



Localism Bill: repeal of Home Information Packs (HIPs)

Impact assessment



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Packs (HIPs)
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Title: Localism Bill: repeal of Home Information Packs (HIPs) Lead department or agency: Department for Communities and Local Government Other departments or agencies: n/a	Impact Assessment (IA)
	IA No: DCLG 0063
	Date: January 2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
Contact for enquiries: Tracey Heyworth	

Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Home Information Packs (HIPs) are an additional and unnecessary hurdle in the process of buying and selling a home as sellers pay extra money simply to be able to market their home. The Government made clear that abolishing HIPs is a top priority in the Coalition Agreement. The requirement of an Energy Performance Certificate will remain.

To prevent uncertainty, and to remove unnecessary cost and bureaucracy from the housing market, the Government acted quickly and suspended HIPs from 21 May 2010 as a stop-gap measure prior to outright abolition through primary legislation.

What are the policy objectives and the intended effects?

To remove the unnecessary burden imposed on sellers of the requirement to produce a HIP, from which they derived little benefit, and which restricted some sellers from listing their property. The suspension of HIPs saw a rise in listings, and therefore a rise in transactions. Immediate suspension of HIPs was necessary in order to prevent uncertainty in the housing market and remove a threat to its fragile recovery. Suspension of HIPs has reduced the cost of selling a home, removed a layer of unnecessary regulation and provided a boost to the housing market.

HIPs were suspended in May 2010 on the grounds that the policy to abolish HIPs was a commitment in the Coalition Agreement and swift action could prevent market uncertainty. It is now proposed to abolish HIPs via primary legislation. This Impact Assessment (IA) updates the IA published when HIPs were suspended.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

1. To revert back to the pre-suspension requirement to produce HIPs. The 'do nothing' option of indefinite suspension of HIPs is not feasible as this would create market uncertainty. This IA updates the previous IA for suspension of HIPs (published in May 2010) and considers the impact against the same pre-suspension baseline.
2. Repeal the HIP duties via the Localism Bill. This is the preferred option.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will not be reviewed
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	No

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister: Grant Shapps..... Date: January 2011

Summary: Analysis and Evidence

Policy Option 2

Description:

Price Base Year 2008	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 546	High: 747	Best Estimate: 647

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	103	885
High	0	141	1212
Best Estimate	0	122	1049

Description and scale of key monetised costs by 'main affected groups'

Costs include additional costs to first time buyers from having to purchase searches, given as approximately £150, multiplied by the expected number of first time buyers in each year. This only affects first time buyers because other buyers are typically selling a property as well. There are additional costs of 'wasted searches' as duplications of searches occur where a transaction fails because the searches do not stay with the property.

Other key non-monetised costs by 'main affected groups'

It is not possible to quantify any net benefits that consumers might have gained from keeping HIPs in relation to their stated objectives of increasing certainty and information for buyers, and of reducing delays and the stresses involved in home buying and selling. Limited evidence of the perceived benefits of HIPs indicates that these were very low. This derives from evidence which shows that although 89 per cent of buyers actually saw a HIP prior to committing to a purchase 67 per cent of these said that it had no influence on their decision to buy, with a further 13 per cent either not reading or not understanding the HIP. Additionally, 20 per cent of sellers did not get or did not remember getting a HIP and of those who did, almost half (49 per cent) said that they did not find them useful. There continued to be consumer dissatisfaction with transaction times when HIPs were required, and with the home buying and selling process.

The industry that was created to compile the packs suffered losses. HIP providers lost revenue because they were not able to charge for bringing together information in a mandatory pack. Some HIP providers continue to offer searches (and Energy Performance Certificates) so impact may be mitigated.

Domestic Energy Assessors suffered a loss as the need to provide an Energy Performance Certificate has increased from 3 years to 10 years, so fewer Energy Performance Certificates will be purchased.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	167	1431
High	0	228	1959
Best Estimate	0	197	1695

Description and scale of key monetised benefits by 'main affected groups'

On average, those selling and buying a property will save £78 from obtaining separate buying and selling components rather than obtaining a HIP. This will result in an overall saving of some £870m over a ten year period. In addition, sellers who are not purchasing another property will save a further £150 (as these costs shift to the buyer). Without a HIP the requirement for an Energy Performance Certificate will be every 10 years, (EU legislation) this will result in a saving of around £195m over a 10-year period.

Other key non-monetised benefits by 'main affected groups'

Some estate agents can typically receive a referral fee of £50-£100 per HIP. There is no evidence to suggest what proportion of estate agents get a referral fee. There are a lower number of duplications of searches. This is because a buyer now only purchases them when they are necessary, so no searches will go out of date.

Key assumptions/sensitivities/risks

Discount rate (

3.5

Projected transactions are scenarios calculated by DCLG, relevant costs and benefits could alter depending on actual levels of transactions. The number of first time buyers was also calculated using these projected transactions and using a long run average (ten year) figure of the proportion of mortgage completions who are first time buyers. The recent downturn and tighter lending conditions have not impacted this proportion significantly but there is a likelihood the figure could change over the next ten years. We assume the number of first time buyers equal the number of sellers who are not purchasing another property so the benefits to this latter group offset the costs by first time buyers. Figures for searches and savings of components are averages of a wide range of search/component prices that have been reported. There is a risk that we might have underestimated the overall benefit to consumers of retaining HIPs, but evidence of perceived benefits suggests this to be low, ie that the benefits of retaining HIPs would not have outweighed the costs.

Impact on admin burden (AB) (£m):

New AB:

AB savings: 40.6

Net: -40.6

Impact on policy cost savings (£m):

Policy cost savings:

In scope

Yes/No

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	England and Wales				
From what date will the policy be implemented?	2011				
Which organisation(s) will enforce the policy?	None				
What is the annual change in enforcement cost (£m)?	0				
Does enforcement comply with Hampton principles?	Yes				
Does implementation go beyond minimum EU requirements?	No				
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)	Traded:		Non-traded:		
Does the proposal have an impact on competition?	No				
What proportion (per cent) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?	Costs: 100		Benefits: 100		
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any Specific Impact Tests undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ <u>Statutory Equality Duties Impact Test guidance</u>	No	16
Economic impacts		
Competition <u>Competition Assessment Impact Test guidance</u>	Yes	15
Small firms <u>Small Firms Impact Test guidance</u>	Yes	15
Environmental impacts		
Greenhouse gas assessment	No	16
Wider environmental issues	No	16
Social impacts		
Health and well-being <u>Health and Well-being Impact Test guidance</u>	No	16
Human rights <u>Human Rights Impact Test guidance</u>	No	16
Justice system <u>Justice Impact Test guidance</u>	No	16
Rural proofing <u>Rural Proofing Impact Test guidance</u>	No	16
Sustainable development <u>Sustainable Development Impact Test guidance</u>	No	16

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	2008 – The Home Information Pack (amendments) (No.3) Regulations 2008. http://www.opsi.gov.uk/si/si2008/uksi_20083107_en_1
2	2007 – The Home Information Pack (No2) Regulation 2007 (2007 No 1667) http://www.opsi.gov.uk/si/si2007/uksi_20071667_en_1
3	2006 – HIP Baseline Research: Main Report http://www.communities.gov.uk/publications/housing/hipbaselineresearch
4	2004 - The Housing Act 2004 http://www.opsi.gov.uk/acts/acts2004/ukpga_20040034_en_14#pt5
5	2010 – IA for the suspension of Home Information Packs (included in the explanatory memorandum to The Home Information Pack (suspension) Order 2010) http://www.legislation.gov.uk/uksi/2010/1455/pdfs/uksiem_20101455_en.pdf
6	The Coalition: our programme for government (May 2010) http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf
7	

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0	0	0	0	0	0	0	0	0	0
Annual recurring cost	117.4	118.4	119.5	120.5	121.6	122.6	123.7	124.8	125.8	126.9
Total annual costs	117.4	118.4	119.5	120.5	121.6	122.6	123.7	124.8	125.8	126.9
Transition benefits	0	0	0	0	0	0	0	0	0	0
Annual recurring benefits	189.7	191.4	193.1	194.9	196.6	198.3	200.0	201.7	203.4	205.1
Total annual benefits	189.7	191.4	193.1	194.9	196.6	198.3	200.0	201.7	203.4	205.1

* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office
Excel Worksheet

Evidence Base (for summary sheets)

Background

HIPs were introduced on a phased basis from August 2007. The decision to introduce mandatory HIPs followed research which found that the home buying and selling process in England and Wales was among the slowest in Europe, was characterised by delays and failed transactions and did not look after the interests of consumers.

The main problem identified by the research was that important information needed to inform buyers' decisions only became available after terms had been negotiated and agreed. HIPs were intended to address this by requiring sellers to make this key information available to potential buyers when they show interest in a property.

The key objectives for introducing HIPs were therefore to reduce stress, delays and wasted costs and improve consumer satisfaction overall.

From 6 April 2009 transitional measures were removed so a home could then only be marketed for sale if a HIP was available. These changes also introduced the new Property Information Questionnaire (PIQ). The duty to have a HIP applies to the "responsible person" which can either be the seller of the property or a person acting as an estate agent for the seller. HIPs can be assembled by specialist HIP providers, estate agents, conveyancers or individual sellers. There is no evidence which suggests what share of the market these groups make up.

A HIP comprises the following components:

Required HIP Document	Position after Abolition
Index (lists documents in HIP)	Not required
Property Information Questionnaire (prepared by seller and answers standard question about the property.	Not required
Energy Performance Certificate	Seller still required to provide this
Sale Statement (summary of property, terms of sale and seller)	Not required
Sustainability information (New homes only, Code for Sustainable Homes measures the environmental impact of a new home)	Seller – but subject to commencement of powers in Sections 279 – 293 of the Housing and Regeneration Act 2008
Standard Searches (Local Authority and Drainage and Water Search)	Responsibility of buyer
Land Registry evidence of title (for registered property)	Responsibility of buyer
Land Registry evidence of title (for unregistered property)	For seller to provide but only when requested to by buyers solicitor
Copy of lease (leasehold sales only)	Buyer can obtain copy from Land Registry or request seller to provide

HIPs did not achieve their objective to improve the home buying and selling process for consumers. HIPs added an unnecessary hurdle in the process of buying and selling a home as sellers were paying extra money simply to be able to market their home. Often the quality and cost of documents acted as a deterrent to people wishing to sell their homes.

Of all the components only the Energy Performance Certificate is now legally mandatory. A decision on the requirement for sellers of new homes to provide sustainability information will be taken in due course. It is highly likely the searches and evidence of title would still be purchased, even without the requirement for a HIP.

Objectives

It has been suggested that the need to produce a HIP imposed an unnecessary burden on sellers from which they derived little benefit, and restricted some sellers from listing their property. The suspension of HIPs on 21 May led to a rise in listings and therefore a possible rise in transactions. It reduced costs of selling a property. The Government now propose to abolish HIPs via primary legislation. The indefinite suspension of HIPs, would create uncertainty in the housing market. This IA updates the previous IA for suspension of HIPs and considered the impact against the same pre-suspension baseline.

The policy would mean sellers only legally have to supply an Energy Performance Certificate.

Implementation

The policy to abolish HIPs was made clear in the Coalition Agreement. The Government therefore indicated that abolishing HIPs is a priority. The Secretary of State has decided that HIPs should be abolished and seeks primary legislation to repeal part 5 of the Housing Act through the Localism Bill. This Impact Assessment (IA) updates the IA that was published when HIPs were suspended. It gives an updated assessment, reflecting what happened to listings after HIPs were suspended (paragraph 37), and clarifies how the benefits to business are calculated in light of the new One In One Out regime (footnote 2).

Given the importance of the policy it was decided that suspending the HIP requirements should happen as an interim measure. This was implemented in May 2010 via an Order under s162 of the 2004 Act. This enables the Secretary of State to suspend any or all of the HIP duties under Part 5 of the Act. In this instance there were two options:

- Not to consult on the grounds that the policy is a Coalition commitment and swift action is necessary. This could mean HIPs are suspended with immediate effect.
- Consult on the practicalities of unwinding HIPs and to provide a period for industry and consumers to adjust. This option means it would take at least 4-6 months before suspension could take effect. This option would raise any consequences of the policy that were not initially considered, thereby enhancing decision making.

Suspension of HIPs prior to the repeal of part 5 of the Housing Act 2004 would speed up delivery of the policy objectives. Suspending HIPs without consultation would further increase the speed in which action can be taken. Further reasons not to consult were:

- The government's long standing policy of abolishing HIPs, and the fact that this was set out in its Coalition Agreement, means that abolition was widely expected.
- The need for swift implementation of policy in order to minimise impact on the housing market. This prevented the distortionary effect of home owners waiting to put their home on the market until after the consultation period, and hence reduced the potential disruption to the market.
- The public interest in democratic process allowing new government to govern without being hampered unduly by actions of previous government.
- The consultation was unlikely to alter the ultimate decision.

Therefore it was decided not to consult and HIPs were suspended with immediate effect. However indefinite suspension of HIPs would create uncertainty in the market. Therefore the Government now have to move to abolish HIPs via primary legislation.

Research overview

There have been numerous studies by DCLG and by external stakeholders. These are all listed in Annex 2, with key points from all. A brief overview is described in the following paragraphs.

Pilot schemes and initial evidence suggested opposition to HIPs amongst the industry, especially estate agents, despite buyers, sellers and professionals agreeing that more information was needed up front.

There was much dissatisfaction about the home buying and selling process both before and after HIPs were introduced.

Research suggested that a certain group of sellers, labelled “speculative or tentative sellers”, would be affected by the introduction of HIPs. Evidence explains it was this group that was likely to be affected by the need to provide a HIP, and suggested that some of this group would remove their property from the market. Europe Economics suggested this could be as much as 30 per cent of sellers.

Initial evidence suggested that the introduction of HIPs had little effect on the market overall.

The disadvantages of HIPs were generally quoted as the HIP was not directed towards the buyer, specifically that the pack was “too full of jargon”, that the requirement to have a HIP before marketing caused an unnecessary delay, and that the pack missed vital information, e.g. the structure of the property.

The general advantage was cited as giving extra information to the buyer, which in some cases affected the choice of the buyer on whether to make an offer. There was continued consumer dissatisfaction with transaction times, and little evidence of perceived benefits of HIPs (OFT, 2010), as many sellers who saw a HIP said that they did not find them useful (49 per cent), and most buyers who saw a HIP said that it had no influence on their decision to buy (67 per cent).

Sensitivity Analysis

Transactions forecasts used in the calculations of the costs and benefits have been arrived at by taking the latest (2007) private stock figure for England and Wales as the baseline stock figure and then assuming annual net additions of 175,000 units (based roughly on total 2008/09 net additions figures for England and Wales) to arrive at a stock figure for each year. The core figures for transactions are then arrived at by taking 6.4 per cent (the latest England and Wales private turnover figure, taken from data in DCLG Live Table 588) of the stock figure for each year. To undertake some sensitivity analysis, the low and high transactions figures are calculated in the same manner as the core transactions figures, but with an assumed turnover rate 1 percentage point below and above the core turnover rate respectively (the +/-1ppt seemed a sensible range in light of historic turnover rates; turnover is not particularly volatile and has not strayed outside this range over the past decade).

This leads to transactions scenarios (and corresponding NPVs) as set out below:

	Transactions Scenarios '000s)		
	Low	Core	High
Y0	1,054	1,248	1,442
Y1	1,063	1,259	1,455
Y2	1,073	1,270	1,468
Y3	1,082	1,282	1,481
Y4	1,092	1,293	1,494
Y5	1,101	1,304	1,507
Y6	1,111	1,315	1,520
Y7	1,120	1,326	1,533
Y8	1,130	1,338	1,546
Y9	1,139	1,349	1,559
NPV	£546m	£647m	£747m

Costs and Benefits (of abolishing HIPs)

Costs

From the evidence available, it is not possible to quantify an overall benefit to consumers of keeping HIPs against their stated objectives, that by increasing certainty and information for buyers they would reduce delays and the stress involved in home buying and selling.

Consumer focus groups carried out for DCLG by Ipsos MORI in 2008 found that participants stated that HIPs made the home buying and selling process more complicated and contained too much jargon and were too difficult for most people to understand.

The OFT study of Home Buying and Selling (2010) concluded that it was hard to see either a significant positive or negative impact of HIPs. The perceived benefits of HIPs were low, - although 89 per cent of buyers saw a HIP prior to committing to a purchase, 67 per cent of these said that it had no influence on their decision to buy, with a further 13 per cent either not reading or not understanding the HIP. Additionally 20 per cent of sellers did not get or did not remember getting a HIP and of those that did, almost half (49 per cent) said that they did not find them useful. There continued to be consumer dissatisfaction with transaction times, and with the home buying and selling process.

Removing HIPs would not lead to any significant additional overall costs, but would have some distributional impacts, as the policy shifts payment from the seller to the buyer.

The majority of buyers are also sellers, but first time buyers – who account for approx 38 per cent of mortgage completions – would be adversely affected. First time buyers have to pay to conduct searches which cost approximately £150 (between £140-160) on average for either a Local Authority or Personal search (£100-£110) and a drainage and water search (£40-£50). This is unlikely to have a significant impact on the market because it is a relatively small proportion (roughly 3 per cent) of transaction costs, which are, on average, £5000 per transaction.

N.B. The average transactions figure of £5000 (from 2007 Regulatory Impact Assessment, link above) is the average cost of transactions across all buyers, not just for first time buyers. It is likely that the average cost of transactions for a first time buyer is cheaper than that of an average buyer due to lower stamp duty. This effect heightened with the recent increase in the stamp duty threshold to £250,000. This will make transactions costs lower on average for first time buyers. Although this makes the extra cost a higher proportion of overall transactions costs, it means the first time buyer has a higher disposable income (from not having to pay stamp duty) which would allow the buyer to pay for the searches.

Where transactions do fail, this will result in more searches being conducted as the search will stay with the buyer whereas with HIPs the seller conducts the search (so it stays with the property). Earlier research showed that 20 per cent of transactions fail but where searches stay with the seller these are not wasted. Now that searches are the responsibility of the buyer, they would be lost if a transaction fails. This would mean for one in every five transactions, £150 would be spent on unnecessary searches.

This figure is calculated given that 1 in 5 transactions fail. Given that 1 in 5 of agreed transactions results in a failure we can calculate a figure for total possible transactions (for 2010): $(1,248,000/80)*100=1,560,000$. This gives us 312,000 further possible transactions. Multiplying this by the cost of the average cost a buyer pays for searches gives us a figure of £46.8m paid on unnecessary searches in 2010.

The industry that was created to compile the packs has suffered losses. However, some continue to offer other services such as conveyancing, local searches provision and other preparation of Energy Performance Certificates.

Benefits

There are benefits to sellers who are not buying another property. This is because the policy shifts payment from the seller to the buyer. Sellers are not required to conduct searches which can save them approximately £150. The number of buyers who are not selling has to be equal to the number of sellers who are not buying. Given a constant stock level, for every transaction there is a buyer and a seller so the numbers are equal. When allowing stock level to change, the numbers are still equal because even if a new build property is bought by a first time buyer there is both a buyer who is not selling and a seller who is not buying. Because of this the costs to first time buyers equal the benefits to the 'leavers'.

The evidence for cost of a HIP based on informal monthly HIP data collection from a representative sample of HIP providers and estate agents suggests the average cost of a HIP ranges from £200-£300 + VAT. VAT is 17.5 per cent at the time of policy implementation. This gave the average cost of a HIP of £235-£353 with a mid-range of £294. The seller does not have to purchase a HIP from a HIP provider though; they can compile the pack themselves. Evidence suggests this would cost them £198-£226, with a mid-range of £212. We assume that the proportion of sellers who compile the pack themselves to those who purchase from a HIP provider is 5:95. This split gives an average cost of £290.

Without the need of a HIP, the seller can still provide evidence of title and an Energy Performance Certificate, although only the latter is a legal requirement. The buyer will purchase the local authority/ Personal Search and Drainage and Water search. These will total £198-£226 with a mid-range of £212. This gives a saving to the consumer of £78 without mandatory HIPs. Applying this to all transactions creates a consumer surplus of £870m over a ten year period (discounted figure). This is calculated as the difference between the cost of the individual components of the HIP that will be still needed after the policy is implemented and the cost of the HIP.

Some estate agents typically receive a referral fee of £50-£100 per HIP. Suspension of HIPs resulted in the loss of this fee but estate agents remained opposed to HIPs and so clearly back the proposal. Abolition of HIPs will not affect this status.

With HIPs some buyers had to renew a search on a property that had been listed for a certain length of time. It is commonly accepted that searches have a shelf life of 6 months, based on advice in the CML handbook. Since the suspension of HIPs the buyer only purchases the searches when they need to, which prevents the duplication previously mentioned. There is no evidence on what proportion of searches went out of date so this benefit cannot be monetised.

For costs and benefits from changes involving Energy Performance Certificate's see paragraphs 49-51.

Other impacts

Time on the market

Figures from Hometrack show that the average number of weeks to sell - time on the market - changed dramatically between early 2007 and late 2009 (from 5.8 weeks in May 07, to 12.3 in Jan 09 and back down to 8.4 weeks in Nov 09). The initial rise from August 2007 (when HIPs began to be introduced) cannot be attributed to HIPs because this coincided with the credit crunch.

At this time there were numerous impacts upon the market, in particular a lack of credit. This meant that buyers were unable to get mortgages that they could have done previously. This would inevitably lead to an increase in average time to sell. Furthermore, around Q4 2008, when the average mortgage rate began to fall (suggesting an increasing willingness by banks to lend), there was a corresponding fall in time taken to sell. This suggests that the average time taken to sell is driven by other fundamental factors and it is unlikely the existence or otherwise of HIPs has a significant impact.

Although the average time on the market has since stabilised at a level above the pre-credit crunch average (6-month average to April 2010 is 8.4 weeks, 6-month average to December

2006 is 6.5 weeks) this is still likely due to tight credit restrictions, e.g. lenders requiring a large deposit to obtain a mortgage and to ongoing uncertainty in the market.

Another factor that affects the 'time on the market' figures is the level of transactions. In a market where there are few properties on the market and only few transactions take place (a "thin" market) time on the market would typically be shorter than that of a more active market. The removal of HIPs is likely to coincide with a continued recovery in the housing market, which means any change in the time on the market figures cannot be explicitly due to the policy.

Although the removal of HIPs could see an increase in sellers, a large proportion of these additional listings may only be speculative sellers. These are just 'testing the waters' and just gauging interest in their property. These are likely to reject offers on the property and so will remain on the market for an amount of time which is greater than the average. This may result in an increase in the average time on the market (see evidence below under 'Listings').

The conclusion is that there will not be any significant impact upon the average time on the market. If there is any effect, it may increase the average time to sell a property due to an increase in speculative sellers.

Listings

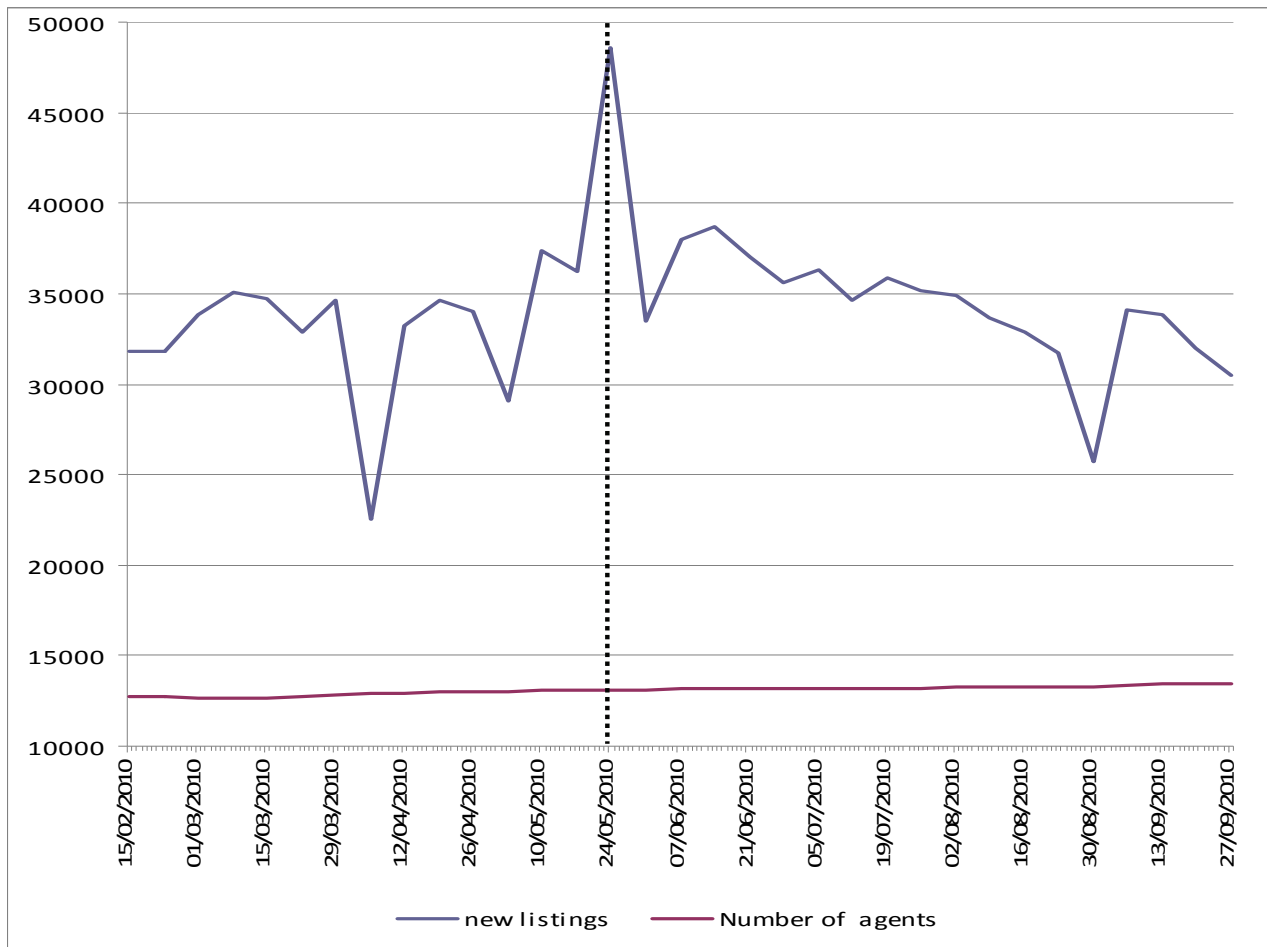
There may be a rise in the number of listings once HIPs are no longer mandatory but these will largely be only speculative sellers. The evidence from Europe Economics shows that roughly 8 per cent of sellers were likely to be affected by the introduction of HIPs because they were only "testing the water" or listing for "financial gain". A further 27 per cent could be affected who "hadn't found a property". This research was carried out in 2007 and the market has changed considerably since then. The current proportions could have changed considerably but still it remains likely there will be a rise in the number of listings. This is unlikely to have a significant impact on transactions as speculative sellers are less likely to sell than other types of seller.

Evidence suggests there was little effect on listings in the second half of 2007 when HIPs were introduced. There were lower levels of listings in 2008 which was likely to be due to falling house prices. The trough in house prices occurred around February 2009. In February 2009, prices started to rise again but listings remained low for the rest of the year. This is likely to be due to a combined effect of credit rationing (not only did potential buyers struggle to finance a transaction but sellers struggled to obtain a mortgage for the house they were buying too) and still relatively low house prices.

Although initial signs from 2010 suggest confidence amongst sellers may be returning with higher levels of listings, they are still down on figures seen in 2006 and 2007. This is not surprising as the main house price indices suggest prices are still 8-15 per cent down on their peak levels in 2007. This suggests that it is other factors that drive levels of listings.

Updated evidence since the repeal of HIPs (August 2010) - After flat-lining in 2010 Q2, the stock of properties on surveyors' books rose by 4.1 per cent in July and this tells us that new supply is now exceeding new demand. Anecdotal evidence suggests some sellers might just be testing the market (including in light of the suspension of HIPs) but the chart below shows that there was a rise in listings by a third immediately after the suspension of HIPs. Of course, it is not clear whether the HIPs suspension has contributed to the sustained increase in listings or whether sellers have been encouraged back to the market by rising house prices - prices have risen 8.3 per cent and 14.6 per cent in July from their trough at the start of 2009 (Halifax and Nationwide) and low prices hampered sellers throughout 2009, with the emergence of "reluctant landlords" and potential sellers holding out. Nevertheless, new property coming onto the market increased in July at the fastest rate since May 07 (RICS), with a balance of +33. Combined with falling enquiries (demand) this drove up stocks to their highest since April 2009.

Chart 1. New Listings (weekly)



Source: Rightmove data.

Buyers and Sellers

As previously mentioned, the suspension of HIPs has shifted some costs back to the buyer, as was the situation pre-HIPs. This is unlikely to affect most people in the market as the majority of buyers are also sellers. There are two groups that will be affected: first-time buyers, and sellers who are not purchasing another property. As sellers do not have to foot the bill for searches this will benefit them. For first-time buyers, this adds another rung on the ladder to owner occupation as they now need more savings to fund these searches as well as other transactions costs and a deposit for a mortgage.

However, because the additional cost is a small proportion of total transaction costs, and an even smaller proportion of the total transaction, it is unlikely to be a significant impact upon first time buyers.

Moreover, potential buyers and their mortgage lender could not always rely on the searches, especially where they went out of date. The Council of Mortgage Lenders' require that searches should be no older than six months old at the point of exchange. Searches were renewed at an expense to the buyer, duplicating costs.

It is worth noting that currently in the market there is a new tax exemption on stamp duty for first time buyers up to a new threshold of £250,000. The savings that first time buyers see here is likely to be more than the additional cost of the searches needed.

Transactions

The number of transactions is unlikely to be affected by the abolition of HIPs. Suspension of HIPs saw a rise in listings and therefore a rise in transactions. Speculative sellers are not part of effective supply, and only a small proportion would be encouraged to sell by a better-than-expected offer.

There is considerable volatility in transactions but the general trend ties in closely with the credit crunch. This suggests transactions were not heavily affected by the introduction of HIPs.

House prices

We conclude that there will be very little impact on house prices. Prices are driven by other factors: fundamental indicators such as interest rates, the mortgage market, affordability, consumer confidence and levels of supply.

Energy Performance Certificate requirements

As part of the proposal to suspend HIPs we propose to change the requirements regarding when an Energy Performance Certificate is provided in the home buying and selling process. At the moment Regulation 5(2) of the 2007 EPBD regulations state that an Energy Performance Certificate is required:

(a) At the earliest opportunity; and

(b) In any event before entering into a contract to sell or rent out the building or, if sooner, no later than whichever is the earlier of:

- (i) In the case of a person who requests information about the building, the time at which the relevant person first makes available any information in writing about the building to the person; or
- (ii) In the case of a person who makes a request to view the building the time at which the person views the building

The regulations are now changed to provide that a seller must prove to the person acting on behalf of the seller that an Energy Performance Certificate has been commissioned before the property is marketed for sale. A full Energy Performance Certificate will be required to be provided before contracts are exchanged. This proposal aims to speed up the transaction by enabling sellers to market their properties more quickly without a full Energy Performance Certificate in place.

This proposal does not have a substantial impact in terms of changes to costs because the seller still has to provide an Energy Performance Certificate but will have more time to do so.

The benefits of the proposal are that sellers are able to market their property for sale without having a full Energy Performance Certificate in place; this should speed up the home buying and selling process.

Changes to the Energy Performance Certificate validity period

Regulations require that an Energy Performance Certificate included in a HIP must be no more than three years old at the first point of marketing. When HIPs were suspended this regulation ceased to apply and the validity period of an Energy Performance Certificate for a property marketed for sale reverted to ten years which is the amount of time that Energy Performance Certificates are valid for other transactions and a requirement under the Energy Performance of Buildings Directive.

It is estimated that the impact of the change in validity period from three years to ten years has the following costs and benefits:

Costs

Foregone revenue to Domestic Energy Assessors has fewer Energy Performance Certificates to produce/ less business.

Benefits

Energy Performance Certificates valid for a longer period of time means that they do not have to be updated as often; this result in a financial saving for sellers. On the basis of average turnover rates and the distribution of turnover rates, it has been calculated that Energy Performance Certificates savings will be realised on around 35 per cent of transactions if HIPs are abolished. At a saving of £50 per Energy Performance Certificate, this comes to a saving of around £195m over a ten year period (discounted figure). This is derived from multiplying through the number of transactions by the average cost of an Energy Performance Certificate (£50) by 35 per cent (the rough percentage of transactions on which additional Energy Performance Certificates will not be needed when HIPs are abolished). This 35 per cent is calculated from analysis on the average length of residence by tenure from the Survey of English Housing.

Greenhouse Gases

The validity period of an Energy Performance Certificate changing from three years to ten years for properties marketed for sale will not have a substantial impact on the assessment of changes to greenhouse gas emissions. If it were to be estimated as having an effect, this would be on the premise that consumers are more likely to act on energy efficiency information that is more up to date. We do not have the evidence to provide that this is the case.

Admin Burdens

Administrative burden savings are realised by developers who no longer need to pay for HIPs. These savings are calculated here by multiplying the cost of a HIP by the number of new builds (it is assumed here that all new builds are undertaken by a developer) that are then sold to an owner-occupier (those directly rented do not require a HIP). This is done by taking an approximate figure of England and Wales new build, and then assuming that some 85 per cent of these go straight to owner-occupiers (proxied through the owner-occupation/ private rented sector split of private stock). The cost of a HIP is assumed to be £290. In total this comes to an administrative burden saving of around £41m pa.²

Specific Impact Tests

Competition Impact Test

According to the OFT's competition filter questions, the policy will have an adverse effect on competition if

- it directly or indirectly limits the number of suppliers;
- limits the ability of suppliers to compete or reduce suppliers' incentives to compete vigorously.

Abolishing HIPs eliminates a source of revenue for those businesses which provide HIPs. If any of these go out of business, this may indirectly limit the number of suppliers in related markets

² 175k new additions p.a. in England & Wales were assumed (166,550 in England in 2008/09 - from D CLG Live Table 121, plus extra additions for Wales, on basis of Live Table 106). It was assumed that 95 per cent of these, i.e. 166,250, are new build completions (95 per cent assumption comes from Live Table 121 - England 2008/09 - new build completions as per cent of net additions). It was assumed that 85 per cent of these, i.e. 141,313, go straight to owner-occupiers (85 per cent assumption comes from per cent of private stock which is owner-occupied in England - from Live Table 104 - which used as a proxy for per cent of new build that goes straight to owner-occupied households).

The number of units built by developers in England and Wales each year that go straight to owner-occupied households was therefore assumed to be 140k. This 140k is multiplied by the cost of a HIP (£290) to give the total admin burden of HIPs, which works out at £40.6m p.a.

where HIPs providers are active (such as estate agents and Energy Performance Certificate providers). However, the suppliers that are most likely to go out of business will be those for whom HIPs are the main source of revenue, suggesting that the competition impact on other markets will be limited.

The removal of government regulation making HIPs compulsory may mean that providers of similar products have to compete more vigorously to provide better quality, value-add products to homebuyers, which include similar information.

Abolishing HIPs may lead to solicitors re-establishing their links with local authority search departments and to LAs securing a greater share of the property search market, with the market share of private companies reducing; however we cannot be sure when or by how much. However this does not necessarily mean that competition in the market will be reduced, but rather that remaining players will have to compete more vigorously for market share by adding value to LA information.

Small Firms Impact

When HIPs were in place, there were a variety of organisations providing HIPs including specialist providers, conveyancers, estate agents and individuals. 161 were subscribing to the HIP Code (voluntary industry code)³. The majority of these providers are SMEs but some may be large national estate agents. According to the Association of Home Information Pack Providers (AHIPP)⁴ at the time of suspension there were around 35 medium to large HIP providers, in addition to a number of smaller independent providers, but these numbers are difficult to gauge as is the number of jobs they support. AHIPP estimated that there were between 3,000 and 10,000 individuals whose livelihoods were either directly or indirectly dependent on HIPs⁵. Six months after HIPs suspension, we are not aware of evidence to support this claim. Some HIP providers were created solely for the purpose of producing mandatory HIPs and many evolved to provide other services; and some providers developed from within existing companies. Many providers will, therefore, continue to offer other services such as conveyancing, local search provision and the preparation of Energy Performance Certificates.

Some HIP providers were created solely for the introduction of mandatory HIPs, while others evolved from within existing companies such as estate agents. While there maybe providers who only brought together documents to compile HIPs, most also offer additional services such as preparing Energy Performance Certificates or local searches.

The suspension and subsequent abolition of HIPs is likely to rapidly reduce their business and in some cases may lead to job losses. Some providers are self-employed and could potentially lose their livelihood. We expect that some HIP providers will mitigate the effects of suspension and abolition by continuing to offer Energy Performance Certificates (which will stay mandatory once HIPs are abolished) and local searches (which will still be used as part of the conveyancing process) and domestic energy assessors will continue to prepare Energy Performance Certificates.

It may be that some HIP providers will try and adapt to the abolition of HIPs by providing similar products on a voluntary basis, but take-up is unlikely to be high and so they will have to compete more vigorously to provide better quality, value added products to homebuyers.

The change in the validity period of Energy Performance Certificates from three years to ten is created for Domestic Energy Assessors. It has been estimated in the analysis that over a ten year period the consumer will save £195m on Energy Performance Certificates that would have had to be produced under the shorter validity period. This figure can be translated into the

³ http://www.hipassociation.co.uk/hip_code

⁴ <http://www.hipassociation.co.uk/>

⁵ <http://www.wedlakebell.com/Default.aspx?sID=752&cID=476&ctID=43&IID=0>

approximate amount of income over a ten year period that Domestic Energy Assessors will forgo.

Other Impact Tests

An equalities impact screening test was completed and this considered that a full Equalities Impact Assessment was not required.

We have considered a greenhouse gas assessment and have deemed the policy to have no impact.

We have considered a wider environmental issues assessment and have deemed the policy to have no impact.

We have considered a health and well-being assessment and have deemed the policy to have no impact.

We have considered a human rights assessment and have deemed the policy to have no impact.

We have considered a justice system assessment and have deemed the policy to have no impact.

We have considered a rural proofing assessment and have deemed the policy to have no impact.

We have considered a sustainable guidance assessment and have deemed the policy to have no impact.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added to provide further information about non-monetary costs and benefits from Specific Impact Tests, if relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p>
<p>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p>
<p>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p>
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p>
<p>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p>
<p>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]</p>
<p>Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]</p> <p>It was felt that in this case a PIR is not appropriate and not value for money as the suspension of HIPs is a deregulatory measure. The Government's view, and a clear commitment in the Coalition Agreement, is that HIPs are a costly and unnecessary burden and have not delivered clear benefits for consumers and should therefore be removed.</p> <p>The Office of Fair Trading published a market study of home buying and selling on 18th February and the Government will consider the need to review its policy objectives and the rationale for intervention in the home buying and selling market when setting out its response to this report.</p>

Annex 2: Research and Evidence

This section outlines relevant findings from particular studies commissioned by DCLG and external organisations. All links provided unless not published.

Research commissioned by DCLG

1. Home buying and selling in Denmark and New South Wales & Housing market transactions: international comparisons (1997/1998)
 - Early evidence of effectiveness of a housing pack in other countries.
 - Danish evidence most influential in policy development.
2. Key research on home buying and selling (1998) [Martin Hamblin, now part of GHK]
<http://www.communities.gov.uk/archived/publications/housing/keyresearch>
 - Report found that buyers, sellers and the professionals (estate agents, solicitors and lenders) all agree that sellers should provide surveys/ valuations on the property or offer more information up front.
3. Evaluation of the Bristol Scheme (1999/2000) [Martin Hamblin]
<http://www.communities.gov.uk/publications/housing/evaluation>
 - Industry quickly became opposed to the Home Condition Report.
 - Low level of awareness among professionals led to mixed outcomes of pilot.
4. The Potential Impact of HIPs in Low Demand Areas (2002/2003) [University of Stirling]
<http://www.communities.gov.uk/publications/housing/potentialimpact>
 - Evidence accepted not to red line low demand areas or low value properties from HIPs.
5. Piloting the Home Condition Report (2004)
<http://www.communities.gov.uk/publications/housing/pilotinghome>
 - Defined the professional competences required to be trained as a Home Inspector.
6. HIPs Research (Consumers) (2004/2005)
<http://www.communities.gov.uk/documents/housing/pdf/138160.pdf>
 - Continued evidence of consumer dissatisfaction with transaction failures.
 - Very little awareness of the proposed legislation.
7. Baseline for evaluation (2006) [Ipsos MORI, Building Research Establishment]
<http://www.communities.gov.uk/publications/housing/hipbaselineresearch>
 - 21 per cent of buyers and sellers were dissatisfied with the overall buying/selling process. More than 35 per cent of buyers and sellers were dissatisfied with the length of time it took. However, 82 per cent of solicitors were satisfied with the efficiency of the current system.
 - 23 per cent of 'concluded' purchases (i.e. those that either completed or failed) were failures. This means just over one in five individual transactions break down.
8. Area Trials (2006/2007) [Ipsos MORI]
<http://www.communities.gov.uk/publications/housing/hipareatrials>
 - Highlighted process issues regarding estate agent handling of HIPs. No specific outcomes.
 - Transaction times much the same as the baseline given dependency on the chain

- 60 per cent of buyers did not see the HIP. Of those that did, only 7 per cent agreed that it helped them to decide to purchase the property
- 67 per cent of sellers who sold their property said that the HIP had no effect on the sale
- Buyers who received free property condition information (Home Condition Report) in the HIP still commissioned and paid for a separate Home Buyer's Survey.

9. Home Information Packs: Housing Market analysis [Europe Economics] (2007)

- Report investigated which sellers would be affected by the introduction of HIPs. It found that 27 per cent of sellers had "not found a property", 4 per cent were "testing the market" and 4 per cent had listed for "purely financial motives". This 35 per cent is labelled as "speculative or tentative sellers". Of this, the latter two (8 per cent) were likely to be affected by the introduction of HIPs. The additional cost would deter them from listing without a real motive. Whether the group that hadn't found a property would see a fall in numbers remains unknown.
- The expected scenarios show there would be no change in the time on the market and any change in listings are "not so dramatic as to be outside the normal noise found within the number of listings and which is already well tolerated by the housing market." In a few scenarios, listings were affected by no more than 10 per cent and these were just transitory so were predicted not to have any lasting effect on the market.
- The main conclusion from the report was that although prices would rise or fall over the next year, this could not be attributed to the impact of HIPs. It is the fundamental drivers of supply and demand that determine house prices.

10. Consumer focus groups (2008) [Ipsos MORI]

- Research found that few participants had read through a HIP for their property in any level of detail. Sellers reported a general lack of buyer interest in the HIP with few requesting to see it.
- The majority were optimistic about the future of HIPs saying that "it is a step in the right direction to making the buying and selling process more transparent".
- The most commonly cited advantage was that the requirement for a HIP would ensure greater commitment from sellers and would prevent those who were not serious about selling their property from putting it on the market.
- Both buyers and sellers agreed that having all the necessary information up front meant it was less likely that sales would fall through.
- The fact that the HIP is put together by an independent party was also seen as an advantage, with the caveat that the HIPs should be properly regulated by the Government.
- The additional cost involved in acquiring a HIP was not, in itself, a particularly strong concern for most participants. However, most felt that currently the cost was not sufficiently balanced out by the benefits.
- Overall, it was felt that HIPs were too complicated to understand, too full of "jargon" and that they made the home buying and selling process more complicated.
- Some buyers felt the HIP does not provide a complete overview of the property and that some vital elements are missing from its contents, e.g. information about the structure of the property, building regulations and local amenities.
- Some sellers found that they had to pay their solicitor to carry out additional searches because the standard searches within the HIP did not cover everything potential buyers wanted to know

11. Home Information Packs April 2008 [GFK NOP]

<http://www.conservatives.com/pdf/SecretHIPsResearch.pdf>

- HIPs not realising their potential:
 - Low value currently placed on HIPs by estate agents
 - Sellers and buyers not being encouraged to engage
 - Still much ignorance amongst sellers and buyers
 - Being treated as a perfunctory legal imperative
- Portability of HIPs raises potential problems
 - Estate agents concerned about quality issues with HIPs produced by a HIP provider that they have not themselves recommended
 - Sellers may have to pay for multiple HIPs, if they change estate agents
- Not all estate agents understand First Day Marketing
 - Gaps in awareness and knowledge

Other evidence by DCLG

12. Regulatory Impact Assessment (IA) (2007)

http://www.opsi.gov.uk/si/si2007/em/uksiem_20071667_en.pdf

- The cost of producing a HIP is unlikely to deter those who are seriously intent on selling so analysis assumes that there is no reduction in transactions. The Regulatory Impact Assessment assumes that around a third of those who currently list but do not sell are deterred from marketing and that as a consequence the number of listings falls by 10 per cent.
- Assumes that the introduction of HIPs would reduce listings, by 10 per cent but that there would be no impact on the number of transactions. These figures were derived from research by Countrywide Estate Agents into the motivations of sellers which suggest that up to 30 per cent of sellers may be marketing their homes without necessarily having a firm intention to sell.

Research commissioned outside of DCLG

13. The Office of Fair Trading – Home buying and selling: A Market Study (2010)

http://www.offt.gov.uk/advice_and_resources/resource_base/market-studies/current/buyingandselling;jsessionid=9386CF278E5D501BC791436A408D3B8F#name_d5

- About 20 per cent of transactions fail between offer and exchange.
- 56 per cent of sellers and 76 per cent of buyers in the survey with delayed transactions said that they had experienced 'general stress/worry' as a result.
- When asked the main reason for a failed transaction, the individual on the other side of the transaction was most likely to be blamed. This includes sellers reporting buyers withdrawing their offers, buyers reported being gazumped etc.
- Buyers are more likely than sellers to lose money as a result of a failed transaction. 67 per cent of buyers with failed transactions had incurred costs, whereas only 37 per cent of sellers had incurred costs.
- Criticism about HIPs tends to focus on the cost imposed on sellers and the requirement to have a HIP in place before a home is marketed, which is said to create delay. Some said the HIP contents are not helpful.

- 20 per cent of sellers did not get or did not remember getting a HIP. Of those sellers who did get a HIP 49 per cent did not find the contents useful
- 67 per cent of buyers who saw a HIP said that it had no influence on their decision to make an offer or on the amount to offer, with a further 13 per cent either not reading or not understanding the HIP.
- On the positive side, there is some indication that HIPs help buyers make decisions about a property. 33 per cent of buyers said that the HIP had some influence or a lot of influence over their decision to put an offer on the property.
- Report concludes that there is no significant positive or negative impact of HIPs in their current form. Nevertheless, HIPs make information available to prospective buyers early in the process, and some buyers' say they find the information useful and that it influenced their decision so could be argued that HIPs in their current form have a positive impact.