenders with less technologically advanced systems and procedures will need to upgrade in order to remain competitive. This might well price some smaller players out of the market, although the Land Registry believes that this will not be the case. It was also felt that the need for such investment may encourage a degree of specialisation in the delivery of conveyancing services.

All those interviewed thought that the ability to transfer and exchange documents electronically would be a positive development which would cut down the delays created by the legal work only starting once an offer had been submitted. E-conveyancing would also make the house buying process more transparent. Critical would be the move from paper to real time working. Buyers for their part will need to be able to access a solicitor who is able to work within the new environment.

Technology may speed up the conveyancing process but the view from some is that this represents only half the story. The argument is that so long as conveyancing is at the middle/end stage of the process, whether it is electronic or not will make precious little difference to the buyer and seller. It is the availability of all conveyancing material at the outset which should revolutionise the process leading to more informed buyers, sellers and their advisers. Chapter 2 showed that most of the major problems for sellers and buyers occur after an offer has been accepted, ie, during the conveyancing process. Technology may speed it up but it will not eliminate the other issues of condition, valuation, mortgage problems or delay in delivery of legal documents.

### **The impact of developments**

The Land Registry believes that e-conveyancing will have a significant impact on the home-buying and selling process. By speeding the process up and giving both professionals and consumers greater access to information, the Land Registry believes that it will reduce transaction failure, gazumping and gazundering and delays, especially in lengthy chains. It will also make home-buying quicker and less stressful. This addresses the core concerns of Government as highlighted in chapter 2.

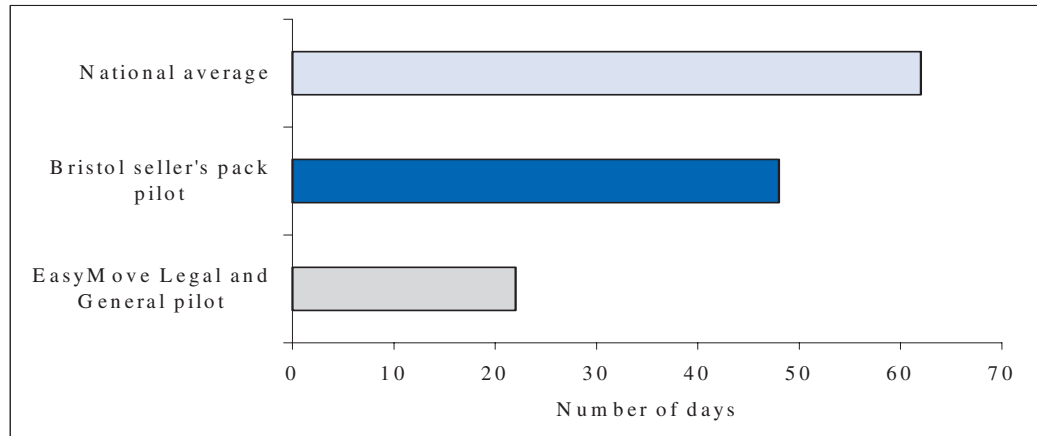
When it is fully operational NLIS also has the capacity to change significantly the home-buying and selling process. If NLIS is able to provide title and search information on any property instantly then delays while awaiting search results will be eradicated. At the moment the system has too small a share of the market to make any judgements upon its impact.

NLIS will also be an important element of e-conveyancing by providing the legal infrastructure within which electronic information can be stored and transferred. This should help to accelerate the number of transactions that are undertaken through NLIS. The existing link between NLIS and the Land Registry can be developed to enable the electronic registration of a transfer of title. The NLIS channels should be ideally placed to facilitate e-conveyancing but it depends upon the local government modernisation timetable speeding up and online searches attracting a substantial discount.

Some data is available on the impact of new ways of conveying property using either direct conveyancers or other forms of providing the service. Chart 3 shows the mean average time from offer to exchange using EasyMove (see earlier). The figures are also compared to that achieved under the seller's pack pilot in Bristol and the national situation. No data is available on the number of cases in the EasyMove pilot or the minimum and maximum times. Chart 3 gives a

useful indication of the sort of timings that could result from a seller's pack regime and from e-conveyancing.

**Chart 3: Time from offer acceptance to exchange of contracts**



Source: Easymove, Office of the Deputy Prime Minister, 2001

Table 3 shows that the time taken to get from offer to exchange under EasyMove is considerably quicker than that achieved in the Bristol seller's pack pilot. It would seem therefore that EasyMove can make significant savings in time but some caution should be attached to the figures because of the likely small scale of the trial. No information is available on transaction failure rate.

Further information is available from one of the direct conveyancers interviewed for the study. Half of all transactions reach exchange of contracts eight weeks (56 days) after the firm has been instructed. 80% reach exchange 12 weeks after instruction. Again no minimum or maximum figures are available. These figures are similar to the national average.

Some information on failure rates is available. The conveyancer works on a no sale no fee basis. They calculate that 15% of their transactions 'permanently abort'. This is about half the national failure rate (28%).

**Mortgage lending**

There are 145 mortgage lenders in the United Kingdom that are members of the CML, which represents 98% of the residential mortgage market.

**The last five years**

**Credit scoring**

A very strong view from the mortgage industry is that greater credit scoring both in the mainstream and sub prime markets has allowed the majority of applications to be assessed quicker. In view of this, less documentation is required to get an offer issued. Centralisation of processing in many lenders has increased efficiency and has, as a result, speeded up the processing of applications. Improvements in technology allowing faxing, email and use of the internet have also been major factors as information is received quicker and can then be actioned sooner by lenders.

The survey of lenders asked respondents how long it took them to process an application to issuing an offer stage. Table 3 below gives the number of days.

**Table 3: Number of working days from receiving application to issuing an offer**

|                         | Number of Days | %   |
|-------------------------|----------------|-----|
| 5 days or less          | 6              | 13  |
| 6 – 10 days             | 7              | 15  |
| 11 – 15 days            | 21             | 45  |
| 16 – 20 days            | 10             | 21  |
| Over 20 days            | 3              | 6   |
| Number of cases (=100%) | 49             | 100 |

Source: CML members survey 2002

Over three quarters of lenders issue an offer within 15 working days of receiving the application. About one third can issue a decision within 10 days. The median time from receiving an application to issuing an offer is 14 working days. 80% of lenders responding to the survey stated that their processing time now is faster than it was 5 years ago. This represents a considerable improvement in industry performance.

Other changes include a wider range of channels available to borrowers, eg, internet, telephone, interactive advice facilities in branches.

Approvals in principle can be achieved on the same day if the applicant is able to provide full details. For example, brokers connected to Legal and General's Mortgage Club have online access to eight mortgage lenders. By obtaining standard information about the applicant, the broker can populate the forms necessary to get approval in principle online. Usually this takes place within a few minutes.



Having an approval in principle does not necessarily mean that the transaction is successful. For example one large organisation told us that they had carried out 175,000 approval in principles and had not noticed any change to the withdrawal rate.

### **Greater use of alternative valuation techniques by some lenders**

Some lenders use desktop valuation techniques rather than order a physical inspection on the property when deciding whether to loan on the property. Much depends upon loan to value ratios but the CML members survey suggests that about 40% of lenders do not undertake a physical inspection under certain circumstances. These circumstances tend to be where the loan to value ratio is less than 75%, where they have recently lent on the property and where the applicant has a good repayment history.

The use of predictive models, common in the United States, is being evaluated by some lenders. One lender that has experimented with models said that there was often a gap between a valuation produced by a model and one on the same property undertaken by a valuer doing a physical inspection. Due to this gap the respondent felt that the use of predictive models by the industry on any significant level is many years away.

### **E-conveyancing**

The mortgage industry has agreed revised standard instructions for solicitors and has incorporated special conditions to the standard that enables each lender to customise its approach. This is called the Lenders' Handbook. These instructions are located on the CML website and come into effect from 1 October 2002. From this date lenders will not provide paper copies of instructions but, rather, will expect panel conveyancers to access their instructions electronically. It is hoped by the CML that this initiative will help push conveyancers into using electronic communications as part of the conveyancing process.

### **The next five years**

Using a combination of credit scoring and desktop valuations or predictive modelling the point of sale mortgage is possible. It is felt by some in the lending industry that this might not necessarily be in the best interests of consumers because it does not allow them time to 'cool off'. It is also felt that intermediaries might not be ready for such a system. However, the introduction of mortgage regulation in 2004 will place an onus on lenders and intermediaries to disclose information on a standard basis before an application is completed. This will provide a significant push towards increasing the use of technology and e-communications.

Mortgage lenders could also have a significant input into the take up of e-conveyancing and the greater use of NLIS if they required their panel members to trade electronically with them.

### **Impact of developments**

Speedier mortgage decisions help to close the gap between offer acceptance and exchange of contracts. It is in this gap that problems of delay and transaction failure occur.

### **Surveying**

There are 110,000 surveyors who are members of the Royal Institution of Chartered Surveyors. Of these about 7,500 are members of the residential faculty.

### **The last five years**

The two most significant developments in the surveying profession are thought to be the greater use of pre sales surveys and the greater integration of survey and valuation data into the mortgage underwriting process.

### **Pre sales surveys**

Research for the Government (Wagstaff et al, 2000) showed that pre sales surveys happened but were not a common feature of home-buying and selling. The largest provider of pre sales surveys in England is Surveys Online.

Surveys Online carry out a Homebuyers Survey and Valuation for the seller. Initially the seller pays no fee. A potential buyer who would like to read the survey can do so online for a fee of £50 plus VAT. If the buyer goes through with the purchase they pay the remainder of the fee - usually about £250. If the survey is withdrawn or the property fails to sell after six months, or if the final purchaser has not bought the survey, then the seller pays an administration fee to Surveys Online to cover costs.

### **Improved underwriting techniques**

Some surveying organisations have invested heavily in ICT to provide greater connectivity with mortgage lenders. One organisation, for example, stated that IT innovation has cost millions of pounds to install but now allows direct access to the lenders' underwriting systems. It therefore allows for real time data transfers and thus quicker processing of mortgages.

Other companies have set up systems that aim to plug direct into lenders' underwriting requirements. One system inspected for this research sends the data to the underwriter in a format that plugs into the underwriter's software. This means that key data cells are populated automatically rather than the underwriter having to read through the valuation and manually extract the relevant data.

### **The next five years**

Innovation in the surveying profession is dependent upon Government legislation. If sellers' packs become compulsory, then the Home Condition Report will become the most significant product undertaken by the sector. If packs are not introduced, it is likely that developments such as pre-sales surveys will remain a minority offering.

It is likely that technology will play a more significant role within the surveying industry to speed up the survey process. The use of digital photography, PDAs and computer assisted surveys could be more prevalent. However, the view from within the surveying profession is that traditional pen and paper based surveys will be the technique of choice for most surveyors.

### **Impact of developments**

Surveys Online provide anecdotal evidence that sellers that have one of their surveys are less likely to experience a failure in the transaction. There is, however, no hard evidence to back this up.

Pre-sales surveys have been tried by many surveying firms but have yet to become common place (Wagstaff et al, 2000). There are concerns within the industry over trustworthiness and whether a buyer can (or should) rely upon a report commissioned by the seller.

If pre-sales surveys became more common place then their potential impact could be significant in providing the buyer with greater information and alerting the seller and buyer to potential problems with the property. It is the Government's contention that this information at an early stage will considerably reduce the risk of failure in the transaction.

## Chapter 4

### Consumers' views

#### Introduction

All of the businesses we have spoken to want to change the customer experience of house buying. In this section, data relating to customer satisfaction is analysed to see whether the various innovations are in the consumers' interests. The information has been obtained from a secondary analysis of published data or from obtaining customer satisfaction information from the businesses themselves. It should be noted that very few of the organisations interviewed were able to supply information on customer satisfaction.

#### Seller's packs

There are two sources of data in relation to seller's packs. These are the findings from the Bristol pilot and results from workshops held in Burnley and Bradford to test consumer reaction in low value areas.

Table 4 shows the percentage satisfaction rating for sellers' packs for buyers and sellers at the end of the Bristol pilot.

**Table 4: Satisfaction with the seller's pack - buyers and sellers**

|                                   | Sellers % | Buyers % |
|-----------------------------------|-----------|----------|
| Very satisfied                    | 19        | 23       |
| Fairly satisfied                  | 18        | 52       |
| Neither satisfied or dissatisfied | 32        | 13       |
| Fairly dissatisfied               | 15        | 4        |
| Very dissatisfied                 | 8         | 4        |
| No opinion                        | 9         | 4        |
| Number of cases (=100%)           | 102       | 48       |

The table shows that 75% of buyers were satisfied with the seller's pack, but for sellers the figure was much less at 37%. The findings are obviously influenced by the fact that buyers got the pack for free and many sellers were frustrated that their property failed to sell. If in future they had to pay for the pack dissatisfaction may increase. Some caution should also be noted because of the small sample size.

For buyers, consumer satisfaction with the seller's pack process was much higher than that experienced with the current system. Under the current system 40% were dissatisfied with the process (see Randolph et al, 1999). The level of dissatisfaction recorded under the seller's pack pilot for buyers was less than half that recorded under the current system.

Other findings in the pilot suggested that buyers found the process less stressful and considered the experience to be no worse than expected, and in many cases better.

### **Seller's packs in low value areas**

As part of the seller's pack pilot, workshops were held in Bradford and Burnley to gauge opinion on how consumers in low demand areas would view the pack. The property market in Bradford and Burnley was characterised by a surplus of properties valued under £30,000 often taking months, if not years, to sell. One of the main concerns therefore for sellers in Burnley and Bradford was the shelf life of the pack, given that certain elements contained within the pack, such as local authority searches and the House Condition Report, were time limited (Robertson and Whitehead, 2000).

The other major concern was the cost of the pack. Sellers at the workshop expressed concern at the prospect of having to pay £500 to £700 to assemble the pack with no guarantee that a buyer would be found.

Sellers did, however, warm to the idea of the seller's pack if they thought it would improve the marketability of their house. When sellers considered their property to be in good condition, or having benefited from recent investment, the Home Condition Report was considered to provide a marketing advantage. However, if they thought their property to be in poor condition, the House Condition Report was viewed as a double-edged sword. In such cases, the pack could further slow down sales because buyers would be alert to problems in the property right from the start.

### **Pre-sales surveys**

Surveys Online provided data from a customer satisfaction survey undertaken in 2001. The survey showed that 97% of sellers responding stated that they would recommend the service to a friend and that 92% of buyers thought the service was good value for money. Just over four in 10 respondents (43%) thought that having a pre sales survey helped them to achieve a better price and 55% felt it reduced the stress in home-buying.

For buyers, 74% stated that they trusted the survey with only 3% stating that they did not trust it. Surveys Online did not supply details of sample size.

### **Direct conveyancing**

Direct conveyancers appear to achieve high levels of satisfaction. Customer satisfaction statistics have been supplied by the Move Factory and Shoosmiths Property Direct.

The Move Factory achieved a 83% satisfaction rating for the January to March 2002 quarter. Further, 87% of respondents stated that they trusted them to do a good job and 86% were satisfied with the way in which they were treated.

In a customer satisfaction survey carried out on transactions handled by Shoosmiths Property Direct between June 2000 and February 2002, 95% of respondents said that they would use the company again. Shoosmiths Property Direct also scored highly on efficiency (96%), keeping people informed (92%) and clear correspondence (98%).

### **What is in the consumer's best interest?**

The above discussion shows that consumers are satisfied with their experience of using the new market developments. By and large, the experience seems to have been straightforward and consumers are happy to recommend the provider to others. However, not too much can be read into this. The Government's research in 1998 showed that consumers were satisfied with the role of individual professionals such as estate agents, solicitors, and surveyors. It was the overall process they were dissatisfied with. Like for like comparison cannot be made therefore between the satisfaction ratings received by firms in this study and those relating to the home-buying and selling process revealed in 1998. One further note of caution, satisfaction data was received from only a small number of firms so cannot be thought to represent the industry as a whole.

The Consumers' Association believe that the developments in the market over the last five years have benefited the consumer. The Association still believes that the introduction of seller's packs is desirable and support the Government's intention to bring back seller's pack legislation.

The Consumers' Association believe that the developments over the next five years described in this report will bring positive changes to the home-buying and selling process. It will make it quicker, more efficient and less wasteful. However, the Association believes that without seller's packs the consumer will not get the information they need on the legal and physical condition of the property early enough to help them to make an informed decision on whether to buy.

## Chapter 5

### Future developments and their impact

#### Introduction

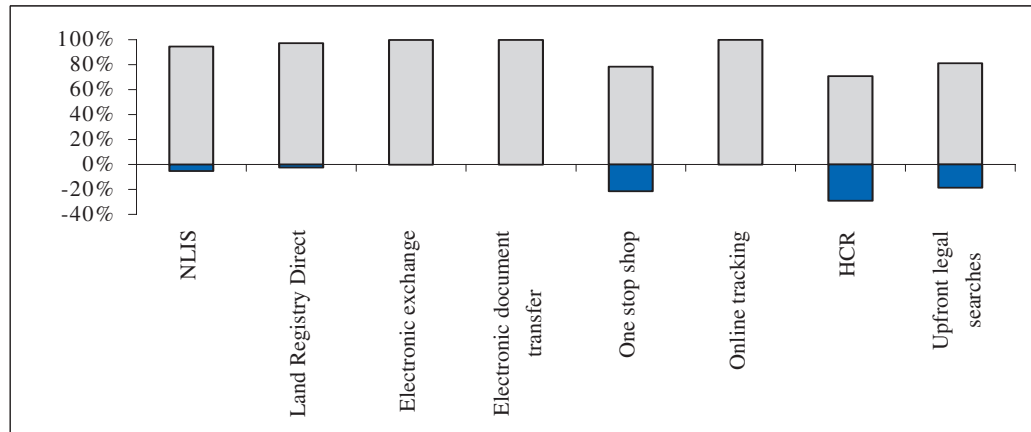
In this section, we discuss the likely impact of the innovations discussed so far on the home-buying and selling process. The section draws upon the views of CML members on what factors will have the greatest impact and then discusses how the process might look in five years time with or without a seller's pack.

#### CML members' views on factors that will have a future impact

As part of the survey of CML members, respondents were asked to rate whether certain factors would have a positive or negative impact on the home-buying and selling process. Further they were asked to grade any impact on a scale of one to five if positive with five having the most impact. If they felt a development would have a negative impact they were again asked to rate it between –one and –five with –five being the most negative. The figures are based on a small number of responses (49) and so caution should be taken in the interpretation of the results.

Chart 4 shows the proportion of respondents stating that each factor would have a positive or negative impact. It shows that exchanging contracts and other documents electronically and online tracking are thought to have a completely positive impact with no respondent stating that they would have a negative impact. The HCR was identified as the development that would have the most negative impact. For the HCR 22% stated that its impact would be negative (mainly because it would go out of date, lenders would still need to undertake a separate valuation and buyers could not trust a survey commissioned by the seller). The other element of the seller's pack –the upfront legal searches was stated by nearly 20% of respondents to be a negative development partly as a result of fears that they would need to be refreshed before exchange of contracts and would, therefore, cause additional expenditure.

**Chart 4: Future developments in homebuying and selling and whether their impact will be positive or negative**



Using the rating scores it is possible to rank each future development according to its mean score. This will give an indication of what CML members believe to be the most important factors and which they think is the least important future development. This is shown in Table 5.

**Table 5: Mean scores for factors affecting the future of home-buying and selling**

| Ranking   | Mean score | % rating factor as +5 |
|---|------------|-----------------------|
| 1. Land Registry Direct                                   | 3.1        | 25                    |
| 2. Transfer of electronic documents between professionals | 3.0        | 19                    |
| 3. NLIS   | 2.9        | 26                    |
| 4. Electronic exchange of contracts                       | 2.5        | 12                    |
| 5. Online tracking  | 1.6        | 0                     |
| 6. Upfront searches                                       | 1.1        | 7                     |
| 7. Integrated one stop shops                              | 0.8        | 2                     |
| 8. Home Condition Report                                  | 0.7        | 5                     |

Source: CML members survey 2002

The table shows that developments such as Land Registry Direct, NLIS and the electronic exchange and transfer of documents are thought more important by CML members, despite their lack of direct use at present, than seller's pack related developments. The view from the mortgage industry is quite clear in its belief that electronic conveyancing would have more of an impact than seller's packs. The HCR only scores 0.7 as a mean rating. Nearly half of the sample thought that the HCR would have either no impact or a negative impact. This contrasts markedly with the consumers' views of the value of the HCR as revealed by the Bristol survey (see previous chapter).



One of the key questions arising from these findings is: Would the home-buying and selling process without a seller's pack be much different to the process with a pack in five years time?

### **Selling without packs – what developments would happen anyway?**

The report has shown that there have been a number of developments in the residential market that will carry on regardless of whether a seller's pack is introduced.

Regardless of seller's packs, the future is likely to see a continuation in the trend towards greater integration of services. Direct conveyancers and estate agents will continue to forge informal alliances to enable them to provide a more integrated service for the consumer. Some alliances will include surveyors to enable all services to be purchased in one place. Direct conveyancers estimate that in five years time they collectively will have 50% of the conveyancing market. If this is true, it will mean half of all sellers and buyers will have greater access to their conveyancer through online tracking with a shorter period from offer to exchange.

The automation of the lending process is likely to continue with point of sale mortgage decisions becoming available, but critically this will depend upon loan to value ratios. Lenders are likely to forge links with direct conveyancers (as already happens in the remortgage market) especially those that can offer an e-conveyancing facility. E-conveyancing is likely to become more prevalent although not all transactions will be undertaken through e-conveyancing.

The key issue is how do developments over the last five years and those anticipated in the next five years impact upon the problems identified by the Government in the 1998 review? Each of the four main problem areas are addressed in turn.

- The time taken from accepting an offer to exchanging contracts is slow by comparison with international standards

Many of the developments identified in chapter 3 address this concern. The issuing of a mortgage offer is one of the most important milestones in the sale process. The greater use of online applications, instant credit scoring and more streamlined application processes has seen a reduction in the last five years of the time taken to issue a mortgage offer. The average time among lenders responding to the survey was 15 days. In the 1998 Government review the average time for a mortgage offer to be issued to the buyer was 22 days.

Greater use of technology, direct conveyancers and greater integration of different sectors of the property industry has seen conveyancing times fall. One organisation interviewed has an average of 30 days from offer to exchange. The national average, identified by the 1998 review (see Randolph et al, 1999) was 62 days.

E-conveyancing and NLIS will further speed up the process meaning that in about five to 10 years time the gap between offer acceptance and exchange of contracts should be much lower than that seen in 1998. It is possible that this gap could be a matter of days or even hours depending on how quickly the current paper based system can be de-materialised. If it is accepted that most problems, delays and failures occur during this period, reducing it should also reduce the opportunity for delays, failures and problems.

- There is a high rate of failure that leads to waste in the system

Waste in the system is caused by failed transactions. The 1998 review showed that down valuations and problems caused by the condition of the property were the most common causes of transaction failure. Gazumping and gazundering were not common.

A combination of pre sales surveys or much speedier 'buyer surveys' and better consumer information could help address this concern. However, although there are examples of pre-sales surveys and new technology that would speed up the production of a Homebuyers Survey and Valuation (HSV), the number of surveyors utilising them is thought to be small, even allowing for the fact that only about 25% of buyers commission a HSV. If property condition information is to be provided much earlier in the process than the surveying profession will need to embrace technology much quicker than they do at present.

Failure is also caused by problems with title and by a perception from consumers that professionals are not doing the job quickly enough. Developments such as NLIS where searches can be produced instantly and greater integration of systems (through PISCES or similar) could help address the perceived lack of action.

Gazumping, although not common, is a high profile problem. It happens when the seller accepts a higher offer on the property from a different buyer having already accepted an offer from another buyer. None of the innovations discussed in this report address gazumping. Neither will the seller's pack. Probably the most effective cure for gazumping is the use of conditional contracts at offer acceptance stage committing buyers and sellers to the transaction.

- The process is susceptible to delay and other problems during the period between offer acceptance and exchange of contracts

Delay and problems that jeopardise the transaction all stem from the length of time it takes to complete key milestones in the process. It is clear that many of the developments discussed in chapter 3 (such as e-conveyancing) and greater use of technology will close the gap between offer and exchange. While this will not eradicate problems it should give them less opportunity to occur

- The process causes considerable consumer stress and dissatisfaction

What is in the consumer interest is a key motivator for the Government in home-buying reform. Considerable consumer stress and delay is caused by uncertainty over whether the transaction will go ahead (fuelled in part by a lack of information) and delays that can occur in the process often as a result of a valuation or survey identifying problems with the property. Customer satisfaction with pre-sales surveys and direct conveyancing (events that address the main causes of stress and delay) is high. If estate agents concentrate improvement on how they handle the relationship with their customers and continue to integrate with other service providers, satisfaction levels should improve.

E-conveyancing and NLIS should also generate greater levels of satisfaction with the process as it begins to speed up and is subject to less waste.

### **Is there enough critical mass to make a difference?**

With the exception of e-conveyancing, none of the developments described has reached a critical mass whereby it can make a significant impact on the problems identified by Government with the current home-buying and selling process. None of the initiatives mentioned are used to any great degree in the process. That is not to say that they are not capable of greater market penetration - e-conveyancing should see the use of NLIS increase significantly. The problem is that most of the businesses undertaking pre sales surveys, voluntary seller's packs and conveyancing are small and do not necessarily have the clout to change things.

Legislation for a seller's pack would give great impetus to the development of the market. It could also be that e-conveyancing could give the focus required. However, unless it is made compulsory, it is unlikely to do so. The Government has no plans to make e-conveyancing compulsory. At the moment, the market developments identified by this study address many of the concerns the Government has in the home-buying and selling process but they are too small

scale and localised to do so on a nationwide basis. Does this mean, therefore, that seller's pack legislation is the only way the current system could improve? The answer to this is 'No'. The lending industry effectively controls the homebuying and selling process through the provision of mortgage finance. Mortgage lenders could have a significant influence on how the rest of the property industry operates and the extent to which it embraces technological advance. Lenders and the CML should lead by example and push forward innovation and encourage the rest of the industry to follow suit. Making available solicitors' instructions in electronic format only (see chapter 3) is a start, but if the lending industry insists that all transactions are undertaken electronically the rest of the industry will have to fall into line.

### **A future with seller's packs**

The Government believes that the home-buying and selling system will change fundamentally with the implementation of a compulsory seller's pack scheme. Using evidence from Denmark, New South Wales and the pilot of a seller's pack in Bristol, it argues that a pack has the following advantages:

- It will help inform buyers of whether the property meets their requirements and what condition the property is in. In Bristol 90% of buyers consulted the HCR as part of their decision making process.
- It shortens the period of uncertainty between acceptance of an offer and exchange of contracts, reducing the risk of transaction failure. The Bristol pilot saw exchange of contracts reached in 48 days rather than the national average of 62 days.
- It would increase openness and transparency for the consumer.
- It increases certainty that the transaction will go ahead.

Another far reaching consequence of a seller's pack is the impact it will have on the structure of the industry. The pack is likely to demand much greater integration between different services. Conveyancers, estate agents, surveyors and mortgage lenders would need to work more closely together to ensure that the disparate elements of the pack could be brought together quickly and cost effectively. It is this requirement that would drive the change of culture demanded. The industry has seen unprecedented movement in this area already over the last few years, but it has not changed the house buying process fundamentally.

Where the seller's pack scores heavily over market developments is the information it gives the buyer on the condition of the property at an early stage. It is possible to argue that the Home Condition Report is the one thing that the pack would give over all other market developments.

The point at which information is given to the consumer is an important consideration. Seller's packs are designed to give buyers, sellers and their professional representatives important legal documents and information on the condition of the property before offer stage. The market developments discussed in the report, with the exception of pre sales surveys, are designed to provide information or services after the offer has been made. The key question is whether the consumer benefits from information prior to offer or whether speedier information post offer delivers the same benefits?

The Consumers' Association and the Government hold the view that information prior to offer gives consumers a clearer understanding of the property and alerts them to problems that might cause the transaction to be delayed or fail if they are discovered later on. However, the experience in the Bristol pilot suggests that buyers do not consult the pack until after they have made an offer. Instead, they ask the estate agent for advice on the pack's contents.

What seems clear is that if greater consumer access to information on property condition is a key Government requirement for the future, then the surveying industry will have to respond with surveys that can be produced either in advance (such as Surveys Online) or surveys that can be completed far quicker than the 22 days after offer that the 1998 review showed it took (Randolph et al, 1999).

## Chapter 6

### Conclusion

The study has been concerned with analysing recent market developments and looking into the future to see what changes there might be in the home-buying and selling process. NLIS, e-conveyancing and the innovations in service delivery in the mortgage and conveyancing sector will have a significant impact on the process. So too will information technology and the consumers use of the internet to help them buy and sell property. Even without a seller's pack it is likely that in five to 10 years' time buying and selling property will be very different to how it is now with greater transparency, more certainty and less waste.

The key issue is can the industry get to this position quicker than the timescale outlined above and whether it can be reached without Government intervention. It could be another 10 years before NLIS is completely digitalised and e-conveyancing delivers the benefits promised by the Land Registry. Furthermore, some of the initiatives we have described are innovative but they are not yet bringing the rest of the industry with them. A critical mass is not being reached because up until now there has been nothing to encourage the industry to invest in the technology and service delivery models that will make the seller's pack unnecessary.

In the same way that the Government's reform agenda has led to many innovative developments in the market, electronic conveyancing could be the impetus needed to see greater provision of products and services that replicate many of the features of a seller's pack. Yet it could be argued that if e-conveyancing is to have widespread take up there needs to be either compulsion – the law states that everyone has to do things electronically; or one or more of the major lenders states that it is their intention to do things electronically from now on and panel conveyancers have to follow suit; or a new entrant in the market does things radically different and sees their market share increase rapidly forcing its competitors to respond.

It is the Government's strong belief that seller's packs will give momentum to the e-agenda. Seller's packs are seen as the reason why businesses will go down the e-conveyancing route. When interviewed for this research officials from the Office of the Deputy Prime Minister stated that seller's packs were considered to be the catalyst for the wider take up of e-conveyancing.

There is also the issue of giving the consumer greater information much earlier in the process. The HCR is designed to inform buyer and seller about the condition of the property. Pre sales surveys exist but they represent a small (unknown) proportion of the market. A compulsory seller's pack will give consumers better information about the property and earlier in the process than at present. Very few market developments can compete with this at the moment, yet it is possible to see a position where searches and title information are available instantly online and survey information is available within one or two days of an offer being accepted. The technology exists for this to happen today but it might need another five to 10 years for it to become more widespread.

The development of ICT is taking the house buying business along a new path which in time will change what is expected by the customer and the various parts of the house buying industry. This process of change is relatively new but the speed of change is quickening, although it still does not appear to have altered the actual day-to-day process of buying and selling a home. There are also signs that IT systems are facilitating users to move from using it merely as a marketing aid to view properties to one that actively engages with the home-buying process. Online tracking of the conveyancing process is an example of this. There is also a view that organisations that have made this investment have yet to see a return from it. The participation of others in the process is key here.

In chapter 1 it was acknowledged that much of the innovation currently in the sector has come about as a result of the Government's home-buying reform agenda. Does this mean therefore that seller's pack legislation is a necessarily catalyst for change? The answer to this is 'Not necessarily'. There are a number of things that can be done by different sectors of the industry to stimulate market development over the next five years and give momentum to the sort of innovations discussed earlier. Each of these are discussed in turn.

### **Mortgage Lenders**

- The CML needs to take a much more pro-active role in setting the reform agenda and being a voice for innovation. It should encourage its members to embrace e-conveyancing. The feasibility of setting e-conveyancing targets for its members should be investigated.
- Mortgage lenders should insist that panel members are capable of undertaking business through e-communication.
- The CML should play a key role in the development of a cross platform protocol such as PISCES. The development of this technology is being driven by the commercial property sector and its lawyers. Mortgage lenders are, however, the most significant player in the residential property market controlling billions of pounds worth of investment. The CML

should represent the interests of its members to make sure that they are at the forefront of technological development.

- The CML and its members should support NLIS and promote its use by mortgage lenders. NLIS is an important development that will revolutionise home-buying and selling. Early support will ensure its success.

### **The surveying profession**

- The governing bodies in association with the Government need to educate the public on why having a survey is important. Too many homes are purchased without proper information. Unless such education is forthcoming, the public will have difficulty in accepting the Home Condition Report.
- The surveying industry needs to embrace technological change. At the moment there is a reluctance to do so because of the perceived costs involved, but also because of custom and practice dictating that pen and paper are the technique of choice.
- The surveying industry needs to encourage innovation and the development of new products that will give the consumer the information they need when they need it.

### **The legal profession**

- It is important that the Law Society and Council of Licensed Conveyancers encourage their members to embrace technological change and sign up fully to e-conveyancing and NLIS.

### **Estate Agency**

- Estate agents need to work closely with other property professionals to ensure that the consumer receives a better and more integrated service.
- Greater training and more emphasis on professional development needs to become a priority. The National Association of Estate Agents should take the lead on this.
- Estate agents should be encouraged to take advantage of technological developments such as the internet and virtual tours for the benefit of the consumer.

### **The Government**

- The Government should speed up the modernisation of local authority services to ensure that searches are fully digitalised as soon as possible.
- There needs to be a further debate between Government and the industry about whether seller's packs will deliver the benefits to the consumer claimed by it or whether market developments will provide the same benefits, in the light of actual and prospective changes in the process.



### **Buyers and sellers**

- Buyers rely too much on too little information. Buyers should be encouraged to commission an independent survey of the property rather than rely on a mortgage lender's valuation.
- Buyers and sellers can do more to show earlier commitment. Sellers should provide as much information about the property as early as possible. This means having information such as title deeds, service charges, repair bills and warranties available for inspection when potential buyers are viewing the property. Buyers should obtain mortgage certificates to demonstrate their ability to afford the property they are viewing.

### **Overall**

Both the Government and the Consumers' Association believe that seller's packs would better serve the consumer. While there is general agreement in the industry that earlier certainty and information to the consumer is a good thing, there is considerable doubt (especially among estate agents and some 'High Street' lenders) about whether the disadvantages of seller's packs (costs in assembling, problems with information going out of date, effect on volume of homes coming to market) outweigh the benefits.

The overall conclusion from the research is that, on balance, seller's pack legislation is not necessary provided that the industry places greater emphasis on embracing innovation and technology, improving customer service and providing the consumer with better information earlier in the process. Not introducing seller's pack legislation could send a signal to the less reform minded elements within the industry that they do not need to change. This would be the wrong signal. The CML and its members have the opportunity to champion reform and innovation. They need to rise to the challenge.

## Chapter 7

### List of organisations consulted

Cendant Relocations  
Chancellors  
CORMAC Business systems  
Countrywide Assured Group  
Countrywide Surveyors  
EasyMove  
First Title  
Government departments  
Habitus Surveyors  
Halifax plc  
Hammonds Direct  
Home Sales Network  
Independent Association of Estate Agents  
Legal and General  
Live Group  
Macdonald Dettwiler  
NLIS Searchflow  
ParTake  
PISCES Ltd  
Shoosmiths Property Direct  
Seller's Information Packs Ltd  
Sequence UK  
Surveys on Line  
Team estate agents  
The Move Factory  
TM NLIS Search  
Transactions on line  
Walker Morris Online  
Woolwich plc

## References

- Harvey and McNaughton, (1998), *Housing Market Transactions: International Comparisons*, Office of the Deputy Prime Minister, London.
- National Association of Realtors, (2000), *Real Estate and Technology, USA*.
- Office of the Deputy Prime Minister, (2000), *Regulatory Impact Assessment - Marketing of Residential Property Regulations*, London.
- Office of the Deputy Prime Minister, (2001), *Evaluation of a Pilot Seller's Information Pack: The Bristol Scheme - A Summary*, London.
- Randolph, Robertson, Wagstaff & Kendall, (1999), *Key Research into Easier Homebuying and Selling*, Office of the Deputy Prime Minister, London.
- Robertson and Whitehead, (2000), *Seller's packs in low demand, low value areas*, Office of the Deputy Prime Minister, London.
- Wagstaff, Whitehead and Gibson, (2000), *Monitoring Industry Initiatives to Improve the Homebuying and Selling Process*, Office of the Deputy Prime Minister, London.

## Index of Tables and Charts

|   |    |
|---|----|
| Table 1: Number of weeks from offer to exchange of contracts.....   | 12 |
| Table 2: Percentage of business estimated to be undertaken by e-conveyancing in five years' time<br>.....             | 34 |
| Table 3: Number of working days from receiving application to issuing an offer .....                                  | 37 |
| Table 4: Satisfaction with the seller's pack - buyers and sellers .....   | 41 |
| Table 5: Mean scores for factors affecting the future of home-buying and selling .....                                | 45 |
|   |    |
| Chart 1: Virtual deal room .....  | 24 |
| Chart 2: The NLIS Process.....  | 30 |
| Chart 3: Time from offer acceptance to exchange of contracts .....  | 36 |
| Chart 4: Future developments in homebuying and selling and whether their impact will be<br>positive or negative ..... | 45 |

## Recent CML Publications

Visit the CML website at [www.cml.org.uk](http://www.cml.org.uk) for full pricing details and to order your subscription on-line. Executive summaries for publications are also available on line – view before you buy.

**Housing Finance** - published quarterly this authoritative journal provides in-depth articles on a wide range of mortgage related issues. Recent articles include: Changing structure of the UK mortgage market, Safety-nets for mortgage payments: the need for more research, The highs and lows of mortgage lending 2001, Coping with mortgage debt.  
Subscription costs: Members £60.00 Academics £60.00 Non-Members £115.00

**CML Market Briefing** – this monthly publication is the source of up-to-date information – widely used for boardroom briefings, it provides topical commentary and statistics on the housing and mortgage markets.  
Subscription: Members £105.00 Academics £105.00 Non-Members £180.00

**CML News and Views** – a fortnightly six-page newsletter providing a lively digest of information, opinions and perspectives on the UK mortgage and housing markets. Bulk subscriptions are available.  
Subscription: Members £40.00 Academics £40.00 Non-members £65.00

**CML Research Reports** – research is commissioned and published on a range of strategic issues by experts in the field. Recent reports include:

A Review of Flexible Mortgages (July 2002); S J Smith, J Ford, M Munro & R Davis Members £30.00 Non-Members £50.00

The Changing Structure of the UK Mortgage Market (April 2002); S Walker Members £30.00 Non-Members £50.00

Evaluating the Mortgage Safety Net (Mar 2002); P Kemp & G Pryce Members £30.00 Non-Members £50.00

The Market for Equity Release (Nov 2001); R Terry & P Leather Price: Members £30.00 Non-Members £50.00

Managing the Housing Market (Sept 2001); R Laslett, T Wilsdon, S Biggar & D Butterworth Price: £25.00

Low Demand in the Owner-occupied Sector (Aug 2001); K Gibb & A Kearns Price: £25.00

Changing Households, Changing Housing Markets (July 2001); D King Price: £25.00

Mortgage Equity Withdrawal (May 2001); M Davey & F Earley Price: £25.00

Second Homes: A Market Report (Jan 2001); J Gilbert Price: £25.00

To request your free trial of any of the periodical (Housing Finance, Market Briefing, News and Views) please call Liz Porter on 020 7440 2229 or email [liz.porter@cml.org.uk](mailto:liz.porter@cml.org.uk).



Council of Mortgage Lenders  
3 Savile Row, London W1S 3PB