Statement of scope for market study into home buying and selling

25 February 2009

OFT1064scope

On 8 December 2008, we announced our intention to launch a market study into home buying and selling, looking at all methods of buying and selling homes.

Since then we have engaged with a wide range of stakeholders from Government, the devolved administrations, consumer groups and the industry to ask for their views on the scope of the study. We have also received helpful comments from individual businesses and consumers, and would like to express our gratitude to all contributors. Following this consultation, we have now determined the scope for the study and the issues we will focus on.

Scope

The study will take a comprehensive look at the market for home buying and selling services. It will consider the outcomes of competition between service providers on both price and quality; the extent to which new business models, including internet-based models, have taken off in recent years; and, in this context, whether the existing regulatory framework provides the right balance between protecting consumers when buying or selling a home and ensuring that the market remains open to competition and innovation.
The study will cover the whole of the UK, while recognising the significant differences between how the market works in Scotland and how it works in England, Wales and Northern Ireland.

The study will not extend to purchases or sales of overseas property. The OFT is aware of some concerns around poor or possibly misleading sales practices for overseas property, particularly as regards new developments. However, these concerns are largely separate from those we intend to look at within the home buying and selling market study, and would not be practicable to include. We will consider whether the concerns raised are best addressed by us or other organisations, but this will be done in line with our prioritisation principles and separately from this study.

Several stakeholders suggested that the study should include residential lettings as well as sales. While we acknowledge that there are important issues in terms of the relationships between tenants, lettings agents and landlords, these are largely distinct from the issues we intend to look at in relation to home buying and selling. To keep the scope of this study manageable, therefore, we do not propose to address lettings at this time.

**Issues**

The study will consider the consumer's experience of buying and/or selling a home from putting the property on the market, through making and receiving offers, up to completing the transaction. In particular it will look at:

- How sellers decide how to bring their property to market, considering the different channels available (such as high street estate agents, internet property retailers, auction or through solicitors) and how service providers within these channels compete for business.
- How agents bring together buyers and sellers; how efficiently this is achieved; and the scope for harm to either buyer or seller at this stage.
- The role of agents and/or other service providers in moving the transaction from offer to completion (or exchange and conclusion of missives in Scotland).
• Their relationships with other professional service providers, notably providers of surveys, searches, conveyancing, mortgage broking, Energy Performance Certificates (EPCs), Home Information Packs (HIPs) and, in Scotland, Home Reports (HRs).

The main questions that the study will seek to answer are:

• **Has price competition improved since our market study of estate agency in 2004?**
  In addressing this question, we plan to look at:
  o patterns of fees, entry, and transaction volumes in the years since 2004 to assess how competition operated in both the upswing and the downswing
  o the evolution and transparency of estate agency arrangements and fee structures
  o the extent to which consumers shop around and negotiate on fees.

• **Are there barriers to innovation in this market?**
  In addressing this question, we plan to:
  o assess the extent of entry by innovative business models since 2004
  o explore the experience of innovative entrants to the market to identify whether barriers exist
  o explore the extent to which consumers have, or are gaining, confidence in internet-based models.

• **What are the main risks to consumers in this sector?**
  In addressing this question, we plan to:
  o explore the extent to which consumers are at risk of serious financial loss arising from, for example, conflicts of interest on the part of agents, or problems with the provision of information
  o assess what risks arise from the relationships between estate agents and ancillary service providers, including the transparency to consumers of these arrangements, charges, referral fees and the use of panels
  o consider how risks to consumers vary across the alternative channels for buying and selling a home, from 'for sale by
owner’ at one end to full service traditional estate agency at the other.

- **Has consumer satisfaction improved since 2004?**
  In addressing this question, we plan to:
  - look at which aspects of the transaction are most associated with consumer dissatisfaction and why
  - assess the impact of redress schemes and codes of practice on performance standards and consumer satisfaction.

- **Can more be done to improve confidence in this market?**
  In addressing this question, we plan to:
  - consider whether possible changes to legislation or conventional practices could help to increase consumer confidence in the market for buying and selling a home
  - assess the role of HIPs and HRs in improving consumer confidence and consider whether their introduction has reduced, or is likely to reduce in future, the incidence of particular problems such as failed transactions or unexpected costs discovered after purchase
  - examine how effectively existing statutory protections for consumers address the main sources of detriment for consumers, and whether there are grounds for introducing a registration scheme or positive licensing system for providers of estate agency services.

We will keep the focus of our work under review during the study.

**Next steps**

The study team will continue to engage with key stakeholders – in particular, we would welcome submissions from interested parties on the substantive issues raised above by 13 April 2009. It would help the study team if submissions explain which of the above questions and issues they are addressing and attach supporting evidence (including its source).
Please send submissions to: homebuyingandselling@oft.gsi.gov.uk, or to

Home Buying and Selling Market Study (2nd Floor)
Office of Fair Trading
Fleetbank House
2-6 Salisbury Square
London EC4Y 8JX

In addition to considering stakeholder views, the OFT intends to commission independent research into, among other things, consumers’ experiences of buying and selling homes. We intend to complete the study before the end of the year, and will post updates on our website at: www.oft.gov.uk/homes.

Possible outcomes of a market study include one or more of the following:

- giving the relevant market a clean bill of health
- publishing information to help consumers
- encouraging firms to take voluntary action
- encouraging an industry code of practice
- making recommendations to the Government or to sector regulators
- investigation and enforcement action against companies suspected of breaching consumer or competition law
- a market investigation reference to the Competition Commission.