

RESPONSE BY THE RETIREMENT HOUSING GROUP TO THE BARKER REVIEW OF HOUSING SUPPLY

The Retirement Housing Group welcomes the opportunity to respond to the Review of Housing Supply and would be happy to supply further details on any of the points raised in this submission.

Introduction

The Retirement Housing Group of the House Builders Federation consists of retirement housing developers and housing managers, both RSL and private sector. Its ex officio members include representatives of the charity, the Elderly Accommodation Counsel, and the Association of Retirement Housing Managers. The Advice and Mediation Service (AIMS) of Age Concern is also represented. Its members are therefore involved in the building, management and provision of advice on housing for those of retirement age and over. Such housing ranges from lifestyle properties for the active, newly retired through to warden assisted housing with community facilities and design modifications through to very sheltered housing with high staffing levels and many additional services and facilities.

The Group has a wide-ranging interest in planning and management issues, leasehold reform and Government policy of all kinds, which affect vulnerable groups such as the elderly.

General Comments

We note that your Review is looking at influences in the policy environment affecting supply, looking beyond planning. Planning remains extremely important to all developers and we endorse the comments that will be made by others in the industry about the role of planning policy and process in reducing total output. This applies equally to our sector of the market.

However there is a particular area of concern with regard to emerging policy, namely the proposals for a Home Information Pack contained in the draft Housing Bill and it is our view that this will have the effect of restricting the size of the total housing market.

Since the new homes industry, and our sector in particular, is largely a function of dependent sales, and thus of the size of the total market, these proposals represent a fundamental obstacle to the growth of housing supply.

We are pleased to note that this view, and many of the other points set out below, were strongly endorsed by the ODPM Select Committee in its Report on the Housing Bill published on 22 July.

In view of their comments and our own, we believe this Bill should be substantially modified to prevent disruption and distortion of the housing market.

The Home Information Pack

ODPM has declared that it wishes to eliminate uncertainty, abortive costs and the high rate of transaction failure that it believes occurs when houses are bought and sold. It identified delay and failure as largely attributable to the fact that "key information" is not available at the start of the marketing process. The draft Housing Bill therefore proposes the introduction of a mandatory Home Information Pack to provide information up-front, thereby making the buying and selling process more transparent, faster and consumer friendly.

The Bill notes that, while the requirement to provide a Pack may deter an estimated 10% of people from marketing their home, a greater number of this smaller number of transactions will be successfully completed. Whilst agreeing that the HIP will shrink the size of the housing market we would dispute that more transactions will be completed as a consequence.

Our paper examines the likely impact of the Home Information Pack on the housing market generally but with particular reference to retirement housing.

Key Questions about Home Information Packs

1) Is all the information in the Pack necessary?

We do not believe that all of the Pack is, as the consultation paper says it should be, "*key information required to make a properly informed decision*" to buy. What it actually means is that a considerable up-front cost is introduced for vendors (between £500-£1,000+, depending on the size and age of the property) because a large folder of material, parts of which will be difficult for some vendors to assemble, must be prepared and offered to every person who views the property. This cost is not recoverable if the property does not sell.

2) Problems with the Accuracy and interpretation of the Pack's Contents:

Viewers and buyers will assume that the contents of the Home Information Pack are accurate but the marketers who compile it (estate agents or, for many retirement housing re-sales, the managing agents) cannot verify the accuracy of all the items it will contain. Most, if not all, of the technical documents cannot be understood without professional assistance, which the marketer will be unable to provide. This will create confusion and uncertainty for potential purchasers, who will have to seek advice from a third party. If estate agents can only offer limited assistance (in the light of the liability that they might incur) who will offer such guidance? And will this not incur additional professional fees for purchasers?

2) Costs and administration:

The production and issuing of the Packs will have considerable administrative and cost implications for the marketers of the property (collection and

interpretation of data, obtaining suitable professional indemnity insurance, holding and storage of information and the training of staff) which will lead to higher transaction costs.

3) *Adverse Impact on vendors and purchasers:*

The prospect of assembling all the information required by the Pack, and the up-front costs, will deter many vendors, and the growing number of older people in the UK are the group most likely to decide not to sell. Purchasers of retirement housing are, on average, in their mid 70's, for very sheltered housing most will be in their 80's. Many have lived in their existing house for an average of 25 years, and their properties are sometimes poorly maintained. They will experience difficulty in providing many of the items in the Pack, as these may never have been provided by the original builder, either to them or to the original purchaser, perhaps fifty years ago (e.g. planning consents with drawings, building regulation consents, which were not usual in the 1950's and '60's).

Key Concerns

... Home Inspectors:

A huge number (estimated by RICS at 7,500+) of "Home Inspectors" will have to be recruited and trained to produce the Home Condition Reports (HCR) required for the Packs. They will be awarded a vocational qualification after a year's training. These new Inspectors may then possess sufficient knowledge to assess "average" houses (although even then there may be defects that may be difficult to identify) but it leaves unanswered the question of how more complex properties can be accurately assessed with such basic training and whether purchasers will be either prepared or able to rely on them. If a second and fuller survey has to be commissioned by purchasers this will add further to cost and do nothing to speed-up of the transaction.

Professional Liability:

At present surveyors and valuers are liable to the purchaser. The vendor will commission the HCR but the Home Inspector will be liable to the seller, buyer and mortgage lender. Professional indemnity insurance is already hard to obtain, premiums have risen sharply and are expensive. It is generally recognised that the new Home Inspectors will almost certainly be unable to obtain professional indemnity insurance. A mutual insurance scheme is being considered under which each home inspection would be separately insured but this will only work if the Government underwrites it, at least initially. What will happen if cover cannot be found?

... HCR databank:

HCRs will be held on a databank. With an estimated 1.5m HCRs to be carried out each year the databank will rapidly become very large, raising issues about handling, capacity and how access to the data is to be managed and controlled.

Likely Additional Costs and Impact on the Housing Market

Additional Costs

- * A full Pack must be provided, on request, to every prospective purchaser, so up to 12 Packs may be required for each sale currently and significantly more in a slower market.
- * Many vendors place their property with more than one agent, particularly if it is slow to sell. We do not believe that the second will use the first agent's Pack (he would be liable under the Property Misdescriptions Act for any inaccurate information), but will commission his own and pass those costs onto the vendor.
- * Only 20-30% of buyers currently undertake an independent homebuyer survey and valuation, for the majority this would be an additional cost. Many older people who might consider a move to a smaller, purpose built, home, will be downsizing from a larger, older property of the kind that the Government wishes to see freed up for larger households. For such houses the cost of the HCR is likely to be much greater than the Government's estimate of £280, and might run into thousands of pounds.
- * It is proposed that HIP's will include four searches; the additional one being a non-property specific environmental search. This will be an additional cost for the seller as well as adding confusion and, in many instances, unnecessary alarm to potential purchasers.
- * The whole issue of obtaining Professional Indemnity Insurance for the Inspectors and the marketers is far from resolved and will certainly result in higher costs, assuming a solution to this problem can be found. Ministers would not commit themselves to Government underwriting a new scheme when cross-examined by the ODPM Select Committee Inquiry into the Housing Bill.

Likely Impact on the Housing Market

We believe that all buyers and sellers, and particularly older ones, will be deterred by the size and complexity of the Pack as currently specified.

It is likely to be a serious deterrent for many frail, elderly people, who are, in any event, the least likely to consider moving home. Deterring potential vendors will not assist the ODPM's desire to reduce under-occupancy of family sized homes by one and two person households. Frailer older people who move to supported ("sheltered") housing are likely to maintain an independent lifestyle for longer, an objective supported by the Department of Health. This extended independence also reduces the burden on social services and the NHS, which is particularly significant, bearing in mind the demographic shift in the population. If they are deterred from selling, under-occupation of larger houses will continue.

ODPM has argued that, although the vendor will meet up-front costs on the property he is selling, he will recoup these by not paying for them on the property he is purchasing. This fails to address two key questions. Firstly, who pays when no sale results and secondly, some transactions are not part of on-going sales and will be adversely affected by the cost of the Packs. For example, re-sales of sheltered housing units when residents move to a care or nursing home, or when a family sells the property after the death of an elderly relative. Executors are responsible for continuing to pay the service charges until properties are sold. Delays in putting the property on the market while the HIP is prepared will only increase the amount of service charge, which they pay.

Because of the specialised nature of the product, it is common practice for re-sales of retirement housing to be handled by the management company responsible for the scheme. Our earlier comments about the likely cost and administrative burden on those undertaking the marketing of re-sales (putting information together, offering advice to purchasers, securing professional indemnity insurance, the training of staff and the holding and storage of information) will also apply to management companies and they too will have to seek professional indemnity insurance which will be difficult and expensive to obtain and will drive up management fees for residents.

Conclusion

HIPs, as currently proposed, will not speed up the house-buying process. They will simply transfer delay from the middle to the beginning of the selling process, the costs from the buyer to the seller and reduce the size of the total housing market.

Importantly, lack of comprehensive information at the beginning of the marketing period is not the principal reason for failures or delays in the housing market. The production of a mandatory HIP will not address other key issues which lead to delay and abort sales, such as delays in exchange, completion dates, changes in financial status, inability to sell an existing property etc.

If ODPM proceeds with this idea, we believe that serious thought should be given to what comprises the "key information required to make a properly informed decision" that Packs should contain. It could be argued that the HIP is being, or could be, used as a convenient means of conveying a wide range of data required by EU Directive or UK legislation which is not "key" to the buying and selling process at all.

The introduction of the Pack will reduce the size of the housing market and the choice available to purchasers, whilst transactions will become more protracted, contrary to the Government's intentions. It will certainly not help the housing market to function more efficiently, as the Chancellor intends.

How to Speed up the buying and Selling Process

Instead of introducing the HIP in its current form, we would suggest that the most effective way of speeding up the buying and selling process is to:-

- * require solicitors to be appointed as soon as the property is put on the market and that they immediately apply for the Title
- * that local authority searches are speeded up
- * potential purchasers obtain letters of intent/ability confirming their ability to borrow from their bank or building society prior to offering for a property.

Much of the information in the Pack is more appropriately provided when an expression of serious interest/offer to buy is made. This is particularly true of those documents (searches, valuations etc) which have a limited shelf life. Added to other policies already in hand which are designed to speed up conveyancing, our proposals would be far more effective in delivering ODPM's goal of reducing uncertainty and costs and making the process transparent, faster and consumer friendly.

Retirement Housing Group
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