REPORT OF A QUALITATIVE SURVEY

ON

BUYING A PUBLIC SECTOR HOUSE

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A. BACKGROUND AND METHOD

In 1988, the Scottish Consumer Council (SCC) published a report on the experience of people purchasing privately owned housing at the lower end of the market, entitled "Buying a House in Scotland". To complement this report, the SCC are intending to report on the experience of council and other public sector tenants purchasing their houses as sitting tenants.

The information for this report will be collected in a 2-stage exercise. First of all, an exploratory qualitative phase, involving group discussions with public sector tenants who have purchased their homes, which is designed to identify the key issues and understand some of the major elements. This will then be followed by a quantitative survey conducted by a postal self-completion questionnaire to a larger sample of purchasers.

System Three Scotland were commissioned to undertake the qualitative phase and 3 group discussions were undertaken, as follows:

1. East Kilbride - previous tenants from East Kilbride Development Corporation or the Scottish Special Housing Association who bought their homes within the last 6 months.

2. Glasgow - previous tenants of flats with the district council who bought the flats 18 months - 2 years ago.

3. Paisley - previous tenants of the district council and SSHA tenants who bought their homes no more than 2 years ago.

All respondents were either the head of the household or spouse and the groups consisted of a spread of age groups and both men and women.

The group discussions took place during the period 29 May - 8 June 1989.
B. MAIN FINDINGS

This section of the report outlines, in some detail, the main findings from this analysis of the experience of public sector tenants purchasing their homes.

1. Factors influencing the decision to purchase

A plethora of factors can operate to finally persuade the tenant(s) to "take the plunge" and apply to buy their public sector house or flat. In general, this decision is only taken after a long gestation period during which the advantages and disadvantages of their "new status" are discussed in great detail. This is particularly the case with older respondents who have often debated the merits and demerits on several previous occasions and decided against purchase. What finally changes their decision is often a change in one of the pertinent factors. In contrast, with younger purchasers, the decision to purchase is taken as soon as they are in a position to take advantage of the purchase discount scheme offered by the various authorities.

"I couldn't afford it when I was bringing up my family..... I've got a part time job now and two members of the family are working"

"It was when I was staying with my parents, it just seemed the logical thing to do if you were getting so much discount..... especially the way house prices are increasing all the time"

Without doubt, the financial benefits are recognised as the primary factors influencing people. First of all, the belief that payment of a monthly mortgage will represent a similar amount to that currently being paid in rent. In addition, it is recognised that the latter will, without doubt, continue to increase while the mortgage may decrease on occasions. Nevertheless, at the end of your repayment period, the benefits of a mortgage accrue to you, not to your landlord.
"....I don't believe in paying rent for years and never getting anything back, so I wanted to buy mine because at the end of the day you've got something......it's yours"

Secondly, purchase of a public sector house or flat enabled previous tenants to acquire a nice property which they would have been unable to do on the open market, without the discounts available.

"You'd never be able to buy the houses and flats in this area because they're fantastic......."

There was no real evidence of detailed calculations of whether the mortgage payment plus community charge was more or less than they would have been paying in rent – even in this current climate of high interest rates. Provided the difference between the two amounts is not substantial, the householder's perception is that the mortgage represents the preferred option.

As might be expected, the financial benefits of the property purchase were of particular appeal to younger purchasers who were more likely to regard it as a means of getting into the property market. In contrast, other attractions held relatively more importance for older purchasers. For example, older people were looking for their purchase to "cement" their links with a particular area – they now owned a nice house or flat beside nice neighbours et al. However, the purchase was very much seen as being for their own benefit rather than something that they could "hand down" to their children.

The freedom and flexibility of having control over the property and what could be done with it was of some limited importance after many years of being reliant on a landlord to respond to your requests. However, its importance should not be over-stated.
Apart from these various "pull" features, there were a number of elements conspiring to "push" potential purchasers in the appropriate direction. First and of primary influence in certain situations was increasing dissatisfaction with the services provided by the existing landlord. This was a more common criticism with district council tenants than with those who had been in Scottish Special Housing Association (SSHA) or New Town Development Corporation properties. The main criticisms were related to the poor level of service. Not only was there normally a delay in getting repairs carried out, but also, the quality of workmanship was often very poor, compounded by the inadequate levels of supervision and quality control on the work. The quality of service offered by the other landlords, while far from ideal, was at a noticeably higher level.

A variation on this theme was a certain degree of uncertainty about the future. This was undoubtedly a strong influence on certain recent purchasers of SSHA and Development Corporation properties. The introduction of new housing legislation and the proposed break-up of the new town development corporations had prompted some people to remove such uncertainty through the purchase of their property. While many were not dissatisfied with their current situation, no-one could guarantee the future.

"Well it's supposed to be folding up and that's one reason why we decided to buy.... you just don't know where you are with them. /It's going back to the old factors and so forth, where you get nothing done and they can shoot your rent up....."

In addition, the "domino" effect of neighbours, family and friends purchasing property should not be ignored as a contributory factor. If a close friend or member of the family have recently gone through the purchasing process, this will remove some of the fear and uncertainty, and they also represent a useful source of advice.
2. **Sources of advice**

Apart from informal advice provided by friends, neighbours and other members of the family who may have experienced buying a house, the primary source of advice and information was the existing landlord – the district council, development corporation, SSHA. Without exception, printed brochures, leaflets were available along with the application forms to help individuals complete the necessary documentation and advise them on the other steps in the process. In addition, it would appear that, on an informal basis, staff within the housing offices and departments were very helpful.

"When you go down..... there is a thing that's got all these different leaflets in it and there's one on purchasing your flat and you can read up about it...."

Comment was made on the change of attitude within district councils in recent years over the sale of council houses. Until recently, some district councils made the purchase of council houses as difficult as possible with little verbal advice or guidance from members of staff and limited, if any, printed material. This situation had altered to the extent that there were no significant differences between the various authorities in terms of providing advice.

Other sources of advice included insurance salesmen and agents, solicitors, building societies and other "professionals" involved in the property purchase.

"I asked my Prudential insurance man how to go about buying it and he said to go up and get a form and he would keep me right from then on and he got me a lawyer and arranged for my loan"

It would appear that people enter into the purchasing process fully aware of what is involved, what they have to do and broadly, how much it will cost them. The question would seem to be not whether they are fully aware of what is involved but rather, do they fully understand the process? This issue is discussed in more detail later in the report.
3. **The purchasing process**

Once the **application** form had been completed and submitted, the delay in transferring from being a tenant to an owner-occupier varied, in general between 3 months and 1 year. The only experience of longer delays was often related to purchases made a number of years ago from district councils who were less than helpful in prosecuting council house sales. Applicants were led to believe that the period would be around 6 - 9 months and this was normally achieved. Although evidence was limited, there was some suggestion that the SSHA were most likely to complete the process in the shortest time - often as little as 3 - 4 months.

Early contact with a **solicitor** was recommended in the advice provided to applicants and this appeared to present few problems, even for those who had never had cause to make use of a solicitor's services previously. Personal referral through family and friends was common, or through the insurance salesmen/brokers/agents involved in the transaction.

"Once I got the facts and figures from the Corporation what it had to be, the broker I was dealing with actually contacted the solicitor on my behalf, and he took it from there"

Generally, people were satisfied with their solicitor's input to the process although few can equate their level of input with the subsequent fee charged.

"You're paying maybe £400/£500 for nothing, just because it's legal"

"My own lawyer.... says 'leave it to me' and he goes all through it so I've no problems, I don't need to worry. Even paying him, you say, 'Is it worth it?'"
As with other elements of the process, most people seemed to be aware of the likely level of legal costs for buying the property and therefore, had not been surprised at the size of the fee. In addition, there was evidence that solicitors had been flexible in allowing partial payments of the fee rather than insisting on complete settlement. While some individuals had "shopped around" for the best "price" amongst solicitors, most had received an initial indication of the costs and provided it equated with what they had been led to believe it would cost, this was sufficient reassurance for them to proceed with that solicitor.

On receipt of the formal valuation of the property and an indication of the level of discount to which the tenant was eligible, arrangement of a mortgage, if that was necessary, was the next step in the process. It would appear that there were 3 main "routes" followed to arrange a mortgage. First of all, through an insurance broker or financial adviser recommending or indeed completing the arrangements with a particular bank or building society. Other individuals contacted a bank or building society directly and made the necessary arrangements. There was little evidence that this direct contact was undertaken in an attempt to get the "best deal" possible. More often than not, people approached the bank or building society with which they had some relationship or because it was nearest to their home or place of work. If this first contact was positive, then people saw no need to "shop around". Only if they encountered any difficulties with this initial contact did people enquire elsewhere.

Finally, some of the district councils, development corporations etc offered mortgages to applicants. However, this was perceived as a "fall-back" position - almost as a lender of last resort.

The fact that the mortgage applicant lived in a public sector property created no problems in terms of receipt of a mortgage. However, it was recognised that there was some resistance amongst mortgage lenders to do so for multi-storey flats, especially above the fourth floor, because of the difficulties in re-selling the flat in the future. On a very localised basis, there was also a belief that some banks and building societies would not lend to applicants if the area in which they wished to buy the property had a bad reputation for vandalism, crime or that it was experiencing subsidence. Much of this was based on anecdotal evidence rather than any definite policy.
Almost without exception, the standard building society valuation survey is accepted, often with the purchaser unaware of the availability of more detailed surveys. This is highlighted by the frequent criticism of the superficial nature of this valuation survey, in relation to the subsequent fee - around £50 - 70 for a 5 - 10 minute inspection.

"The one that did mine was a joke. He took £68 for nothing.... He spent a total of 12 minutes in the house and he charged me £68......"

As most of the applicants had lived in their homes for some time prior to applying to buy it, they were aware of its condition and were therefore less concerned that there might be structural problems. However, the primary concern must be this lack of awareness of the various types of survey available and the opportunity to choose the one most appropriate to your particular needs and requirements.

In summary, most applicants had relied heavily on trust in the various "players" involved in the purchasing process to progress their application. In general, this trust had been justified with only a handful of minor problems, all of which resulted in, at worst, a delay in the individual taking over responsibility for the property.

This lack of detailed understanding of the various elements of the process and the reliance on various people is not unique to public sector purchasers. The same "trust" is required by first-time purchasers on the open market who, in the majority of cases, will not have had access to the various pieces of information and advice proffered by the previous landlords.

One unique feature of the sale of public sector property has been the existence of commercial companies, often insurance-based, attempting to sell comprehensive property purchase packages - fixing the mortgage, arranging a solicitor, house contents insurance etc. Amongst the respondents interviewed, it did not appear that anyone had purchased their property in this way. However, most respondents had encountered them directly or indirectly. The feeling was that without the activities of such salesmen, a number of people may well never have decided to buy their property.
"...He was giving them sort of deals..... how much it was going to cost them and taking out different policies to cover different things and then they started shopping about after that. It was him that planted the seed in their mind"

Although very intense sales techniques were used, there was no knowledge of any fraudulent experiences. However, what cannot be assessed is the extent to which individuals had to pay more for their mortgage and related insurance and assurance policies. However, the same argument could be made for those who were referred to building societies by individual brokers amongst others.

In general, the previous landlords were regarded quite favourably by the purchasers in terms of the way the purchasing process was handled. To what extent any negatives were diluted by the individual's delight at having acquired the property at such good value, is a question which should be recognised, even although it cannot be fully answered. However, one particular cause for criticism and complaint related to the apparent policy of transferring tenants who had applied to buy their property, on to a basic repair status - wind and water-tight as specified within the law, but no more than that. This "status" was maintained throughout the application period despite the applicant paying the same rent. This was not purely a district council problem, but applied equally to the other categories of landlords.
4. **After purchase experience**

Without exception, no-one had any regrets or dissatisfaction with the experience of home ownership, albeit in some cases this was to date, relatively short. This was despite the recent increases in interest rates, and in any case, individuals had been aware of this possibility from the outset.

Householders appeared to be satisfied with the information made available on what their responsibilities were in terms of the extent of their property and, in the case of flats or terraced properties, common repairs and maintenance. This type of information was normally provided by solicitors and/or the previous landlords.

On the specific issue of common repairs and maintenance, there appeared to be clear understanding of what the individual householder was liable for and the share of costs — a pre-determined fraction of the total cost depending on the number of households within the block or terrace. Any concerns over common repair and maintenance related to the quality of the work. This was likely to be a legacy of the householder's previous experience of work undertaken by the same labour force. The issues of whether the work was actually required or the total cost of it, were of less concern than what would actually be done to the fabric of the building.

The main area of concern to those living in flatted properties was over factoring. It appears to be a quarterly cost which is rarely specified in advance and its coverage is uncertain. **Hardly anyone was able to define exactly what the responsibilities of a factor were, although there was a consensus that it included grass-cutting and general maintenance of open spaces surrounding a block of flats.** Included within the factoring fees there also appeared to be an allowance for building insurance — once again considerable confusion and uncertainty over this component. Most individuals expressed a desire to progress, whenever possible, to a situation where, with a majority of the flats in private ownership, they could appoint a factor of their own choice.
To date, a minority of respondents had had to undertake a major repair to their property since purchasing. Therefore, this particular issue was of limited concern, especially as it was assumed that anything of major importance would be covered by the appropriate insurance policy.

An interesting comment which emerged was whether the introduction of the community charge might act as an incentive for individuals to improve their property, which previously would have been penalised by an increased rateable value.

Apart from the seemingly ubiquitous new double glazing, little in the way of substantial improvements had been undertaken by the purchasers since taking over responsibility for the property. Many had in fact already made improvements to the property while tenants, often without seeking the permission of the previous landlords. In a way, this was often a secondary reason for buying the property, to enjoy the benefits of investing in a new kitchen or new bathroom suite.

As for the future, age was an important determinant of whether purchasers would "stay put" in their existing property or use the proceeds from its sale as an investment to move up the housing ladder. Younger people, without exception, took the latter viewpoint that as soon as possible they would sell and move up the housing ladder - even before the three years had elapsed. This three year period is the threshold for holding on to the full discounts available. Some were considering sub-letting the property as a means of ensuring retention of the discounts while moving to another property.
C. CONCLUSIONS

On the basis of this exploratory analysis of the experiences of public sector tenants purchasing their homes, the following conclusions can be highlighted.

1. After an initial period of resistance by certain local authorities, the actual process of enabling tenants to purchase their house or flat was, if not overtly encouraged, was made as easy as possible. The advice and information provided to applicants, especially that in the form of leaflets and brochures was considered to be of invaluable assistance.

2. Without doubt, the financial benefits of purchasing the property have been paramount. The availability of substantial discounts on the market price of the house has enabled many people to become owner-occupiers who would either have never done so, or would have had to postpone such a move for a considerable period of time.

3. While the "pull" of financial benefits was the primary factor, the "push" factors were of relatively more importance for local authority tenants. Moreso than for SSHA and new town development corporation tenants, they were likely to react to the poor quality of service provided by the housing departments.

4. Generally, people appeared to encounter relatively few, and if anything, insignificant problems in their completion of the purchasing process. There did appear to be a high level of awareness of the various "steps" necessary and of the likely levels of costs involved, if not a thorough understanding of procedures. A significant degree of trust was placed in the hands of the "professionals" involved in the house purchasing process - solicitors, banks and building societies etc. In general, this trust appeared to be justified with any problems apparently being resolved without too many difficulties.
5. The question of factoring remains a contentious issue and one which requires to be defined more clearly by the previous landlord, who, in general, remains the factor. The exact amount of the quarterly fee and how it is broken down must be made clear along with the factor's responsibilities.

6. Another contentious issue which people accept because they are pleased with the outcome of the process, is their change in status, in the eyes of their landlord, as soon as they apply to buy their home. A policy of basic repair and maintenance is introduced, despite the applicant continuing to pay the same rent as previously. On the other hand, evidence from local authorities etc suggests an upturn in maintenance requests immediately prior to submitting an application to buy.

7. In conclusion, public sector purchasers encounter the same set of problems as other first-time purchasers. However, they do not have the trauma of moving house or making competitive offers and they do not receive the same volume of helpful information and advice.