How to Really

Buy a Property

The Ultimate Guide to Buying Property in England and Wales

Tim Hill is the published author of **Buying Property in Poland** and now brings his considerable experience to bear on the markets of England and Wales. Despite owning a property portfolio he is not obsessed with the idea that this is the right route for everyone, or that we should all be running after bricks and mortar.

His articles, comments and businesses have featured in *The Times*, *The Telegraph* and Channel 4's *A Place in the Sun*, to name but a few. In the last decade alone he has been an estate agent, buyer, seller, landlord and tenant which gives him the unique ability to cover property from every angle and see things from a multitude of perspectives.

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Part 1

To Buy or Not to Buy?

Introduction

Most of the 'How to buy' property books should really be called 'Why to buy' and spend their pages repeatedly explaining the benefits of owning bricks and mortar. In the vast majority of cases the author was an investor who simply got lucky, made a handsome profit, and now wants to demonstrate that it was all a carefully thought out plan for any layman to follow.

How to Really Buy a Property could not be more different. From the first pages the idea of property ownership is questioned and the text is there to guide you in this important, and potentially disastrous, first step.

Once you know that it is property you want to buy then understanding the theory of the process and marrying it with the reality are essential, whether you are a first time buyer simply looking for a home or an investor building up a portfolio.

The most common theme running through every chapter is that of time and preparation for the unexpected. Knowing why both are critical saves both money and stress. The result is a pain free purchase where you remain fully in control.

Now in its' eighth edition, and fully updated for 2012, there are over 240 packed pages of information and 23 easily accessible chapters. *How to Really Buy a Property* covers, among other things:

- Why buying property is right for some and wrong for others;
- How the media have become unreliable indicators of the market;
- Who makes good quality predictions for the property market (and who doesn't);
- How the market works over the short term and the long term;
- The difference between property bubbles and property booms;
- Why it can be a good idea to buy when prices are falling;
- The principles of buying a property to let and what the text books don't tell you;
- Ways to get on the property ladder when it looks impossible;
- How professional buyers and investors work with estate agents to get better deals;
- Why you should see as many Financial Advisers as possible;
- What to do before you start viewing so you don't loose your dream home;
- Who the surveyor, solicitor and estate agent are really working for;
- How to make an offer to get things your way;
- Who to trust and who, with the best intentions, may be misleading you;
- Why you should work to minimise the time between offer agreed and exchange;

- Making sense of a property survey including;
    - What type of survey to get and why structural surveys can be money wasted;
    - Why surveyors should never estimate the cost of works;
    - When rising damp, penetrating damp, subsidence, cracking, sagging roofs, bulging walls and all the other frightening things in a surveyor's report might be serious, and when they are not;
    - Why asking the vendor to carry out work is not always a good idea;
- Step by step guides explaining what should be happening, what can happen, and how to solve mole hills before they become mountains;
- Over 140 terms in an easy to use glossary so the jargon of the property industry can be understood;
- 20 true stories of successes and disasters that real people experienced when buying a property.

What this book doesn't do:

- Continuously bang on about how great property is and that it is the only place to put your money!
- Keep recommending businesses that the author has some association with;
- Reword and republish what is available freely from most websites anyway;
- Regale you with tales of how easy it is to buy property and profit;

1 - The First Questions Are For You

What's covered in this chapter

- Why "Is now a good time to buy?" can't be a simple question;
- What to take into account when deciding to buy or to rent;
- When property may not be the best place for cash;
- Why some people buy no matter what the property market is doing;
- Where you should buy.

If you are going to buy a property you are an investor, even if you are buying your own home. You are probably about to take out the biggest financial commitment of your life and so to some extent you are investing in your future.

If you are looking to sell your current home and buy something larger your financial commitment, and risk, is about to get even larger.

Many might say they are only purchasing because they need a home but without a doubt they would not want it's value to be half the buying price when they come to sell.

You may be tempted to think about asking someone "Is now a good time to buy?" or "Where do you think would be the best place to purchase?". There are plenty of people around who think they know the answer and have ready answers but the truth is that the first questions should be to yourself.

That's because *a professional* in the real estate business would not be able to reply immediately to your questions. They would need to know a great deal more about your personal circumstances before offering some sort of sensible guidance. It's better that you think about these questions now.

Should I Buy or Rent?

Even if you believe property prices are going to move down this does not always mean you would be better off to wait. That kind of thinking leads to a common error made by those renting who forget to take into account their current costs while deciding whether or not to buy.

Here is a simple example. A couple are renting for £1,500 per month in a property worth £250,000. They believe property prices will move down 10% over the next two years so they will wait until the value is £225,000. But in the meantime they will spend £36,000 on rent. A mortgage would have cost them about £12,000 over the same time period.

If they are right about price movements then by renting they have lost £24,000 (£36,000 - £12,000) and saved £25,000 by not buying. Overall they are better off by only £1,000 and all this time they have not been in their own home. If they are wrong and prices move up their loss is substantially more.

Should I Invest my Cash in Property?

There is often a great deal of competition between property investors and stock market dealers, each wanting to show that the market they work in is the best for making money.

If you have cash and you are simply looking for an investment, not a home, then property is not always the best option. If you know and understand the currency markets, for example, maybe you should put your investment there. If you have a good idea about the way shares rise and fall it could be that your funds would give you a better return on the stock market. Do not for one second believe making money in property is easy. As with stocks, currency exchange or anything else you will need to be educated and you will need a little luck because there will always be events, beyond your control, that will change your fate for better or for worse.

But if you don't have cash the property market offers a strange doorway. It is not possible to go to a bank and say "I want to invest £250,000 in the stock market, can I borrow it please" but it is possible to do that with property, wierd though that is.

Property offers investors a chance to borrow sums unimaginable for other schemes which also means you can invest far more than the cash you have available at any point in time. However, as always, the cost of calculating any return must include the interest rate that you need to pay on the borrowed sum.

What is My Motivation to Buy?

The press and the media are obsessed with property prices. The hankering question asked month by month revolves simply around whether or not prices will rise or fall and for many buyers this overwhelming storm clouds their own considerations.

In reality many people want to by a property because they want a home, and usually for the long term. A place to put down roots and possibly an asset to pass on to their children. The bricks and mortar are not a financial tool that they plan to use within their lifetime and when they come to retire the mortgage will be paid off and they will have somewhere safe, and free, to live.

It will be four walls that they can decorate the way they want, a kitchen they can replace, a bathroom they can re-tile, a boiler they can upgrade. It is freedom.

If this is your motivation then, no matter what is happening in the market, now is a good time to buy.

Should I Buy in a Falling Market?

The assumption is that when property prices are moving down only the insane or the risk hungry investor are out buying. But in reality falling markets are often seen as a window of opportunity for those looking to upsize. Even though their current property is worth less, so is the type of property they are looking to buy, and the cash difference is actually lower.

In this example we'll imagine a couple living in a property worth £250,000. They want to sell up and buy a house which would cost £450,000 but they cannot raise the £200,000 needed to do this.

The market then starts to fall and values reduce by 10%. Their property is now worth £225,000 but the house they want is now £405,000. The difference, known as the 'Trading Gap', has gone down to £180,000. A falling market has saved them money and offered a chance to make a move they might not otherwise have managed.

To find out more about other buyers who welcome a falling market see the chapter **Why Buy in a Falling Market?**

Where Should I Buy?

If your final decision is to buy then you are going to start thinking about where. Ask the question to a property investor and you will get a very different answer to that of a parent.

If you are looking to make a return on a property investment you should probably consider an area no one else wants to buy in, but that may become fashionable in the future. If you are a parent you might want to consider schools and the catchment areas that they have. If you are a single women, how you feel walking on certain streets after dark could be an important factor.

"Where should I buy?" is one of the most commonly asked questions by buyers but it cannot be answered by someone who knows little about you.

Summary

Buying property is a big step and making money from it is not always as straight forward as the media or some authors might sometimes suggest. Generally speaking almost any real estate investment makes money in the long term. If you buy somewhere that you can rent out and the tenants pay off your mortgage after twenty years you will have a very nice nest egg. If you are hoping the flat you buy will go up one hundred percent in the next twelve months so you can quit your job - good luck - it does happen. Overall however the most sound piece of advice anyone can give you is to treat property as a ten year investment, not a get rich quick scheme.

2 - The Media and Property Prices

What's covered in this chapter

- What sources the media use when reporting property prices and why these can be misleading;
- How media reports are often out of sync with the actual market;
- How property prices rise and fall all the time;
- How the media manipulates figures to create headlines;
- How to know which journalists report acurately;
- Spotting contradictions in the press;
- The difference between real figures and 'Human Interest' stories;
- What is a 'news' story and what is a 'new' story;
- Real examples of where the press has mislead buyers and sellers.

What the Media Use to Predict Property Prices

There are many sources of data to tell journalists what is happening to the housing market. Here are just a few:

- Land registry;
- Asking prices (as reported by agents);
- New applicants registering (as reported by agents);
- Mortgage application numbers (as reported by lenders);
- Average incomes and so percentage of income used to pay mortgages (as reported by the Office of Statistics);
- Statements from people who should be in the know (such as economists).

All these sources of data tend to vary for different reasons so it is unsurprising that the media all too often produce conflicting reports. Good journalism is sadly lacking in the United Kingdom and reporting single, disputable sources of data is all too common.

The most frequently misleading reports are based on land registry, a popular source because their figures are definitive. Definitive, but out of date. Even so this is how the media reports versus the reality of the annual property cycle in which prices rise and fall twice a year (the Annual Property Cycle is covered in the chapter **Understanding the Property Market**).

The figures are out of synch with reality because in November and December offers agreed are generally falling but the media reports the completions from the autumn when prices were going up. When the spring arrives offers agreed are rising but the media reports the completions from December and suggests prices are moving down. As summer starts they report prices rising even though offers agreed are falling. In short those who write articles based on land registry data are always about two to three months behind the real market where deals are being done.

This also confuses vendors, especially in the summer, when unrealistic expectations about how much their property is worth are common place. The market is dropping but they blame the agent and point to media reports telling them the market is rising. It's a bitter pill to swallow and rather than accept it many vendors change agents instead of taking advice.

This out-of-sync reporting is summarised on the table below:

Season	**Reality**	**Land Registry**	**Media**
Spring	Prices Rising	Prices Falling (Winter Completions)	Prices Falling
Summer	Prices Falling	Prices Rising (Spring Completions)	Prices Rising
Autumn	Prices Rising	Prices Falling (Summer Completions)	Prices Falling
Winter	Prices Falling	Prices Rising (Autumn Completions)	Prices Rising

Outside of misreporting the annual cycle the media also likes to manipulate any statistics it can to make a story, and property is always a good story. Sometimes it may just be poor reporting and research that leads to headlines of "Property Prices leap 20%" but when reading media articles about real estate values there are several ways to know if the story is worth the paper it is written on.

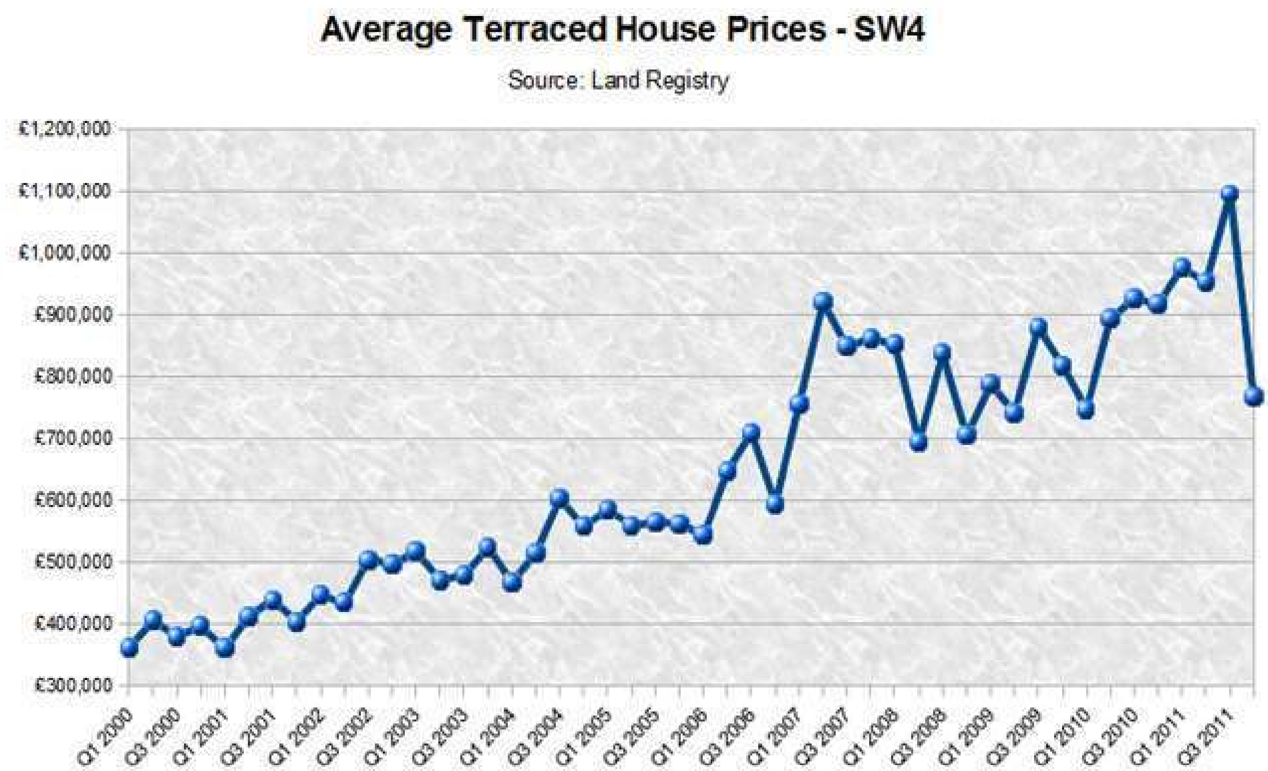
Firstly investigate the figures yourself. House prices do not rise consistently month after month as we have seen in the traditional cycle. Global events also cause fluctuations that either change or exacerbate the cycle. An example of this occurred in 2003 where the war on Iraq caused prices to drop by around 10-20% in central London. The war over, prices corrected themselves and then in the spring of 2004 rose another 10%. This lead the media to report that "House prices are rising by 18.5 per cent a year - Are we heading for a crash?" (The Independent, 3rd April 2004). Enough to make anyone think the market was over cooking itself. What the media didn't consider was that half of the rise was down to a recovery of the falling market that had occurred earlier due to people's fear over the war. The graph below shows how easy it is to misreport, even in a market as large as London, using data from 2001 to 2003.

Property prices move up and down all the time on a regional level and this provides plenty of fodder for journalists to get attention grabbing headlines

Taking the raw data from the graph it is possible to report the above in the following ways:

- "House prices crash more than 5% in less than 6 months" using Q3 2001 to Q4 2001
- "London market moving up more than 20% per year" using Q4 2001 to Q3 2002
- "House prices static for months" using Q3 2002 to Q2 2003

At an even more local level the media also loves to talk about "hot spots" on a month by month basis as if this were some reliable guide as to the best areas in which to invest. Price movements at this level are however, even more erratic as the following example shows.



At a local level (postcode SW4) there are not enough transactions to make sensible use of the data, but this does not stop journalists trying and often creating extremely misleading pictures, both positive and negative

Taking the raw data it is possible to report the above in the following ways:

- "SW4 house prices crash more than 10% in less than 6 months" using Q1 2003 to Q2 2003
- "SW4 house prices boom by more than 20%" using Q1 2004 to Q3 2004
- "SW4 house prices static for over 12 months" using Q1 2003 to Q2 2004

In other words, no matter the headline you are after, you can find it in the data if you want to. The trouble is most news articles fail to mention their source but when they do, check it for yourself, it may just be a journalist manipulating figures in order to get himself a story.

Secondly, and on a similar note, watch out for any of the following in the text of media stories:

" many senior officials believe ";
" leading economists are saying ";
" it is widely believed ";

and so on!

If you have ever had to write an academic essay you will know that all sources must be quoted. So it is a mystery why leading journalists need only say, "leading city economists believe" and not quote who those economists are or where they have published their research.

Thirdly where the media do actually quote a source, do the obvious and find out how reliable that source has been in the past. As an example, in the Autumn of 2004 the Nationwide Building Society reported that property prices had fallen for "the first time in three years". This was certainly true according to their own records of what they were lending on. That was the key - what they were lending on.

The definitive figures from Land Registry which included what everybody else was lending on and what had been bought for cash actually showed property prices had fallen twice in the last three years (and four times in London over the same time period!).

Sources of data from a lender can be very useful but they can also be distorted, often because of marketing or policy changes by that lender. It could have been, for example, that over these three years the Nationwide had been trying to attract more affluent borrowers and so as a result the value of property they were lending on was continuing to increase month after month. If this was the case the data would be a good reason to give everyone in the marketing department of the Nationwide a bonus but it does not accurately reflect true property prices.

Further to the above point investigate how the source has come to their figure. This is crucially important. Take the headline, "Property prices expected to fall 30% in next two years". Read the text a little more and find the part, "according to the company XYZ".

Company XYZ maybe a reasearch company in which case they create a number of scenarious. One of which might be:

- *If* the United States goes into recession *and*
- *if* resticted oil supplied cause inflation to rise above 10% *and*
- *if* the Bank of England increases interest rates to 10% *and*
- *if* unemployment rises above 15% *then*
- Property prices will reduce by 30% over the next two years

There is nothing wrong with this research and it may be very well argued but there can be plenty wrong with the way it is reported.

True Story - A One Sided Argument

On Saturday 3rd April 2004 The Independent Newspaper lead with a front page story that asked "Are we heading for a crash". Correctly they assigned quotes from the Halifax which said the rises were "just another milestone" but then perhaps the journalist became frustrated that no one would support his headline. He continued, "Some commentators believe that present house values are unsustainable and the only question is when, not if, the market will crash" but did not give any idea who this panel of experts were and where they got their information. The only quotable source he found to back up this view was a stock broking company which tried to compare house prices to shares.

If all that were not enough even the same media outlets are quite ready to contradict themselves as in the case of the following headlines from the BBC:

- 1st March 2005: "House prices show slight increase"
- 4th March 2005: "UK house prices slip in February"
- 31st March 2005: "House prices dip worst in a decade"
- 5th April 2005: "House prices stage rise in March"

and so on!

What is 'New' and What is 'News'

One of the most misleading habits of the media is to pick up on a story that is happening all the time and present it as 'new'. The most common are perhaps in the field of health but property suffers just as much at the hands, and pens, of this.

Negative equity, when the price of someone's home becomes less than the value of the loan they took out to buy it, is ever popular. As we have already seen, at a local level, property prices rise and fall all the time. This means there are always people in negative equity. Those who take out 100%+ mortgages are immediately in negative equity but there is little talk of it in the press when the overall market is rising.

In 2003 millions of home-owners were thrown into negative equity when military action in Iraq began but the press was more interested in the 'War on Terror' than property so the months when it happened passed with almost no comment.

In 2008 there was not much else to report except the global credit crunch and *then* the media wanted to talk to people in negative equity.

What the press reports is often happening all the time, just because they report it does not mean it is new.

What is Real and What is 'Human Interest'

Aside from creating stories which are not new but presenting them as the news, journalists can also be very poor at keeping a level head. Statisticians are taught that they must have a large number of people for research purposes before they can draw conclusions. Journalists, on the other hand, are taught that they must have at least one 'Human Interest Story' for a good article.

So if it is time to scare monger about borrowing more than your property is worth (especially when the price of the property goes down) it is not hard to find one person in that position if it is fashionable enough to do so. If you can't find someone ask your sister's friend to pose for a photograph and then make the rest up, few know how to check the authenticity of a name and most simply want to gasp at the terrible situation.

When reading, listening to or watching such articles consider the 'Hammer and thumb principle'. There will always be people using hammers and a certain number of them will hit their thumb. If we suddenly make a story tomorrow about how dangerous hammers are and wheel out a person who hit their thumb yesterday does this mean hammers have suddenly become dangerous or that more people than ever are hitting their thumbs?

The Use and Abuse of Mortgages

Journalism is a difficult job. All too often the individual is working against tight deadlines and has already been briefed by the editor on what slant to give a story.

While there are some who make up fantasy figures to illustrate the point most will try and find a real person but to fit into their piece the right way the truth sometimes has to be bent a little.

Lets take an example where the journalist needs to write a story about someone who took out a loan and now cannot afford to repay it.

The facts might look something like this:

- Ms X took out £200,000 loan on a £300,000 house
- Ms X was fired from her job due to incompetency
- Ms X cannot find a new job because of the way she lost her last one
- Ms X does not have much in the way of savings but could sell her house and rent

Now lets write the story:

"Ms X, a 24 year old administrator from Liverpool, owes the Halifax £200,000 for a mortgage she secured against her house two years ago but now the bank might want it back. After loosing her job in December she has found it hard to find new employment despite applying for over fifty positions and her savings are starting to run out. If she cannot find work soon she will not be able to cover her mortgage payments and the bank could repossess her house."

All the facts are true, no one can deny it, but some of them are missing. Furthermore the last sentence contains the dramatic concept of repossession although anyone who read or listened carefully would realise she could sell her house and repay the mortgage. This is not a mortgage story, it is an employment story dressed up to look like a mortgage story.

The second type of press reporting surrounds an important principle:

Almost every product or service has the ability to be misused

It's our 'Hammer and thumb' principle again. There is nothing wrong with the hammer, it's how we use it. But when it comes to financial products those who misuse them are often dressed up as the victim for the purposes of making a good story.

Here are another set of facts:

- Mr Y used every last penny of his savings on a deposit for a buy to let
- Mr Y did not make any contingency plan for what to do if the property did not let immediately
- The property needs some work as the hot water and heating do not work properly but Mr Y cannot afford to do it
- The tenants who moved in won't pay the rent until the work is done

This can be re-written:

"Mr Y, a self employed tiler from London, decided to purchase a buy to let investment after reading about the successes others were having in local newspapers. He bought a two bedroom apartment eight miles from where he lived and rented it out to a local couple. Now they are refusing to pay the rent Mr Y needs to cover his mortgage payments and he is worried it won't be long before the bank will repossess the property."

Again all the facts are there, albeit one-sided. In reality Mr Y was being a bit too greedy. Instead of buying somewhere smaller and holding some funds back for the unexpected he stretched himself to the limit. But the article would have you believe he was very unfortunate and of course we have got that all important word 'repossess' in.

Summary

In summary think very carefully about what you read in the papers, see on the television or hear on the radio. Remember:

- There are always people in negative equity in good times or bad
- There are always people who have bought problems on themselves
- There are always people who will misuse mortgages and credit

The real question is how many people and is it actually a real problem. If for example there were 1,000 people in negative equity last year and there are 10,000 people now that might suggest an issue. But does it? Many of these people may be totally unaware of their situation as they have stable jobs and no need to sell. Negative equity only becomes a real issue when people *need* to sell and for this several factors must come in to play:

- The person *needs* to sell
- It is not possible to rent the property out and cover the mortgage
- There are not enough buyers on the market to achieve the price necessary to cover the repayment of the loan

For all of these to coincide is very, very rare and generally only when a whole economy goes into a major recession.

3 - Making House Price Predictions

What's covered in this chapter

- Who makes house price predictions;
- What is the track record of RICS, the Nationwide, the Halifax, the Council of Mortgage Lenders, Hometrack, Capital Economics and many of the other 'experts' used by the media;
- Who can make accurate forecasts;
- Why organisations make predictions.

The British public have an insatiable appetite for property price predictions. This is hardly surprising since for many their home is also their largest financial investment. For others getting on the ladder is a constant preoccupation.

The media is only too happy to oblige with regular stories based on the calculations of "experts". In **The Media and Property Prices** misreporting by the press, and the reasons they do it, is covered. But who are these organizations that they use and how accurate has their track record been?

For clarity where 'real' price changes are stated below these are from the Land Registry and the predictions of each party are their first predictions, not ones that they updated during the year.

The Property Experts in Which we Trust

The Royal Society of Chartered Surveyors (RICS)

RICS system for predicting the future would have most statisticians turning pale. They simply ask their members "how they feel". If most are optimistic they believe prices will rise and if most are pessimistic they say prices will fall.

Strangely it actually seems to work but only to the extent that they have been quite successful in staying on the right side of zero - they say prices will rise and they do, they will fall and they do.

- Prices rose 9% and 2% respectfully in 2006 and 2007 compared to RICS prediction of 4% and 7%.
- In 2008 prices dropped 13% compared to their prediction of a 5% decrease.
- At the start of 2009 they predicted a 20% drop but later revised this to zero, which then matched the real market.
- After the 2009 suprise RICS 2010 forecast was simply to say 'further price gains over the coming months' which indeed they did to end the year 1.5% higher.
- 2011 was their most accurate year yet suggesting prices would fall and then rise ending the year 2% down. The reality was -1.3% making this their best forecast yet.

Despite not being particularly accurate RICS is actually one of the better indicators on the market. But if even they have to reverse predictions to the extent they did in 2009 perhaps they are not to be relied on too heavily.

In recent times their monthly reporting has also suffered from inconsistancy. On 10th January 2012 RICS said 'There is no sign of the UK property market picking up in the coming months' which was followed on the 14th February with 'Home sales are expected to rise'.

The Nationwide

The Nationwide has been collecting house price data since the early 1970s. As a lender they are able to see the number of applications coming in for approval and this gives an indicator of changes coming in the market. If less people are applying the market is beginning to slow and hence house prices may fall, so long as you assume supply remains constant.

Unfortunately this simple "supply-demand" argument does not always work. If demand slows prices can only drop if supply remains the same or increases. But unlike fruit and vegetables houses are not perishable goods and so, as seen in 2009, supply can dry up as well and match the lack of demand.

Because of this they have had little success in predicting. In 2007 prices rose 2%, they said it would be 5%. In 2008 they thought the market would be static but it dropped 13%. In an attempt to catch up they suggested this decrease would be repeated in 2009 but in a true reversal prices remained static. Circling the wagons they predicted prices would remain static in 2010 and 2011, and with the actual change being +1.5% and -1.3% they were close.

But how they will perform in the future when greater price changes are expected is yet to be seen.

The Halifax

The Halifax and the Nationwide are both famous for issuing their monthly year on year price change data. And historically they both have sound data on a national scale but accurate predictions have eluded the Halifax as well. In 2007 they thought the market would move up 5% when it actually moved 2%. They thought prices would be static in 2008 but they dropped 13%.

For 2009 Halifax threw in the towel and refused to provide a forecast for the future claiming the market was too volatile. In 2010 and 201a the Halifax went for 'no change' in a similar way to their competitors Nationwide and achieved similar success.

The Council of Mortgage Lenders

Like the Halifax and the Nationwide the CML has a close grip on the number of new mortgage applications being received across the industry and use this, in part, to predict if the market will be moving up or down in the future.

But as with the Halifax and the Nationwide they can be good at predicting future demand, but cannot know what future supply will be. As such they have not been far off the mark but their track record does not make them particularly accurate when looking for some guidance as to the future.

Recognising this themselves there have been times, such as 2009 and 2010, when they refused to even offer a prediction. For 2011 the vague approach was used with a forecast of "may fall a bit or stay flat" which may not even technically be a forecast!

Housepricecrash.co.uk

Set up to discuss the impending house crash the site bought together lots of data from 2004 onwards to prove prices must decrease. Since then they have been unstoppable in their belief that values must fall 50% and that this will generally happen at a rate of 10-15% per year.

Jonathan Davis, who runs the site, has been extremely forthright since day one. In 2004, on the site's forum he replied to a post from a user who was about to buy and said, "So, late 2005 to mid 2006 when HPs are falling by 10-15% pa you're going to buy a place?"

Obviously historical data was not in their favour but in 2008 prices did start to fall and at 13% it finally matched the 10-15% prediction which prompted a raft of media reporters to suddenly hail Davis as the man who knew. But his forecast was actually for a 40-50% drop between 2008 and 2011 and in reality the market only moved 4% down over this time period.

Never one to give up Davis predicted a 10% drop in 2011 itself which was far from the -1.3% reality.

Perhaps the site should be more accurately renamed wewantahousepricecrash.co.uk

Hometrack.co.uk

Hometrack collects data from estate agents including questions on where they think the market is going. From this they issue predictions which have largely been conservative but wrong. In 2006 they suggested a rise of 1% compared to the 9% that actually occurred, 4% up for 2007 when prices rose 2% and a 1% increase for 2008 when prices dropped 13%.

Joining the stampeded in 2009 they put their figure at 10% down which made them almost as wrong as they had been in 2008.

But 2010 and 2011 have been substantially better years for them, perhaps because they choose to be more vague with statements such as 'stable in the South East and falling elsewhere'.

Capital Economics

Perhaps the most well known gloom-sayer is Capital Economics, advised by Roger Bootle. They tend to predict price decreases almost all the time. And when house prices are decreasing they predict even larger falls. Their track record for accuracy is disastrous as the following shows:

- Predicted a 20% fall between 2005 and 2007. Prices rose 15%.
- In December 2004 Ed Stansfield (spokesman for Capital Economics) said "our forecast of a 20% peak-to-trough drop in average house prices - remains on track." Prices rose 15% over the next two years.
- At the start of 2009 they predicted a fall of 20% for the year. Prices remained static

In December 2007 the BBC reported "To date they have been about as wide off the mark as is possible." Which puts it mildly and questions why they are still asked for their views. Ironically after nearly a decade of predicting a crash, and as house prices stood on the precipice in April 2007, Ed Stansfield from Capital Economics said "It gets to a stage when you can't keep saying a crash will happen while prices keep on rising". The following year prices dropped 13%.

For 2010 Capital Economics made their strangest forecast yet. Prices would "drop by 10% *or* flat-line *or* keep on rising". The 2011 prediction was a little more concrete with "10% fall this year or next" but such vague crystal ball gazing does not really help anyone.

With such a poor track record it is strange that the media would turn again and again to such a company for predictions on the future but they continue to do so.

In summary Capital Economics have been one of the worst predictors of house price movement in the past so be extremely sceptical of any article based on their predictions for the future.

Deloitte

Deloitte is also advised by the same Roger Bootle of Capital Economics and hence why their predictions are broadly similar and broadly wrong. For the same reason they have a poor track record their predictions should be treated with scepticism.

Zoopla.co.uk

Zoopla was started in 2007 and the idea was to use historical data and a "secret cocktail of other factors" to make predictions about the market both on a national and local level.

On a national level there are enough transactions to theoretically make this possible. But even the best statistical models require some pattern from historical data and this does not really exist. There have been two crashes but of varying length and intensity and the remaining trends of rises or static periods are random.

On a local level it is actually impossible. As any statistician will know there must be at least 30 pieces of data before anyone can start any accurate number crunching. For a particular post code then we need 30 transactions every month to create the data needed. So if we take, for example E3 3NH we find there have been 4 transactions in the last 3 years. There is nothing that can be done with this data and so any price predictions based on them are futile.

If we zoom out to get more data, say to E3 only, we get the volume we need (over 1,500 sales in the last 3 years) but now the information has lost it's meaning. We can come to a fairly accurate estimate of average local prices but there is no way of knowing how that relates to an individual property - unless every home in the postcode was identical.

So Who Can Make House Price Predictions?

In general the answer is no one. Property prices, like stocks and shares, have too many factors in them and many of these are purely based on confidence and emotion - both of which can be highly irrational in a positive or negative sense.

The Hidden Agenda for Making House Price Predictions

So why do organizations continue to make predictions? Put simply it is because we want them. But always remember most have a hidden agenda.

The Nationwide, Halifax, Council of Mortgage Lenders and other lenders want to be positive so people will borrow and they will profit. Even RICS could be accused of this. The more transactions there are in a market, the more work there is for their members.

Alternatively Housepricecrash.co.uk, as it's name implies, and Capital Economics would like to see values drop so they can be vindicated. Like a man who tells you it is going to rain tomorrow, they know they will eventually be right, even if it is only a light shower.

And ultimately it is all good publicity to keep their names in the press, for free. The true blame therefore must lie with the media who continue to ask organizations for their views, even if their track record for accuracy is highly dubious.

Summary

When it comes down to it no one has ever been very good at making predictions. But those entering, or returning to, the property market take media reports literally and rarely check track records. It is unfortunate that when journalists report, on yet another crash or boom story from an 'expert', they never include how accurate that 'expert' has been in the past.

But at any point in time, because many of these individuals say different and contradictory things, someone must be right and they are hailed as the hero. This interestingly happened in 2008 when the property market started to fall and the BBC ran a piece on prime time news when they asked 'Perhaps we should have listened to this man all along.' They were referring to Roger Bootle of Capital Economics.

But according to the Nationwide's price data if the potential owner of an average UK property had been listening from 2003 to the start of 2011, and had been waiting for prices to drop as Roger keenly and consistently predicted, then on an average property he would have been £44,000 worse off. So why a media organisation as prestigious as the BBC would suggest that we should have listened all along is a little strange, to say the least.

There is a man outside Oxford Circus underground station who says 'The World Will

End Tomorrow'. One day he might be right and then we will all lament how we should have listened to him all along...

4 - Understanding the Property Market

What's covered in this chapter

- Property prices since 1975;
- What drives property prices apart from salaries;
- What will happen to property prices over the long term;
- What is happening to the supply of new properties;
- The difference between national and regional property markets;
- How real property prices actually rise and fall every year;
- When you should shop for a bargain and when you should shop for choice;
- How you can end up trapped in the property search;
- When you should buy.

It is amazing how many people delay buying because they believe the market is falling, or rising too fast, or the market is steady and so may fall, and so on. In their defence they are encouraged to do so by the media which loves to paint all price rises as worrying and all price drops as the possible start of something bigger.

Friends, family and work colleagues are also very keen to offer their analysis, often based on that very same media. It would be interesting how many of these advisers would be interested in knowing what Estate Agents, Solicitors and Surveyors forecast for the industries that they work in!

How the market acts is actually surprisingly simple, but it is perhaps this simplicity that does not lend itself particularly well to headlines. It is crucial therefore to understand that:

- The current trend is for prices to continue to move up due to increasing demand for property and restrictions in new supply.
- Regionally markets move up and down all the time but this is rarely reported.
- The market has a traditional cycle that means that prices *do* move down quite regularly, usually twice a year.

The Current Trend in the National Property Market

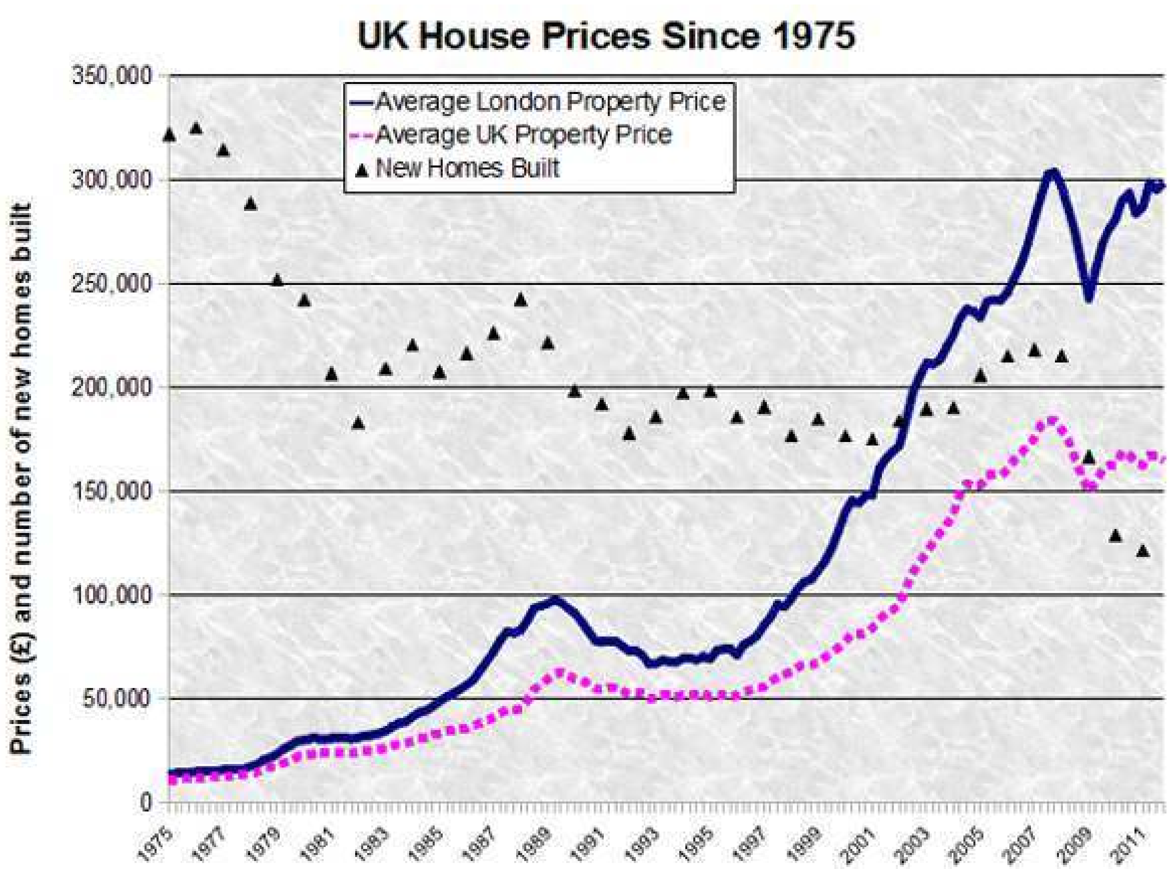
The amount of land available to build on is restricted and the number of people who want to live in the UK is continuing to increase. One overriding principle to remember, in London, is that property prices have risen, almost continuously, since the end of the Second World War. In some parts of the city they have doubled every ten years over this period.

And the simple issue of supply and demand is expected to get worse. As of 2004 the Greater London Housing Authority Commission estimated that there was a shortfall of around 250,000 homes in the capital. That figure is expected to rise to over a million by 2020.

Despite this well known trend the situation is likely to be exacerbated by moves such as the continued introduction of more conservation areas, the protection of green spaces and ever rising immigration.

It can be argued these go far towards improving quality of life. Protecting open spaces gives us places in which to spend our recreational time. Immigration provides us with a richer and more cosmopolitan mix of cultures which broaden our horizons. But ironically they also make the country an even more desirable habitat and increase property demand still further.

The graph below demonstrates the problem by showing the decrease in the number of new homes being built over the last thirty six years:



Property prices: Nationwide Building Society. New homes built: Department for Communities and Local Government - Net Supply of Housing

The credit crisis has decreased the number of new dwellings still further as construction companies struggled to raise finances for projects. This has been especially acute in the South East of England where the number of additional dwellings dropped by 32% in the financial year 2009-2010.

We also need to factor into this the effects of migration to the United Kingdom. This is, according to the Office of National Statistics, currently running at around 200,000 per year.

In summary we have a situation where England and Wales are short of homes and the population is growing faster than they can be built. In 2010 there was net migration of 210,000 while the net number of new dwellings increased by only 128,000.

2011 saw 121,000 new dwellings completed. At no time since 1975 have more homes been in demand and so few built.

All this points to long term price rises but we must be very clear here. Long term does not mean continuous, just that property prices will be higher in ten years time than they are now but there might be falls along the way.

As a perfect example most people believe property prices in London rose non-stop between 2000 and 2008 (when the Credit Crisis began) but the truth is very different. Prices fell three times. Once in 2001 by 6%; then again in 2004 by 3% and once more in 2005 by 4%. They were not year on year falls but quarter on quarter so the graphs that most of the media use for reporting showed nothing.

The basic principles of demand and supply and all the basic economic data points to *long term* price rises for properties.

The Difference with Local Property Markets

National property prices dominate the headlines and can often eclipse all else. But only investors search on a national level, most buyers are looking to purchase in a particular location.

So while, on average, property prices might increase or decrease - what happens on a regional basis can be quite the opposite of the national picture. Individual areas can experience their own booms and busts which leave some reaping extraordinary short term profits and others languishing in negative equity for years. These stories are rarely reported because, to the media, they have too small an audience to be profitable.

Such incidents often happen in 'up and coming' areas which experience waves of interest and a classic case is the London borough of Clapham. In 2001 it was seen as 'the next hotspot' following a major investment by the supermarket Sainsburys. Buyers rushed in pushing the price of two-bedroomed flats up twenty percent to around £250,000.

But the interest was short lived and the properties soon lost over ten percent of their values. Buyers at the peak were left in negative equity until 2004 when the area truly started to come of age. In a heated Spring market the same properties reached peak prices of £270,000 before once again falling back in the Summer and then recovering in the Autumn.

What happened between 2001 and 2004 demonstrated a mini boom and bust on a local level. It happens continuously across the country and is noticed only by those it affects. For the many who owned properties in Clapham over a longer time period, they may never have even known they were in negative equity as by 2009 the average price had risen to £340,000.

What happened between the Spring of 2004 and Autumn of the same year in Clapham is common to the Annual Property market and this is covered below.

The Annual Property Cycle

Know the annual cycle, be prepared for it, and you will buy wisely no matter what your needs are.

Despite what the media might say in its' headlines the property market does actually move down as well as up on a regular basis. There are dips and peaks which are generally misrepresented by the press causing mini panics in both directions.

The annual cycle works something like this. Large numbers of prospective buyers recover from Christmas and think this is the year to move. Nothing much happens in January as the financial stretch that was Yuletide is recovered and many wait for confirmation of their bonuses.

By February both sellers and buyers are starting to test the market and by Easter things are in full swing. This is the time of year that you will expect to see the most choice on the market but because you are competing with the highest number of buyers you will pay a premium in a rising market. If you are not fussy don't buy now. If you are looking for something specific bite your lip and accept it.

By mid June many buyers' and vendors' minds are turning to summer holidays and the market is left with those properties that didn't sell along with a splattering of new homes coming on.

There is less to choose from but it may be possible to pick up a bargain from a vendor who did not sell in the Spring and is feeling sorry for themselves. Buyers who did not find anything in the Spring are disappointed by the poor choice now available and are hesitant to make offers. We are now entering the phase that the professional investor operates in.

In July and August the sunshine and holidays mean most buyers don't want to be spending their weekends and long evenings house hunting. Any vendors on the market must have a pretty good reason to sell so although choice will be very low, if it is a deal you are after, now is the time to get it.

In September and October the buyers return. A rest on some sunny beach (and in some cases the kids back at school) puts everyone in a good mood. For those who rented their own apartments or houses while on vacation, the idea of coming back to a shared flat or a smaller property is not an attractive one.

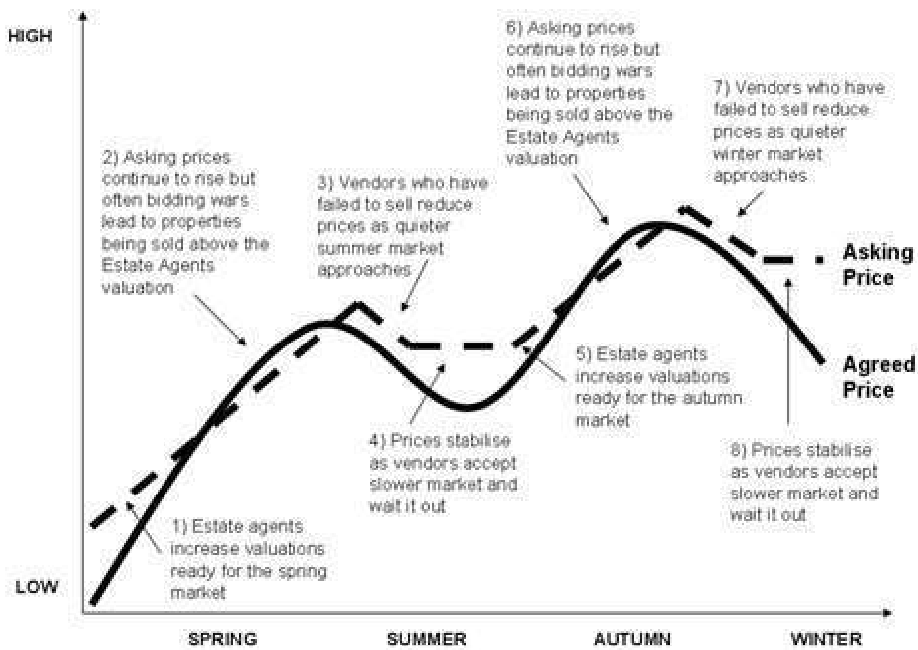
Vendors are also back and choice is once again good. The same advice follows as the Spring because agents are already valuing higher in anticipation for a busy period.

The intensity of the Autumn market often outperforms the Spring as buyers compete frantically to find and be into a new home by Christmas, so watch out.

November and December are like June and July. If you want a bargain and don't need choice get out there. A low offer but the promise that the vendor could have the money by Christmas will be temptation and as most other buyers are saving for the festivities you can expect to negotiate a low price.

There is a trap here that no end of first time buyers fall into. They go out looking in November just to see what is around and get an idea of prices. They decide to wait until the New Year to see more choice. In the New Year prices are rising. Everything they view is worse than what they looked at before Christmas but costs more. They keep looking and prices keep rising. They decide to wait for prices to fall which then starts to happen in the Summer. Now there is nothing to choose from and what is available, even at lower prices is still more expensive than what they saw before Christmas. They wait until Autumn but prices then start to rise again and although they may make offers, they base these on the Summer market and they are outbid by other buyers. Before they know it they have been looking for a year and spent thousands more pounds in rent. A £200,000 property now costs £220,000. All told the year has easily cost them over £30,000 in rent and lost capital gain. Defiantly some change areas and start the whole cycle all over again!

The pattern of the annual property cycle is shown graphically below as a representation of what happens.



Despite what the media reports, prices actually rise and fall throughout the year. These changes reflect the way buyer and seller priorities change on an annual basis.

This is a rough outline and not to be taken in absolute terms. Sometimes, for example, there are more properties on the market than there are active applicants. The pattern in the graph also represents 'price agreed' - what is actually happening in real time. Experience teaches you the traditional cycle but there is no resource on the web or otherwise to tell if, for example, the market has reached the bottom of the summer slow down or the top of the spring rise. The figures that you see reported statistically are usually completions or mortgage applications and these can refer to sales which were agreed any time from one week to six months previously.

Variations in the Annual Property Cycle

The annual property cycle is knocked off course from time to time by outside events which cause a loss of confidence in property, just as some events cause the price of stocks and shares to plunge.

Recent examples include the 9/11 attacks on the World Trade Centre, the war in Iraq in 2003 and the Credit Crunch of 2008.

For more information on this is and how it affects the market see the chapter **Property Bubbles and Market Crashes**

5 - Is the Property Market Overvalued?

What's covered in this chapter

- Why modelling or predicting the market is so difficult;
- Why logic does not seem to apply;
- How the market innovates;
- When historical data can be misleading;
- Why applying logic doesn't work;
- Why calculating price per square foot doesn't work;
- The true story of a buyer who paid twice the asking price.

Modelling the Property Market

First time buyers and amateur investors tend to have a habit of modelling the property market in no end of ways. They look at what the average buyer is borrowing or how much of their disposable income they are using or basically search down any data that will support their argument that the market will crash violently and they will be able to buy a two bedroomed property in EC1 for £50,000.

No matter what you put in your fantastic spreadsheet remember this:

There are far more clever, far more qualified people than you who have studied the market for far longer than you and still got their predictions completely and utterly wrong.

A perfect example was the Halifax, much of whose business rests on the property market. In January 2004 they predicted house prices for the year would rise by 8%. Six months later they revised this figure to a rise of 16%, they were admitting to being 100% wrong.

Capital Economics, a major think tank with massive statistical resources at their disposal, predicted property prices would drop 20% in 2009 but they did nothing of the sort and remained static.

And they can just as easily be wrong in the other direction. In late 2007 most lenders were predicting a market where prices would remain static the following year. By March they were all revising their forecasts again. The effects of unknown global events made prediction a very rough guess at best.

A full analysis of the 'property experts' used by the media and their track records is in the chapter **Making House Price Predictions**

True Story - pounds per square foot in Kings Cross

Tanya wanted to buy a two bedroom 890 square foot flat in the Ice Wharf development by Kings Cross. The property was on the market for £290,000 but this was beyond her budget. She spent hours on the internet investigating the sizes and prices of other flats in the area and came to the conclusion, with the help of a large spreadsheet, that the going rate for a flat in the area was £269 per square foot which meant the property she wanted was really worth about £240,000.

She made her offer and was at lengths to insist that her evidence was passed onto the vendor. The offer was rejected and three weeks later the flat went to sealed bids with two completely different buyers and exchanged a month after that for £302,000.

Tanya's evidence was absolutely sound but what she had failed to understand was that certain developments within an area hold far more appeal than others. It's a fact she should have recognised because she did not want to buy any of the other properties that she had based her evidence on.

So why is it, with all the research based on seemingly sensible data, that the property market does not react the way it should.

There are three fundamental reasons:

- The property market innovates
- Averages just don't work
- History is not always a prediction of the future

The Property Market Innovates

Simply put lenders and property sellers continue to find ways to ensure prices can continue to rise over the long term. In the 1960s this was the introduction of the mortgage. Highly unpopular at the time, when debt was frowned upon, they have now become a way of life and allowed property prices to rise faster than salaries.

In the 1990s it was 100% mortgages which rid the need for buyers to find a deposit. In the millennium it is shared ownership so the buyer only needs to find 50% of the property value or mortgages spread over more than the traditional twenty-five years.

Making predictions using the products of the day has long been seen as misleading but the media and other "experts" continue to do it as they cannot predict how the market may innovate.

A classic historical example was work carried out in the 1800s which looked at the rapidly rising population of the UK and concluded there would soon not be enough food to go round. This meant starvation along with civil unrest could not be far away. But agriculture innovated. The number of people living on this small island is now far beyond what our Victorian mathematicians imagined and there is still food on the table.

Averages Just Don't Work

One of the key measures commentators on the market use when speculating the future of the housing market are long term averages. For example, the logic goes that if the average property price has reached four times the average salary then real estate values can no longer move up.

But these is a highly misleading methods. Highly misleading but easy for people to understand and so ideal for newspaper columns or the evening news.

We can see just how irrelevant they are in the market of Manhattan, New York. Even for some of the most well paid professionals who work in the city buying a property is out of the question. So logically values should fall but they don't and most people rent from the few who can actually afford to buy.

It was not always like this. At one time an apartment in the city centre was affordable but there came a moment when prices went beyond the local population and instead of falling back as economic models said they should, they just kept on rising.

And if that was the case in New York, could the same not eventually happen in London, Manchester, Birmingham or any major town or city?

The Connection Between Average Salaries and Average Property Prices

Average salaries and average property prices are in fact only related in the weakest of terms. Ask any statistician to find you the correlation (connection) between the two and they will conclude it is extremely low.

Broadly this is because the connection at any level is affected by the following:

- Buying for holiday homes
- Buying for retirement
- Buying to let
- Buying for business
- Buyers from outside the region
- People who don't buy but can afford to

Buying for Holiday Homes

A perfect example of this is North Wales where properties captured the imagination of residents from Manchester, Birmingham and London who purchased cottages for their weekend breaks and vacations. It wasn't long before locals were priced out because the market was, and remains, driven by 'foreign' populations.

Buying for Retirement

This can be seen at work in Norfolk and Cornwall where large numbers retiring from the cities cash in their properties and purchase houses in more distant locations moving prices beyond the means of locals.

Buying to Let

This is especially prevalent in university cities and towns. Nottingham, for example, has a large student population and this attracts investors from richer cities such as London. Their earnings and purchasing power cannot be taken into account, neither can their numbers be predicted. In cities such as New York these investors have priced the local population out completely so the large majority of people expect to rent for their entire life. There is no expectation that prices will reduce so that they can buy.

Buying for Business

Many businesses who have staff that travel on a regular basis buy property to house them. Thus a bank might buy thirty apartments to be used by their staff rather than pay hotels or rental agencies. They don't take mortgages, they buy for cash.

Buyers from Outside the Region

Property has become a global commodity. In the financial district that is the city of London 40% of real estate is owned by non-British companies or individuals. In Spain there are areas almost exclusively owned by non-nationals and so any sort of analysis looking at local salaries is generally pointless.

Can Afford, Won't Buy

In the same way that buyers can drive the price of property above local affordability (on paper) there can also be scenarios where property prices are well within the grasp of the population but they just don't want to buy. In Germany, for example, there is a culture of renting with someone else taking care of the maintenance. Statistically property prices should rise dramatically as there is a large gap between prices and the buying power of purchasers but it doesn't as actual demand does not exist.

History is not Always a Prediction of the Future

Another favourite measure is to look at averages in historical data. For example taking the Nationwide's house price data from 1974 to 2010 the average rise per year is around 4.5%. Therefore we can conclude any annual rise above this is a sign of the market overheating. Or the long term average for mortgage debt is x% of GDP and so any figure above this must mean there are too many mortgages.

But historical data is exactly that and should not be confused with the future. Take a simple situation where Mr A puts £1,000 into a bank account that offers no interest and leaves it for 10 years. His long term 'average savings' are £1,000 (10 x £1,000 / 10 years). In year 11 he adds another 1,000 so now his long term 'average savings' are £1,090 ((10 x £1,000 + 1 x £2,000) / 11 years).

A bank clerk might look at the account and think, we have a client that wants to borrow £1,300 so we could use Mr A's savings for that. But someone looking at it as a long term average will say 'no, on average he only has £1,090 so we can't lend it'. He would wait until the savings have been untouched for 15 years before touching the cash. And all the time the situation is changing. By year 15 Mr A's long term average for savings is £1,333.

There is £2,000 in the account but some commentators will continually state 'Mr A's long term average is 1,333 so he currently has too much money in his account and he is bound to make a withdrawal soon to take his account back to its long term average'. The fact that there is £2,000 in the account cannot be believed.

Now a more bullish clerk comes along and knows of a client that wants to borrow £2,500 in 5 years time. He looks at Mr A's account and says, 'Ah, Mr A - on average - deposits £1,000 every 10 years so I can use his money to lend to my client.'

Both clerks are using sound data and both are drawing very different conclusions, both could be very wrong.

Using property we can also produce meaningless information. According to the Nationwide the average price of a UK home at the end of 1999 was £74,683 but the average for the ten years before was £56,713. So it should follow that house prices would decrease back to their 'long term' average but they didn't.

The Emotions in the Property Market

When it comes to making models and predictions even some of the most seasoned economists have come unstuck because of the way they apply logic to the housing market. Logic in economics has strong foundations and can be seen in daily life. If tea becomes too expensive people switch to coffee - substitution. If the price of petrol rises, consumption does not drop dramatically - elasticity of demand. And of course if property prices start to decrease people should stop buying - deflation.

But not all people follow logic when it comes to buying bricks and mortar. They should, but they don't for a number of reasons:

- **Life is short** - prices may be going down and it might be possible to buy the same property for less next year, or even the year after. But for the many who are buying a home that is two years of their life that they will spend in someone else's property and that is two years too long.
- **The need to own** - Britain is one of many countries where people yearn for their own roof and four walls. It's an emotion that doesn't apply in Germany where a vast sector of the population rent for their entire lives.
- **Speculating** - while a market is falling no one quite knows where the bottom will be and when it will be reached so there will be plenty of investors who think it must be 'about now'. Some will be right.
- **The hassle factor** - if someone needs to move, say because of a new job, they could be sensible and rent in the new location first before buying. It would be a very good idea in a falling market. But it would mean moving again when there are definite signs the market is recovering and, especially if an entire family is on the move, the potential loss is worth it to avoid the hassle of a double move.

True Story - Paying Double the Asking Price

A house ideal for a well-to-do family had come onto the market in Kensington. Prices were generally stagnant and the press was full of stories about an imminent crash but this did not stop three parties all offering on the property at the asking price of £1.1 million. The vendor decided to ask for sealed bids. Each of the three parties would put forward their best offer and the highest bid would get the house.

In the event the highest bid was £2.1 million, nearly twice the asking price. When the buyer was asked why he had made such an offer he replied, "I want this house as a place to bring up my family over the next twenty years. By then I expect it will be worth about £2.1 million".

He was not the least bit motivated by the hope of profit in his purchase, but by his desire to buy the right home for his fledgling family.

Summary

Modelling the market in order to make predictions has proved unsuccessful for even the professionals and much of this has come from the issue that the property market is not based on the data must people assume it should be.

We can add to this the fact that buyers and sellers do not always follow a 'sensible' logic but are lead by different emotions and motivations than simply to wait for a crash or wait for a crash to bottom out.

And finally an increasingly mobile and demographic population, both nationally and internationally, means any future ability to make accurate predictions based on local data will be even more difficult.

So can we tell if any particular property market is over-valued? Only if there are absolute crystal clear facts at our disposal. In the 2007 sub-prime mortgage market of North America it was obvious that most borrowers were not going to be able to pay back their loan when the initial promotional interest rate ended and the market was being supported by further such borrowers on further such unsustainable credit.

But very rarely are there such red flags to hold everyone in agreement and this is why arguments over the validity of data such as average salaries, past trends and inumerable other factors continue to rage.

6 - Property Bubbles and Market Crashes

What's covered in this chapter

- The difference between Bubbles, Bursts, Booms, Busts and Crashes;
- Examples of bubbles bursting compared to market busts;
- What the UK property market follows;
- The role of confidence and capitalism in the property markets;
- When the figures cannot be trusted;
- Understanding the statistics;
- How demand can fall but prices remain static.

In previous chapters we have seen that it is almost impossible to understand, let alone predict, property prices to any great degree of accuracy. The occasional person or organisation that does get it right once is then, more often than not, unable to repeat their success.

We have already looked at how an increasingly global world has an affect and also at why buyers and sellers do not seem to follow the logic economists would like them to in order to make their models of the market work.

But we do know, from experience, that property in Britain has booms and busts. One of the underlying reasons for this is that real estate, like the economy in general, suffers from bouts of over confidence and under confidence.

In the good times most people start to get carried away. They buy shares because the stock market always seems to be going up. They buy property because newspapers report ever rising prices.

To start with these increases are real. As a country moves out of recession wealth is created allowing values to improve. At some point however there is too much confidence. Like the casino visitor on a winning streak, its hard to stop. This is not just in property, but in everything. The business cycle is moving into it's boom period.

Eventually there is an event, such as the global credit crisis of 2008, which shakes confidence out of the system, and a bust occurs. Shares slide, property prices sink and the economy moves into recession.

At this point, en masse, the population is under confident. Concerned for their own lives and financial security they become over cautious and everything from the stock market to an apartment's selling price are below what they should be.

But economies move on and confidence returns to start the business cycle all over again.

Economists have, for nearly one hundred years, been trying to find a formula where steady growth can be achieved without the booms and busts but it is an almost impossible task given the emotional swings of human nature.

Speculators have also been trying to predict exactly when a bust will happen with, as we have seen earlier, the same success as the economists - very little.

Investors in stocks, shares and properties try to guess when should be the best time to sell. When has confidence taken over from reality and when will there be an event or moment that causes this confidence to be removed. Some manage it, some are lucky, some are not.

No matter what is printed on these pages, if you own one property or a portfolio and prices are rising, it is difficult to make that selling decision. If it were easy and everyone were level headed there would not be booms or busts.

Confidence and Capitalism

The capitalist system is built on surprisingly fragile foundations. We believe if we go to the bank we can take out our money but if everyone tried this at the same time it would not be possible. Most of it is imaginary, not even existing in printed form.

Even if all the pounds and dollars were there much is on loan to others and so could not be made available to every account holder immediately. And when it comes down to it the paper it is printed on is not tied to anything except confidence. We all have to believe, otherwise it is worth nothing and society would stop functioning.

Stocks and shares have a similar story. Companies are only worth what someone is prepared to pay and much of this value is also confidence. There is a problem with oil and airline shares move down. The oil crises finishes and airline shares move up. Nothing in the companies operations or assets have changed, only people's confidence.

But no one has ever thought to add all the values of stocks and shares together and then say they are over valued compared to the money people have. They don't because stocks and shares are bought and sold on a global stage and so it would be too difficult to calculate.

Now property is increasingly becoming a worldwide commodity but there are those who cannot let go of the idea that real estate values are anchored on the wealth of those who live in a country, or even a given location.

The truth is property prices are held up by, and increase because of, confidence. But then so are the stock exchanges, the banks and the whole of the capitalist system.

It is little wonder that Russian socialists during the Cold War thought the West would fall apart before they did.

In fact, if anything, the crisis of 2008 has shown clearly to what extent nations will go to in order to maintain the essential confidence that glues the system together. In many countries, including the UK, protecting property prices from large falls was part of that plan and a political necessity.

Property Bubbles

Bubbles are often confused with booms and crucially property booms are often misreported as property bubbles.

For a property bubble to occur real estate must be over valued by the market in isolation. If, in 2008, the economy had continued to grow but house prices had started to drop then it could be said that there had been a property bubble.

A perfect example of a real bubble was the route that dotcom shares followed in the late nineties and at the start of the millennium. There was an over confidence in what internet companies could achieve and a strange concept that the more money the company lost (known then as its "burn rate"), the better it was.

Investors and individuals piled in, driving the share prices of on-line companies sky high, a bubble was occurring. The burn rate theory might have been right, this was new technology and virgin territory. But it wasn't. Investors pulled out, the bubble burst and share prices for many internet related businesses plummeted.

Crucially this happened with little affect on the rest of the economy. On it's own it can sensibly be called a bubble.

Understand the difference between a boom and a bubble and you realize that there has never actually been a property bubble in the UK. The early nineties saw houses prices fall as the economy moved into recession and rose as it came out the other side. The same events followed the 2008 downturn and in both cases changes in value from peak to trough were less than 20% . British property follows the business cycle of Boom and Bust rather than a separate and isolated Bubble and Burst.

The boom-bust problem can also happen in a specific place or to a specific type of property. In 2001 the London borough of Clapham was tipped as the next hotspot. Young professionals keen to take advantage rushed in looking for two bedroom apartments in particular. This drove the price up to around £250,000.

It gradually became clear that Clapham was up and coming, but not that quickly, which caused a bust and two bedroom apartments lost around ten percent of their value. A similar situation in 2004 pushed the price skyward to £270,000 but only for around eight weeks before sinking back to the same value they had been selling for three years previously. In percentage terms these were relatively small changes and so reflect boom and bust rather than bubble and bust.

This is not to say the property bubble concept isn't valid and it does occur. Ireland was a striking example where prices moved up ever higher from the turn of the millennium. The collapse in values, approximately 50% from their peak, was far greater than the general recession of the country or any reduction in GDP. The business cycle had moved to the bust phases but real estate was much more than just bust, it was a burst bubble.

Some Bulgarian resorts have also seen bubbles burst as foreign investors got carried away with rapidly rising apartment prices. Property moved beyond the reach of the local population and when the buyers from abroad began to loose interest, the bubble burst.

When the Figures Loose Their Meaning

All statisticians will tell you that in order to get a good average you need a great deal of data. For this reason market researches ask around one thousand people in a cross section of the population how they might, for example, vote at the next election. But even with this large sample they realize the figures could be wrong and hence the small note by every graph which reads something along the lines of "degree of error +/- 3%".

Next time you see a pole which says 45% of people support the Conservatives and 40% support Labour remember it could just as easily be 42/43 when potential errors are taken into account.

The same is true of property prices. The more limited your geographic search, the more wildly the data fluctuates month by month. When less people buy and sell, as was the case following 2008, areas where data used to be reliable became of little worth.

And with every decrease in transactions the possible degree of error increases. This is then compounded by the actions of supply and demand. If sellers don't want to sell or don't need to sell prices will not move down to meet demand. They will wait for demand to recover and move up again.

However the few who do need to sell must drop their price to meet demand and these are the reported figures. They are however misleading if the majority of sellers would not offer their property to the market at this level. Property has no "sell by" date and so the economic theory of supply and demand can become shaky or even stop functioning in any meaningful way.

Summary

Booms and busts are different from bubbles and bursts but they are often mixed up by the media. In Britain there has never been a true property bubble which burst on a national scale but it has happened locally. Instead property prices follow the booms and busts of the business cycle and a way to predict this accurately has yet to be found.

Looking at the statistics can be misleading if there is not a high volume of sales for any given area or geographical region. In a falling market they can also paint an uneven picture if sellers do not want to sell and all that is reported are the few property owners who are prepared to offer their real estate to the market.

7 - Why Buy in a Falling Market?

While most buyers feel their feet turning cold there are actually very valid reasons to buy in a falling market. This does not necessarily mean prices nationally are reducing because, as we have seen in earlier chapters, local markets fall and rise all the time in a way that can be out of sync with country wide trends.

Why 'First Time Buyers' buy

While most of the population is obsessed about buying in a rising market there is a large section that simply want a place to live. They will be thinking about a home for the next 25 years and know that they could wait two years, but that would be two years of their life that they could be in a place of their own.

The emotional drive to have their own four walls is much stronger than playing the waiting game for a crash or for the bottom of a crash.

Why 'Second Time Buyers' buy

Many home-owners who are looking to go up the property ladder benefit greatly from a drop in the market. They may, for example, have an apartment worth £250,000 and the type of house they want is worth £500,000. If the market drops by 10% their property is worth £25,000 less but they place they want to buy has gone down by £50,000.

By choosing to buy in a falling market they have saved £25,000. A substantial sum of money. This difference is known as the "trading gap" and the more prices fall, the more a buyer will save when up-sizing.

Why People Trade Down

Second time buyers benefit from the trading gap but there are also people moving the other direction, often those who have retired or where children have grown up and flown the nest, permanently!

Many belong to a sector where time is more important than profit (as with the first time buyers mentioned above).

Those that have retired are a good example. After years working in a major town or city a move to a rural location is popular. The mortgage is paid off and the price of out of town property is significantly lower. Now it would be prudent, if the property market was falling, to hold off until prices recover and so walk away with the maximum amount possible.

But time is of the essence and sitting around for a few of their twilight years to maximise a profit is not on the agenda. What may seem like utter madness to someone in their twenties, makes perfect sense to someone in their sixties.

Why Speculators or Developers Buy

Even the most educated property professional will admit they do not know when the bottom of the market will occur. Experts have failed to predict it time and time again so how can they?

Furthermore by the time the media is reporting a rise in prices the market is already well under way and they will be competing with the stampede of a herd who were also waiting for the same message.

So at some point they will feel values have dropped, values may drop further, but they will eventually rise. They also know that they will be in a good bargaining position to have an offer below the asking price accepted. Many see property as a ten year investment so even a 10% loss in the short term will not make a major difference to their purchase.

Why Buy to Let Investors Buy

As far as purchase prices go their motivation is very much the same as speculators and developers (see above). But as an added bonus they know many perspective buyers have withdrawn from the market and a great deal of these will be looking to rent.

While values are moving down the rent that can be achieved is often substantially higher than in a rising market and so for the buy to let investor there are good profits to be made.

Summary

Despite the somewhat grave and panic stricken picture painted by the media when property prices start falling, there are actually large numbers of people for whom it is good news.

There is also a substantial body of buyers who are not moving for investment reasons, they are simply moving home and their motivations are driven by factors which they see as far more important than profit.

8 - Buying to Let / For an Investment

What's covered in this chapter

- The mentality needed for investing in property;
- Choosing between cash flow and capital gain;
- Property types which produce the best cash flow;
- Why houses can look profitable to start with but end up costing more than they make;
- How to know if an area is really 'up and coming';
- Why buying off plan used to be profitable;
- The reality of buying off plan;
- The pros and cons of property investment companies;
- How to be prudent and avoid loosing it all.

There is no end of books that tell you how to make money from bricks and mortar but in the end most come down to two areas:

- The obvious - you can borrow substantial funds to buy a property which you cannot do (so easily) to buy stocks and shares
- Hindsight and speculation - if you had bought in area X you would have made lots of money so area Y looks like a good bet for the future

Beyond the obvious parts the rest is (hopefully) someone's fairly educated opinion. You would get as much by talking to a well honed Estate Agent in the pub. The principles are very simple and start with the most basic one that is ignored the most often:

You are buying an investment, not a home for yourself, so ignore emotions and think business!

Due to the continued underlying strength of the market it is difficult to buy a property that will offer you a continuous income stream and rise rapidly in value. Buying off plan has also ceased, in most cases, to be a profitable avenue (see below). This means that before you start looking it is worth considering what you actually want:

- a property that will give you a good income from day one *or*
- a property that is likely to rise in value

Achieving both is extremely difficult and although many authors and investors are willing to show you how they did it in the past, most are simply telling you their 'lucky' story with the benefit of hindsight.

The Income Stream - Yield

The traditional way to see if a property will give you a good income stream is to measure the yield or return. This is a percentage figure which will help you decide if, assuming the property price does not go up, your money would be better off there or in the bank. The calculation is as follows:

$$\frac{\text{Total rental income for the year}}{\text{Purchase price}} \times 100 = \text{Yield}$$

So if you were looking at a property that would cost £250,000 and the rent that it would achieve would be £1,300 per month the calculation for yield would be

$$\frac{\pounds 15{,}600}{\pounds 250{,}000} \times 100 = 6.24\%$$

Yield is a quick calculation to consider if your money is could make you more in another investment and, if you meet a regular investor out buying you will often see them staring into the air while they work out this calculation and decide what offer they want to put forward.

Remember also that the yield Calculation does not take into account the costs of Ground Rent and Service Charges on Leasehold properties. This is often overlooked but a £4,000 annual service charge on the example above reduces its yield by nearly 2%!

When calculating yield remember to include all the costs that will need to be covered, not just the mortgage

Properties that tend to offer the best yields are those not popular with private buyers. They are the ones that front on to busy roads, back on to railways, sit above commercial premises, are ex local authority, etc. The yield is good because the purchase price is lower for one or more reasons which has removed a large sector of private buyers as likely contenders. Tenants, however, only see a property as temporary and so are more relaxed about taking a view on living in a property that has a negative aspect.

You do need to remember that if you buy such a property, when you come to sell you are also going to achieve a lower price than a comparative property in the same area that has no draw backs.

Killing the Yield and Making a Loss

Most investors are smart enough, when calculating profit, to take into account expenses such as service charges and the fees of a lettings agent but few consider maintenance. In a flat this might include a replacement boiler every few years.

In houses maintenance is far more substantial and it is here that the novice investor can make mistakes because houses often appear to have a better yield. On first inspection there is no service charge or ground rent to pay and so the rental profit appears much better. But it is essential to remember that the costs of roof and window repairs or replacements, as two examples, can be substantial.

Take a house where the mortgage payments will be £1,000 but the rental will be £1,700 and assume it will be tenanted for 11 months out of 12 every year. The profit is £8,400 per year. Now in year three the roof needs to be replaced at a cost of £25,000. This has instantly wiped out all the profit since the purchase. Period properties also need periodic work on the bricks, windows and possibly the damp proofing so it is extremely easy to start loosing money instead of making it.

Capital Gain

Although yield is a fair one off piece of maths, prices will rise and so capital appreciation also needs to be taken into account. Many speculative investors for example, will accept a two or three percent yield on properties that they believe will rise thirty percent in value over the next two years.

Sometimes it is worth accepting a low yield if you are of the belief that an area is likely to rise in value. If the negative aspect is, for example, that the property is next to a run down high rise council block it is fairly safe to assume that the block will be demolished at some point. The cost of maintaining such buildings constructed during the sixties is becoming prohibitive and local authorities are increasingly opting to remove these in favour of low rise schemes. But when that 'some point' occurs is pure speculation so you have to be prepared to take a risk and have funds that you can invest in the long term for such purchases.

In essence, to achieve capital gain over and above the market in general, you need to identify a potential hot spot. Not one that a newspaper wrote about last week to fill its' column inches but an area that has genuine long term potential to emerge as a highly desirable area to live in the future.

To decide if an area has such a future look at several key points:

- Does the area have good architecture - no matter how run down it is, it will scrub up well!
- Does the area have or will the area have good transport links - Leyton in East London, for example, is only a few stops on the Central Line from the capital's centre and yet property prices are much lower than areas the same distance from the city but to the North, South or West.
- Does the area have space and facilities for shops, bars, restaurants and other

amenities - it doesn't matter if they are currently Pound Stretchers and dodgy old pubs, they can become Starbucks and All Bar Ones
- Does the area have early signs of activity from supermarkets - these companies research demographic trends thoroughly and will accept low profits if they believe they can secure a good site for the future.
- Are there any other factors in an area that could prove popular - Bow for example has miles of rivers and canals often popular with new house builders keen to offer "waterside living"

Islington in North London was a classic example of all these things. It is three stops on the Northern Line from bank, has beautiful Georgian and Victorian Architecture, and a very large high street (Upper Street). These key factors helped the average price of a flat rise from £174,000 to £264,000 between 2000 and 2004. That's a fourteen percent return every year before you have even hung the 'To Let' board outside.

Buying off Plan

Buying properties before they are even built used to be a very popular and very profitable way of making a living. It is still very popular, just not very profitable. House builders had always, in the past, accepted the practice of selling off plan at a lower price than comparable properties that already existed in the area. This was in return for buyers who were purchasing something they couldn't see and hoping it would turn out nice. Modern computer technology and advanced show flats have allowed visualisations to become much more detailed, removing much of the risk buyers used to face. Further more popular books trumpeting the profits of buying off-plan have swamped the market with private buyers keen to believe there is guaranteed cash at the end of this rainbow.

This has all been to the delight of house builders who have increased prices substantially to the point where off-plan can actually be *more expensive* than comparable properties that already exist in the area . It can often take several years, however, for the market to catch up to these prices and it is now very easy to sit on negative equity over this period.

If you end up caught in this situation there will also be a second headache. Chances are you are not the only investor who cannot sell to recoup their funds, you are amoung a number of buyers who will be looking to rent out their apartments which temporarily floods the market, driving down the rental yield to a point where you may actually end up having to cover some of the mortgage payments or other costs from your own pocket.

True Story - Four Years of Negative Equity

The Angel Southside development in North London became available to buy nearly two years before the completion date. Although sales were slow nearly all flats were sold before the building was finished. Several flats then came onto the market for resale but all failed to sell for the price that some vendors had paid two years previously, despite a continually rising market it the area. It took another two years until the values in the local market rose enough to meet the prices some buyers paid.

In total many had suffered four years of negative equity.

If you are buying off plan be sure to check property prices in the area and no matter how glossy the brochure and how glitzy the show flat is ask the cold hard question: Would I be better off buying something that has already been built? As a double back up make sure you can cover the mortgage for a few months should your purchase be impossible to sell or difficult to rent.

A further issue to consider with off-plan is what the development will look like when your apartment is ready and your bank is looking for you to start repaying your loan.

Most developers sell new sites in stages and if there is a profit to be made, the best buys come in the first release. These can be offered at genuinely discounted prices so the builder can use slogans like 'First phase sold out in 5 days' when they come to selling subsequent stages.

But this may mean that your flat is completed while there is still scaffolding up, communal gardens are a sea of mud, JCBs are lurching around and builders kick off at seven in the morning with pneumatic drills. It's not the environment many tenants will go for and so your property could sit empty for weeks, or even months.

True Story - No Gain at Gainsborough Studios

This was a development that spectacularly failed to sell well due to the very high prices demanded for off plan properties. The builder did however sell some apartments and in order to improve cash flow completed these first. As a result the flats became available while the communal courtyard was still rubble, the car park was covered in building materials and the whole development was covered in scaffolding.

The large number of unsold properties also meant that the developer decided to rent out unsold properties as they were finished which lead to dozens of apartments being available at the same time. Private buyers found it difficult to find tenants who were prepared to pay the rent needed cover the buy-to-let mortgages. So extreme was the situation that several buyers seriously contemplated failing to complete and loosing their £30,000+ exchange deposits as a better alternative to completing and selling for far less.

The development is now complete and is a stunning conversion of a former film studio it took several years before buyers saw any capital gain during which time their money would have performed far better in almost any standard bank account.

Using an Investment Company

With all the positive press that property was receiving a new type of company came into being around the start of the millennium. These companies offered to search out the 'best buys' on the market for investors and sell them to you for a fee.

Some worked by reserving large numbers of properties on new developments at a discount from the builder and then selling them on with slogans such as '20% below the market value'.

In the early days most of these companies were fairly genuine with well presented arguments about an area and good discounts because they were buying in volume. As time went on there were stories about great profits being made by people who had done nothing themselves but sign on the dotted line. It was clear that there were a large number of would-be investors who were to lazy to do their own research and ready to believe the spreadsheets of an organisation they had never done business with.

The better companies become wilder in their claims about profit potential and many new and more suspect businesses also entered the field, all offering similar services. Long before the Credit Crisis struck hundreds (perhaps thousands) were loosing money on purchases that were just simply overpriced, others were falling victim to full on scams where the investment company, developer, insurer, financier and sometimes even the surveyor providing the valuation, were one.

Victim is a kind word. In reality people were buying over-priced properties that were impossible to rent at the rate that had been promised because they had simply not done their own homework. They were expecting substantial profit in exchange for no effort or risk on their part and some were stretching themselves financially on the naive assumption that everything they had been told was true.

It is essential, when buying through a property investment company, to double check all their figures to your own satisfaction and this is something that can be done, in most cases, over the internet. First look at property prices and rentals in the immediate area. Next call local agents to see what actual values are being achieved. For example, is it the norm at the point that you are buying for property to be selling at 10% below the asking price and for tenants to be negotiating 5% off the rental values. These are the real market figures.

Assume that the best a property investment company can offer you is a discount because you are buying in bulk along with others. Avoid gimmicks such as 'guaranteed rent for the first x months' as these suggest finding tenants will actually be difficult and this short term comfort zone will have been factored in to the sale price.

Compare the mortgage deals offered with those from other brokers and lenders to ensure you really are getting the best deal.

In short do not believe for one moment what is presented before you or persuade yourself that you have found your way into Easy Street. The offer may be totally valid and a great deal but do your own homework to make sure.

True Story - Over Stretching in Leeds

Anthony was looking to invest in property but the South East of Britain was proving expensive. He found a company on-line that offered to help investors find sound buy-to-let investments in Leeds and they offered him two newly refurbished flats in a converted house for £230,000 and £280,000 each which was 'substantially below the market value because they bought large volumes from this builder'.

The rental figures on paper offered a 10% yield and there was plenty of blurb to explain why tenants would snap up such flats and why the capital gain would be excellent over the coming years.

They would organise the mortgage and even work with a local lettings agent to get the tenants in so Anthony would never have to leave his armchair.

This was property investment the way he wanted it - easy and seemingly safe. He did not check prices or talk to local agents about the area or street. He did not even make the four hour drive to visit the site.

In the event the values, both sale price and rental, were at the absolute top end of the market and the builders finish was poor which meant a number of items would need to be replaced in the near future. But Anthony had stretched himself financially and had no way to cover the mortgage payments as the properties lay vacant or to subsidise them when tenants moved in.

Valuations by agents revealed that if he needed to sell fast he would have to accept a ten to fifteen percent loss which, after paying their fees, might not cover the loan.

The investment company blamed an unusual and unexpected number of properties on the market to rent was the reason he could not now get the yield they had promised in their literature and that there had been a temporary dip in the areas prices which they could not have foreseen. There was nothing in his contract with them that guaranteed anything within the sales brochures so there was nothing he could do.

In the end the properties, both still vacant, were repossessed by the bank and Anthony's great property investment had cost him over £120,000. £76,000 for the original the deposit, £18,000 for the property investment company's fee, £10,700 in stamp duty and £15,600 in mortgage repayments that he ultimately could not keep up with.

Summary

From the late nineteen-nineties, for nearly a decade, it seemed that almost everyone was a have-a-go investor. The press poured out stories of everyday people who were suddenly lording over property portfolios. Negative stories, like the ones in this chapter, were neatly ignored because they were not the fashion of the day.

In reality buying to let or buying for an investment has always been a tricky business although it is made slightly easier when property prices are continually rising. But if you want to make a purchase that will perform no matter what the market is doing you will need to leave your emotions at the door and make cold, level headed decisions that require a good deal of homework on your part.

Finally be prudent, hold back funds in case short term problems need to be covered and trust no one but yourself. If you really want to use a property investment company double check their figures yourself before signing up.

Part 2

Preparing to Buy

9 - Getting on the Property Ladder

What's covered in this chapter

- The myths about getting on the property ladder;
- How to get someone else to pay your first deposit;
- Why buying a less desirable property can help;
- When 100%+ mortgages are not evil;
- Working out if you are better off buying or renting, even in a falling market;
- Why it's worth buying where you don't want to live;
- How to outpace price rises.

There are a couple of myths which need to be set aside. Myths that stop many people trying to get on the ladder.

- Myth: You need a 5% deposit
- Myth: You can't afford to buy where you want

Knowing that the market will continue to rise over the long term means many buyers assume they will never be able to buy a property in an area they want and so give up and resign themselves to years of renting.

The Deposit for Buying a Property

Almost everything you read will tell you that in order to buy your first place you will need a cash deposit of between 5 and 10%. As such many first time buyers wait and save while pouring money down the drain in rent. There are three ways round this:

- Buy in a new development where the builder offers to pay your deposit
- Get a mortgage for 100%+ of the property value
- Buy somewhere that you don't want to live!

Buying Property on a New Development

Reading the papers and surfing the net will give you no end of new developments where the builder is offering special deals on selected plots. These may be free flooring, stamp duty covered, or more significantly a 5% or 10% deposit paid. Many buyers avoid these because their dream property is a twee Victorian flat with fireplaces and walls that seep period features.

Remember that you are not looking for your ideal property, you haven't got the deposit so by definition you cannot afford it. You are looking for a stepping stone to your ideal property. If you are also financially stretched, even if someone else would be happy to pay your deposit on that lovely Victorian flat, what happens when the roof needs to be replaced and each leaseholder has to find £5,000?

The beauty of new developments is that they have little character. They are also extremely cheap to maintain unless you are paying for the upkeep of a communal gym, porterage, swimming pool, etc. Everything inside is also guaranteed for at least twelve months and the fabric of the building (roof, walls, foundations, etc.) are usually guaranteed for ten years.

A newly built property's value will change in the same manner as the rest of the market. When prices are rising you are gathering equity (profit) which will eventually become the deposit on your dream property.

Do not however assume that the new development will rise in value so fast you will be able to sell it as soon as it is ready and make a small fortune. This is and has been the case in a large number of off-plan purchases but it is not guaranteed. To see some examples of places where it did not work see **Buying Property for an Investment**.

Buying Property Where You Don't Want to Live

Who says the first property you buy has to be one you actually live in? You can, for example, buy a property anywhere you can afford it. Rent it and wait for it to rise in value. You can then sell it or re-mortgage it to provide the deposit and/or purchase price for the place you actually want. Remember a canny buy in a particular area means you could outpace the prices in the place you want to live. For example in the London postcode of E3 between 2000 and 2004 the average price of a flat rose from £108,952 to £178,411 or 64%. Over the same time a flat in SW1, a much more desirable area, moved from £338,632 to £444,654 or 31% .

E3 is not the area most would have wanted to live back in 2000, but it was, still is and always will be three stops from Liverpool Street on the Underground. If you had bought and rented a property out there while you yourself rented a different place where you wanted to live you would be over £70,000 better off. An extra £17,500 per year that you would not otherwise have had to put towards your dream home.

This idea is slowly beginning to catch on with people not only starting to buy rental investments elsewhere in the city they live in but also in other cities where prices are expected to increase more rapidly such as Manchester and Birmingham. Those who pursue the 'out of their own city' option have become known as Mouse Holders. This is something to do with the way City Mice become Country Mice, apparently!

The out of town option has become more attractive because for Buy-to-Let mortgages you will need a 15%+ deposit and this is more affordable with cheaper properties in towns, rather than cities. The downside is that a property three hours drive away is difficult to manage or find tenants for and so you will probably have to pay agents to carry out most of the work for you.

100% Mortgages

If you shop around enough you will find 100% mortgages, even 125% mortgages. Although they have become much harder to find since the start of the Credit Crisis they will creep back.

These credit products are often frowned on as taking the property market back to the bad old days of the early 1990s but as we have already seen in **Understanding the Property Market**, even if you had bought a property at the height of that boom, you would still be significantly better off today. Another way to look at it is this:

- **Scenario One:**You spend three years saving up a deposit because you don't want a 100% mortgage and buy a flat for £200,000. Three years of renting could easily have cost you £36,000.
- **Scenario Two:**You spend three years saving for a deposit and spend £36,000 on rent but the market moves down 10%. You save £20,000 on the property you were looking to buy but with the rent taken into account the delay has still cost you £16,000.
- **Scenario Three:**You spend three years saving for a deposit and the market moves up 10%. You have lost £36,000 in rent payments and £20,000 in capital gain. A total cost of £56,000.
- **Scenario Four:**You buy a flat for £200,000 with a 100% mortgage and three years later it has lost 10% of its value because the market has fallen, the total cost to you is £20,000 but you have a place of your own and you have already paid off some of the loan. Keep it for the long term and, as history has shown, your loss will have been temporary.

In almost every scenario you would have been better off to buy than wait and even where the market falls (and you have waited) your savings are insignificant compared to the costs where the market rises.

125% mortgages are also useful in that they provide you with extra capital to improve the property. Done properly this will secure your investment's value. Further it may help rid you of credit card debts and other high interest loans that were stopping you raising the deposit in the first place.

If you have no debts then the extra 25% could even be the deposit on your dream property. Within the space of 6 months you could have gone from owning nothing to lording over the embryonic beginnings of a property portfolio.

100%+ mortgages are not the evil that they are painted with but the press does like to jump on stories of people who have used them and then run into financial problems. This is simply confusing very useful products with people who cannot manage their finances. Don't let yourself get confused as well. How the press can manipulate stories is covered in more detail in the chapter **The Media and Property Prices**.

Summary

The greatest hurdle to buying a property is often the deposit. Your salary might well show that you can afford the monthly payments of a mortgage but saving for the deposit (while your hard earnings are being syphoned off renting a place) can be near impossible.

There are a number of ways to clear this hurdle. Not all may be highly desirable in the short term but so long as they are all treated as a means to an end then within a few years you should be putting up your feet where you want them to be, in your own home.

10 - Working with Estate Agents

What's covered in this chapter

- How professional buyers work with estate agents;
- How you can use agents to your advantage;
- How to know you are dealing with a quality agent;
- Why good agents ask the questions they do;
- How to be focused in your property search;
- How to treat agents during your property search;
- What are the questions you should be answering.

There are plenty of poor quality estate agents around as the industry is fairly unregulated. However at the same time there are a large number of highly professional firms and individuals who are well educated and have a wide experience of the property market.

A potential buyer who takes the view that every estate agent is below them will often have the most stressful experience. The majority are also first time buyers or amateur investors. Almost anyone who is well on their way to building a property portfolio will treat agents with respect and interest. These people realise the agent can be a solid mine of local knowledge, a person continuously in touch with the ever changing world of property finances and an excellent contact for the future.

The Way Professionals Work with Estate Agents

The best advice is to try and treat the sales negotiator as a friend of a friend. There is no need to talk about what you have been up to at the weekend but showing an interest in that person and what they do may reveal a great deal of useful information and could place you at the front of the queue should the right property come up.

If you are going to buy successfully you will benefit from having a professional Estate Agent on your side, you will need them to like you and respect you

Despite what the press or colleagues may tell you do not treat them with outright suspicion and be sure to include a little empathy. This does not mean imagining how hard their lives might be but instead consider why they ask certain questions.

For example some agents may refuse to show you a property until you have proved your identity and your finances. Why do they do it?

Firstly there is the question of security. You are going into someone else's home and the person taking you there knows nothing about you. To all intense and purposes you might be looking for the best apartment for your next robbery. After all, how often can someone walk into a building and ask, "So, is there an alarm here?" and "What are the locks on the window like?".

Secondly if you are seriously thinking of buying you will have given some consideration to your budget and looked at various mortgage possibilities. Show these to the agent without hesitation as they prove you are a serious buyer, not someone with nothing to do on a Tuesday afternoon.

Incidentally, the agent who asks for this kind of information is exactly the type of agent you should be looking for when you come to sell for exactly the same reasons.

A negotiator wants to see:

- That you are well prepared for your search in terms of finances but are happy to discuss further options
- That you have given some thought to a solicitor but this is open to discussion
- That you are focused on what you want
- That you will listen to advice and not think you know best just because you have read some articles, watched a TV show and have a distant uncle who writes about the economy for The Times!

In other words you are prepared for buying but reasonably open minded in your search. To prove a point ask any estate agent how often a person buys a property they were not looking for. It happens every day of the week. Someone may buy in a neighbourhood that they had ruled out because the apartment is perfect or they may buy a lower ground floor flat that they had previously dismissed when they see the large size of the garden.

In the same vain consider your own industry. How often does a client come to you and tell you all about your job and what is likely to happen. They don't because that is why they are on your doorstep but sometimes media coverage of the property market seems to turn certain people into overnight "experts".

Remember always that the individual negotiator is usually paid on commission and they know they are more likely to get that payment (i.e. get a property to exchange) from a buyer who is prepared, focused and listening than someone who thinks they are fantastic and knows it all. The latter will often end up on an endless and fruitless search.

Don't think because you are a first time buyer or are looking to spend half a million pounds you are God's gift to Estate Agents.

Being Prepared for Your Property Search

You will gain a huge amount of respect from an agent if you can show that you have given some thought to:

- Your finances - see **Sorting Out Your Mortgage**
- Your solicitor - see **Choosing a Conveyancer or Solicitor**
- What you want and why you want it

The negotiator in a successful and professional agency is busy, especially in a busy rising market, and he will make a calculated decision on who to call first when that bargain of the month or that extra special property comes onto the market. They want to sell a new property faster than any of their colleagues and so the best buyers get the first call. Those who have not considered their finances or shown they are ready to have an open relationship go to the bottom of the list.

What You Want and Why You Want it

This may seem bizarre but if the agent is going to help you and not drag you round irrelevant properties you are going to have to help them by verbalising what you want and why you want it. It does not matter at the early stages if this is fairly vague as you may not be aware of what you can buy until you have seen a few places and then you can refine things further.

Take some time before you start to write down what is essential, what is nice to have and why you want each asset. Something like this:

What You Want	How Much You Want it	Why You Want it
2 double bedrooms	Essential	The rent will help pay your mortgage
Quiet road	Essential	You are a very light sleeper
Outside space	Preferrable	Nice for the summer
Period Property	Preferrable	You like homes with character
Big Windows	Preferrable	You like somewhere nice and light
Not ground floor	Essential	Worried about security
Not x-council	Essential	Worried about security
Not above the 4th floor	Essential	Your mortgage deal does not allow it
10 mins. to the tube	Preferrable	Easier to sell?
£250,000 or less	Essential	Don't want to pay the stamp duty
Will do work	No preferance	If it is reflected in the price

This gives any agent a starting point. They can then show you some properties before you revisit the list. You may conclude after seeing ten places, for example, that ground floor flats which you had discounted earlier, are actually not too bad in certain locations, especially as they give you patio gardens which are larger than the balconies on higher floors.

Make sure every time that your requirements change to call every agent that you are registered with and let them know. If you do not then your dream property might come and go and you will be none the wiser.

To do this it is essential that you keep a list of all the agents you are registered with. Too many buyers register for say, a two bedroom flat, and then call up four weeks later asking about a one bedroom property they have seen on the net which looks perfect. Chances are it has already sold but the negotiator might have called you before it even went on the internet had he been aware of your change in requirements.

Also be at pains to point out to any agent the one factor that you will not compromise on, most buyers have to think on this when asked so do it now. Do you really want to go out on a wet and windy Thursday night to view the perfect property only to find out it is on the A3 trunk road and you would never get a wink of sleep if you lived there?

Many buyers think that because they have gone to such efforts to organise themselves they can just write it down and fax, email or drop off a sheet with every agent.

Do not fax, email or photocopy your requirements to every agent and then sit back and wait

You need, need, need to build a relationship with an agent that makes sure you are the first one into a property. The negotiator needs to believe you are well motivated if he is going to spend time for you or with you. The easiest way for him to differentiate that is to split buyers between those who call up and register and those who register by email or over the internet.

As an example a negotiator may be registering ten new people by 'phone every day and getting two emails from applicants who want details sent in the post because they are thinking of moving in the next three months. Who do you think he will spend time with? This is also the reason why so many potential buyers never receive the details they request. Its not excuse making, it is simply the reality of a market where you are dealing with people paid on commission for what they sell.

Finally keep in touch with all the agents you are registered with about once a week. It reminds them you exist and keeps you at the top of their mind as they see new properties coming onto the market.

Irrelevant Questions

Many first time, and even second time, buyers get into a habit of asking text book questions that they think they should be asking. Questions should be material to you, not to a book you have just read. Some of those not worth asking when you start your search are, depending on your requirements:

- Has the owner enjoyed living here?
- Are the neighbours nice people?
- Does the road get busier than this?
- Could the service charge rise?
- Will they leave the washing machine, curtains, etc?
- Why is the vendor moving?
- Would you buy this property?
- Will this property rise in value?

What does it matter if the neighbours are really lovely people, they could sell up or rent out their places next week. Is it important what the service charge is if you hate the road that the property is on. Is it critical that the washing machine stays if the reception room is going to be far too small for you?

Concentrate on how the property meets your requirements and feeding this back to the agent. Constructive comments like, "I really love the reception room size but the kitchen is too small and I hate the way the bedroom looks onto a high rise block" are far more helpful to the agent.

Buyers who ask irrelevant questions compared to their requirements loose respect in the negotiator's eyes and a frustrated negotiator is not going to call you first about new properties.

Ask only questions where the answer will change your mind in either way - is it material to you? If not, don't ask it

Summary

There are good and bad estate agents out there but it is the better and more professional ones that often have and get the widest selection of properties. Despite the press and the endless stories from family and friends do not stereo-type as gaining the respect of a good negotiator, by showing (and not just saying) you are a serious buyer can dramatically reduce the time you spend on your search and the stress it involves.

True Story - A Property on the Market for 14 Months

A house had been on the market for fourteen months in Northchurch Terrace, N1. It was placed on the market at £650,000 but this proved too expensive at the beginning. The vendor was not interested in reducing the asking price as she had no mortgage on the property and no urgent need for the funds.

The market continued to rise month after month and just over a year later it began to look good value. Three parties viewed the property and all three wanted to offer. They were immediately suspicious when they were each told they were not the only people interested and assumed it was just the agent trying to get them to bid higher.

One party did think the price was reasonable and offered the asking price. The other two parties believed they were being led up the garden path by the agent and knowing how long the property had been on the market assumed they could get a low offer agreed.

They only realised the asking price offer from the third party was successful when they were told it had been agreed and the vendor was not taking their interest any further.

11 - Sorting Out Your Mortgage

What's covered in this chapter

- Why you should arrange a mortgage before making an offer;
- Why you should talk to more than one financial adviser;
- How the same mortgage from the same bank can be cheaper in two different places;
- The difference between Agreements in Principle and Pre Arranged Mortgages;
- What could be in your history that will stop you getting a mortgage;
- Why the best mortgage deal may not be right for you;
- How choosing the wrong lender can stop you buying;
- Why you should avoid financial advisers who charge you a fee.

This is the chapter most buyers will want to ignore.

It is far easier to get on the Web or on the 'phone and start the exciting task of looking for your new home. It is also the way to loose the place you want, waste time and cause a lot of arguments. Here is what can happen if you don't have your finances in place.

EVENT	RESULT
You can't afford what you thought you could.	All the properties you have seen are irrelevant and you can't get the one you offered on. Everything you see on your new budget will pale in comparison.
You can afford more than you thought you could.	Surprisingly common. You then decide you should see what you can get for the extra money wasting all the time from previous viewings.
You can afford what you thought but you have nothing to prove it.	You loose the property to someone else who bids at the same time but can prove their finances.
You can afford what you thought but have only had one quote which you got because someone insisted.	You suddenly see the right property but in order to move fast use the only quote you have got or rush around and only get a few more quotes. The panic means you miss the best deals on the market and pay hundreds of pounds more than you have to in mortgage payments.

Anyone of these will loose your standing in the Estate Agents eyes making it harder to get the next deal agreed (see **Viewing Properties and Making Offers**.

You should see as many financial advisors as you see agents. After the first two or three you will soon get the hang of what they want to know and so the time it takes to get further quotes reduces exponentially. Classic information you will need to have at hand include your earnings, how much deposit you have, any debts or arrears, etc., etc. The reasons for spending so much time with these people are simple:

- When you come to offer they will be ready to tell you instantly what the best deal is at that time.
- Different financial advisers are given different special deals by different lenders at different times. If Bank X is the best deal with one adviser it may be an even better deal with another.
- Different financial advisers are paid different commissions on the various products which, although they shouldn't, can tend to make them push you gently towards products most profitable for them.

If you are offered financial advise by an Agent then as long as the adviser is qualified, don't shy away, welcome it! If you aren't offered, ask.

Agreements in Principle (AIPs) and Pre Arranged Mortgages (PAMs)

Agreements in Principle (AIP)

Most buyers are now aware of the Agreement in Principles (AIPs). These are however, exactly what they say they are. Briefly translated an AIP is the bank saying, "If what you have told us is true then we are prepared to lend you this much". The problem is that we often forget, or don't know it is important, that:

- credit card debt which will be counted against us,
- we haven't been in the country much in the last few years so have little credit history,
- we had an argument with a loan company five years ago that went to court,
- we have moved home six times in the last three years and never got on the electoral register,
- we have *never been* in debt before and so have no credit history,
- we recently applied for other credit, even if it wasn't used,
- And so on, and so on.

Sometimes you forget, sometimes you don't even know they are relevant, but each of the above can change the way a bank looks at you.

Forgotten Debts - if you are paying off a credit card or a small loan on a monthly basis, in the rush to apply for a mortgage you may forget about it. But the lender will find out and usually remove that amount from the mortgage application. In the worst case scenario they could refuse to lend to you because they are no longer confident you have told them the whole truth.

Living Outside the Country - If you have been living abroad or come from abroad there may be nothing wrong with the way you ran your finances but the bank will want to check. In some countries this is a fast proceedure, in others it can take weeks to complete. Because a survey on the property you hope to buy is not booked until the credit check is completed the vendor can get the impression that nothing is happening and decide to look for another buyer.

Arguments with Loan Companies - These are not unusual and you may have gone to court and won the day. Many people do when the creditor puts unusual clauses in very small print within the contract. But to the lender you are now applying it means you may be trouble - rightly or wrongly - and they could take a negative view on your application for this reason alone.

Regularly Moving Home - It is very common for people to move around while they are renting and on their way up the career ladder but if there was no proof that you were ever at a particular address the lender is going to get suspicious. Remember to always register yourself to vote, tell your mobile phone company your new address, and so on. Create a verifiable paper trail.

Never Been in Debt - The one that catches so many people out. You can be very pleased with the sensible way you have handled money and never needed a loan. Or perhaps you have had Mum and Dad to help you out. From the mortgage lenders point of view, however, there is nothing to show you know how to handle debt and so you are more of a risk. This could affect how much they will want to lend you.

Recently applied for credit - Every time you apply for credit your credit rating takes a hit, even if you ultimately don't take out the loan. The classic case is with store cards and goes a little like this. Mr X is out on a shopping spree and in several shops he is offered a discount on his purchases if he applies and pays for his purchase with the store's credit card. He has the money in the bank but he could make substantial savings so he takes the cards and pays them off within the month. But each card has represented an application for credit and so hit his rating. It will recover but if he applies for a mortgage in the near future he may be turned down as the lender is suspicous about the amount of credit he has been taking out.

We can add on top of this, the totally unexpected - a mistake on your credit record. Even in a computerised world the opportunity for your name to be confused with someone else's, and someone else's debt mismanagement, is still a common occurance but you will remain blissfully unaware until it's too late.

So if you have only arranged an Agreement in Principle there is still a great deal which could affect the bank's actual decision. The credit scoring they carry out may radically change what you can borrow. As such if you have found a really good loan or you expect to find a property quickly you should apply for the mortgage there and then even though you do not have a property in mind. Most financial advisers and lenders will try to resist this as it means more work without a full guarantee that they will get the business. Insist on it. This means you can be completely confident when you offer that you can afford it and the process will proceed smoothly and without stress.

Pre Arranged Mortgages (PAM)

This is offered by some financial advisers and allows you to be credit checked and ready to go without having to bully your bank to do it. The Sequence estate agency group are one such business that offer this service. The other advantage of a PAM is that because you have applied for the mortgage the interest rate and other features of that particular product are often held for up to three months, even if the lender removes that product from the market or increases their rates!

As a word of caution only apply for the mortgage or mortgages you would definitely go for as each lender will carry out a credit check on you. As mentioned earlier too many checks on your credit history makes lenders suspicious that you are trying to apply for too much debt.

Finally and crucially check early with each lender or financial adviser what documentation they will require and organise it now. Discovering you have lost your passport and need to order six months worth of bank statements is going to be of no interest to a vendor when you are in a contract race or competing in sealed bids.

What Do You Need Your Mortgage to do?

This may sound like a bizarre question but many people loose the property they are trying to buy because they only consider a single aspect of the mortgage or loan product that they are choosing. You need it to do two things:

- Be the best deal on the market for your circumstances so that you don't end up paying too much every year.
- From when you apply you need it to actually get processed within a reasonable amount of time, say four weeks.
- You want a lender who uses a quality surveyor

The first point is obvious but the second and third may sound a little strange and many buyers loose the property they want to buy because they are never considered.

Firstly, if the mortgage product that is right for you will take ten weeks to be issued there is a good chance the vendor will get bored, or suspicious, and go in search of another buyer who can get a loan faster. The vendor usually suspects there must be something wrong with the buyers credit if things are taking too long. From your perspective you loose the property, the survey fee, the arrangement fee, legal fees and time.

Finding a fast lender is another good reason to use financial advisers, they will know who is fast and who is slow, and who is really, really slow. This varies from month to month as banks experience busy and quiet periods. If the mortgage product you want is from a really, really slow lender there is a way round it. Buy the property using a bank that is fast and choose a mortgage that has no redemption penalties. Three months after you move in re-mortgage to the product you actually wanted safe in the knowledge you have the property and it doesn't matter if the lender takes forever to process it.

Secondly there is no point getting a great deal if the lender uses a cheap surveyor to value your property. This is a little known point but cheap surveyors are often over cautious or from outside the area. Both are reasons why they may down value your property leaving you to pay their fee, the mortgage application fee, some legal fees and have nothing to show for it.

As an example the Britannia Building Society went through a period where they tried to cut costs on surveys by using cheaper companies or one man bands. But this lead to so few applications being agreed that they reversed the policy. For more detail on why and how this works see the chapter **What a Property Survey Really Means**.

Financial Advisers Who Charge

The advise here is simple. There are enough financial advisers on the market who won't charge you anything for their services that you should not need to talk to anyone who wants a fee from you. Financial Advisers are paid a fee by the lender every time they get a new customer signed up. The idea that they should also charge you a fee for the pleasure is cheek in itself but there are plenty out there who do. Watch out for them and avoid them, even if they have a particularly good deal from a lender that suits you down to the ground the chances are by the time you have taken into account the advisers fee it won't be that tempting.

Summary

The last thing any buyer wants to do is spend time with financial advisers, finding out about their own credit record or poking around the internet for mortgage deals when they could be out looking at potential new homes - much more exciting.

But this crucial step ensures you do not find a perfect home only to watch it disappear because of unexpected factors that could have been foreseen and resolved. While you are gathering together properties to view you should also be gathering together the documents you will need for a loan and ensuring there are no skeletons in your credit cupboard.

12 - Choosing a Conveyancer or Solicitor

What's covered in this chapter

- The secret agenda of some solicitors;
- Why it's worth choosing a solicitor before you start looking for a property;
- How different solicitors work;
- Why the cheapest solicitor can kill your purchase;
- Why you should avoid small firms;
- How to tell if a solicitor is 'trapped in the past';
- Why a friend's recommendation can lead to disaster;
- The quick check-list for choosing a solicitor;
- True stories of solicitors who made mistakes.

Before You Start Viewing Properties

The last thing you want to do when you have made the decision to start house hunting is bother with looking for a solicitor (and in this chapter we will use 'solicitor' to mean solicitor or conveyancer). It is however, one of the single most important decisions you will make and getting it wrong wastes your time and money and could result in you loosing the property you want for no good reason. In the vast majority of cases the following principle applies:

If you buy the property the solicitor gets paid but may be sued for missing something. If you do not buy the property the solicitor still gets paid and has no chance of getting sued.

It is therefore subconsciously in the solicitors interest to make sure the deal does not happen although not that many spend too much time thinking about this. They have, after all, got to marry the advantageous of you not buying with the disadvantageous of you not recommending.

In almost any location the choice of solicitors and the variations in price are mind boggling but there are quick and simple ways to narrow the choice down quickly.

Finding the right solicitor has nothing to do with price, this is truly a field of getting what you pay for. If you are at offer stage and almost all of your savings have been taken up in deposit money and stamp duty it's tempting to try and save a few hundred pounds on the legal services. It's also a mistake that you will kick yourself for as you sit on hold, or wait for your fourth call of the day to be returned, or chase them to raise the enquiries that will allow exchange.

A well financed conveyancing firm will charge a higher fee, but it will be appropriately staffed and have the technology to move things through quickly. Leaving your decision until after your offer has been accepted will lead to the same panic as not organising your finances and could leave you with many regrets.

If the cheapy solicitor that you choose does not return calls or is overloaded with work there is an extremely high chance the vendor will loose confidence in you as a serious buyer and pull out of the deal.

Remember above everything that swift progress to exchange is crucial (see the chapter **Time Costs Deals**). An efficient solicitor who knows this should work as follows:

- Receives contract and title deeds (or office copy entries) and starts the local searches
- As soon as the sellers questionnaire, fixtures and fittings form and managing agents accounts (in the case of a Leasehold purchase) come through he raises enquiries
- The local searches come back, perhaps prompting a couple of queries, which can be resolved quickly
- He asks you for the funds to allow exchange and gets you to sign the contract, even before all enquires are back
- The mortgage offer arrives
- He calls you, informs you of any unusual circumstances, and confirms you are happy to exchange

In other words everything happens at once which dramatically reduces timescales. An inefficient or "traditional" solicitor works like this:

- Receives contract and title deeds which he files
- He waits to get the mortgage offer through (3-4 weeks). No point doing any work that will cost you money until the bank has given the green light.
- He then starts the local searches (2-10 weeks). This was not done earlier as there is a fee involved and he didn't want to spend this until the mortgage offer was confirmed.
- Once the local searches are back he then gathers all the papers together at one time. He looks at the contract, title and lease along with the local searches. He now raises enquiries all at once as this is easier and takes less of his time. These will take 2-4 weeks, often depending on the efficiency of the managing agents, the local council and the vendors solicitor.
- He receives these enquiries and raises a couple more for clarity (Another 1-2 weeks)
- He receives these replies and posts you the contract (2-3 days)
- You sign it and return it with a cheque (1 week to clear)
- You exchange

The traditional approach will easily take three to four months from offer to exchange whereas the modern approach can usually keep the timescales to within four weeks! The traditional solicitor will argue that if anything were to go wrong at any stage he has saved you money. If your survey is a problem, for example, at least you will not have paid for local searches or his time to look at the contract. It's a contradiction - the longer a sale drags on, the more likely it is to fall through (see **Time Costs Deals**) and cost you money anyway.

Traditional solicitors are more likely to be found in rural areas of the UK where, to be fair, there is less urgency on a sale and they may save you money. They are not to be used for purchases in a major city or booming markets where their slow pace can have the vendor doubting how serious you are.

If you are in doubt and if you want an easy life one of the best ways to choose a solicitor is ask several Estate Agents who they would recommend.

Any of these names are likely to be good. Estate Agents only recommend solicitors who work fast and return calls. It makes their lives easier too, especially when there is a change of buyers and sellers involved. Collusion between solicitors and agents is extremely rare as the law surrounding the obligations of solicitors and your rights to sue are very advanced

Big Firms and Little Firms

Small companies are to be avoided at all costs. A one man band or two partners are too risky for the following reasons:

- They can very easily become overloaded with work
- It can be difficult to get through by 'phone
- They do not always have email
- Their computer systems can be lacking
- They are not always on the DX system
- Holidays and illness have a big impact on their ability to handle your case
- You have no one to complain to

Work Overload

One, two or three solicitors working in an office may seem all very cosy. This is the traditional model but in a rising market with much activity they can very quickly become overloaded with work. Holidays, illness or someone leaving only compounds this problem. They may have been recommended to you by a friend or a colleague but this will be little consolation if they are slow and you get gazumped or the vendor pulls out, frustrated at a lack of process and assuming you are not serious about the purchase.

Getting Through

When things get busy solicitors can end up spending all day answering calls from their clients and not looking at the legalities which they need to get resolved in order to progress the sale. Justifiably they take shelter behind a secretary or answering machine so they can get on with things.

If they have no email then you are stranded leaving messages. If they have email you simply have to wait for them to come back to you when they have finished the paperwork they are dealing with.

Computer Systems

Any good modern solicitor should have their systems automated. This means they can quickly access your file or, in their absence, someone else can bring you up to speed. For an agent it is very easy to spot an out of date solicitor. If they 'phone up and ask on progress the solicitor does one of the following

- Is non specific about progress but says everything is 'in hand'
- Says he is going to get the file and disappears for a couple of minutes as he digs out the hard copy

As a buyer you won't be able to hear this until it is too late so make sure to ask how they track the deal and who can access that information in your solicitors absence. Some very modern companies now offer internet access so you can keep informed on progress at any time of the day or night.

Also check and make sure the solicitor has email. It is a much more efficient way of keeping in touch as they are usually extremely busy and chances are, if you can afford to buy in a major city, so are you! Avoid solicitors without email, it says a great deal about their understanding of modern technology, and about the way they work in general.

The DX System

Unbeknown to most people solicitors have their own postal system known as DX (Document Exchange) which allows them to move large documents rapidly between each other. Very small solicitors or extremely old fashioned ones have not invested in this and so much backwarding and forwarding is reliant on the post. Considering the number of strikes at individual sorting offices over the last few years the last place you want your signed contract is in a sorting office while postal workers argue over health and safety or pay and conditions.

If a solicitor does not have DX avoid them - it speaks volumes about their investment in their own business and their understanding of even the most basic technologies. It also speaks volumes about how fast they intend to transact the deal.

Holidays

When your solicitor disappears off on his spring break he will either leave your case to one of his partners or hire a locum (a temporary solicitor). They may want to read over the paperwork again and, knowing that it is them who will take the fall for any issues they allowed to get through at exchange, raise some more enquiries. The result is that when you thought you were exchanging on Tuesday morning, suddenly your solicitor wants a bunch of new questions answered. Depending how rocky the transaction has been to date this can often be the straw that breaks the camel's back for the vendor.

Make sure the solicitor you choose has a colleague (not a temporary solicitor drafted in from somewhere else) who will handle your case in his absence and that within the firm there are agreed protocols on what questions must be answered before exchange to avoid any nasty delays. Most importantly check your solicitors holiday plans at the start of the transaction and make the vendor and/or agent aware so no one is taken by surprise.

Who to Complain to

The big advantage of large companies is that you are unlikely to be dealing with the boss or senior partner. This means you will be able to push the matter higher if you think the solicitor acting for you is inefficient. With a small partnership you probably are dealing with the boss and any complaints procedure will involve external parties. The investigation will take so long you are bound to have lost the property before anything is resolved.

The New Breed of Conveyancers

In recent years there have been two changes in the world of conveyancing solicitors:

- Small firms have recognised the future is in size and merged, bought other firms or been taken over themselves to justify the investment required
- New companies have started up offering a totally new approach

Both of these are offering all or some of the following:

- Longer opening hours (some including late evenings and weekends)
- Call centres to ensure you can speak to someone who has access to your records
- Access to web sites so you can track the progress of your purchase

These firms are well worth considering as long as you can be satisfied on two counts.

- They know the area that you are buying in
- They do not operate a conveyer belt service.

Knowing Where You Are Buying

A solicitor needs some sort of local knowledge or to work with colleagues that do. Otherwise they will not be able to picture the type of property you are buying and this will lead to irrelevant inquiries being raised that frustrate and annoy the vendor. They will also not have contacts within the area (such as the local borough council) which mean that certain enquiries cannot be resolved instantly.

Furthermore a city centre solicitor should understand the urgency of taking an agreed price to exchange in a highly competitive market. A point often lost on a solicitor in North Wales who may constantly tell you to relax and not worry about anything as he gazes out over the green hills contemplating what to do when he leaves at three o'clock that afternoon!

The following two cases say it all!

True Story - an unstable building on Essex Road

Mr Bollen was looking for a one bedroom flat for his daughter. Something straightforward to buy in a safe location. He was happy when he found an apartment in Roberts Court on Essex Road. The development was only four years old and in extremely good order.

He actually lived in Harpenden and initially wanted to use his own solicitor that did most of the family business but did listen to reason and instructed a solicitor based in the next street to the property.

When the local search came back it revealed that the building had a 'dangerous structure' notice issued against it. The solicitor called a friend in the local council who found out within the hour that this related to a porta-cabin that had become unstable during a storm when the building was actually constructed.

A solicitor with a poor understanding of the local area may well have taken the news of a dangerous structure to the buyers who could have panicked and pulled out. If they had not the solicitor would have had to write to the local council which may have delayed the exchange by another two weeks.

In either case Mr Bollen could have lost the property (and the legal fees) for no good reason.

True Story - planning permission from 1903!

Frank and Sarah had offered on a Mansion Block apartment in Clapham. The price was agreed but they wanted to use a solicitor based in Exeter because the firm had been recommended by a friend and was cheaper than any quote they had had from London.

The Mansion Block had been built in 1903 but this was not the kind of building that the Exeter solicitor was used to dealing with and so she requested the planning consent and the architects original drawings.

The vendor thought that the buyers were probably not serious and considered whether to withdraw the papers and look for a new buyer. He only backed down after the buyers interceded and asked their solicitor to drop the enquiry.

The Conveyer Belt Method

Some large conveyancing firms feel it is efficient to break down the process into bits which are dealt with one by one. First they check the title, fixtures and fittings list, sellers questionnaire and contract have all arrived. Only when all documents are in do they then pass it onto the next stage. This is handled by a different team who order the local searches and wait for the results.

Once local searches have come back the whole lot gets passed to the next team who then raise enquiries on the title, contract, fixtures and fittings, sellers questionnaire, local searches and maybe even on the survey.

When the replies have come back they pass the results onto the next team who are qualified solicitors. They look at the replies and all the paperwork and then raise further enquiries where their standard systems have not closed off the gaps.

This system is slow and so annoying to the vendor that they often feel the sale is going nowhere and withdraw.

It is because of the way they work that they are efficient in terms of 'cost per case' which tempts many buyers. Avoid them when buying in a town or major city or when the market is busy and rising, they take too long to process the transaction making them unsuitable for the city markets.

No Sale, No Fee

This is a very tempting offer from solicitors and even though it is not quite as good as it sounds, it means your solicitor is motivated to get the conveyancing completed quickly. Technically the "no fee" relates to the labour part of the fee. In other words you will still have to pay for local searches and other charges but they won't charge you for their service.

Fixed Fee

A fixed fee offer from a solicitor is another relatively new product. It is usually more expensive than a standard estimated quote but remember that estimated quotes are based on everything going through without a hitch. This is rarely the case, especially with strange leaseholds and various extra legal documents such as deeds of variation can often lead to unexpected costs.

Depending on your financial circumstances the Fixed Fee option may be well worth considering. It is also a bonus to see a solicitor offer this as it shows they are forward thinking in their business attitudes and have control over their costs.

Recommended by a Friend

This is potentially one of the worst ways to choose a solicitor but an understandable mistake made by many buyers. If someone says to you 'use solicitor X because they are really thorough" ask them how they know. The only way to be sure a solicitor has been thorough is when you come to sell and your solicitor at this time doesn't say, "who the hell let this transaction go through?"

Many people base the word "through" on how many questions and enquiries their solicitor raises but has no idea if these are actually relevant. There is a fine line between being thorough and going over the top to cover any eventuality under the sun. Too many enquiries that are seen by the vendor as irrelevant can simply lead him or her to believe that you are not a serious buyer and pull out of the deal.

A friends recommendation should only be considered if you are also:

- Buying a similar property (e.g. a leasehold period flat)
- Buying in a similar area

Your friend, for example, may have bought a brand new apartment where the builder has an experienced legal team that drew up a full set of papers months ago. A solicitor has to be seriously incompetent to cock up that transaction whereas they only need to be mildly incompetent to mess things up with your Victorian leasehold where the freeholder who produced the lease is a bank in Japan or the Earl of Cornwall!

Your friend may also have bought a property in Wandsworth using a Wandsworth solicitor. That solicitor knows Wandsworth and the idiosyncratic nature of Wandsworth legalities but when it comes to your place in Leytonstone he is all at sea.

Summary

Choosing the right solicitor saves time, money and stress and ensures you will get the property you want. At the same time you can rest easy that there will be no nasty surprises when you come to sell your home.

The flowchart on the following page is a simplified version of what has been described in this chapter but acts as a quickly accessable checklist when you consider the services you are offered.

On a final note be prepared for the fact that not every solicitor will actually want your work. The most successful firms can pick and choose. Some decide, for example, not to handle leasehold work, others not to deal with first time buyers, and so on.

Flowchart for Choosing the Right Solicitor

Does the solicitor have three or more staff members?	--- NO --->	Avoid - Holidays and sickness have a massive impact on their ability to process your transaction
| YES |		
Does the solicitor have a computer system that allows other staff in his office to give you feedback?	--- NO --->	Avoid - you can spend all day trying to get through to one person and if they are off sick no one else can process the transaction
| YES |		
Does the solicitor have email?	--- NO --->	Avoid - it says a great deal about how they understand technology and modern working methods
| YES |		
Does the solicitor have DX?	--- NO --->	Avoid - it says a great deal about how they understand technology and modern working methods
| YES |		
Does the solicitor regularly carry out conveyancing in the area that you are buying?	--- NO --->	Avoid - small issues will take a long time to get resolved as they do not have the contacts within the area to resolve matters quickly and he will not be familiar with the types of properties and their legalities.
| YES |		
Does the solicitor operate a 'conveyer belt' system?	--- YES --->	Avoid in a busy market - they will take too long to transact the deal
| NO |		
Shortlist!		

13 - Your Own Homework

What's covered in this chapter

- What will happen to property prices where you want to buy;
- How to check your credit record before the bank does;
- How to find out if a property is in a flood zone;
- How to check if a property has planning permission (or if it needs it);
- How to find out what the current owner paid and if this really matters;
- How to find the nearest park, railway, busy road, etc. from your armchair;
- Checking the schools in a given area;
- What crime is like in any particular neighbourhood.

There is plenty you, as a buyer, can check about any particular property and much of it can be carried out over the internet. This will help you in deciding whether or not to view a property in the first place, how much you are prepared to offer and even give you bargaining chips in the negotiations. Some of the most common questions that you can find answers for yourself are in this chapter.

What will Happen to the Property Market?

Unfortunately this is a black hole many buyers fall down. There are numerous sources on the web with average house prices, average salaries and a wealth of other data which you can use to start building your own model of what will happen to the market. But these rarely work. A visit to **the archives of housepricecrash.co.uk** will reveal some very sensibly argued predictions that never came to pass.

For more on this see **Is a Property Market Overvalued**

Am I in a Good Financial Position to Buy Property?

If your property purchase is going to involve borrowing money it is worth checking your current credit ratings. Many people who have lead a prudent life are often surprised to find they have a very poor rating. Others are also taken aback when a mortgage is rejected because of some event in the past that has long been cleared up but the settlement was never properly passed on to the credit rating agency.

Use an online agency such as **Experian** to check your record. Note it takes several days to register with postal verification required so do not leave it to the last minute.

Is the Property in a Flood Zone?

The Environment Agency has a complete map of the United Kingdom showing all the flood zones. These can be seen online at their website **http://www.environment-agency.gov.uk/homeandleisure/floods/default.aspx**.

Is There Planning Permission for This Property?

If you have looked at a property that is new or appears to have had an extension you can check if planning permission exists for this before going down the expensive road of hiring a solicitor and paying a surveyor.

It is important to note that some small extensions in certain areas do not require planning permission - check with the local authority for exact details in your location.

To find out if the property you are buying has got planning permission the files are freely available at walk in centres operated by the local council. Some now even keep their databases on the internet for public access.

How Much Did the Vendor Buy the Property for?

The last time a property was sold (if this happened within the last decade), and the value it sold for, are listed on the Right Move website at **http://www.rightmove.co.uk/house-prices.html**. In considering the current asking price you should take into account:

- How long ago the last transaction was and what has happened in the market since then.
- If you are aware of major improvements (has it been renovated by a developer, has the current owner added an extension or converted the loft, etc.) Ask the selling agent or the vendor if you are unsure.

Note that this can sometimes be a case of a little knowledge being a dangerous thing. If you know the property was purchased twelve months ago for £100,000 and is now on the market for £200,000 this does not mean it is overvalued even if you find it hard to accept the profit that the vendor is making.

Remember not all buyers will have carried out as much research as you and if surrounding and similar properties are selling at this level, then so will this one.

How Far is the Nearest Park, Busy Road, Railway?

Google Maps now offer an excellent way to look at your prospective property from above and allow you to check for anything which may put you off. This might include large buildings that could be factories, busy roads, airfields, etc.

Recent improvements mean it is even possible to look around many streets using Google Earth before you even go to view a property.

What are the Schools in the Area Like?

You can check the performance of schools close to the property you are buying at **Upmystreet.com** but if you are thinking of one particular school be sure to contact them directly. Many have strict post code dictated boundaries.

What is Crime Like in the Area

There are cold statistics on sites such as **Upmystreet.com** but if crime seriously concerns you then getting in contact with the nearest police station can be very useful. Many have community officers who are very much in touch with specific neighbourhoods and can tell you the reality, good or bad, far better than a few percentage figures.

Summary

The amount of self-education that is possible continues to grow with every year as technology moves forward and especially as the internet evolves. You can keep up to date with the latest online tools at your disposal on the webpage

14 - Viewing Properties and Making Offers

What's covered in this chapter

- Why it's worth preparing for viewings;
- What documents you should have to hand;
- Why agents ask questions that could cause you offence;
- The terminology used by agents;
- The difference between Chain Free and Vacant Possession;
- Why you can't get a mortgage on some properties;
- The characteristics of a leasehold property;
- What lease lengths affect a properties value;
- How lease lengths can be extended;
- Why Share of Freehold is not always attractive;
- The agent's obligations if you make an offer.

How the System Works

It is an incredible thought that many of the viewings on properties are carried out by agents who have absolutely no idea what the applicant is looking for or if they can afford anything more than a broom cupboard in Aberdeen. A typical telephone conversation can look something like this:

AGENT: Hello, Nice Estate Agents, Jim Speaking
CALLER: Hi, I've seen your sign outside 26 Easy Avenue. What is it and how much is it?
AGENT: That's a four bedroomed house going for £550,000
CALLER: Fantastic, when can I see it
AGENT: Well, I'm free in about half an hour

It really is that simple and, when you come to sell your property, it really is that insecure. Try it yourself word for word and see what happens! For you as a buyer it can be a sure sign that the day you are desperate to get a second viewing on the fantastic flat you have seen, the agent is showing a bored housewife around a Georgian property she has no intention of buying!

Even more jaw-dropping is that the law requires an Estate Agent to pass on any offer you make to a vendor, in writing, within twenty-four hours. You do not have to prove that you can actually back this offer up with any sort of funding. Beware however that they call this type of offer, to the vendor, "reckless" and so it does you no favours at all as a buyer.

This all means that you can step out and start viewing properties straight away although if you do not want to waste your own time it is worth taking a moment to familiarise yourself with the common terminology that will be bounded around. You will also find the more professional agents do require certain documents before they are prepared to spend time with you. As such you will need to know:

- How to prepare for your viewings
- Common terminology
- How to make an offer

Preparing for Viewings

There are two parts to your preparation:

- Documentation you will find useful
- Working out your requirements

Useful Documentation

Some agents do require you to prove that you have at least thought about your finances before they will take you on a viewing. Although the majority will never ask for anything you do not want to be rushing around trying to prove your worth when you see that perfect property on a particular agents web site. While you are sorting out your documents someone else may be viewing and offering on the property!

Many buyers take offence here but for no good reason. You 'phone an agent who says he needs to see proof of finances before going on a viewing. Your first instinct may well be to feel insulted, here is someone who does not believe you. You almost feel as if you are being accused of lying!

Turn the tables for a moment and imagine you are selling a property. For the security of the property you really want an agent that will make sure the applicants appear to be genuine rather than someone casing your place to identify expensive items. You will also want an agent who only shows serious applicants around the property, not your curious neighbours while you are out at work!

When it's put this way it suddenly begs the question, why doesn't every agent qualify their applicants? This is covered in **Why Vendors Choose Bad Agents**. For now its worth knowing the two documents that are requested the most:

- An Agreement in Principle or Pre Arranged Mortgage - see **Sorting Out Your Mortgage** - to show you can afford the property
- A copy of your bank statement to show you can afford the deposit

An Agreement in Principle (AIP)

If you will need a mortgage to buy a property the lender will be able to supply you with an agreement in principle based on a few simple questions. They will generally want to know how much you earn every year and how much you pay in debts every month (say to credit cards or bank loans). They take one from the other and come up with a figure that they think you can afford to pay them every month. Calculating this backwards over the term of the mortgage (the time they will give you to pay it back, usually twenty-five years) gives the amount they are prepared to loan.

It is a very basic calculation and issued without making any checks on your financial history. Everything from you is taken at face value, it is so simple that some lenders claim to be able to provide you with one in less than sixty seconds! For the professional agent however, it is a sure sign that you are taking your search vaguely seriously.

Getting an AIP is also a useful exercise in helping you consider your budget carefully. Not every lender will offer you three and a half times your salary (something that many first time buyers assume) as a mortgage. You will also start to get a feel of the various restrictions that certain mortgage products have. Some, for example, do not allow you to buy in blocks more than four stories high, others will only loan on properties with more than two bedrooms, and so on.

A Pre Arranged Mortgage (PAM)

For information on PAMs and how they can speed up your purchase see **Sorting Out Your Mortgage**

Bank Statements

If you are buying with cash or if a large part of your purchase will be cash it is reasonable to expect that the agent may want you to prove you are good for the money.

If you are lucky enough to have a ridiculously large amount of cash but you don't want the agent to know that simply ask the bank for a fax or letter confirming you have a certain sum available if required.

Your Requirements

Before viewing properties it really is worth taking twenty minutes or so just to consider what it is you are setting out to buy. The easiest way to do this is by writing down what it is you want and what it is you need. The wants should come quite easily but the needs are far more important. These will be your fallback position. You may want two bedrooms so you can have guests in comfort but you may need a garden for your cat. If you cannot afford both be clear in your own mind which requirement will be dropped.

See **Working With Estate Agents** for details on how the professionals do it.

Common Terminology

Before you step through the door of your first viewing there are a number of new words and terms to be familiar with. Some of these are surrounded by myths and hearsay. This terminology is used by the estate agents both on their details and when they speak to you, in other words they generally assume you know them.

The most frequently used are:

- First Time Buyer
- Chain Free and Vacant Possession
- Tenanted
- Cash Purchasers Only
- Repossession
- Leasehold
- Share of Freehold
- Freehold

First Time Buyer

Originally this term arose to mean exactly what it said, "A buyer who has nothing to sell because this is their first purchase". Over time it has become associated with anyone who does not need to sell in order to buy, be this their first or their twentieth property purchase. It's worth letting any agent know if this is your situation as you will be much more attractive to many vendors.

Your advantage is that, should you make an offer, the vendor is only reliant on you and your solicitor to get the sale through. If you have something to sell, even if an offer has been agreed on it, there is still twice as much to go wrong and the vendor you wish to purchase from knows absolutely nothing about the stability of your buyer.

In recent years it has become increasingly popular for home owners to sell and move into rented accommodation before they start looking for something to buy. Many have realised the cost of renting is often outweighed by the lower offers that are accepted by vendors from First Time Buyers.

Such buyers are also sometimes referred to as chain free (see below)

Chain Free and Vacant Possession

The two terms are often mixed up but they can mean very different things:

- **Chain Free Buyer:** A buyer who does not need to sell anything in order to buy (see above)
- **Chain Free Property:** A vendor who will sell his property and move out as soon as the solicitors sort out the paperwork and the buyer has the funds in place. This is different from the chain situation where a vendor accepts an offer subject to him finding a place to buy. Chain Free Properties are extremely attractive as any purchase should only involve five parties - you, the vendor, the lender and the two solicitors. The fewer people involved and the shorter the timescales, the more likely it is that everything will happen successfully
- **Vacant Possession:** This is often confused with chain free properties. Just because a property is empty it does not necessarily follow that it is being offered chain free so always double check.

Tenanted

It is possible to buy a property which is currently rented out. A landlord, for example, may want to sell his property but the tenants are only halfway through their twelve month lease. Many investors do buy tenanted properties, it saves having to find tenants themselves! It's possible but its not easy and both the lender and solicitors will need some badgering to make it happen.

If a property is advertised as tenanted and you want to buy it that way it is always worth checking what references the tenants provided and what deposit they have lodged.

Cash Purchase Only

These are few and far between and you rarely see them advertised as they are often snapped up by developers or sent to auction. They are properties that no lender will accept a mortgage application on and this might be because:

- They are structurally unsound and no insurance company will cover them
- They have no inside bathroom
- The lease is extremely short (see below)
- They have no kitchen

Repossession

Every so often someone does not keep up their payments on a debt secured on a property. The lenders' response is to take the property back to sell themselves. They do so in an attempt to recover the debt, usually the mortgage but it could be any debt that is secured on the property.

The lender will organised for anyone in the property to be removed, locks to be changed, and a solicitor to be instructed. They have not come to this decision lightly, it has been expensive and they are now sitting on an empty property. They are in a hurry.

This means repossessions can be cheaper than the normal market rate but only slightly, about ten percent. There are often far stricter requirements placed on you as the buyer. The lender may say they are only prepared to accept offers from buyers able to exchange within two weeks so check these restrictions carefully.

Leasehold

A property that is leasehold can be bought for a certain number of years. As an example, a leasehold flat might have seventy years left on the lease. If you buy this property it is on the understanding that you will give it to the freeholder in seventy years time, for free. The freeholder is the ultimate owner of the property. It is important to be aware that a leasehold property is not necessarily a flat or apartment. England and Wales are awash with Leasehold houses as well.

The Characteristics of a leasehold are:

- **Having a Freeholder:** When the owner of a building sells off parts of that structure as leaseholds he is saying, "For this amount of money, you may use this part of the building for the next one hundred years. After that time you must give it back to me as I gave it to you." That is the basis of leasehold. The Freehold is a separate entity to the leasehold flats and can be sold with the leaseholders hardly noticing. As such the freeholder at the time you buy a property may be different a week later!
- **The Lease:** What the freeholder expects of you and what you expect from the freeholder over this hundred year period is laid out in the lease. This includes who should maintain what, when and how. It may also dictate what pets you are allowed, restrictions on changes you can make to the property, even where you are, and are not, allowed to hang your laundry out to dry! There are thousands of freeholders and because of this all leases are not the same. In fact there are probably tens of thousands of differently worded leases in any one city
- **Lease length and Value:** There is usually a great deal of confusion amongst buyers as to what is a "good" lease length. One hundred years or more is often quoted but while this is quite easy to find in say, Islington, it is rare in some other areas such as Clapham. The affect the lease length has on a property value

is based simply on the number of people who believe they can afford it at any given time at how they perceive it will affect their ability to resell later.

  - **Over 100 years:** almost any lender will be happy for you to borrow on this so there will be no detrimental affect on the value
  - **80 to 100 years:** again almost any lender will approve this but the perception of buyers may be that it is difficult to resell reducing the number of potential applicants interested. Note that any affect on price here is caused by perception, not reality
  - **70 to 80 years:** once again lenders do not feel this is uncomfortable. There will be only a small handful that will turn down such a mortgage application. Concern by potential buyers, especially if the lease is in the low seventies, over the difficulties to resell are much higher although they have little foundation
  - **60 to 70 years:** although the number of lenders prepared to secure a loan on this will have reduced there will still be a healthy number with competitive products that will make it an easy purchase. Value will definitely have decreased however because of concerns over resale value or the cost and hassle of extending the lease
  - **50 to 60 years:** It is still possible to raise a mortgage on such lease lengths although the perception of buyers is very different. A higher degree of concern over resale value or the costs of a lease extension will now start to have a substantial affect on the value
  - **Less than 50 years:** It can now be difficult, but not impossible, to find a mortgage. The lender is expecting you to pay the money back over twenty-five years so as long as there is time to do that and you are not borrowing a large percentage of the purchase price a fair few companies might be interested. For many buyers fear over the ability to sell will profoundly affect the value

- **Paying Ground Rent:** The Freeholder is the person who owns the land beneath the property and the structure itself, you are simple leasing a section of it. As such he will usually charge you rent for this land. The term for this is Ground Rent. The amount you will need to pay varies dramatically but for flats it is usually between £10 and £500 per year. The lease can allow for this amount to increase as the length of the lease decreases.
- **Paying a Service Charge:** This is usual where the building has been split into flats or has been built as a block of flats. The Freeholder is responsible for maintaining the external structure from repainting the external walls to replacing the roof. It's the dull and boring side of being a freeholder and so he often hires managing agents to do the job for him. Whether or not he does, you will need to contribute towards these costs. He is responsible for doing them but

you are responsible for providing the funds. The exact ins and outs of how this works, what he is responsible for, what percentage you must contribute and a whole lot more are laid out in the lease.

- **Extending the Lease:** You may not be particularly happy about giving the property back to the freeholder after seventy years. The good news is that whether he wants it or not, if you have used the property as your main residency for the last year, you can force an extension on the lease. There will be a fee and this is usually calculated at what the property is worth now compared to how much it will be worth after the extension is granted. As such a twenty year extension on a property with a one hundred year lease is considerably cheaper than it would be on a property with a fifty year lease. As an example increasing a lease length from one hundred years to one hundred and twenty years may increase the value of the property by £2,000. In other words an amount too small to be recognisable . A reasonable fee for the freeholder to charge you would be £2,000 plus legal and administrative costs. For a fifty year lease the extension may increase the value of the property by £50,000. and so that would be the fee (again plus legal and administrative costs). If your freeholder wants an unreasonably large some it is possible to demand arbitration. A "reasonable" amount will be decided and both parties must abide by it.
- **Making Changes to the Property:** You are in essence renting the property for a number of years. When, theoretically, you come to give it back the freeholder will reasonably expect it to look they way it did when he sold the lease. As such any substantial changes must be approved by the Freeholder in writing. These might be the removal of a door or the addition of a conservatory. If it makes a difference to what is on the lease, you'll need his permission. He will grant this in writing by either producing a new lease or by issuing a deed of variation

Share of Freehold

With all the charges to pay and restrictions to adhere to on a leasehold property it is not surprising that many Leaseholders decide that they would like to own the freehold of the building in which they live. Under certain conditions they have the right to buy the freehold from the freeholder at a "reasonable" price. It's a lengthy procedure but increasing in popularity, especially as it has a perception of adding value or desirability to a property.

Any buyer should be aware that just because one flat in a building is Share of Freehold, it does not follow that they all are. If you take a building with four flats - A, B, C and D. Flats A, B and C may decide they want to buy the freehold but Flat D wants nothing to do with it. Once A, B and C have successfully purchased the freehold Flat D will still be a leaseholder but will now have to pay charges to the other three flats.

The administrative side is carried out by setting up a company that is registered at Companies House. This is usually under the name of the building, e.g. 25 Free Street would be registered as 25 Free Street Ltd. Accounts must be submitted annually and so if a property has been share of freehold for a number of years you can check it's financial history online at Companies House to see if has been well managed.

The characteristics of a Share of Freehold are:

- **Owning Shares:** If you buy a Share of Freehold property you will also be buying shares in the freehold company, 25 Free Street Ltd in the example above. The shares will have been issued when the leaseholders bought out the freeholder. They may have simply split them equally (one third each in the example above) or unequally if there is a difference in floor space between the flats. To demonstrate this Flat A may be the top two floors at 25 Free Street while Flats B and C are only on one floor each. As such Flat A may get 50% of the shares and Flats B and C would get 25% each. While that is very nice for Flat A it would also mean that the owner would be responsible for 50% of the maintenance and repair costs!
- **Lease Length and Value:** Despite being share of freehold the flats in the above example are still leaseholders. The difference is that they are leaseholders to a freehold company and each one of them owns a share of that company. This means that if the leases are starting to look short on years they can simply agree amongst themselves to grant each other a fifty year extension for say £1 each! As such lease length and value have little connection in a Share of Freehold Property.
- **Paying Ground Rent:** The partners in a share of freehold may still decide to pay a nominal ground rent to the registered company that they own.
- **Paying a Service Charge:** It is up to the partners in a share of freehold how they pay for the maintenance of the building. There is no right or wrong way but if the freehold company has no savings it would be wise for you to set up your own separate private account just in case the roof decides it has seen better days! The most popular methods for financing a Share of Freehold property are:
    - Pay a specific amount every year for day to day maintenance and bills. Any payments purposefully over this are called the Sink Fund and are savings for the unexpected.
    - Pay for things as they come along.

  - Hire a managing agent to do it all! (see leasehold above)
- **Making Changes to the Property:** Many people confuse Share of Freehold with total freedom! Someone who owns a share of freehold is still a leaseholder and must get the permission of the "freeholder" before making any substantial or structural changes to their property. This means agreement from all those in the building who have a percentage stake in the freehold company. As such staying friendly with your neighbours is far more important in a share of freehold situation than if you are a leaseholder! Once again any agreed changes must be spelt out either in a new lease or in a deed of variation.

Freehold

This is the simplest type of property. You own it all and the ground it sits on. It is not necessary to set up any company or pay anyone anything. On the other hand if anything goes wrong that is not insured, its all down to you to find the cash!

Some solicitors see Freehold properties as so much easier to deal with that they actually refuse to handle transactions involving leasehold or share of freehold properties.

Making an Offer on a Property

Once you have some idea of what you are looking at, you can get on and see if you like the property itself. If and when you find the right one, it's time to make an offer.

Offering is much more of an art than most buyers realise and one that is well put together can actually result in the vendor accepting a lower offer than they might otherwise. The exact way to do it is covered in **How to Really Make an Offer**.

For the moment you should be aware that any offer made via an agent must be passed on in writing to the vendor within twenty-four hours. Any offer quite literally means any offer. The only exception is where the agent has written instructions from the vendor not to pass on an offer below a certain value.

If you are in doubt you can always knock on the door of the vendor and check he has received the offer but be aware that, if the offer was low, you may have to sustain a fair amount of verbal abuse!

If your offer is accepted you have absolutely no commitment to do anything else. You can say, "Well that's very interesting but I was only curious, can we go out and look at something else", and hear the agent whispering obscenities!

From the vendors point of view he is also not committed to do anything. He may go out for a spot of lunch, decide your offer is actually too low after all and call the agent to reject it (more obscenities!). What is acceptable today may be unacceptable tomorrow.

An accepted offer simply means you enter the no mans land that exists between 'Sale Agreed' and 'Exchange of Contracts'. There is absolutely nothing binding about having an offer accepted so its worth knowing what has to be organised in order to get a more concrete deal. This twilight zone is covered in Part III, From Offer to Exchange.

15 - How to Really Make an Offer on a Property

What's covered in this chapter

- Why agents may push you to offer more even when it is of little financial benefit to them;
- What to offer and when;
- How the time of year will affect your offer;
- When to offer below, at or above the asking price;
- How to handle bidding wars and sealed bids;
- Why defining your offer can save you money;
- What should be in your offer apart from the price;
- How to make a low offer seem attractive to a vendor;
- Why non-refundable deposits rarely work.

Listening to the Estate Agent

If you have read everything in the previous chapters you will be pretty worldly wise as to how to pitch your offer. You will know to take into account if you are in a rising or falling market along with the motivations of the vendor and so there should be no need to repeat what has already been said. Many buyers suffer some paranoia about letting the agent know what their thoughts are. In a large part they are concerned that the agent will make them go to their absolute maximum budget and to the large part they are actually wrong.

The agent simply wants to get the deal agreed in a way that he can be sure no one else in his office will gazump his applicant, you.

To put it another way if the Estate Agent is being paid 2% of the sale fee and the negotiator is getting 10% of that then on a £240,000 flat the negotiator is going to be paid £480. If you have offered £235,000 and the negotiator is trying to get you to the asking price he is not trying to get £10 (the commission he would earn on the extra £5,000), he is trying to make sure you do not get gazumped!

Although he doesn't really care if you get gazumped because he likes you, he cares because if it is one of his colleagues he won't get paid anything. If you really like the property listen to advice.

How Much to Offer and When

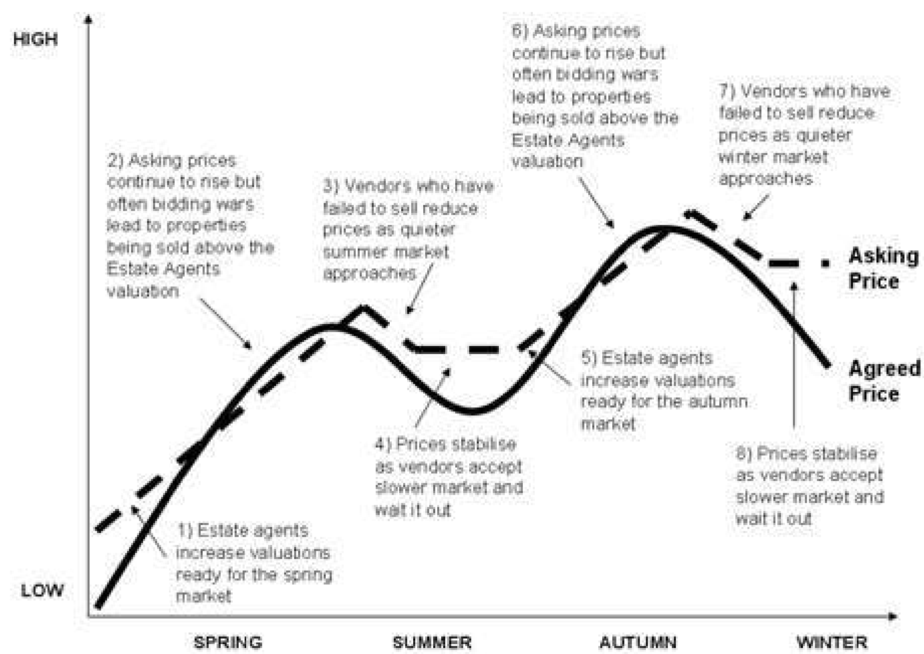
This is the quandary many buyers find themselves in. They want to feel they have got a deal but at the same time they don't want to loose the property. Perhaps the biggest mistake buyers make is to spend too much time concentrating on the vendor's position.

But the vendor's position, or how long the property has been on the market, must be balanced with your competition from other buyers.

If a vendor is desperate they will still achieve the asking price (or more) if the market is booming. A property may also have been on the market for over a year but if prices have been rising the true value of the property may have been realised just as you start searching.

Hopefully you will have some idea of the current market (rising or falling) and the vendors motivations from your discussions with the negotiator. You will also need to balance this with your own desire for the property.

The graph below represents the level of offers versus asking price in an annual market cycle (see **Understanding the Property Market**) but you should take into account any factors that may have caused the cycle to vary.



Offers agreed above or below asking price vary throughout the year in an annual property market that has not been affected by other factors

Choosing your Offer Level

The following outline the various ways to offer on a property.

Paying Below the Asking Price

If you feel that there is a good choice on the market and you could as easily buy the property you are about to offer on as another four that you have seen then there is nothing to loose in making a low offer. You want to pitch this at such a level that:

- you do not alienate yourself completely from the vendor
- you do not alienate yourself from the agent
- you leave yourself some room for manoeuvre

In any normal market conditions this should never be more than 10% below the asking price. To go further may mean the vendor will want nothing further to do with you as they feel insulted. You may increase your offer later but he will refuse it on principle.

A very low offer may mean that you embarrass the agent. The vendor will feel the agent is not doing his job. As such the negotiator will then be reluctant to show you further properties and move you to the bottom of his mental list of priorities.

Paying the Asking Price

In a fast moving market seriously consider this. It is an extremely strong way of saying to the vendor, "I like your property, I am a serious buyer and I am prepared to pay what you want". The only downside, for a property that has only just come onto the market, is that the vendor may think he has undervalued the property and that he could get more if he waits. As such impress upon the agent that they should tell the vendor how long you have been looking, how many properties you have seen and why this property is specifically right for you. In other words the vendor should understand that this is not a lucky break where someone logged onto the net and thought, what an undervalued bargain!

A second line in avoiding this is to make your first offer just below the asking price before coming up. Exactly how to do this is explained in the section on pitching your offer below.

In exchange for offering the asking price you should expect, and request, that the vendor withdraws his property from the market although they may not be prepared to do this until you have instructed a solicitor and paid for a survey (i.e. spent some money yourself to show you are serious).

Paying More Than the Asking Price

No one ever starts by making an offer above the asking price but very often there may be more than one offer at the asking price. In this instance a good agent will take the matter to sealed bids whereas a bad agent will start a bidding war. If it sounds like you are heading for a bidding war try and persuade the agent or the vendor to use sealed bids.

Bidding Wars

The problem with bidding wars is that they work a little like auctions. Buyers get emotional and bid up without properly considering the financial impact of what they are doing. It becomes them versus the other buyer and when the dust settles they all too often regret how high they went.

In most cases bidding wars lead to an agreed price that then falls through in the cool light of day.

Sealed Bids

In this scenario the agent tells all offering parties to come back by a certain time, say close of business the next day, and put forward their full and final offer. This gives everyone a reasonable amount of time to make a cool headed decision of exactly how much they feel the property is worth to them.

Be aware that it is not always the highest bid that gets the property. One party may offer £302,000 but they themselves might be in a chain. If another party offered £298,000 and was chain free the vendor may go for what they see as the 'safer' option even though they will loose a potential £4,000.

If you are making a sealed bid choose your figure and then move slightly up to something unusual.

In other words never offer £300,000. Instead offer £301,576. Many properties have been lost or won for the sake of figures as low as £50.

True Story - Sealed Bids at Elmhurst Mansions

A two bedroom mansion block flat had been on the market for five months. The vendor had verbally accepted an offer £5,000 below the asking price of £137,500. Another party then offered to pay the asking price. The original buyer was offered the chance to match this which they did and so the vendor, faced with two very similar offers decided to go to sealed bids.

The original buyers had already, to some extent, damaged their standing in the vendors eyes by suddenly coming up with an extra £5,000 but they then compounded this by saying their sealed bid would be £137,500, the same as the asking price and their current offer. The other party offered £341,700 and their offer was accepted. The original buyers then came back and said they would be prepared to offer £343,000. It was too late.

Although they were putting even more money on the table the vendor could not feel certain that they were stable because they could not make up their mind and only seemed to bid more when forced by another party, not because they truly felt the property was worth that to them. The vendor suspected they may try to renegotiate later and refused their offer.

Clearly Defining You and the Offer

Whether you are trying to get a low offer agreed or you are competing against other buyers, how you put your offer up can define your success in buying or loosing a property.

Explaining clearly who you are from the start is a huge asset in the eyes of the vendor, even if he did not realise it or want it before. You are also likely to take the average incompetent or amateur agent by surprise but it is a sure root to getting a good, sound offer agreed.

Apart from doing this verbally you would be well advised to fax or email the agent in order to make sure there are no arguments later. Your offer should look something like this:

I confirm that I wish to offer £235,000 on 10 High Street, London, E6 2JN. The offer is to include the curtains, carpets and cooker. My offer is made up of a £200,000 mortgage from Barclays Bank and £25,000 in cash. I have nothing to sell and would want to exchange in four weeks time and complete four weeks after that. I attach my Agreement in Principle and a copy of a bank statement to confirm my finances. The solicitor I will be using is ... and their telephone number is ...

You should provide as much information as possible so that the agent can paint the most rosey picture of you as possible to the vendor. The rosier the picture, the more likely you will get a good offer agreed and the vendor will want to deal with you only.

Show your serious intentions by attaching proof of your ability to proceed (an agreement in principle or pre arranged mortgage), the solicitor you have chosen and a bank statement or otherwise proving the cash element.

Things that will always act in your favour are:

- Using the solicitor the agent recommends or one with a knowledge of the local area
- Using (or at least visiting) the financial adviser the agent recommends
- Being open and clear with your situation
- Laying down timescales
- Defining what you want included in the sale

The solicitor you use - the agent can sell you better if you are using a solicitor from the local area or one that the agent has recommended. They type of solicitor is also important in this process. Full details on how to choose the right solicitor are in **Choosing a Conveyancer or Solicitor**

Visiting the financial adviser recommended by the agent - there is absolutely no obligation to use this adviser but as discussed in **Sorting Out Your Mortgage** the more options you look at, the better the financial deal. If you do have an appointment with a financial adviser suggested by the agent then when he puts your offer forward he can also say, "The buyer has been to see a financial adviser that I work with and he has confirmed the buyer is in a good financial position". This all works in your favour.

Being open and clear - the more the agent can tell the vendor, the more your offer will shine. If the agent can say, "This is a cash buyer and he has shown me his bank statement as proof" this is much better than "He says he is a cash buyer".

Laying down timescales - these can be changed later or used as part of your negotiation but it will show the vendor you have thought the entire purchase through. It will also avoid arguments and misunderstandings later and remind the vendor that he also needs to think about this.

Defining what is included in the sale - this is essential to avoid conflict later in the process. It is surprising, even on million pound purchases, how much confusion and bitterness can be caused over things as simple as a washing machine.

By doing these simple things the vendor knows exactly where you are coming from and treats you as a serious buyer. It also greatly reduced the possibility of arguments after you have spent money on solicitors and surveys.

When you are considering the wording of your offer also keep in mind where you are in pitching (see below). In other words if your first offer is low you may suggest that you want nothing included in the sale, adding these in as you increase.

The vendor could, at this stage, come back to you and say he is interested in considering your offer but would not move out until he has found something to buy himself. You could then counter that by offering to pay more if he will consider moving out and renting or you could agree the exchange date but then offer a long completion date (say 6 months later) to allow the vendor to find and buy. In this way you will lock your property in and have a definite move in date, even if it isn't as soon as you might want.

Whatever happens the actual transaction will move much more smoothly from the outset.

Pitching an Offer for Negotiation

You would think that because you have made an acceptable offer you should expect:

- that the property is taken off the market
- that you will get the curtains and carpets
- that the vendor will leave the built in cooker
- that the vendor will want to move out at some point

Nothing could be further from the truth and so pitching an offer in a certain way should ensure your expectations are actually met. Whether or not you are ready to pay the asking price or just make an offer there is a way that is far more likely to work than simply bumbling in with your best and final figure.

The best way to pitch your offer is to carefully consider how much you are prepared to pay. Say the property is £260,000 and you are prepared to pay £250,000. As long as you are not in competition with any other buyer make an opening bid approximately 5% below what you are prepared to pay. In this case offer £240,000 and wait for the response.

It is likely to be 'No!' but then you will be able to increase your offer with strings attached. You could say, "£245,000 as long as the property is taken off the market". It will make the vendor feel that they have been able to increase your offer in return for something they were probably going to do anyway.

If this does not work you can then say, "OK, £250,000 as long as the property is taken off the market and the carpets and curtains are included". Again it's something you would have insisted on anyway and something the vendor probably didn't want anything for. He will go away pleased that he got an extra £10,000 for simply taking the property off the market and throwing in some old carpets and curtains while you get the property you want at the price you want.

Should you be lucky enough to get the property for a lower offer than your top price you can go back to the agent and say, "I am assuming the property will be taken off the market and that the carpets and curtains are included. Can you confirm this?" If there are any problems offer a nominal amount, say £1,000 more to get things your way.

Non-Refundable Deposits

Many buyers are often at pains to show how serious they are about the property they have offered on. As such they offer to pay a "non-refundable deposit" to the vendor as a sign of their honourable intentions. Estate agents are not allowed to handle these transactions so they must be done through the solicitors.

Your solicitor is likely to be against such an idea. To start with it may seem like a great way to send positive messages to the vendor but any such agreement is likely to be complicated. If in the process of buying it is discovered that, for example, the property has subsidence or the house next door has got planning permission to double in size and block out all the sunlight to your garden, it would be fair for you to pull out of the sale.

As such your non-refundable deposit would have to be subject to these and a whole range of other problems. Before you know it your non-refundable deposit is subject to contract and subject to survey and of no security whatsoever to the vendor. Furthermore it will have taken so long to agree the terms of a non-refundable deposit that no work on the actual purchase will get done. This is not a healthy scenario as we will see in **Time Costs Deals**

Solicitors that do agree to try and sort out such deposit can take weeks agreeing terms when they could be getting on with doing the paperwork that would allow you to exchange, complete and move in!

Summary

Many agents are poorly experienced or badly trained and not even they know how to really put up an offer. But the way you do it and the way you present yourself can make a substantial difference to the final price you pay. Sometimes it may allow you to get a sale agreed at a price the vendor would not previously have accepted, sometimes it may mean the vendor will sell to you and not someone else (even if the other party is offering more).

Put yourself in the shoes of the solicitor and consider their position. The more the buyer shines in terms of the way they have prepared for the purchase, the more comfortable the vendor is going to feel and the more likely they are to say to themselves, "I wasn't thinking of selling at that price but I will because I feel safer that this buyer is offering a low stress transaction for me."

Part 3

From Offer to Exchange

16 - Who to Trust When Buying Property

What's covered in this chapter

- Why many buyers place their trust, understandably, in the wrong people because the theory of house buying works so completely differently from the reality;
- Why the advice of family and friends causes some people to pull out of a purchase and regret it later;
- Why the solicitor you are paying may not be acting in your best interests;
- Why the surveyor who values or inspects the property may not be acting in your best interests;
- What is motivating the estate agent and their actions;
- How to work out who is telling you what and why.

Why Buyers Trust the Wrong People

Most buyers understandably place their trust in the wrong people because the theory of house buying works so completely differently from the reality

To put it another way:

- The buyer *does not* trust the agent because they believe the agent is only trying to get the sale through in order to earn some commission (see **Working With Estate Agents**)
- The buyer *does* trust their solicitor even though, in most cases, the solicitor has a vested interest in the sale not going through (see **Choosing a Solicitor or Conveyancer**)
- The buyer *does* trust their surveyor even though the surveyor has a vested interest in the sale not going through. (see **What A Property Survey Really Means**)
- The buyer *does* trust a friend or relative even though that person may
  - have wildly different tastes and lifestyle
  - not want to be responsible for recommending a property that, later, their friend may be unhappy in.

The Advice of Family and Friends

When a potential buyer has had an offer agreed and then asks to bring their mother or friend round to have a look many agents refer to this as "The Kiss of Death"! And it is with good reason as they rarely share the same tastes but despite this the advice they hear from someone they respect usually causes them worry and stress.

Let's take a look at a perfect, and common, example of a mother and daughter seeking advice from each other:

Mother	**Daughter**

Requirements: Quiet country house in a small village with a close community

Requirements: City apartment close to transport, bars, shops and other aminities

Both parties find what they are looking for and then ask the other to come and have a look...

Daughter: "It's a lovely house but you are so cut off here, you need to take the car everywhere and the neighbours are probably really nosey."

Mother: "It's very small for so much money and what about drunk people coming from those pubs, do you think you would really be safe here."

Post visit both parties call their agents

Mother: "I'm not sure any more, I've been thinking that it is a bit in the middle of nowhere and the other houses really are quite close to my garden."

Daughter: "I've been having second thoughts that the street might not be that safe and it could be really noisy at night."

Before you know it both parties are actually looking for something they don't actually want simply because they respect the opinion of the other. When taking the advice of family and friends consider carefully if you would like to live in their home, and could you afford it? If not, take what they say with a pinch of salt.

The Advice of the Solicitor

It would be fair to assume the solicitor you are paying will be protecting your interests when it comes to buying a property. They should be checking the paperwork and making you aware of any unusual discrepancies that they believe will be material to your decision making. And this is exactly what the most professional solicitors do.

But there is a flip side which depends on the type of solicitor you have instructed. You will either be paying a solicitor a flat fee for their services or you will have hired one that offers a 'no purchase, no fee' promise.

Flat fee solicitors - in this situation the solicitor knows he will get paid no matter what the outcome is. However he knows that if you exchange and complete on the property, and then later find he did not make you aware of some points which you feel were important, he can be sued. It is thus in his vested interest for you to pull out of the purchase - fee paid, no risk. For this reason very small firms of solicitors often appear extremely over protective and often present you with reasons why you should not proceed further on a particular purchase. Reasons a larger and more financially resourced, firm would not suggest.

'No purchase, no fee' solicitors - these firms usually calculate into their business model that a certain percentage of purchases will fall through. Those clients that do buy cover these costs which means they are generally more expensive. This aside a 'no purchase, no fee' solicitor has a vested interest in your offer going through to exchange and so may gloss over points that they really should bring to your attention. The likelihood of this will rise if the percentage of fall-throughs they are experiencing is rising above that of their business model.

For more details on solicitors see the chapter **Choosing a Conveyancer or Solicitor**.

The Advice of the Surveyor

The surveyor is another property professional who is also paid by you and so should also be acting either in your best interests, or that of your bank. Almost all surveyors work on a flat fee basis.

Here the problem is similar to flat fee solicitors. If you actually complete on the property and then find discrepancies in their work you can sue. If you don't complete they get paid and there is no risk of being sued.

In general the smaller the firm, the less finances it has for this. Even if the company is insured they will not want to see their annual premiums increase. And so small operations or one-man-bands will often work to undermine the sale through down valuations or picking up on matters which are normal for the building they are looking at.

To understand how surveyors really work and who they are working for see **What a Property Survey Really Means**.

The Advice of the Estate Agent

Most people are fully aware that estate agents work on commission - no sales, no income - and so their motivation is almost always clear. Get the sale through. If they achieve this they will have no risk of any legal action unless you can prove they mislead you or withheld important information that was also no bought to light in the legal process.

It is not surprising then that they are seen as the most evil party in the transaction but perhaps they are perceived as the most evil because their motivation is the most transparent.

However not all of their advice should be dismissed out of hand. You should, when considering comments made by them, be aware that:

- They know the longer the time period between sale agreed and exchange, the more likely the buyer will pull out and you will loose your property. (See The Balance of Power)
- They know, if they are experienced, when the surveyor or solicitor is trying to undermine the purchase and is not really acting in your interests for the reasons covered above

Summary

When most buyers enter into the home buying market they are aware of the common stereotypes, especially that of the estate agent. They are not so aware of some hidden motives and agendas kept by solicitors or surveyors. In the stress and nerve of making such a large financial decision they turn to family and friends for reassurance, only to find their frail confidence undermined by people who live in homes they wouldn't even dream of renting.

Countless times this toxic mix leads to a buyer pulling out of a purchase and later regretting it. To avoid the same pit falls always step back when you receive information or advice and consider - who is saying it and why might they be saying it?

Choosing the right solicitor and surveyor, which is covered in a later chapter, will help you immeasurable in coming to the right decision.

17 - The Property Buying Process in Theory

What's covered in this chapter

- Why the buying process should be as fast as possible;
- Who talks to who and how;
- Why dealing through an agent can help;
- What are the responsibilities of the buyer, the vendor and the solicitors;
- Why solicitors argue with each other;
- The pitfalls at each stage;
- Explanations of the documents and terminology;
- When the vendor's solicitor can cause the vendor stress;
- What is a complete document, and what is not.

Before you can know what really happens, it is essential to understand what is supposed to happen because sometimes it does! If you are dealing with an Estate Agent, Solicitor or Vendor who is new to the business this chapter is the set of events that they believe should occur.

Arching over all of this is the essential concept that the longer it takes to move from Offer Agreed to Exchange of Contracts, the more likely it is that the purchase will fail. To understand this specifically see the chapter on **Time Costs Deals**.

Once your offer has been agreed with the agent (or directly with the vendor if you are buying privately) there should be no need to have any contact with the agent or the vendor. Each party has a specific number of actions that they must take and theoretically this should all occur via the solicitors. Some solicitors feel so strongly about this that they refuse to accept calls from estate agents! It is how these actions are undertaken and their results that cause disagreement because there is no definitive protocol for buying and selling.

It is because of this that there are regular arguments between solicitors so it is often useful to have a second line of communication. This is either via the agent or, in the case of a private sale, directly with the vendor. Nothing that is spoken about in these secondary lines is binding until both solicitors are aware of it and it has been written into the contract but such discussions can be faster and more accurate as questions and answers are passed through fewer parties. It is worth knowing that:

- **Agreed offers through agents** tend to have a better chance of success because small queries need only be passed via one party for answers. When emotions become heated the agent is the filter who can remove the obscenities and act as an objective go between. A good agent will also remove any comments you make that he feels may be misinterpreted by the vendor before passing messages or queries on.
- **Privately agreed offers** are more likely to fail for exactly the reason explained above. The buyer talks to the vendor and says things they may not truly mean or makes small comments that are taken out of context (and vice versa). You may tell a vendor, for example, that you can't wait to move in and add a fantastic conservatory. The vendor realises he only accepted your offer because he thought it was the top of your budget. Now he knows you have extra cash he begins to think he has undersold the property and pulls out of the transaction. Innocent comments, profound results.

Lines of Communication (once the sale price is agreed)

	« »	The Estate Agent			« »	
You, the Buyer	« »	Your solicitor	« »	The vendor's solicitor	« »	The Vendor
	« »	Private Sales Only			« »	

The parties officially involved after a sale price is agreed are:

- You, the buyer
- The vendor
- Your solicitor
- The vendor's solicitor

and the theory of what each party should do is covered in this chapter. In each section there is an explanation of what the parties do along with some of the most common events that cause things to go wrong. How to get round these is covered in later chapters.

You, The Buyer in a Property Purchase

As a buyer your responsibilities are to:

- Instruct a solicitor to act on your behalf
- Specify an exchange and completion date that can be agreed with the vendor
- Raise the finances to purchase the property
- Organise for professionals to inspect the property
- Sign the contract
- Give your solicitor funds to exchange and complete

Instructing a Solicitor

Once your offer is agreed you will need a solicitor to act on your behalf. This solicitor will need to do two things:

- Check that the paperwork related to the property is satisfactory for the lender if you are applying for a mortgage
- Check there is nothing unusual in the paperwork that should be drawn to your

attention

Their exact role is explained in Your Solicitor below.

Finding a good solicitor who can handle the local market is not easy so it is worth taking the advice of your lender (who may have someone in the area that they work with regularly) or the Estate Agent (who knows efficient solicitors that they have a good relationships with). Do not ask friends or family unless their recommended solicitor passes certain tests (see **Choosing a Solicitor or Conveyancer**)

Once a solicitor has agreed to represent you they will send you a form to fill in. This is the official instruction. It includes questions on who your lender is and, if you have already chosen a property to buy, what you understand it to consist of (e.g. a private garden, parking space, two bedrooms, kitchen with cooker, etc.) which helps them verify that this is actually what you are getting.

What Can Go Wrong

- You leave it until after having an offer agreed to find a solicitor and have to choose an unsuitable one in a panic
- You choose a solicitor based outside the area you are buying who does not understand what you are buying and asks irrelevant questions
- You choose a solicitor who is incredibly cheap, but then turns out to be incredibly slow because they are incredibly overworked
- You choose a solicitor who uses the conveyor-belt method (see **Choosing a Solicitor or Conveyancer**)
- You choose a solicitor who is a "one-man-band". He then falls ill or goes on holiday

Specifying Exchange and Completion Dates

It seems obvious to agree a date for the Exchange of Contracts. This is the moment that you agree to definitely buy the property and the vendor agrees to definitely sell it. Up to this point the sale is only agreed subject to contract, and often subject to survey.

Subject to contract means you agree to buy the property only if what you have been led to believe is true. In other words you may think that the garden belongs to the flat because the agent told you that but in fact it is shared with the property upstairs. When you discover this in the contract you decide not to purchase the property.

Subject to survey means you agree to buy the property in the physical state any layman inspecting the property would believe it to be in. If, once it has been surveyed, you find it needs a vast amount of unexpected and expensive work you may decide not to proceed.

Oddly enough even though a sale may be agreed subject to contract you can still decide at any point before exchange not to purchase for any reason you wish. It can have nothing to do with the contract or the survey but could simply be because you don't feel like it. As such the wording is slightly misleading.

Exchange of Contracts is not the date at which you take possession of the property. It is the date which you agree Completion. Completion is the date when the vendor must be out and you can move in, the property legally becomes yours. Completion can take place on the same day as exchange or months afterwards.

What Can Go Wrong

It seems strange then that someone who agrees to buy something from another person should do so without actually agreeing when they want to do it but this is often the case when purchasing a property. Agreeing exchange and completion dates are often sidelined because:

- Both parties believe it is "obvious". The vendor may, for example, have chosen a solicitor in Wales. His solicitor has told him that it normally takes about twelve weeks to move from agreed offer to exchange. In the meantime your solicitor in London tells you there should be an exchange within three weeks. Both you and the vendor sensibly expect that your respective solicitors will have said the same thing and plan your lives accordingly. Fireworks will occur later!
- Neither party actually wants to talk about it. You may be concerned that if you express a wish to exchange quickly the vendor will perceive you as a desperate buyer in absolute love with their property. This could lead to them being slow or lazy in providing paperwork, relaxed that you are not going anywhere. The vendor may not want to tell you that he wants a rapid exchange because he does not want to appear desperate. He may believe that this will encourage you to attempt a renegotiation of the price before exchange.
- One party is scared to upset the other. This often happens in a market where the 'Balance of Power' is not even (see the later Chapter by this title). You may be desperately in love with the property or prices may be rising quickly. As such you do not want to upset the vendor by rushing him and so you tip toe round the issue waiting for a sign.

Raising the Finances

There are two ways to buy a property. You can purchase for cash or by borrowing. Either way you will need to put down a deposit when contracts exchange and pay the balance on completion. The deposit is normally between five and ten percent of the agreed price although it is possible to exchange with anything from zero to one hundred percent.

The deposit is seen as a way of tying the buyer in and insuring the vendor will have some compensation should you disappear. Zero percent deposits are therefore usually only acceptable if you are carrying out a simultaneous exchange and completion. This is often the case with one hundred percent mortgages or where the property is empty and the buyer wants to get in fast.

If you are raising the funds by applying for a mortgage you will need to find a lender that thinks it is a good idea to loan you the money. The lender is essentially interested in four things:

- Are you a good borrower?
- Is the property worth the money?
- Is the property legally sound?
- Is it really a good idea?

Are You a Good Borrower?

In the first instance the lender will give you an Agreement in Principle (AIP). This is a superficial agreement which basically says, "If what you have told us about yourself is true and the property you choose is worth what you plan to pay for it, we will lend you a specified amount". You can get such an agreement without specifying a property and lenders issue these more as a guide to what you can afford than anything else.

Once you have found the property the lender will go into more depth, not only to find out about the property, but also to dig thoroughly around your financial past.

When a lender looks at you they are really looking at your earnings (that you can afford to pay the loan back on a month by month basis) and your credit history. Your credit history is a track record of previous debts. Every time you pay a credit card or loan on time you get points. The points go to make up your credit score. Every time you apply for credit such as a loan for a car, and every time you are late making a payment, you loose points.

This system has some unwelcome side effects. If you apply for a few store cards in a month you may suddenly find it difficult to get a mortgage. This is because your credit history shows you are looking to borrow a lot of money and that might mean you are in financial difficulties. The result is that your credit score goes down and lenders don't want to go near you.

Ironically if you have not been in debt in the past you will also have a poor credit history and a low credit score. This is because there is no proof that you are any good at handling debt. It is the financial angels of life who have never had a credit card or taken a loan that can have the biggest problems securing a mortgage.

How important your credit score is also depends on how much of the property's value you want to borrow. This ratio is known to lenders as Loan To Value (LTV). As an example if the property is worth £100,000 and you want to borrow £95,000 your LTV is 95%. In the lenders eyes that's risky business. You are only putting in five percent and you want them to stump up the rest. In this situation you may have to provide much more proof of your financial stability than a buyer who is prepared to go halves with the lender.

Once the lender is happy that you are going to be a well behaved debtor, and only once this has been established, do they turn their attention to the property.

Is the Property Worth the Money?

If your LTV is very low, say twenty percent, the lender may agree to secure a mortgage on the property without even looking at it. In their opinion most of the risk is with you and the chances of you paying so much for a property that it is not even worth twenty percent of what you lay out are extremely unlikely. If your LTV is high (usually more than fifty percent LTV) they will organise a survey.

The way lenders organise surveys mean that they can be very fast of very slow. The steps are:

- The lender sends the request out to a panel of surveyors. This status is known as 'sent to panel'
- The panel may have an umbrella organisation that receives this request. This organisation sends a request to the surveyors they believe will be best suited. The status has now changed to 'survey requested'
- The surveyor who receives the request may be too busy. They send a message back rejecting the request.

- The umbrella organisation requests another surveyor until they find one who will accept the work. Once accepted this status is known as 'survey instructed'
- The surveyor calls the agent or vendor to organise access to the property. Once a time has been agreed the status becomes 'survey booked'

The surveyor may either have been instructed to go into the property or just to drive by and make sure it exists (known as a drive by survey). That someone has a trained eye for spotting problems in buildings.

The lender, to some extent, is not interested in this. They only want to know that, should you stop paying your mortgage, they can sell the property and recover the debt. They don't really care if every single window in the building needs replacing so long as, in its current condition, it will sell for the same or more than the amount they are lending you.

The result of the surveyors visit is a valuation. The surveyor will either agree or disagree with the sale price. The latter is known as a down valuation. Most buyers are unaware that, for this visit, the surveyor is not acting for them and can rightly refuse to tell them the result. He has been instructed by the lender (even though you may have paid the lender a fee for the survey) and only the lender can tell you the surveyor's conclusions.

It is worth noting that the surveyor will never say a property is worth more than the agreed sale price even if he believes it to be so. He is only instructed to find out if it is worth the same or less.

The surveyor may decide that the property is worth the money you are prepared to pay as long as he can be sure that a certain issue is not going to be a major problem. He may, for example, believe the roof is at the end of its natural life and will need to be replaced. This could cost over £10,000 and may affect the property value. He will therefore place a retention on the value. This may say, "I agree the property is worth £250,000 once the roof has been checked. Until this has been done I am not convinced the property is worth more than £230,000"

Is the Property Legally Sound?

The next hurdle is to persuade the lender that there is nothing legally wrong with the property that would affect its value or make it difficult to sell.

Every lender has a different set of things that they want to know. These requirements are collated by The Council of Mortgage Lenders. The result is the CLM Handbook and every solicitor has access to a copy. When your solicitor knows who you are going to be borrowing from they open up the handbook and see what they need to find out.

It is always worth remembering that most of what your solicitor does is actually not for you, but for the lender. The solicitor passes on what he finds to an underwriter who works for the lender. If they are concerned they can decide not to forward you the loan.

Is it Really a Good Idea?

For most buyers the assumption is that once all the checks above have been carried out, they are home-free on the financial side of the purchase. That is because in most cases they are. There is however one more step that often occurs without the buyer even realising it.

The mortgage application is sent to the lenders final underwriters. They will take one more look at the entire set of paperwork before issuing the offer. Every now and then they spot something that has been missed by the previous departments and what you thought was in the bag suddenly becomes dead in the water.

In short nothing is certain until the mortgage offer is in your hands. There are simply greater or lesser degrees of certainty!

What Can Go Wrong

As a cash buyer and the surveyor was instructed by you then there is little that can go wrong in the process, although there is plenty that can be wrong in the report (See **What a Property Survey Really Means**.

If you are applying for a mortgage there is a great deal more to go wrong.

- You have a low credit score due to a lack of credit history or a default at some point in the past
- Although you are earning enough, you have other debts which result in the bank agreeing to lend you less than you had originally thought
- You do not have all the documents that the lender needs (such as bank statements) which take time to request
- You have not been in the country long enough to have an adequate credit history (usually three years are required, but again it depends on your LTV)
- You do not have the right to remain in the country forever
- The surveyor is from outside the area and cannot agree with the price you are

prepared to pay for the property
- The surveyor is from the area but is out of touch with the market so does not agree with the price you are prepared to pay for the property
- The surveyor has just been sued for over-valuing a property and so, being unusually cautious, does not agree with the price you are prepared to pay for the property
- There is a problem with the legal paperwork of the property which does not bother you but causes your lender to withdraw their offer
- You have chosen a lender with unusual requirements in the CLM Handbook and your chosen property cannot fulfil them
- You change lender but forget to tell your solicitor who then collates the wrong information.
- The lender's final underwriter spots an error in the paperwork which means that they refuse to issue you with a mortgage offer

Organising Inspections of the Property

As a buyer there are certain inspections that you may want to carry out to make sure the property is in the condition that you believe it to be. The most basic and recognised is a survey. As a cash buyer you may simply want to carry out a valuation survey to get a second opinion of the price you think the property is worth. If you are applying for a mortgage the lender will have carried this out for their own records and will make you aware of the results (see above).

You can go into more detail by requesting a homebuyers survey or a structural survey. If you are applying for a mortgage it usually makes sense for the surveyor who is doing the valuation to also carry out the second survey.

A homebuyers survey is the usual choice for those buying a flat. It looks at any defects on the property such as the windows, flooring, plumbing, damp and, if there is access, the roof. A structural survey is usually chosen by those purchasing a house as it includes everything in the homebuyers report as well as an inspection of the structure.

It is extremely important to know that the surveyor is qualified to spot tell-tale signs but cannot actually or absolutely state that something is wrong. He may say, for example, that "the windows are in need of refurbishment and that a qualified contractor should assess the cost" or "there appear to be signs that the property is subsiding to the rear and a qualified structural engineer should survey the property to assess the extent of any movement".

Surveys can be weighty tomes, up to one hundred pages long and usually make frightening reading. From it you need to ascertain what is really important and what is expected in a property of that age. For this see **What a Property Survey Really Means**

Once you have sorted the wheat from the chaff you may decide you want to have further inspections. The most common are:

- **Damp** - a damp proofing company to see if the damp found by the surveyor is significant enough to warrant tampering with the walls.
- **Electrics** - an electrician to see if there is anything unusual or "unsafe" in the way the property is wired.
- **Plumbing** - a plumber to check the piping and central heating system (if gas) are sound
- **Roofing** - a roofer to inspect the tiling, flashings, parapets, rafters and chimney stacks.
- **Structure** - a structural engineer to make sure that there is no movement in the building beyond the normal amount expected and that none of the walls are bulging.
- **Drainage** - a specialist company that can place CCTV probes in the drains and create video footage that shows the condition of the pipes.

As a buyer it is generally expected that you will organise any further inspections beyond the survey yourself. Most buyers want to do this anyway rather than let the vendor choose someone. Who pays (although some inspections are free) is usually a thorny issue.

Any good estate agent will hold lists of companies that they have used in the past and can be a good place to find contractors. Any contractor should be given a copy of the relevant part of the survey so they know what it is that they are there to inspect.

What Can Go Wrong

- The surveyor is overcautious and believes everything needs to be inspected
- The surveyor believes he knows how much needs to be spent and quotes a figure
- The contractors that go in are looking for work and so see issues where there are none
- Neither you nor the vendor can agree who will pay for a specific specialist to check the property. As an example the property may need a structural engineer

to assess it. The vendor argues that you should pay for it because it will be a document useful to you when you come to sell (the vendor nearly always assumes the situation is ridiculous and their property cannot possibly be structurally unsound). You argue the vendor should pay because you have already spent money on the survey and it is up to the vendor to prove his property is stable. Both parties have justifiable arguments but it doesn't help the process move anywhere!

- Both you and the vendor have quotes carried out but they vary dramatically so it continues to remain unclear whether or not there really is an issue to be resolved

Signing the Contract

While you are busy making sure the property is as sound as you thought it was, your solicitor is busy making sure the paperwork surrounding it is just as solid. Once they are satisfied that they have all the information they will compile a report for you. This will summarise the property you are buying and point out anything the solicitor feels is unusual.

This is the time to check that all the things you thought were there (such as a parking space or the right to use a communal roof terrace) really are! With this report will be a contract for you to sign.

Putting your signature on this paper is not the end of the matter. Your solicitor will usually call you again once he receives it to confirm that you still want to exchange. He will also need:

- To have a deposit in his bank account to give to the vendor's solicitor (see below).
- To know the date you want completion to occur on

Once you give the green light he will call the vendors solicitor and effect the exchange of contracts.

What Can Go Wrong

- The contract gets lost in the post and your solicitor did not keep a copy
- There are things in the report which show the property is not what you thought it was (e.g. there is no parking space when you were led to believe there was one)
- You start to try and understand everything in the legal paperwork and get bogged down checking the work you have paid your solicitor to carry out

- Your signed contract gets lost in the post causing a delay
- No one can agree the date for completion
- You go on holiday and your solicitor does not exchange because he is waiting for your verbal go ahead

Funds for Exchange and Completion

As discussed in Specifying Exchange and Completion Dates (see above) your solicitor will usually need a cash deposit to give to the vendors' solicitor when exchanging contracts. The only exception is when you are using a one hundred percent mortgage or the vendor has agreed that you will provide a deposit of zero percent.

The deposit must be in cleared funds.

What Can Go Wrong

- Your solicitor only asks for the deposit when he has received your signed contract and you have to write a cheque which takes five days to clear
- The cash is in an account which restricts the amount that can be removed at any one time or the time-scales in which a withdrawal can be made
- The cash is in stocks, shares or investments that have decreased in value

Your Solicitor in the Property Buying Process

Once officially instructed by you, your solicitor has a set number of actions to undertake. Most are dictated by the lender you are using via the CLM Handbook (see above) but if you are lucky enough to be a cash buyer you can choose to opt out of certain requirements such as local searches (see below).

Your solicitors responsibilities are to:

- Check the set of paperwork sent by the vendor's solicitor
- Request any further enquiries from the vendor's solicitor
- Apply for searches
- Check your mortgage offer
- Issue you with a report
- Exchange Contracts
- Complete

Checking the Paperwork

Your solicitor will receive a set of papers from the vendor's solicitor. If the vendor is well prepared these will arrive in one parcel. If not they will be forwarded to your solicitor as soon as the vendor can get hold of them! The documents are as follows:

- **The Contract** - this is a short document and basically says that you agree to buy and the vendor agrees to sell the property. The contract is only signed by the vendor and you once all the other checks have been made. Once you have signed your part and the vendor has signed theirs the documents are exchanged between the solicitors. Hence this moment is known as Exchange of Contracts or more often as simply the Exchange. It is the moment of no return when you must buy and they must sell even though, usually, no full payment has been made. The first contract that your solicitor receives is usually known as the Draft Contract as it has not yet been agreed.
- **The Title Deeds** - this document is only held by the person who owns the property. In most cases this is not actually the vendor but the lender that he has his mortgage with. The vendor's solicitor will ask the lender to send the title deeds to him. The lender can refuse or place conditions on the request if they are concerned the property will be sold for less than the current mortgage balance and the vendor cannot prove where the shortfall will come from.
- **Seller's Questionnaire** - this is a list of questions that are answered by the vendor. It includes declarations that there are currently no legal disputes occurring with the neighbours, who is responsible for boundaries, if there are any current guarantees, who is supposed to carry out maintenance work, etc. The vendor is only required to complete it "to the best of their knowledge". As such they can answer "Don't Know". If it can later be shown that they misled you it is possible to claim compensation. This form has many names and could be titled Seller's Property Information Form, Seller's Pack, etc.
- **Fixtures and Fittings** - this specifies exactly what the vendor intends to leave. It should confirm any agreement you made at offer stage such as including the curtains and carpets. They may also list items which they are prepared to sell to you should you want them. These could be anything from shower curtains to kitchen appliances.
- **Building Insurance** - your solicitor will want to know that the property is either currently insured or that someone is prepared to insure it. The easiest way to confirm this is to find out who is covering the property at the moment. This is essential if you are applying for a mortgage because, should the structure burn to the ground the day after you move in, the lender will be able to recover the money you have borrowed. If you are purchasing for cash you will still want to have the same piece of mind.

- **Guarantees** - these are the actual guarantees that have been specified in the Seller's Questionnaire. Common items that may be covered by guarantees are the roof, damp proofing, structural work, etc.
- **Planning Consents** - these are only required if the vendor or some previous owner has made changes to the property that required planning permission. An example might be a two storey extension added to the rear of the property but could even include a skylight added in the loft.
- **Building Regulation Approval** - again these are only required if the vendor or some previous owner made changes to the property that are deemed to be structural and so should be inspected by the local borough's Building Control department. These can include changes that have been made inside the property and so did not require planning consent. An example could be where two rooms have been made into one and the wall that was removed was a structural part of the property.
- **The Lease (Leasehold and Share of Freehold Only)** - This comes from the vendor's solicitor and defines what the freeholder expects from you as a leaseholder. See **Viewing Properties and Making Offers**
- **Service Charge Accounts (Leasehold Only)** - where you are buying a leasehold property it is important to gain an idea of how much the managing agents charge every year to maintain and run the property. These charges could include lift maintenance, cleaning, lighting, care of a communal garden, even looking after the TV aerial and satellite dish. The most important factor is that these charges are consistent and reasonable with what is being provided. As such your solicitor will ask for at least the last three years accounts to confirm this or spot any trends that you should be aware of. Any debts that the vendor may have with the managing agents are identified here and are extremely important. Service Charge debts are based on the property. If you buy when there are outstanding debts they will become your responsibility.
- **Ground Rent Receipts (Leasehold Only)** - the ground rent is a charge made by the freeholder. Again the last three years receipts will be sought by your solicitor in order to make sure the premiums are not excessive or rising sharply. Any debts that the vendor may have with the freeholder are identified here and are also extremely important. As with the service charge, ground rent debts are also based on the property. If you buy when there are outstanding debts they will become your responsibility.
- **License to Assign (Leasehold Only)** - for most purchases this is a formality. It is a document from the managing agents or freeholder saying they accept you as the new leaseholder. There are some blocks, however, where you will have to provide character references, proof of your financial status and sometimes even

attend for an interview. They are rare and, more often than not, in the upmarket apartments of Mayfair and Kensington.

- **Deeds of Variation (Leasehold Only)** - when a lease needs to be changed the freeholder may decide that writing an entirely new lease is timely and costly. As such they will issue a deed of variation to the lease to confirm that something in the lease is not true or to make an addition to the lease.
- **Share Certificate (Share of Freehold Only)** - where the property you are buying is Share of Freehold you are essentially buying into a percentage of the freehold. The freehold company you are becoming part of is a Limited Company registered at Companies house. As such your part ownership of the freehold must be recognised legally and to do this all the other parties who own a percentage of that freehold must agree to issue you with shares.

What Can Go Wrong

The problems with paperwork fall into issues at the vendor's solicitors side and issues that your solicitor will have. The latter are:

- Your solicitor is old fashioned and argues that, despite having some of the paperwork, it is not worth starting work until all the documentation has arrived which slows down the process and adds to the risk of the purchase falling through
- Your solicitor does not believe the contract is legally adequate and gets into an endless argument with the vendor's solicitor over the wording.
- There is no definitive protocol for what a seller's pack should look like and your solicitor believes that the one provided is inadequate.
- There is no definitive protocol for what a fixtures and fittings list should look like and your solicitor believes that the one provided is inadequate.
- The buildings insurance on the property may not be adequate for the lender you have chosen even though it was fine for the vendor's lender.
- The guarantees on work carried out on the property are from companies no longer in business
- There has been building work that does not require planning consent but your solicitor is not familiar with the area's requirements and so asks for documents that are not required and do not exist.
- There has been building work that does not require Building Regulation Approval but your solicitor is not familiar with the area's requirements and so asks for documents that are not required and do not exist
- There has been building work that requires Building Regulation Approval but the work was carried out before Building Regulation Approval came into force.

Your solicitor is not be familiar with when this actually occurred in the area and so asks for documents that do not exist

- Leasehold only: The managing agents are extremely slow to provide service charge accounts
- Leasehold only: The managing agents have been changed within the last three years and the previous agents are refusing to pass on any documentation.
- Leasehold only: Your solicitor believes the service charge accounts are not adequate but the managing agent refuses to provide any further information
- Leasehold only: The vendor owes the managing agents money but is refusing to pay it because he is in dispute with them. An example may be that he has withheld the cleaning charge because no cleaning has occurred!
- Leasehold only: The vendor owes the freeholder money but is refusing to pay it because he is in dispute with them.
- Leasehold only: The freeholder is absent (has gone missing and no one knows where they are!) and so no ground rent payments have been made. Your solicitor may be concerned that he will reappear and want to claim the outstanding debt from you.
- Leasehold only: Your solicitor does not think a deed of variation is adequately worded and wants a new one drawn up. The freeholder is offended and refuses to do so

Requesting Further Enquiries

With so many pitfalls in the documentation it is not surprising that your solicitor may want to ask further questions of the vendor, his managing agents or his freeholder. Much of this comes from the fact that there are no definitive protocols for the forms and documents that pass between them.

In a perfect world they would ask, the vendors' solicitor would reply, and you could get on with buying the property. It's not a perfect world and solicitors are also a proud race. Taking criticism from another solicitor is not their forte. They also all tend to have their own methods of working and often scorn those of their counterparts.

What Can Go Wrong

- The most common issue is that your solicitor does not believe a document provided by the vendor's solicitor is legally adequate. To the vendor's solicitor this is a smack in the face and an insult to his professional capabilities. All too often the process can get bogged down in an, "Oh yes it is" - "Oh no it isn't" circular argument. The most fiercely debated are Deeds of Variation, sellers packs and fixtures and fittings lists.

- If your solicitor is not based in, or familiar with, the area in which you are buying they may not know about local regulations. As such they request documents that do not exist. The vendors' solicitor does not reply for exactly that reason but your solicitor sits and waits for the document that isn't coming. The most common is planning permission. Many solicitors are unaware, for example, that you can build an extension on a freehold house in certain conservation areas up to ten percent of the volume of the original house or fifty cubic metres (whichever is greater) . As such they waste time swapping letters in an endless attempt to find planning consent on something that requires no approval.
- Your solicitor is lazy (or some might argue clever) and has created a list of enquires that need answered in order to satisfy every lender and client. He does not read the documents that have been sent through but simply sends this enquiry form off. The vendor's solicitor believes your solicitor is simply trying to get him to do all the work by trawling through the documents and extracting the relevant facts. The vendor's solicitor only fills in replies to the questions not answered in the original paperwork. Your solicitor claims that he has not replied to all the enquiries. He claims that the remainder of the enquiries are in the original documentation and both sides refuse to do anything!

Applying for Local Searches

These are usually required by the lender and fall into three parts:

- **The Local Search** - this is provided by the local council and lists all planning applications made in the area immediately surrounding your property since records began. It does not show whether the applications were successful or not. There are three ways to get a local search:
    - **The Standard Local Search** - this is the traditional method and costs the least. Your solicitor applies to the local council who find every single planning application there has ever been in the area. It can take, depending on the council, up to sixteen weeks to process.
    - **A Hand Search** - this is arguably less thorough than the standard search as well as being more expensive. It is however very popular because most councils will turn it round within forty-eight hours. It is not accepted by all lenders
    - **An Agency Search** - some entrepreneurial individuals have taken advantage of the fact that councils can be eye-wateringly slow in processing

local searches. To plug this gap they have started agencies that buy searches either from the council or solicitors on a regular basis. They put these on the shelf and then sell them to your solicitor for a profit. Needless to say they are more expensive but it is a very useful way to get hold of a Standard Search in days, rather than weeks.

- **The Drainage Search** - this is again provided by the local council and confirms that your property is entitled to be connected to the local sewerage and drainage systems of the area. It is really aimed at properties in more rural areas that may have their own septic tanks and in major towns and cities it is almost always no more than a formality.
- **The Environmental Search** - this is a modern addition and looks at the soil pollution underneath your property. Needless to say in major towns and cities this is generally pretty bad. It is there to protect you from unscrupulous developers who have not prepared the ground adequately before building but means little underneath properties built half a century ago.

Once your solicitor has these searches he may want more information. The most obvious is that there is a planning application in the local search that applies to the property you are hoping to purchase. They will then want to know:

- Was the application successful and if so:
- Was the planning consent acted upon and did building work actually take place and if so:
- Was the building work inspected to confirm that it did match the planning consent that was approved and if so:
- Was Building Regulation Approval required for the building work and if so:
- Was the work inspected and Building Regulation Approval given.

They may also want to know, however, if planning consent has been given for something on another property that may affect the value of your property in the future. An example would be planning permission to open a nightclub across the road from your property. The local search would show someone had applied for it but they will need to find out if it was denied. If not they will need to tell you and the lender about it as it may materially change the decision of either of you on whether or not you want to proceed.

A classic example is Highbury Place in Islington. Georgian town houses can sell for well over £2 million yet a few decades ago a planning application was made to tear the whole row down. Thankfully it was rejected but the application shows up on every search so a solicitor must always check that it was rejected. Otherwise they could theoretically be handling the paperwork of a historical pile of rubble!

What Can Go Wrong

- Your solicitor is not familiar with the area in which you are buying and applies for a standard local search, unaware that it may take four months to process
- Your solicitor is not familiar with agency searches and refuses to use one (often the case with solicitors based outside major towns and cities where such agencies are rare)
- The local borough is taking weeks to process searches but your lender will not accept a hand search and your solicitor does not understand agency searches
- Your solicitor has no contacts with the local council and so cannot get clarity on planning applications and has to do everything in writing which adds weeks to the process as they grind through the council's systems
- Your solicitor is based in a rural area and believes the results of the Environmental Search are a disaster compared to those that he has seen in the green and pleasant rural location where his practice is based

Checking the Mortgage Offer

If you have applied for a mortgage in order to purchase the property then, all being well, the lender will issue you with an offer. Your solicitor will not want to exchange until you have this and he has a copy. To do so would mean that you would be liable to complete and pay the balance, without any guarantee that someone will lend you the cash.

Your solicitor will check the offer to ensure the bank has not made any errors on the offer which would affect the your ability to complete.

What Can Go Wrong

- The most common is a mistake in either your details or the property details. They may have misspelled your name or got the postcode wrong. They could also have made a mistake with the term of the mortgage, expecting you to pay it back within ten years when you thought you had twenty-five!

Issuing the Report

Once all issues have been resolved to your solicitor's satisfaction they will summarise the mountain of paperwork into a report. This will usually be about five pages long and will repeat the obvious points (such as the address of the property) as well as pointing out the unusual. Solicitors call this 'reporting to their client'. It is as much a way of bringing important facts to your attention as it is a method to cover themselves against any future legal action you might want to take against them so read it carefully.

The report usually arrives with all the other paperwork so you can read the actual lease or view the management accounts yourself. Attached to it will be the contract for you to sign. By doing so you are saying that you accept all the attached paperwork.

What Can Go Wrong

- You become bogged down trying to understand all the documents rather than trust the person you paid to do that job for you.
- The solicitor is extremely slow in putting the report together
- The report and all the documentation gets lost in the post

Exchanging the Contracts

Your solicitor is only able to do this once he has your part of the contract back and signed by you. He will also need to be in cleared funds (see above). With this he is ready so long as the vendor has signed his part and returned it to his solicitor. Despite having all of this he will probably wait for your final verbal instruction before exchanging.

What Can Go Wrong

- You think you have signed everything you need to sign and disappear off on holiday, assuming your solicitor will exchange. He does not have your final verbal instruction and so does not do it.
- Your solicitor goes on holiday or is off ill and there is no one else available to affect the exchange.
- Your solicitor goes on holiday or is off ill but there is someone else available. They check the paperwork and decide there are some enquiries missing that they want answered and refuse to exchange until the vendor's solicitor replies.
- The money you gave to your solicitor for him to exchange has not cleared into his account.

Completion

When Exchanging Contracts all parties agree the completion date. Completion is the day that you pay the balance of any money to the vendors solicitor and legally take possession of the property.

In order to complete successfully your solicitor will need to have the cleared funds to do so. This may either be the cash from you or the loan from your lender. If the money is coming from you any cheque must have cleared by this day. If it is coming from your lender the solicitor traditionally has to give them five days notice. This is known as drawing down the mortgage.

In this modern day and age there is probably no need for it to take this long but tradition is a powerful thing and everybody accepts it.

Your solicitor will send the money to the vendor's solicitor via an electronic cash transfer system. This process can take anything from a couple of minutes to a few hours depending how busy the wires are. Your solicitor will be able to tell you the time the money was sent but this does not mean anything until the vendor's solicitor confirms it has been received at his end.

What Can Go Wrong

- Your solicitor forgets to ask you for funds in time for a cheque to clear or a bank transfer fails due to technical problems
- Your solicitor forgets to draw down your mortgage (unusually common) so no funds are available for completion
- Your solicitor is off ill on the day of completion and it is difficult to find someone else to handle the transaction
- Your solicitor sends the money too late for it to be received by the vendor's solicitor
- Your solicitor sends the money but it is not received by the vendor's solicitor due to technical difficulties
- Your solicitor sends an inadequate sum of money to the vendors solicitor and this only becomes clear too late in the day to organise another transfer.

The Vendor's Solicitor in the Property Buying Process

Once officially instructed by the vendor the role of this solicitor is to:

- Send the standard set of paperwork to your solicitor
- Reply to any further enquiries your solicitor has
- Send the approved contract to your solicitor and to the vendor
- Exchange Contracts
- Complete

Sending the Paperwork

The vendors solicitor has to collate the paperwork described in Your Solicitor above. These are sourced from various parties and so tend to arrive at different times.

- **The Contract:** Every solicitor usually has their own version of a contract on file. They will fill in certain details and send it off as a Draft Contract as they expect your solicitor will want some changes.
- **The Title Deeds:** These will either come from the vendor or the lender (if there is currently a loan secured on the property). If it is the latter the solicitor will need the mortgage lender's name and account number as well as written permission to apply for them.
- **The Sellers Questionnaire:** From the vendor (see below).
- **Fixtures and Fittings List:** From the vendor (see below).
- **Building Insurance:** From the vendor or if he does not have it, from the insurance company once the vendor provides him with the company name and policy number.
- **Guarantees:** From the vendor (see below).
- **Planning Consents (where applicable):** From the vendor or, if he does not have them, from the local council.
- **Building Regulation Approval (where applicable):** From the vendor or, if he does not have them, from the local council.
- **The Lease (Leasehold and Share of Freehold only):** From the freeholder or freehold company.
- **Service Charge Accounts (Leasehold only):** From the managing agents or from the freeholder if he has not appointed managing agents.
- **Ground Rent Receipts (Leasehold only):** From the freeholder.
- **License to Assign (Leasehold only):** From the freeholder.
- **Deeds of Variation (Leasehold and Share of Freehold only, where applicable):** From the freeholder or the freehold company.
- **Share Certificate (Share of Freehold only):** From the freehold company.

What Can Go Wrong

With paperwork to come from so many different sources it is little wonder that it can take time and sometimes even prove impossible.

- The vendors' solicitor has only just been instructed and it takes weeks for all the documentation to be collated and forwarded to your solicitor
- The vendors solicitor is old fashioned and refuses to send on any paperwork until he has the full set of documentation
- The title deeds are with a lender who has lost them which causes weeks of delay. It is surprisingly common!
- The sale price is too low and the lender, not convinced the vendor can cover the shortfall between the outstanding debt secured on the property and your offer, refuses to release the title deeds
- The Vendor has the title deeds but cannot find them or has lodged them with a solicitor who has since gone out of business or closed down
- There has been building work that required planning consent but none has been applied for
- There has been building work that required Building Regulation Approval but the work has not been inspected and there is no certificate
- Leasehold only: The managing agents are extremely slow to provide service charge accounts
- Leasehold only: The managing agents have been changed within the last three years and the previous agents are refusing to pass on any documentation.
- Leasehold only: The freeholder is extremely slow to provide ground rent receipts
- Leasehold only: The freeholder is absent (has gone missing and no one knows where they are!) and so no ground rent payments have been made.
- Share of Freehold Only: Some of the parties who own part of the freehold are absent and cannot be found so it is not possible to issue a share certificate
- Share of Freehold Only: The company has been very badly run and accounts are missing so it is not possible to see how much the running costs of the building have been

Replying to Enquiries

As described in Your Solicitor this should be straight forward but for the disagreements over:

- What the vendor's solicitor thinks has already been answered
- What the vendor's solicitor thinks is important to answer

The vendor's solicitor always starts the transaction as the most relaxed party. He hopes that he will send off the paperwork that he believes your solicitor requires and wait for a call to exchange contracts. Ask a vendor's solicitor if he is ready to exchange and, so long as he has sent out the original set of paperwork, the answer is always, "Yes!"

This is a natural response as he actually does not have to collate any answers in any format for either his client or a lender. It does sometimes, however, lead the vendor to believe that the buyer is being awkward.

Imagine if every time you called your solicitor and asked what the situation was he always said, "Well I'm ready, but the buyer wants to know X". You would begin to wonder what the problem was with the buyer!

What Can Go Wrong

- The two solicitors become deadlocked on a disagreement over the wording of a document
- The Vendor's solicitor refuses to answer enquiries that he claims are already covered by the original paperwork and a stalemate follows
- The Vendor's solicitor tells the vendor some enquiries are "not relevant" or "too picky" and persuades the vendor to instruct him not to reply
- The Vendor's solicitor winds the vendor up by stating how ready he is to exchange every time the vendor calls

Sending the Approved Contracts

Once the arguing has subsided and both sides have agreed that all enquiries have been cleared up the vendor's solicitor will produce the final contract and send it to your solicitor

What Can Go Wrong

For once this is a procedure that moves as smoothly as the postal service, or hopefully the DX system.

Exchanging

When your solicitor has your signed contract and funds for the deposit, and the vendor's solicitor has the vendor's signed contract, exchange of contracts can take place. The money is sent electronically between the solicitors and they verbally agree that exchange has taken place at a specified time (say 3.45pm).

What Can Go Wrong

- The vendor thinks he has signed everything he needs to sign and disappears off on holiday, assuming his solicitor will exchange. He does not have the vendor's final verbal instruction and so does not do it.
- The vendor's solicitor goes on holiday or is off ill and there is no one else available to affect the exchange

Completion

There is very little for the vendor's solicitor to do on the big day and it is not that essential that he is present as long as there is someone in the office that can confirm the balance of funds has arrived. In many larger law firms the matter is dealt with by clerks as it is simply a yes or no answer.

What Can Go Wrong

- There is no one available to confirm funds have been received
- The vendor's solicitor does not receive the payment sent by your solicitor due to technical problems

The Vendor in the Property Buying Process

Once the vendor has agreed to accept your offer for their property his responsibilities are to:

- Sign the Estate Agents Terms and Conditions (if using an agent)
- Instruct a Solicitor
- Agree to an exchange and completion date
- Reply to any enquiries raised
- Sign the Contract

Signing the Estate Agent's Terms and Conditions

This is actually an action that the vendor should carry out the moment he decides which agent or agents are going to market his property. For Estate Agents it is a risky business to show or advertise a property without this document being signed because the property owner could sue for wrongful representation or damage to the property caused, even accidentally, when a prospective buyer is shown round.

Despite this many agents may be keen to get a property onto the market either because it is extremely busy or because the property will be "easy to sell" and so waiting for signed terms and conditions may give another agent the opportunity to get good buyers through the door first.

The Terms must be signed before solicitors are instructed or the agent may risk loosing their fee. The vendor could argue he never agreed to pay the agent anything and with the two solicitors talking, there really is no need for the agent anyway.

What Can Go Wrong

- The Vendor has agreed to your offer but is not in the country at the time so delays occur while terms are sent, signed and returned
- The Vendor gets into an argument with the agent over the fee and decides not to accept your offer after all (usually because he thought the fee was lower)
- Although the vendor has agreed to your offer and a fee, he decides that he has not been impressed by the agent and wants to renegotiate this fee first

Instructing a Solicitor

A vendor will have many of the same problems as you do in finding a solicitor. Once the vendor has found someone they are comfortable with that solicitor will send out documents for them to complete. The vendor must return:

- Details of where the Title Deeds are or the Title Deeds themselves
- A Sellers Questionnaire
- A Fixtures and Fittings List
- A copy of the current buildings insurance
- Any guarantees he has concerning work that has been carried out on the property
- Copies of planning consent or building regulation approval if structural changes or additions have been made to the property
- Leasehold only: Who the managing agents are and who the freeholder is
- Share of Freehold only: The last three years accounts
- Share of Freehold only: A share certificate

Details of these documents can be found in Your Solicitor above

What Can Go Wrong

- The vendor has not instructed a solicitor and it now takes three weeks to find one and furnish him with the necessary paperwork to start the process. They did not do this earlier because:
    - they were not convinced the property would sell at the price they wanted and so they did not want to incur any costs
    - they had put their property on the market for both sales and lettings and were waiting to see who would bite first
    - they were badly advised by the agent not to do so
    - they were selling privately and did not realise they should do so
- The Title Deeds are with a lender and even after the vendor has completed the necessary paperwork it takes two weeks for the lender to send them to his solicitor (so long as they can find them and lenders loosing title deeds is surprisingly common)
- The Title Deeds were lodged with a solicitor who has since closed down or gone out of business. Delays are inevitable while the vendor tracks down what happened to the documents held by the solicitor
- The vendor has kept the Title Deeds but can't remember where
- The vendor is unsure about questions on the sellers' questionnaire and it takes time to find the answers (such as, for example, who is responsible for the garden fence which borders his property with his neighbour's)
- The vendor and their partner take days to agree what should be included on the fixtures and fittings list
- The vendor cannot find details of his current building insurance and has to ask the insurance company to send him a copy of the current certificate
- The vendor has told you something is under guarantee but cannot find the certificate. It takes time to get a copy
- The vendor has carried out building works on the property which required planning consent but he has not apply for it
- The vendor has carried out building works on the property but does not have a copy of the planning consent that was given
- The vendor has carried out building works on the property which required Building Regulation Approval but he has not had the work inspected and so has no certificate
- The vendor has carried out building works on the property which required Building Regulation Approval and has a Building Regulation Approval certificate but cannot find it.

Replying to Further Enquiries

Once your solicitor has been through the first batch of paperwork sent by the vendor's solicitor he is likely to have some extra questions that are either required by the particular lender you are using (if you are applying for a mortgage) or because he believes you should know.

These enquiries are sent to the vendors' solicitor who may be able to answer some of them from the existing paperwork (where he thinks your solicitor has missed or not read certain documents) but there may be other points which only the vendor can answer. These may, for example, be with reference to a legal dispute with one of the neighbours or missing guarantees.

What Can Go Wrong

- The vendor does not know the answer to a question and is not aware that he simply has to reply 'I do not know'. He spends days trying to find the answer
- The vendor does not understand why your solicitor needs to know a particular point and feels it is irrelevant. As such he refuses to answer

Signing the Contract

The vendor has agreed to sell to you at a certain price so as soon as the wording of the contract itself is agreed between the two solicitors he can sign the document and simply wait for you to sign yours when all the other paperwork is out of the way.

But many don't and often it is because their solicitor does not push them to just in case there are any changes such as a renegotiation of the price after the property has been surveyed. By doing this, and saving themselves the risk of extra work, there is more risk.

What Can Go Wrong

- The vendor assumes everything is in hand and goes on holiday making exchange impossible
- The vendor's solicitor only sends the vendor the contract once you have signed your copy. It spends time and is delayed in the post

Summary

Despite the endless pitfalls that seem to be placed between agreeing an offer and exchanging it is heartening to know that over fifty percent succeed. It is often the smallest and simplest issues that become the most complex while those that seem insurmountable can be quickly and easily resolved.

For the most part many of these hurdles simply cause time delays but as ‘Time Costs Deals’ (seethe chapter **Time Costs Deals**) every extra week is another chance for your property purchase to fall apart.

18 - The Balance of Power

What's covered in this chapter

- How power in a transaction can move between buyer and seller;
- When power is real, and when it is perceived;
- How to know when you have the upper hand, and when you don't;
- What weakens the power of the buyer or the seller;
- True stories of people who thought they were in control, and lost it all.

From the moment you make an offer to the time you negotiate a completion date and exchange the person with the upper hand can vary considerably. This is yet another reason to get an agreed deal through to exchange as quickly as possible.

Real and Perceived Power

The Balance of Power has two parts, what is actually happening and who actually has the power versus what both parties (buyer and vendor) believe is happening and who they believe has the power. This means that just because you, as a buyer, may believe the market is moving down and want to renegotiate the price, the vendor may believe the opposite and think it is worth withdrawing from the sale in order to sell again for more money.

It is important from day one to understand the vendor's motivation for selling and then, market conditions aside, you will know if it is wise to cause waves after a bad survey - balanced against your particular desire for that property. Far too many buyers try to renegotiate only to find the papers are withdrawn from them by an emotional vendor who then refuses to continue the sale under any circumstances. The selling agent is the best person to ask as they should know why the vendor is selling and their state of mind at any given moment. Note here the key is 'at any given moment'.

With private sales motivation is much more difficult to gauge as the vendor may well lie in order to make himself look less desperate or conversely to try and get an offer which he can then use to push other potential buyers higher.

How the Balance of Power Changes

What weakens a vendors' power includes:

- the property being vacant and mortgage payments are high
- they have found a property they want to buy
- the market is falling
- they are in financial trouble
- they are splitting up with their partner and jointly own the property

What weakens your power includes:

- you have been looking for six months and this is the only place that matches

your requirements and budget
- the market is rising
- your rental lease is running out
- you have a buyer on your property who has offered an extremely good price and wants to exchange fast
- this is your dream property

All of these factors can change very quickly. Imagine you have got an offer agreed on a vacant property from someone who is in financial trouble, believes the market is falling and wants the flat sold quickly so they can finalise their divorce.

Within a month the same person may have received a fantastic rental offer on the flat, come into some unexpected money, seen reports in the media of a rising market and got back together with their ex-spouse.

You have gone from having power to having none so no matter what a walk over you believe the vendor to be at the start of a transaction always keep things civil and don't assume that circumstances won't change.

True Story - A Renegotiation on Edgeley Road

Simon was especially pleased to find out that a married couple who owned a flat in Edgeley Road had found the property of their dreams in Balham and were desperate to sell. It was a quiet summer market and only a handful of people had been to view the property.

Simon was a first time buyer and knew his strong bargaining position. Over a four day period he negotiated through the agent and eventually achieved an agreement at over 10% below the asking price â€“ exceptional for the market place at the time.

The chain moved forwards and the vendors of Edgeley Road booked a survey on their house in Balham. The surveyor's report suggested the house needed a great deal of work and, with so many extra costs to take into account, they decided to withdraw from their purchase of the house.

On a point of morality they felt guilty about stopping the sale of their flat to Simon and so decided to let this process proceed.

Simon's survey did not reveal any great surprises but he did believe he might be able to save a little more by renegotiating on some points regarding damp and timber. The time spent going backwards and forwards gave the vendor plenty of time to think and they concluded that actually they were underselling their own property for no good reason. Furthermore they believed the buyer was now being unreasonable in his demands and so they withdrew from the sale.

If Simon had stayed quiet and not overcooked his bargaining the vendors would probably have exchanged but greed got the better of him.

True Story - Chipping the price at Swan Yard

Melissa had made an offer on a one bedroom flat within sixty seconds of an underground station. It was a safe location and the property had been decked out loft style. The owner had been renting the flat but the tenants were shortly due to move out. Concerned at the prospect of paying two mortgages he reduced the price from £220 to £205.

When Melissa's offer came in at £195,000 he was relieved and agreed to it immediately. The transaction moved through to the point of exchange within five weeks. At this point Melissa thought she would take a chance and, giving lots of arguments about a falling market (which did not exist) told the vendor that if he wanted to exchange he would have to reduce the price by a further £5,000.

Three weeks previously the people who owned the flat upstairs from the property in question had approached the vendor and offered him the full £205,000 so that they could change the building back into one whole house. The vendor had done the honourable thing by telling them that he was already under offer and would not back out of an agreement he had already made.

Within two hours of Melissa attempting to renegotiate the price the vendor had decided that this meant there was no need for him to remain true to his word, if his buyer was not true to hers. He asked his solicitor to retrieve the contract and called the people in the flat upstairs to give them the good news.

Melissa offered to exchange immediately at the original agreed price of £195,000 but this was still £10,000 short of an offer from buyers who had an excellent motivation to exchange on this particular property. She lost the property and all of her expenses.

19 - Time Costs Deals

What's covered in this chapter

- Why you should push your purchase through quickly;
- Why buyers stop buying and sellers stop selling;
- Why chains often fail;
- The true story of how a buyer lost a property by waiting too long;

There should be no real need for all the tricks and short cuts included in these pages but for one overriding fact that any good estate agent will tell you, "Time costs deals". Removing all the pitfalls of legalities and survey there are factors far outside the actual transaction that will affect the chances of you getting that dream property. They are the things that happen to us all at some point in our life. Events that make us take stock and change the bigger plans we have, such as moving house.

The longer the time period between offer and exchange of contracts, the more likely it is that the deal will fall through, often for no good reason.

Here are just a few events that can stop either the buyer or the vendor proceeding.

What makes the buyer stop buying	**What makes the seller stop selling**
House Prices Falling	House Prices Rising
Loosing their buyer	Loosing the Property they want to buy
Any part of the chain below collapses	Any part of the chain above collapses
	Another buyer makes an offer
	Fire or flood at the property

Redundancy

Splitting up with a partner

Meeting a new partner

Inheritance money

Family crises / illness

Injury

Bankcruptcy

Preganancy

Death

Job change - promotion/demotion

Job move (geographic)

If you consider this statistically any one of these events has a probability of happening in any one year. For the purposes of proving the point we could say there is a 2% chance of any of the above happening in a year. That means there is a 56% chance the transaction will fail.

If you let your purchase drag on for 6 months that's a 28% chance you will loose your solicitors fee, survey fee, hours of time and quite possibly a few thousand pounds more if the market rises. All this before you have even looked at a survey or contract with all the potential those documents have to ruin the deal!

If you are in a chain involving say four properties, the chances of some disaster befalling the transaction over six months is more than 100%! Don't let it happen.

True Story - The Windows at Seymour Street

Sonya and Mark had made an offer on a one bedroom flat in the depths of the Winter market. The low level of viewings had persuaded the vendor to accept £240,000 on their £270,000 flat.

David was another buyer who had come to see the flat but a month later he had opted for a similar property in a nearby garden square.

Sonya and Mark instructed a solicitor who was not only painfully slow, but also painfully thorough to the extent that the sale dragged on for ten weeks. Their solicitor added new enquiries each week including a request that the freeholder should have all the windows in the building assessed, and get quotes for repainting and repairs, before they would exchange.

David, in the meantime, was close to exchange on his purchase when the vendor pulled out after loosing his job. David called the agent to talk about new properties he could buy and asked after Seymour Street. He was shocked to find that after nearly three months, and in the middle of a busy Spring market, it had not exchanged and immediately offered to pay the asking price.

£30,000 extra was too good to refuse and Sonya and Mark lost the property. The few hundred pounds they may have had to pay sometime in the future to get the windows repainted was nothing compared to the £20,000 more they ended up paying later in the year for a comparable property.

20 - What a Property Survey Really Means

What's covered in this chapter

- Who the surveyor is actually working for and their hidden agendas;
- The types of survey and which ones are worth the cost;
- Why surveyors should never estimate the cost of potential works;
- Why retentions don't suggest the cost of repairs;
- The difference between rising damp and penetrating damp;
- How to check more than a structural survey covers and pay less;
- Why a sagging roof may not be a real issue;
- How to handle subsidence, movement and bulging walls;
- When to use a survey to renegotiate and when to keep quiet;
- How to choose a good surveyor, and make sure the lender does to;
- Why you should never ask the vendor to carry out work;

Most buyers make one mistake here, they believe because they have paid the surveyor to do something, the surveyor is acting on their behalf and in their interests. Wrong. The surveyor is acting very much in his own interests to protect himself from any legal action you may be able to take after the purchase. It is fair that you have the right to sue a surveyor for damages if they miss out something which actually affects the value of the property, but the end result in recent years has been that many Surveyors go completely over the top in order to make sure no legal action is possible. Remember this:

If you buy the property the surveyor gets paid but may get sued for missing something. If, after survey, you decide not to buy the property, the surveyor still gets paid and has no chance of getting sued.

So ironically it is in the surveyors best interest to try and persuade you not to buy the property. For your part you have to try and separate fact in the report from over-the-top speculation and you can do this by considering two points:

- What is the survey actually saying in terms of cost and hassle
- Why did the surveyor say what he said.

In other words, as any historian will tell you, don't just look at what was said but ask why it was said. You should also be careful to differentiate work that should be expected (e.g. you should expect to repaint the windows every two years) and work that no person offering on the property would expect (e.g. the entire roof needs replaced). This chapter covers:

- Types of survey - what is said and how to quantify it
- Types of surveyor - why different surveyors can say different things about the same property

Types of Survey

There are three types of survey:

- The Valuation
- The Homebuyers
- The Structural

The Valuation Survey

This is crucial as if the surveyor does not agree with your offer price the bank won't lend. It is also the most valuable type of survey and probably all you need for almost any purchase. Most people are not aware that the valuation survey will also report on anything crucial that should be investigated. If they believe there is a serious problem with, for example, damp they will hold back all or part of the mortgage until it is investigated (see below). It is much easier to read a two page report that is very specific about major issues that will affect value than a fifty page report telling you that the aerial may need re-fixing and one of the windows in the back bedroom needs to be repainted in the next twelve months.

It will probably come as a shock to find out how the surveyor actually works but it goes something like this. They visit the property and check for any really big problems that will affect value. They then look up and down the street for sold boards and 'phone up those agents to ask them what they have sold. In the modern world they can also check the history of sold properties in an area on the internet. If they find similar properties sold at similar prices they sign the valuation off and you get your mortgage.

In the absence of sold signs he calls any local agents and asks them what they have sold recently in the area and tries to match it up. There is nothing more to it than that. If you want to try it for yourself find a sold sign, call up the agent and say, "Hi, this is Fred Smith from Island Surveyors, I see you have sold something in the High Street, can I ask what it was and how much it sold for?". You'll get the complete run down including the actual price it sold for, not its asking price. Note that Estate Agents, by law, are not allowed to tell you (a buyer) the actual price a property has sold for until it exchanges as this is confidential information. Agents are however, always trying to please surveyors because they don't want properties down valued, so if you pose as a surveyor you will find out everything!

The Homebuyers Survey

Probably one of the biggest waste of times in the whole home buying process. It is a valuation survey followed by a lot of speculation. You are likely to find out fascinating things like screws missing from plug sockets, wood that needs replacing in windows, kitchen cabinet doors that need to be fastened. The crucial thing on this survey is the valuation. If, with all the property defects, the surveyor still concludes the property is worth the agreed price then (unless the vendor is very desperate to sell) don't try to use it for negotiation. If the survey states that 'in it's current condition the property is worth x' and x is the price agreed then there are no grounds for negotiation.

The Structural Survey

For older houses these are generally seen as a must have by almost anyone who has written on the subject but again you need to take a view. If there is something structurally wrong with the property a valuation survey will pick that up. Its most important feature is probably that it will be useful when you come to sell the property as you can show it to a potential buyer under the guise, "When I bought this house X, Y and Z were wrong. I had them all fixed and here are the guarantees or receipts." (See **Why Vendors are Poorly Prepared**).

Aside from this the actual value of a structural survey is questionable. The surveyor is not a specialist in any particular field so the report is filled with vague statements such as "The windows appear in need of replacement and should be inspected by a specialist" or "The roof may be bowing and should be inspected by a specialist." More on this is covered in the section What is in a Survey (below).

Remember it is not possible to have a structural survey done on a flat as it requires access to all parts of the building and unless the neighbours are all very understanding it is not going to happen.

Requesting structural surveys on flats generally annoys the vendor who knows they can probably sell to someone else a little less awkward or a little less naive.

Retentions in a Survey

If the surveyor, carrying out any of the above surveys, believes the property is worth the price you have agreed to pay for it all is fine. If, however, he sees a major problem such as damp around the windows he will suggest that the bank holds back a certain amount on the mortgage until it has been satisfactorily investigated.

He will say, "The property is worth £250,000 as long as the windows are sound. Until this has been established no one (including the lender) should pay more than £240,000". The surveyor is not saying that the windows require £10,000 worth of work. He cannot because he is not qualified to cost repairs. So he chooses an arbitrary figure. It is simply a way to make sure something is checked before a loan is secured on the property or you pay out the cash.

The retention can be a small amount or the total price agreed (usually in the case of suspected subsidence or other major structural issues). The best way to deal with them is as described in the remainder of this chapter. Take them in your stride, in most cases the issue is much smaller than the surveyor believes and retentions are removed after investigation of the issue.

What is in the Survey

To prove your money is well spent a surveyor will usually want to pick up on something. The choice below is almost a check list of where the surveyor will choose one or two items for further investigation:

- Damp
- The Roof
- The Electrics
- The Plumbing
- The Structure

Remember a good surveyor will simply say "there is damp which requires further investigation". A bad surveyor will say "there is probably around £5,000 worth of damp that needs to be repaired". The latter is a ridiculous statement. Does this surveyor own a damp company? In other words remember this

- The surveyor is not a damp proof specialist and will not carry out the work so should not quote.
- The surveyor is not a roofer and will not be carrying out the work so should not quote.
- The surveyor is not a qualified electrician and will not be carrying out the work so should not quote.
- The surveyor is not a qualified plumber and will not be carrying out the work so should not quote.
- The surveyor is not a structural engineer and will not be carrying out the work so should not quote.

True Story - Damp at Packington Street

Sarah and Nicki had successfully offered on a two bedroom lower ground floor garden flat just off Islington Green in London. They had seen no end of properties and although this one was above their original budget they stretched to afford it. They then cut costs by going with a lender that had the lowest fees. The surveyor that looked at the property was a self employed individual who agreed that the property was worth £240,000 (their offer) but said £5,000 should be held back as a retention because of damp in the property.

A damp proof company was instructed to give a quote on how much work they believed was in the flat. They found £346 plus VAT! The surveyor had evidently picked a figure out of the air.

Sarah and Nicki doubted the difference in the two figures and instructed a second damp proof company who quoted £379 plus VAT. The vendor felt that the buyers were obviously desperate to reduce the price and if it wasn't this they would find something else in the legal paperwork so, having lost confidence in them, withdrew the contract.

Ironically the surveyor is simply someone who is trained to see tell tale signs that then require you to get a further specialist in. **If you want to be thorough and save time then get a valuation survey and at the same time pay for a roofer, plumber, electrician and damp specialist to inspect the property (for freehold properties pay a structural engineer as well). You will short-cut the long survey report and you will know the absolute worst case scenario as each specialist going in will be hunting for work. Then you can take a proper quantified view.**

You or the vendor, or both, should expect to pay for the specialists if you do decide to investigate further. This was not always the case but these tradesmen are very aware of how much surveyors are trying to cover themselves now. They are also aware that no matter what they find they are unlikely to get the work as any quote they give will usually just be used as a negotiating tool. As soon as the new buyer moves in they either take a view on the work or get other quotes to see if someone else will do it cheaper.

Here is how it works in reality:

- Mr X offers and gets a survey carried out
- Mr X is very worried about damp and so gets damp specialist in
- Damp specialist says £3,000 of work required
- Mr X tries to negotiate price, the vendor says , "The damp has never been a

problem to me, when I moved in I took a view on it"
- Mr X eventually successfully gets £1,000 off price and goes through with deal
- Three years later Mr X sells his property
- Mr X gets an offer which he accepts
- Mr Xs buyer has a survey which shows up damp
- Mr Xs buyer gets a damp specialist in who says £3,000 of work is required
- Mr Xs buyer tries to negotiate the price, but Mr X is furious
- Mr X tells his agent, "The damp has never been a problem to me, when I moved in I took a view on it"
- Mr X eventually agrees to take £1,000 off as a token of good will to the buyer

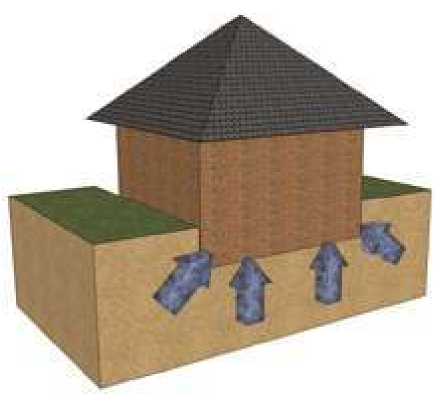
In this scenario the truth is that there is an issue with the property but it is not an issue significant enough that anyone will ever actually do anything about it. For this reason a specialist could visit the same property three of four times over a ten year period and never see a penny of work from it.

Damp

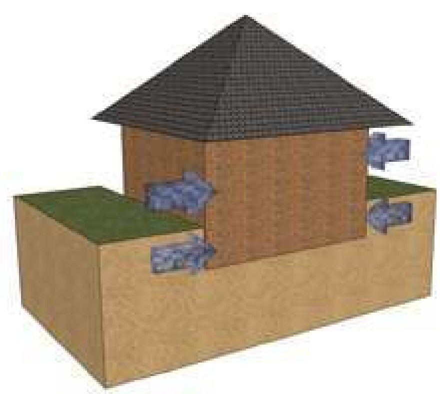
There are two types of damp:

- Rising Damp - damp coming up from the ground
- Penetrating Damp - damp coming through the wall

Types of Damp - Rising and Penetrating



Rising damp
Damp coming through at ground level. There are modern treatments available to resolve this



Penetrating Damp
This may come directly through the wall where the wall is below ground level or it could occur on upper floors from faults such as cracked window sills

Expect rising damp on all period properties (Victorian, Georgian, Edwardian, etc.) where you are buying a property that is or includes the basement, lower ground or ground floors. These buildings were never constructed with damp proof courses, they didn't exist at the time. The question is, how much damp?

The normal sequence of events is that the surveyor says there is damp and, if there is no current guarantee for damp proof work, a damp proof company goes in to quote for how much damp there actually is. Most damp proof companies will try to find any damp because they are looking for work. On the surface this all seems to be fairly sensible but actually it could cause you a whole load of problems.

If there is damp try and ascertain what level there is. Damp proofers measure the level of damp and unofficially anything less than a reading of 20 is not important. Anything over 35 is serious and anything over 50 should be visibly obvious. From a layman's point of view you should consider if the work is actually necessary, which you can do by asking a couple of questions to yourself.

If there has never been a damp proof course, the property has not recently been decorated and there are no visible signs of damp why mess with it?

In other words there is probably a natural balance in the property and if there is no damage being caused it means the damp is simply evaporating into the air. To put a damp proof coursing in could upset this natural balance. Damp proof courses are normally a metre to a metre and a half high. With the damp unable to come through and evaporate it could rise further to the top of the damp proof coursing and result in a very concentrated visible damp issue just above the coursing. This would mean, in the long term, even more work and cost for you.

If there is damp could there be another cause?

If the damp proof company is simply looking for work and the surveyor is trying to cover themselves they may both get a damp reading but is it actually penetrating or rising damp? Classic cases of this are damp identified in bathrooms and kitchen areas. The use of showers, baths, frequent cooking (especially boiling) and washing up all cause damp in the air. This is exacerbated in winter months by a lack of ventilation. If the damp is identified in these areas again consider if you saw any visible signs yourself. If not, leave it.

With these two questions out the way damp can be a thorny issue. Before trying to renegotiate the agreed price on something that the vendor has lived with for years, and has had no issues with, read and consider the chapter **The Balance of Power**.

The Roof

A roofer will usually charge between £100 and £200. Their quotes can vary enormously.

Almost any roof will need some work and bear in mind that most structures are generally expected to last about 20 years on a period property. As such, if the roofer comes back and tells you the roof will need to be replaced within five years do not be surprised and do not expect to be able to renegotiate in a busy market.

The most common faults with a roof are:

- Flashings need replaced
- Roof needs reinforced
- Roof needs replaced

Flashings need replaced

The flashings are the coverings between the tiles and the wall. Often made of zinc or lead they have a much shorter life span than the actual tiles on the roof. Replacement is a periodic maintenance issue for older buildings so never be surprised when a roofer says they need done, they nearly always do!

Roof needs reinforced

In the middle of the 1900s concrete was the new material to build absolutely everything from. It wasn't just restricted to massive council blocks but also to roof tiles and it became very fashionable to have concrete tiling.

Unfortunately few people stopped to consider that these were much heavier than the original slate and so would need better support from the inside. As such many roofs began to bow inwards, not to the extent that they leaked or collapsed , but bowed nevertheless. Extra timber supports will need to be inserted or the concrete tiles replaced with lighter ones if the sagging roof is getting worse. If the roof has sagged, and then stopped, there may be no reason to take any action.

Most of the time bowing or sagging roofs are visual to the naked eye and concrete tiling is obvious because of its thickness.

True Story - A Victorian Roof on a Victorian Property

Simon and Nichole were buying a four bedroom house in Ronalds Road for £535,000. The survey report suggested that there was inadequate support in the roof and that a roofer should be bought in to quote. The basis of his concern was that the wooden beams and struts did not have metal brackets to hold them in place where they met each other.

The buyers paid £125 for a roofer who inspected the property and reported that Victorian houses did not have metal brackets supporting the rafters and the system used in the loft was totally in keeping with the age of the property. The roofer did add that metal brackets were a requirement in properties that were being built today.

The surveyor, in this case, was either new to the trade, had only been viewing new build properties or could find nothing else to report on the property.

The Electrics

Again an electrician will charge for an inspection and in almost all cases the property will fail. This is because legislation on electrical systems in constantly being updated. One of the latest changes, for example, is that all plug sockets must be at least 13 centimetres above floor level.

Such changes, however, relate to two situations

- Properties built after the legislation comes in
- Properties that are being rewired

All inspections however have to report on how the electrical system compares to current legislation. When you get the report read it very carefully. If possible discuss it with the electrician. It is quite acceptable for example to have no earth wire in the lighting circuits on older properties even though this is a legal requirement for new builds.

Ask the electrician specifically if he discovered anything which was "out of keeping with the age of the building". Note that he cannot tell you a building is "safe" if it does not comply to the latest legislation because by law it is not! He can however tell you that almost all period properties of that age would also not comply with modern legislation.

True Story - Dangerous Electrics at Lofting Road

Andrea and John were a perfectly nice couple who had fallen in love with a town house near Highbury. They understood that structural surveys were not that useful and so went directly to instructing a plumber, electrician, roofer and damp proof company to give the house a once over.

The electrician's report was disturbing to say the least. It made clear that the electrics in the house did not meet current requirements and so their was "an immediate danger of electric shocks". When John asked the company that had carried out the survey what they meant they made it clear that the electrics were not in line with current regulations. When he asked them if the house was safe they stated that legally they were not allowed to say yes because of the former problem. When he asked if it was like any other Victorian house of that age they were allowed to say, "Yes!"

The Plumbing

The advice here pretty much reads the same as it does for The Electrics. The only addition to your consideration is the boiler and one of the best ways to get round this is to ask:

- Is it covered by a maintenance contract for repairs? If so it has been inspected within the last 12 months and is no cause for concern
- Is there a gas safety certificate (usually only if the property has been rented)? If so it has been checked recently and is no cause for concern
- Are you planning to replace it in the next 12 months? If so, who cares?

Structural Issues

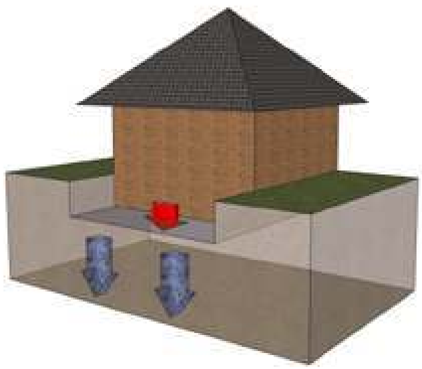
This is one of the most common reasons for a sale to fall through, for two reasons:

- It sounds terrible and most buyers assume the surveyor is qualified to comment
- It is costly to get a structural engineer in to look at the property

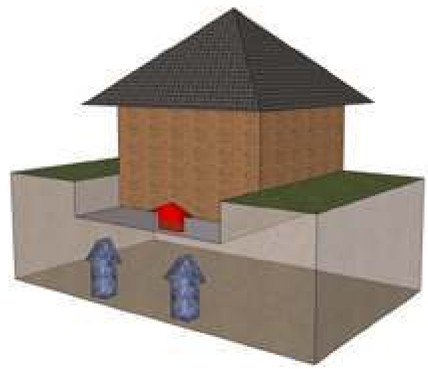
If we take London as an example, the fact is that most of the North is built on clay and most of the South is built on marsh. This means in the North properties tend to slip around while in the South they tend to sink. It's a historical problem which dates back thousands of years to a time when people were more interested in living beside a river at a shallow point than somewhere that would be suitable for four or five storey buildings.

Structural issues have fairly simple outcomes and really do not deserve the panic they get. In recent years hot summers and wet winters have caused the clay or marshlands that most older properties have been built on to contract and expand. As such almost all period properties will have cracking in their plaster. The smart vendor will have filled these in and repainted before putting their property on the market. It doesn't mean that you won't need to be getting out the filler yourself next year!

Movement to expect in all older properties which have not been underpinned



The clay beneath the property contracts during a dry summer causing the property to move down. This will cause cracking on the internal plasterwork and external brickwork



The clay expands during a wet winter causing the property to move upwards. This will cause cracking on the internal plasterwork and external brickwork

The question is: Is the property moving up and down or is it falling over? No matter how wonky the floors or how many cracks in the wall, these are not a guide to the structure. Settlement may have occurred one hundred years ago which have caused the floors to slope. And cracking in the plaster, well that just happens.

A surveyor, for reasons already mentioned, will err on the safe side and say there are possible structural problems. A structural engineer, who is qualified to assess if there is a real issue, will cost anything form £500 to £1,000+ to answer this question and again who pays depends on the balance of power (see **The Balance of Power**).

The structural engineer will come to one of two conclusions:

- Its fine!
- Not sure and needs to be monitored

Monitoring needs to happen over several months because movement can be slow and the monitoring needs to assess if the property is moving up and down or is continuing to move in one direction.

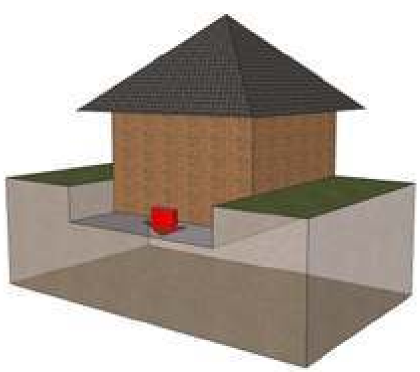
If it is subsiding it will need to be underpinned. Its messy but not expensive as long as the property is covered by insurance and in almost all cases houses are because subsidence is a common phenomena and therefore mortgage lenders insist on it.

If you really like a property and it is subsiding, buy it! The subsidence will be rectified under insurance and you will have an underpinned property which adds value when selling on.

You should also remember that just because the property is not subsiding this year, it may do so at any time in the future. Ironically many buyers shy away from properties that have been underpinned because they are worried about subsidence! Instead they should see it as an asset.

Underpinning for no good reason, however, is not advisable. If a property has a natural up-down movement that has not affected it over the last few decades caution should be drawn to messing with it. Although it may stabilise your property, if you are in a terrace it will then be out of synch with its neighbours who *are* still moving. This can cause wall cracking and roof damage.

Subsidence and how it is resolved



After monitoring it is concluded the property is moving constantly in one direction. A common reason for this may be a tree outside the property where the roots are sucking water constantly out of the soil

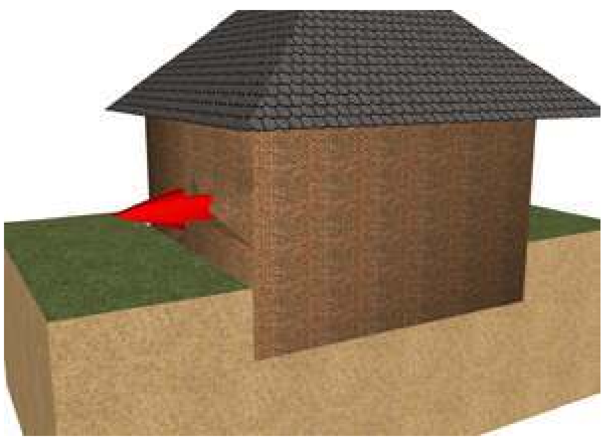
A concrete foundation is inserted underneath the property or parts of the property to halt the movement. This is known as underpinning

Bulging Walls

There is one other type of movement. With all that going up and down over the years some properties start to bulge out. This could also be caused by something like a heavy roof or a roof incorrectly supported or simply because the up and down movement is not happening to all of the property at the same time. In this case the wall will need to be pinned back in by tying it to a more stable wall in order to hold the property together!

In severe cases however the wall may have to be rebuilt which is a major job. In the case of bulging a structural engineers advice should always be sought.

Bulging in the walls and one solution



One of the walls has started to move out in one particular point even though there is no unusual movement below the property

The unstable wall is tied with a steel rod to a more stable wall in order to stop it moving out any further

Trees, Maintenance and Other Issues

Whatever else comes up in the survey bear in mind that on older properties:

- the roof is only expected to last 20 years
- all timber windows should be repainted and repaired every five years
- damp proof courses rarely really last the twenty or thirty years they are guaranteed for.

This means that even when the survey says for example, that the windows will need attention in the next two years this should not be a total surprise to anyone.

True Story - The Tree at St Paul's Street

Diane was very keen to purchase a three storey Georgian House in Islington. She offered to pay a little less than the £525,000 being asked and the vendor accepted. Her survey, however, questioned how stable the property was due to a tree situated in the pavement directly outside the front door. The vendor having had no issues when he purchased the property three years earlier refused to pay for a structural engineer to examine the building.

Diane also dug her heels in and said she would not pay for an engineer as "it was not her problem". It was however, very much her problem as there were no similar properties available and the market was moving up.

The vendor eventually became frustrated and withdrew the contract from Diane's solicitor. Five weeks later he sold the property at the asking price and the survey from the new buyer made no mention of the tree or any movement in the property.

Diane ended up buying a two bedroom flat with a roof terrace as by this time the price of houses had gone beyond her budget. Ultimately the £800 required to get a Structural Engineer in and show the surveyor was overreacting would have been money extremely well spent. "

Types of Surveyors

There are hundreds of survey companies in major cities. Most of the time the choice of who to use will be made by the lender you are borrowing the money from. For the lender what you want is not important, it is not your money that will be tied up in the property. But the bank will generally only want to know that what you have chosen is a "safe bet" and so they will only ask for a valuation report. Anything beyond this is up to you.

If you are not happy with the surveyor a bank chooses approach the bank directly, tell them your friend had problems with this firm, and ask them to appoint somebody else. They almost always have a panel of surveyors that they use so this is well within possibility. So why shouldn't you be happy? Below are the types of surveyor you should try to avoid.

Big Companies and One Man Bands

As discussed earlier the surveyor is acting for himself. He treads a careful line between agreeing with the sale price and not getting sued because he missed something or over valued. As a general rule of thumb a large company will be financially stable, well insured and have many surveyors. The result is that when someone from this type of company carries out a survey they will tend to be level headed and, if there are concerns, have colleagues to discuss the issues with and get second opinions.

By contrast a one man band (or small company) knows that one bad decision by him may lead to court action that will put him out of business. If your surveyor is one of these be prepared for a much more thorough and dramatic report, anything really to try and put you off buying the property so they get their fee with no risk involved.

Also be aware that small companies tend to down value properties to protect themselves (it will also stop you getting the mortgage) and many buyers loose perfectly good properties in a rising market because of this. Further still a small surveying company may not be carrying out many valuations and so in a competitive rising market they may be out of date in their thinking and also down value.

If you are organising your own survey go for a large well established firm, even if they are slightly more expensive. The report should be level headed and if they do miss something that comes to light after a few years they will still be in business and you can pursue them for material loss!

Surveyors From the Area and Those from Beyond

Everyone has been to visit grandparents, uncles and other relatives or friends who have bought and live in rural areas. Everyone has heard them say how they could buy a whole house with garage where they live compared to a one bedroom flat in a major city or town. And everyone has had them come to visit the flat and see their disbelief at how much you have paid for a few hundred square feet of metropolitan space.

Surveyors are no different. Once you hear that a survey is instructed you should ensure that the company is based in the area where you are buying or carries out regular work in that area. In a busy period the lender may not be able to find anyone free who is local and so instruct outside the area. A bank that seems to have very low fees may also, as a matter of course, instruct a surveyor from a rural location because the cost base is lower. Similarly if you are instructing your own survey you may have the same issue.

The upshot is all too often that the property is down valued and the bank refuses to lend. There is nothing wrong with the property or the price, its just the surveyor cannot believe what he sees and it looks like madness compared to the prices where he comes from.

If you are not instructing a surveyor directly make an effort to find out who your lender has appointed. If necessary kick up hell to get them changed.

Asking the Vendor to Carry Out Work

In almost all cases this is a bad idea. It does not matter if the market is rising or falling. It is irrelevant how desperate the vendor is or if you hold all the cards, don't ask the seller to put right things found in the survey.

There are very practical reasons for this. In the first instance the vendor will look for the cheapest possible company and he will have absolutely no motivation to make sure the work is done to a high standard - he's moving out and all he needs to do is provide a receipt showing someone did, or said they did, the work. The vendor will not be the one living with the result.

Secondly it can be too time consuming to check some of the most common work. Let's take an example of penetrating damp found underneath a window which is coming from a crack between the outside brickwork and the window frame. The work to fill in the crack might cost £200 so you would feel confident in asking the vendor to put it right. But he hires a cheap builder who uses low quality materials and provides a receipt confirming the work is done. It may have been done to such a standard that you will have to undo and redo the work yourself at some stage in the near future.

Now the plaster underneath the window will take time to dry and confirm that there are no further leaks. If you are moving from Spring to Summer it may show signs of drying simply because of the seasons but in either case around three months will be needed to confirm the plaster is dry - too long a time-scale in any transaction.

The better route is always to do the work yourself after you move in and either:

- in a rising market with plenty of other buyers around - if the survey says the property is worth the price agreed, even with this defect, think carefully about renegotiating
- in a falling market, depending on the balance of power between you and the vendor, you may be able to negotiate the price to cover the work

Summary

With all the ins and outs of a survey report the crucial question is value. If the survey report talks about roof or plumbing but concludes that the property is worth what you have offered then trying to renegotiate price is at your own risk. Too many people ignore this fact. Most properties are old, very old, and problems or future works are to be expected. The surveyor knows this and that is why they conclude their report: "In its current condition and in the current market the property is worth £x". And if £x is the price you have agreed with the vendor then so be it.

21 - Legal Matters in Property Purchases

What's covered in this chapter

- Who your solicitor is working for;
- What your solicitor needs to find out - in plain English;
- Why old fashioned solicitors can add weeks to the buying process;
- Why solicitors fight with each other and delay the purchase;
- How to get documents faster than your solicitor can;
- What to consider when organising property insurance;
- How the drains could cost you a fortune;
- When to take a view and when to take a stand;
- How to stop small details delaying the purchase;
- How to exchange within hours of agreeing a sale price;

In the chapter **Choosing a Conveyancer or Solicitor** we covered how to choose a good solicitor that will take your agreed offer through to a quick and timely exchange so that everyone is locked into the deal.

In the chapter **The Property Buying Process in Theory** we then went over how things should work and the myriad of problems that can arise.

What a Property Survey Really Means explained one of the major pitfalls in a purchase and how to work your way through it, sorting out what is serious and what is simply hot air.

This chapter looks at the essence of what is, and isn't, important outside of the survey and the options you have but are not always offered.

Your finance company who will provide the mortgage basically asks the question: "Are you, the buyer, a good bet to lend to and is the property you have offered on a good bet to secure that loan on should you ever default".

The solicitor also has a set of questions they want answered but they are legally obliged to inform the lender if they seriously believe anything they discover is likely to affect the lenders decision about either you or the property. The solicitor, for example, may discover that planning permission has just been granted to open a nightclub opposite your flat with live music until 3am every morning. The lender really ought to know that even if you think it is great news!

What the solicitor really needs to ascertain for the lender is laid out by the Council of Mortgage Lender and you can see the list of questions that relate to your lender on the internet.

In summary what your solicitor needs to find out falls into two parts:

- What he must find out because the lender says he should before they will give you the loan or mortgage on the property
- What he thinks he should find out on your behalf

In all conversations with your solicitor you should try and ascertain which of the above two any query he has relates to. Solicitors often try to sound technical by saying they have to do something "because it is in the CML hand book". What they are saying is the query must be answered because the lender requires it. All other queries are then up to you. If you don't feel a particular enquiry in the latter category is that important then tell your solicitor you are prepared to take a view on it and drop the query in order to save time.

What the Solicitor Needs to Find Out

The questions your solicitor is really looking to find answers for, and to make sure he does not get sued, are as follows:

What it's called	What it means
The Title Deeds	Does the person who is selling the property actually have the right to sell it - do they own it?
Fixtures and Fittings	Apart from the bricks, mortar, roof and windows, what is the vendor proposing to include with the sale?
The Sellers Pack	Does the vendor know of any reason why a buyer would not want the property?
Insurance	Is the building insured and if not, why not?
Planning Consent and Building Regulations Approval	If any changes were made to the building in the past was the appropriate consent gained and were the changes made to a good standard?
The Local Searches	Is anything being planned for the area that would affect the value of the property and does your property have the right to be connected to the mains drainage system?
Further Enquires	Are there any works planned for the property?
Management Agent Enquiries	If it is a leasehold property are the service charges and ground rents of the level you were lead to believe by the agent and have they all been paid by the current owner?

That really is about it and that is why it is possible to wrap up the legal side of things in a day if the solicitors put their minds to it - and some do. Most of the time delay in a transaction actually comes from them writing letters to each other which often go something like this:

- Solicitor A is concerned about why the service charge was so high two years ago
- Solicitor A asks his PA to write a letter to this affect
- Next day Solicitor A's PA writes the letter and sends it

- Two days later Solicitor B gets the letter but he is off that day
- The next day Solicitor B looks at the letter and believes the question has already been answered in the lease which was sent at the beginning
- Solicitor B asks his PA to write a letter saying to Solicitor A to look in the lease at section 3.2.c
- Next day Solicitor B's PA writes the letter and sends it
- Two days later the letter arrives with Solicitor A
- Solicitor A has read the lease and does not think it does answer the question so asks his PA to write another letter specifying why the section 3.2.c does not, in his view, answer the question.
- Solicitor A tells his client that Solicitor B is being awkward and avoiding questions so causing unnecessary delay.
- Solicitor B tells his client that Solicitor A is not reading the papers he has been sent and so is causing unnecessary delay
- The buyer and the vendor both think the other party is not serious about the transaction and consider withdrawing after two wasted weeks

In order to help you cut through the mess that is so easily generated, here are the questions that need to be answered and how, very often, you can get the answers much faster. If you want to understand the theory and terminology used in this text a little better make sure you have read the chapter **The Property Buying Process in Theory**.

In legal circles this is more commonly known as title. Does the current owner have the title? The answer to this comes in the form of title deeds. If the vendor owns the property outright he will have the deeds to the property or they will be with a representative, such as a solicitor.

If the vendor has a mortgage on the property he does not actually own it as the mortgage lender has a loan secured on it. In this case his solicitor needs to ask the mortgage lender if it is alright to sell and, if it is, to send him the title deeds. The process of extracting the deeds from the lender can take anything from one to six weeks depending on whether the lender has lost them or not, and that happens quite a lot!

If the deeds are with the mortgage company there is also another set of deeds lodged with Land Registry themselves. These are known as Office Copy Entries as they are not technically the originals but almost all solicitors agree that they are good enough to be getting on with until the real ones arrive. Most modern solicitors acting for vendors request office copy entries immediately as a matter of course as they can be accessed in a matter of days.

Ask your solicitor or the selling agent to find out if the title deeds are with a lender. If they are request that the vendors solicitor obtains office copy entries so title can be checked straight away.

There are two parts of the title. Firstly to check that the person selling actually owns the property you want to buy and secondly, that he owns all of the property that you are trying to buy.

As an example you may be trying to buy a garden flat in an end of terrace house. Years previously the house next door may have had a pathway at the end of your garden leading to theirs so they could access their garden directly from the street.

At some point in the past the two neighbours sat down and agreed that the pathway was never used so it could become part of the garden that you are trying to buy. A handshake, a sledgehammer and some shrubs were all it took to seal the deal but neither party actually got it rubber stamped by a solicitor. The neighbours may be happy with the arrangement but it could mean that at any time in the future a new owner next door could turn round and demand his pathway back. Suddenly you have lost four feet of your garden and started worrying about security. In this case the vendor does have title to sell the property, just not all of it!

This issue can be resolved with either a deed of variation (the neighbour agrees to do the deal legally with solicitors) or indemnity insurance, which will be covered later.

On one final and small point title deeds are not the be all and end all of who has the right to sell the property. A person may have taken out a mortgage and bought the property by themselves. If a partner moved in for any period of time and can show that they contributed to the costs of the property (be it food, an electricity bill, or part of the mortgage) they will also have to give permission for the vendor to sell - even if they have since split up. This is a small and often painfully discovered fact but unfortunately this is very hard to find out and considering it happens in such a small amount of cases it is just one of those uncontrollable risks.

True Story - The Garden at Helix Road

Lisa had an offer accepted on a two bedroom flat in Brixton. One of the most important requirements in her search was a large garden and this particular property had seventy seven feet of green space! When the title deeds arrived they showed that the vendor did not own the last seven feet. This had originally been a pathway along the back of all the gardens and officially it still belonged to the council.

Every property on the road had, however, taken this pathway and included it in their garden. There was still an outside chance that the council could try and reclaim all the land and reopen the pathway but it would be an extremely unpopular act and so very unlikely.

Considering the size of the garden it was a very small amount at risk but Lisa was adamant that the current owners should secure the land from the council. The market was rising quickly at the time, weeks had past and the vendors knew that they could sell their property for more than Lisa had offered. This was exactly what they did and Lisa ended up buying a one bedroom flat with a smaller garden in the same area for the same price.

Apart from the Bricks, Mortar, Roof and Windows, What is the Vendor Proposing to Include With the Sale?

In theory all you are buying is bricks, mortar, a roof, some windows and a couple of doors. No one has actually said you will get the door handles, lights, carpet, curtains, kitchen cabinets, or even the plug sockets.

Your solicitor will ask for a fixtures and fittings form which details what is included and usually include a reference to the Estate Agents particulars. Something along the lines of "Is everything stated on the Estate Agents particulars (details) included in the sale?".

Most reasonable vendors will include anything that would otherwise need to be unbolted or that has been made for the property but watch out for requests demanding money for the strangest of things! In most cases these are made by vendors who have never sold before. They put something down because it appears on the fixtures and fittings list provided by their solicitor and would not have thought about it otherwise.

In reality hardly anyone ever takes the carpet with them so if push comes to shove, say you don't want it and see if they really will make the effort to pull it all up!

Much of this, it should be remembered, can be defined much earlier during the offer stage. See the chapter **How to Really Make an Offer on a Property**

Does the Vendor Know of Any Reason Why a Buyer Would Not Want the Property?

This is a fairly new question designed to stop unscrupulous vendors selling because a drummer had just moved in downstairs and they couldn't be bothered to resolve the noise problem. It is also there to make sure if some dispute is ongoing you are aware of it because it may become your dispute.

As an example your back garden may have a very nice apple tree in the middle which was a major reason for you offering. For all you know the neighbour is going to court to obtain a removal order because it is blocking his light, overhanging his garden and the roots are causing damage to his property. The last thing you want is to move in the day the order is granted and watch the council cut down the biggest feature of your dream home.

The answer to this question almost always comes back "no" but if you can prove the vendor hid something from you which then affects the value of the property, or would have been material in your decision to buy and they were aware of this, you can now sue them for compensation.

Is the Building Insured and If Not, Why Not?

Your lender, if you are getting a mortgage, will want to insure the property in case it falls over, blows up or gets swept away in a flood. Your solicitor will want to know that this is possible and that the current owner has not been turned down for insurance for some reason. Even if you are buying for cash bear in mind that if you cannot insure the property, you cannot sell it to anyone but another cash buyer, and this will reduce the resale market.

If there is no insurance on the property it can be organised very quickly so just because no policy does exist there is no need to panic.

If a policy does exist the most valuable bit of advice you can get is this:

On older properties stick with the same buildings insurer that currently covers the property

The reason to keep the same insurer is to be certain that if a problem did occur the ability of the insurer to say, "The cause actually started before our cover began" or "We believe we are liable for 70% but the previous insurer is liable for 30%" is reduced to zero.

If your new home were to start subsiding, for example, and you changed building insurance when you purchased the property, the new insurance company could argue that the movement actually truly started the year before you moved in so it isn't their responsibility. The previous insurance company, who doesn't like you because you took your business away, may say that although your building may have started moving a year ago the movement did not become acute until after you changed policies so it is not their responsibility.

Eventually somebody will pay up but there could be months of costly wrangling to be done with lots of expensive experts to pay and quite frankly most people could live without the hassle. An insurer who has a long history with the property will have no way out of their responsibilities.

If Any Changes Were Made to the Building in the Past was the Appropriate Consent Gained and Were the Changes Made to a Good Standard?

Over time home owners are always making changes to their property by going into the loft, opening up a room removing a wall or sticking an extension on somewhere. In a crowded country all these things need to be approved by someone and it generally goes like this:

- If the changes made affect the look or shape of the outside of the building was there consent from the local council (Planning Consent)
- If the changes involved building work have the council approved the standard of the work (Building Regulations Approval)
- If the changes were made to a leasehold property is the freeholder aware of it and has he given permission for it.

Planning Permission

There is a myth that all changes to a property require planning permission. Nothing could be further from the truth. Most small extensions (usually within 40 cubic metres in size) require no consent at all. So if your solicitor appears worrying about planning check with the local council over the 'phone to see if it actually is an issue.

If a change has been made to the property, be it an extension, a roof terrace or a skylight, if no one has complained after four years the owner of the property can apply for a Certificate of Lawful Use. He is basically saying, "I did it, no one has complained, so please make it official". The planning office cannot refuse a Certificate of Lawful Use application on this basis.

If you are buying a property that has been changed more than four years ago, and the change required planning permission but it was not applied for, it is possible to check with the local council if anyone has complained. If they haven't it may well be worth taking a view on it and applying for the certificate as soon as you move in. It will probably add more value to the property overnight (or in the three months it generally takes to process!). To cover yourself during that period it is often wise to take out indemnity insurance (see later).

As planning permission usually shows up on the local search (see below) it generally comes to light late in the day. As such it can be much, much quicker to pop down to the local planning office and see if the planning permission was granted as the local search will only show that it was applied for. Most councils have a walk in service where you can look your prospective property up on computers, hard copy or microfilm and get copies. Take a decent amount of cash with you as some councils also employ the most expensive photocopiers in the world, or you would assume they did from the amount they charge.

Where planning permission has not been granted you can also consider the likelihood that a retrospective application would be successful (if the change is too new to apply for a Certificate of Lawful Use). Factors that will affect your chances of having retrospective applications accepted are:

- Has anyone else in the street made the same change (set a precedent)
- Does the change affect the skyline of the property (as a roof terrace may)
- Can the change be seen from the street
- Does the change invade someone else's privacy where it was not invaded before.

If the answers to the first question is 'Yes, some people in the street have made this change' and the answers to the remaining three are no then the chances of getting retrospective planning permission are extremely high.

Building Regulation Approval

This is a much more modern concept than planning and, depending on the area, came into effect in the late 1980s. As such do not expect building regulation approval on any works carried out in say, the 1970s.

Building Regulation Approval is basically the local council's building control department saying the materials used to carry out the building work were of the right standard for the job and stop the shoddy workmanship of certain questionable developers.

If the work was carried pre Building Control you will need to take a view on it. If the property is still standing its probably going to be OK. If you are nervous get a structural engineer in. If you are mildly unsure take out indemnity insurance (see later).

Does the Freeholder know?

With Leasehold properties remember the basic premise that you are only buying the property for a number of years and that in theory at the end of that term you have to give it back to the Freeholder.

He sold the original 125 year term (for example) with the property in a certain condition and with walls in certain places. In 125 years he has the right to take the property back with all the walls, doors and windows in the same place.

If the vendor has made the changes correctly he will have asked the freeholder for a deed of variation. This changes the lease to show that the freeholder now expects to get a two bedroom flat in 125 years, not the three bedroom he sold the original lease for.

If there is no deed of variation this can be resolved quickly where the freeholder is easily contactable or by the use of indemnity insurance (see below) where he is not.

Is Anything Being Planned for the Area That Would Affect the Value of the Property?

Your solicitor carries out several searches to make sure:

- Nothing is planned for the area that would affect the value of the property (the local search)
- You will have the right to use the sewerage system (drainage search)
- There are not environmental problems with the area (environmental search)

The Local Search

This document usually causes far more panic than it should be given credit for. It is simply a list of planning applications made in the past that relate to the area around your property. Many buyers panic because they think things in the search have actually come to pass.

For example, you want to buy 29 High Street. The local search shows a planning application from two years ago for 31 High Street to be split up into 5 bed sits for the temporary accommodation of homeless people with mild mental disorders. You panic because you don't want to live next to five bedsits with those kind of people and decide to pull out of the deal. A short trip to the planning office would show that the application was denied and it never happened.

The only planning applications to watch are those that are open - they have not been approved or denied, and here you will need to take a view. If you ever want to be malicious and stop someone in your street selling for six months simply apply for planning permission to change your property into a nightclub. It will doubtless get denied but while it is open and grinding through the planning department it will show up on every local search!

Before your solicitor applies for your local search however you should check two things:

- Does a local search already exist for this property (either from a previous purchaser or because the vendor has been forward thinking and applied for one himself)
- How long is the council taking to process the local search?

The latter point is crucial with councils taking anything between two days and twelve weeks to handle a search application. If you are hoping to move into the property on a particular date this may become your biggest problem. The local search is usually required by the mortgage provider so unless you are a cash buyer you may just have to sit and wait.

On the bright side there are two ways to speed this up:

- Make sure your solicitor applies for the local search the day your offer is accepted. Do not accept excuses about needing paperwork from the vendors solicitor, it isn't true. Some solicitors do not apply for the local search until after you have had your survey, make sure your solicitor is not one of these.

- If you are getting a mortgage ask your lender what type of search they will accept. Most will now accept a 'personal search'. This is more expensive but will be processed in a matter of days rather than weeks and if you are in an area where the council is taking several months to get things done this will be well worth the extra money

Finally if you are very tight on time-scales you can even save yourself a couple of days by keeping in contact with the local council and actually going down to their office to pick up the search when it is ready. This way you can take it straight round to your solicitor and not be waiting on the postal service to move your transaction on.

The Drainage Search

If a property in a major town or city does not have the right to use the sewers it is much more likely to be an historical oversight than something more serious. This type of search is really aimed at more rural properties and should never represent an issue.

It is worth bearing in mind however that not all town or city streets have sewers and often the drain from one property has to travel underneath another to reach a serviced street. In older properties it may be worth having the drains inspected with a video camera system as a collapsed drain underneath someone else's house is not only costly, but can be awkward to access for repair.

The Environmental Search

Much of Britain is ground which has been well used and polluted city. It has been built on, and rebuilt on, countless times. Pig farms have been replaced by printing factories that have been replaced by petrol stations that have been replaced by luxury flats.

It's a filthy base to be building on so if you want to buy somewhere metropolitan, don't expect anything remotely good from your environmental search. Live with it or buy something in rural England.

Are There Any Works Planned for the Property?

All types of buildings age through wear and tear but your solicitor will want to check, and so pre warn you, of any planned works and expenditure that may be coming your way after you move in. The agent may have made you aware of some things (e.g. the roof is being replaced and will cost each leaseholder £2,000) but the solicitor is simply backing this up.

If anything unexpected comes to light you have to divide this into two types of work.

- Cyclical works that need to be carried out in order to keep the building in its current state
- Improvement works that will make the property better than it is today

Cyclical Work

If you are buying an old period property you should expect there to be a continuous need for repairs as bits of wood, loose tiles and ageing brickwork constantly need attention. Most first time buyers do not realise this and a surprising number choose a new build second time around!

If the works laid out and the cost match the pattern of expenditure of the last three years you have no real reason to try and renegotiate. If they are exceptionally high and you were not made aware of this at the start of the transaction, there will be some justification for requesting a price reduction (depending on how the Balance of Power sits at the time - see the Chapter **The Balance of Power**).

Large future costs are usually borne from the fact that the property has not been regularly maintained and it is time to catch up with all the maintenance in one go. You can argue for a price reduction if this happens but beware of doing this in a rising market. If you loose the property arguing about works you may have to pay several thousand more for something comparable anyway. It is worth bearing in mind that on older properties:

- the roof is only expected to last twenty years
- all timber windows should be repainted and repaired every five years
- damp proof courses rarely really last the twenty or thirty years they are guaranteed for

Improvement Work

This should be treated very differently from cyclical work and there can always be some argument over what is cyclical and what is improvement. As a general guide:

Improvement work is any works planned that, once completed, will improve the value of a property

The complete replacement of a roof could be seen as improvement work as it means that when you come to sell the property you can point out that your building has a relatively new roof that will be unlikely to cause any problems. Redecorating of hallways, re-cladding of blocks or new landscaped communal gardens are all going to enhance the value of your new home.

Be very careful about trying to renegotiate the agreed sale price on these whether you knew about them or not. The vendor will undoubtedly think they are enhancements and may eventually decide to stay put until they occur in order to sell their property for more.

If it is a Leasehold Property are the Service Charges and Ground Rents of the Level You Were Lead to Believe?

When you offer on a property the agent will give you a rough idea of how much the running costs of the building are every year. Service Charges pay for the day to day running of the building. The Ground Rent is how much you pay to rent the piece of earth from the freeholder each year.

If you are paying any more than £500 a year for ground rent the freeholder must be a very happy and a very rich person! The normal annual figure ranges between £10 (usually where the local authority is the freeholder) to £300 (new developments).

Service charge will depend the services provided but as a very broad rule of thumb here are some approximate costs:

- Building Insurance - £400 per annum
- Electricity and cleaning (communal areas) - £200
- Communal Garden - £200
- Having a Porter (24 hour) - £400 (£800)
- Having a Lift - £600
- Having a Gym - £800+
- Having a swimming pool - £1,000+

Hence most straightforward period properties tend to have a Ground Rent of about £50 per year and a Service Charge of around £600 per year. Large new developments which include items such as communal gardens and television systems will be around £1,000 per year. There are the odd developments where the service charge however, is way off. It doesn't make the property impossible to sell again, but it will severely limit your resale possibilities

In order to make sure the charges are as the vendor claims, and that they do not fluctuate, your solicitor will ask for the last three years accounts. This will show if they have moved significantly up, down, or all over the place. It will also confirm if the vendor has kept his payments up to date or if he is arguing with the freeholder or managing agents, on some aspect of the charge. If he is, you probably will to, and is that a situation you want to enter into?

Indemnity Insurance

Indemnity is basically asking an insurance company to take a gamble, almost in the same way that a bookmakers does on the horses. Say you want to buy a flat where the original sash window was replaced with a 1970s job and no planning permission was granted. If the council were ever to come back and insist you change the window back the cost would probably be about £1,500.

The insurance company will take a view on the likelihood of this actually happening (say 1 in 100 or a real cost of £15 - 1% of £1,500) and then charge you say £50 for a policy to cover it. In most cases you never ever use the policy and they take the money.

It's a beautifully simple concept and you can find insurance companies prepared to take a punt on almost anything, in the same way as a bookmaker will give you odds on any bet you want to make.

If things seem to be fouling up your purchase and you need to get exchanged quickly, ask your solicitor about indemnity insurance.

Solicitors Who Fight

It is worth making a note that solicitors often fight with each other and their arguments are the cause of long delays. With no definitive protocol for what certain documents must look like there is plenty of room for disagreements.

Your solicitor may, for example, forward a deed of variation to the vendor's solicitor. He in turn may claim that it is "the worst legal document that he has ever seen". Your solicitor takes it as an insult on his capabilities and refuses to ask the freeholder to rewrite it. He tells you that the vendor's solicitor is incompetent. The vendor's solicitor says it is your solicitor's responsibility to rewrite the deed of variation and refuses to write an example of what he actually expects. He tells the vendor that your solicitor is incompetent.

Both solicitors will try and persuade their clients (you and the vendor) that they are right and you should stick to your guns. Both sides become entrenched and stalemate occurs. Now is the time for you to take a view. Is the deed of variation so bad that your lender will have an issue with it and refuse to issue the mortgage offer? If so tell the vendor this so that he clearly understands there is a sound reason for the problem. If, on the other hand, it's just your solicitor's point of view you may want to instruct your solicitor to ignore the problem and get on with it.

Be ready for your solicitor to put up a fight. He has his pride at stake and does not want to go back to the other solicitor accepting a document he had originally rejected.

Note that arguments are especially common where solicitors are in two geographical locations. For instance the buyers solicitor is based in Cornwall and the vendor's solicitor in London where the property is. They will, more often than not, have different views on wording, timing, and a whole lot more. It is yet another reason to always use a solicitor who is based in the area you are buying.

Power of Attorney

If you are likely to be out of the country, difficult to contact or you have unwavering trust in your solicitor a great deal of time can be saved giving him the power of attorney. Many professional buyers and developers do this. It is well worth considering especially if you are close to exchange but just about to go on holiday. You basically telling your solicitor, "Once X, Y and Z has been done, exchange!"

Your solicitor gives you a form to sign which means that he can act on your behalf. The most crucial point here is that he can sign the contract and exchange without needing you to be there or physically sign anything.

Remember if you are not going to be contactable at exchange give your solicitor a good range of dates for completion or events may stumble without you knowing about it as the vendor argues about when he can or can't vacate the property.

Fast Track Purchasing

Despite everything that has been said until now it is actually possible to buy a property without many of the documents described as long as you are purchasing for cash. With no lender to please you really only need:

- The Title Deeds
- The Contract
- The Lease or Share Certificate (for Leaseholds and Share of Freeholds)
- The Licence to Assign (if Leasehold)

Everything else is at your discretion and that is why many professional buyers are able to exchange within a matter or days or even hours. It may sound a little crazy but consider a new development in which one hundred flats have already been sold and exchanged on their contracts. That's one hundred buyers who have carried out local searches, found a building insurance company, checked the guarantees, and so on and so on. If their solicitors did not have an issue why pay someone to go over the same paperwork

At its' fastest pace exchange is possible within a few hours of having had an offer agreed. This is known as attended exchange. Your solicitor literally goes round to the vendor's solicitor and they sit down together to go over the documentation. Your solicitor may call you if there are any issues but if all is well exchange takes place that day. In one swoop all the delays of solicitors writing legal letters to each other are removed and any arguments they may want to have must be settled there and then.

If there are only a couple of points that cannot be resolved on the day it is still possible to carry out an exchange. In this situation it would be a conditional exchange. You agree to complete on the property on a specified date so long as the points outstanding are cleared up in a pre-agreed manner.

Anyone can instruct their solicitor to exchange conditionally so if there is only a small query that stands between you and exchange this is a path worth seriously considering. It locks both you and the vendor into the purchase subject to one or two definable actions.

Summary

Too many solicitors try to keep their work close to their chests and fob off their clients with jargon. Some are open but some have to be forced open! In reality their work is straightforward but their major skill, and the one buyers cannot replace, is the ability to read or write documents that are legally binding.

By knowing the terminology, and the overall process they are involved in, it is possible to have sensible and constructive conversations and to get hold of documents they require in a fraction of the time that they are able to. Doing so can dramatically reduce time-scales and so decrease the potential of your purchase falling through.

22 - Why Vendors are Poorly Prepared

What's covered in this chapter

- Why defining your offer at the start will save time and stress with a poorly prepared vendor;
- Why there can be long delays between an offer being agreed and your solicitor receiving papers;
- Why the paperwork the vendor needed to buy the property may not be enough;
- How to get documents before the vendor can;
- When your pressure can help the vendor;
- How to tell what is a mistake and what is misleading;
- Culture differences which may not be insults;
- The true story of curtains which caused offence;

You are about to buy a property and this is something you are only likely to do a few times in your life. The person who is selling is probably only likely to sell a few times in their life and so it is unsurprising that they may not be familiar with all that needs to be prepared in order to make a sale move smoothly.

Remember if you are a first-time buyer, you may well be buying from a first time vendor who does not know what they are doing

Strange as it seems most Estate Agents and Solicitors know what needs to be prepared but rarely take the vendor through this, trying to avoid discussions that suggest the vendor spends time or money until there is actually some active interest in the property.

All this is backward thinking but no solicitor or agent wants to persuade their client to spend hundreds of pounds in advance of a sale and then have their ears burnt six months down the line when no offer has been made. For those solicitors and agents that do do it, however, you hear nothing but praise once the transaction is completed.

Most don't so the result is that, once your offer is accepted, it often feels as if the vendor is actually reluctant to sell. There can be long delays while they choose a solicitor or get the necessary paperwork together.

The vendor may also not have thought through how they will look in your eyes when they choose the selling agent or solicitor basing their decision on other factors such as price, location or recommendations. This doesn't mean the vendor does not have good intentions but because of your limited contact with them it is not always easy to tell if they are messing you around or if the parties they have chosen to represent them are generally incompetent.

When making your offer the vendor is usually keen to make sure you can move quickly but may not have their own documents in order that will make the speed they require actually happen. This does not always mean they do not want the transaction to go through in a short time-scale and in order to keep things moving there are many things you can do to short circuit delays. Doing this is crucial because, as we have seen already in the chapter **Time Costs Deals**, speed is important.

Preparing the Paperwork

There is a set of basic paperwork which your solicitor is going to need from the vendor's solicitor if exchange of contracts is going to take place. If this has not been prepared prior to your offer there will be immediate delays unless:

- you have chosen a good solicitor who will not wait for all the paperwork before starting work
- the vendor chosen a good solicitor who will send out what they have with other documents to follow on later

If the vendor is poorly prepared your choice of solicitor can make all the difference to the success, or otherwise, of the deal

As an example lets say you have your offer accepted on the first day of October, which for the purposes of this illustration is a Monday.

	What the vendor is doing	**What your solicitor is doing**
Monday	'Phoning round solicitors to get quotes	Nothing
Tuesday	Waiting for the quotes	Nothing
Wednesday	Choosing a solicitor	Nothing
Thursday	Solicitor sends out forms to be filled in by vendor	Nothing
Friday	Forms arrive but vendor is at work	Nothing
Saturday	Vendor fills out necessary paperwork	Nothing
Sunday	Nothing	Nothing
Monday	Vendor posts paperwork back to his solicitor	Nothing
Tuesday	Solicitor receives paperwork and requests office copy entries from Land Registry	Nothing
Wednesday	Waiting for Office Copy Entries	Nothing
Thursday	Office Copy Entries arrive and a draft contract is drawn up	Nothing

Friday	Contract and Office Copy Entry is sent to your solicitor	Nothing

In other words it has been two weeks since the deal was agreed and your solicitor has so far done nothing, moreover you have heard nothing and seen no action! The example above, you should be aware, is based on a best possible scenario. The vendor may have chosen an old fashioned solicitor who waits weeks for original title deeds or an overworked solicitor who can't turn things around in the same day.

Hearing nothing does not mean the vendor is doing nothing

Many deals fail because the buyer waits weeks with no paperwork and, assuming the vendor is not serious, then goes out and offers on something else. If there is good communication between the solicitors or with the agent then at least you know where in the above process they are and that things are actually happening.

As far as legal paperwork goes you also should be aware that what exists from the last sale of the property (when the vendor bought) may not necessarily be adequate for what your solicitor needs now. This is because solicitors are far more frightened of being sued today than they were say a few years ago and what mortgage lenders require on their part is constantly changing and varies from company to company. As such if, once all the paperwork arrives, don't be surprised if your solicitor says he needs more information and don't always believe that the vendor is being awkward and holding back on you. They may just be puzzled because they have given you everything that they were told they needed in order to buy the property way back then.

The paperwork the vendor required in order to buy the property may be inadequate for your purchase because of changes in the law or the requirements of mortgage lenders.

The paperwork which should be coming through is as follows:

- The sellers questionnaire
- The fixtures and fittings list
- Any planning consents (if applicable)
- Any building regulation certificates (if applicable)
- Any guarantees (damp, roof, etc.)
- The building insurance details
- The local search (If the HIP is still valid)

- If the property is leasehold
    - The last three years service charge accounts
    - The last three years ground rent receipts
    - Any deeds of variation
- Optional but a big bonus are:
    - Past or recent surveys
    - Recent quotes for works needed

We are all human and it is perfectly feasible for the vendor to have lost or mislaid any of these documents. The reasons you need them are laid out in the chapter **The Property Buying Process in Theory**. Below however are ways in which you can speed up the acquisition of these documents if the vendor is struggling or being slow.

The Sellers Questionnaire

The vendor gets this form from their solicitor and is only required to fill it out to the best of their knowledge. When you see it don't be surprised if there are lots of "Don't Know" replies. One of the most common questions which gets this reply is who is responsible for the garden fences where they border other people's property. Most property owners genuinely don't know and there is a fairly good chance that you will never know either in the time you spend there.

Kicking up noise about any questions that have vague answers should be carefully considered. Decide how much the cost would be if there were a problem post sale. In other words if the garden fence does fall down it will cost a few hundred pounds to put back up. Now work out if the sale falling through because you spend too much time on such petty enquiries will it cost you a great deal more than that?

The Fixtures and Fittings List

There will be far fewer issues on this if you make your offer comprehensive (see the chapter **How to Really Make an Offer on a Property**). Many buyers are shocked when they see this document if it outlines how much the vendor wants them to pay for carpets, curtains, door handles, light switches, garden sheds and so on. This does not always mean that the vendor is being unreasonable or greedy. It may be that in all the purchases they have ever done they were expected to pay extra for these items. As such they will believe that paying for carpets and curtains is the norm.

Some buyers also get upset when they believe their offer was put forward to specifically include a certain item, such as the cooker, and the fixtures and fittings list says it is not included. Bear in mind that the vendor may have filled out this form weeks before your offer was agreed but not thought to adjust it's contents. More often however it is the solicitor who makes the error. He finds he suddenly has two fixtures and fittings lists and, not sure which one is correct, sends the more "prudent" one.

As soon as you are aware of an error contact the Estate Agent immediately, remind them of your written offer and ask them to contact the vendor. At the same time ask your solicitor to approach the buyer's solicitor in order to resolve the matter.

Again assume error in the first instance rather than the idea that the vendor is going back on an agreement.

True Story - Carpets and Curtains at Duncan Terrace

A buyer agreed to pay £1.325m for a town house in Islington and the vendors solicitor immediately sent across a complete pack containing all the required paperwork. In among this was a fixtures and fittings list which laid out the extra price required for the purchase of the curtains and the carpets. The buyers were angry that the vendors had even suggested they pay an extra £2,000 for these items considering the price being paid for the property. The vendors, on the other hand, had always had to pay extra for carpets and curtains in every purchase they had ever made.

The vendors approached the Estate Agent for advice and were surprised to find that they had had unusual experiences in all their previous transactions and that paying extra for carpets and curtains was actually not the norm for most transactions. They were however reasonable people and, understanding that their past was unusual, agreed to leave carpets and curtains at no extra cost. In order to mend any hard feelings, they also threw in the washing machine and fridge.

Planning Permission

Your solicitor may start asking for confirmation of planning permission if:

- The local search suggests planning permission was applied for
- The outline of the property does not match the outline on the title deeds
- There is something in the general paperwork that suggests work has been carried out (e.g. a builders guarantee).

Waiting for the vendor's solicitor to write to the council, and for the council to actually get round to replying, can take forever and a day. To get round the problem almost all councils have walk in centres where any member of the public can look up planning applications and see if they were successful or not. Some can even be accessed over the internet.

Assume the vendor does not know this, most people don't, and if there is a planning query take a couple of hours off work to get down there and sort it out. What might take weeks can be resolved in an afternoon!

Building Regulation Approval

Unfortunately unlike planning applications, it is not possible to quickly resolve building regulation queries. If however, from the planning application date you can ascertain that the work was carried out before the mid 1980s there is a very good chance building regulation approval did not exist.

Again it is perfectly possible that your solicitor will start looking for something that does not exist. In this case call the local Building Control office and check when their inspections began. If it was after the date of your query, let your solicitor know and ask them to get on with other more important enquiries.

It is also possible, for a small fee, to get the Building Control Approval certificate yourself direct from the local council. It will be much, much quicker than waiting for your solicitor to write to the other solicitor, and the other solicitor to write to the Building Control Office in question. The fee can be around £30 which in the great scheme of things is not worth getting hot under the collar about.

Guarantees

The vendor may have been very keen to tell you about works he had carried out while he lived at the property but the actual paperwork relating to this may well be missing or lost or the company that carried out the work has gone out of business. In the search to clarify guarantees it is often worth having a bash at calling up the company in question, you have nothing to loose and generally they are pretty helpful.

By making the approach direct you will be able to find out if the company in question is still in business. If not you can immediately organise quotes to ensure something you relied on in your offer, say the damp proofing, is not going to become an unaffordable expense.

Service Charge and Ground Rent

Managing agents come in all shapes and sizes from large companies to individuals who buy up freeholds. They can be helpful or down right awkward. If there seem to be delays in getting the information your solicitor needs, ask for the contact details and chase them yourself. If you, the vendor, and both the solicitors are chasing then the managing agents are more likely to respond quickly in order to get all four of you off their backs!

Deeds of Variation

A deed of variation is one of those little bits of paper that so easily goes missing or the kind of thing that a vendor thinks he did, after his purchase of the property, because he asked his solicitor to do it but in the bustle of a busy life forgot to follow up on and actually it never happened.

All being well when the vendor put his property on the market he will have asked his solicitor to double check all the paperwork is in order, but very rarely are things that perfect.

In other words expect some odd things that the vendor may have said were in order, turn out not to be. Again it is not often a lie, simply an oversight. As soon as you move in you will be so immediately preoccupied with paint colours, new kitchens and the like that calling your solicitor to discuss tidying up some outstanding paperwork will also be at the back of your mind, to say the least!

The Local Search

Every so often there is a forward thinking vendor out there or one who really has been well advised by the Estate Agent. He will understand why time costs deals and does not want things to drag on as much as you don't. So against the advice of almost everyone he will have applied for a local search when, or before, he put the property on the market.

If this has been returned by the local council, or is about to be returned, he may be able to sell it to you at cost and so save the weeks that it can take to apply for. It's always worth checking the situation with the vendor's solicitor, just in case, before applying for your own search.

The Survey

This is something only carried out by the really smart vendor but if there is one thing that can help with stress free selling it is to get a survey done on a property before selling.

- In the case of a Leasehold or Share of Freehold property, a homebuyers survey
- In the case of a Freehold property, a structural survey

The reason smart vendors do this is two fold:

- They can address any problems which come up in the survey before the buyer does and tries to renegotiate the price
- They can give a copy of the survey with receipts for any works subsequently done to your surveyor. He will hesitate before questioning and contradicting another surveyor.

This is especially useful with freehold properties where the surveyor may question how structurally sound the property is. In this instance if there is a problem the vendor can get the opinion of a structural engineer long before your surveyor even steps through the door. A structural engineer is more highly qualified than a surveyor in these matters so the green light here will most certainly not be questioned by your surveyor.

Even if the vendor decides not to go ahead with works that need done they often organise quotes so you are fully aware and objective when it comes to making an offer, and that offer is far more likely to make it through to exchange.

In a handful of cases the surveyor the vendor chooses may be acceptable to the your lender, in which case you could consider buying it from the vendor and saving yourself some time.

Summary

There are very, very few vendors who really think through or prepare for their sale. Most will simply invite a few estate agents around and then put their property on the market.

This chapter may have sounded a little strange and you might question why should you do all the work? The answer is simply that it will reduce the time-scales of the purchase and so the risk of it all falling through (as covered in the chapter **Time Costs Deals**.

Assume the vendor is naive, uninformed, ignorant and disorganised. From this standpoint everything that happens correctly after that is a bonus!

23 - Why Vendors Choose Bad Estate Agents

What's covered in this chapter

- The way most vendors choose agents;
- Why buyers think some agents have 'more expensive properties';
- How the agent's fee affects the sale price;
- Spotting agents who pay their staff the wrong way;
- Why sales fail more at some agents than others;
- Big agents, small agents and the right agents;
- The different types of commission a vendor pays;
- What a property on the market with a number of agents tells you about the property;
- Why vendors change agents;

Whether you are viewing properties or in the middle of a transaction it will become obvious to you (very quickly) who the competent agents are and who is sadly lacking. Unfortunately the majority are sadly lacking and as you leave your tenth message you might wonder why a vendor would choose such a ridiculous company to represent them in their sale.

To understand this it is worth winding back the clock a little and putting yourself in the shoes of a vendor. You are just about to sell your property and a multitude of choices confront you. The easiest, and worst, way to differentiate them is to make one or more of the following three mistakes

- Base your decision on the fee the agent will charge
- Be blinded by large agents with ten, fifteen or even twenty negotiators working out of one office
- Believe lots of sold signs in the area from one agent must be good news

The basic principle when selling anything; a house, a car, a kettle is that: The more people who know about the product (the property), the better the price you will achieve and the faster it will sell.

Many buyers bemoan this fact and often say, "I bought through Agent X because I really loved the property even though I know they over price". The truth is the slicker agents do not overprice, they simply achieve "a true market value" because the property is bought to the attention of more buyers. They do this through more aggressive staff who call everyone who could possibly be interested and advertise extensively both traditionally and electronically. The unhappy buyer quoted above would be far more unhappy had they never known about their dream pad.

The poor quality agent, in the meantime, has not the means to market affectively either in the media or on the internet and their poorly motivated staff ensure fewer people are aware of the property's existence. There could be twenty buyers who want to compete but only one or two are told that it is there. The result is a lower price for the vendor.

On reflection, the buyer may also feel better that although he has paid more for your property than if he had been lucky enough to find it through a poor quality agent, the transaction moves more smoothly because the person they are dealing with is professional and competent.

There are plenty of clues to understand how well things will come together if you know a little about how an agent works, and this is covered here. For the purposes of this chapter stay inside a potential vendor's shoes and you will see that it is actually remarkably easy to choose a bad agent unless you know better.

The Fee and its' Impact on the Sale Price

The fee that you, the vendor, pay will affect three things:

- The price achieved for your property
- The quality of the staff you deal with (and so the likelihood of exchange)
- The quality of marketing

The Fee and the Price

The fee paid to a high street agent is a percentage of the final figure that your property is sold for, with a small handful of exceptions who charge flat fees. The fee is usually payable when the sale completes.

The key is not always how much you are going to pay the agent, but to find out if that money will be well spent.

Types of Commission

The first step is to be sure that the staff are motivated to sell. For this reason avoid agents that operate a "pooled commission". In this situation the fee goes into a central pot and then a percentage of that is shared between every negotiator who works there, whether or not they were involved in that particular transaction. The result is that the moment one negotiator has interest in your property the other negotiators lay off, knowing they will get a percentage of the deal. To them this is a simpler option than coming out at eight in the evening with an alternative buyer even if they might offer you an extra five or ten thousand pounds. That alternative buyer may be desperate to buy your property and more financially sound but they will never be told about it.

Always look for an agent where the individual negotiator gets paid part of the fee if they themselves find you a buyer and get paid nothing if they don't. In this way the negotiator will be at your door at eight in the evening in order to get that extra ten thousand for you and steal the deal from their colleague. It's brutal but you benefit.

On the same note ensure that whoever values your property will get part of the fee if it sells. In this way you know they will give you a realistic valuation because if they are simply paid a flat fee for every instruction they will be tempted to overvalue and the negotiators who are supposed to sell it will become demotivated. You may be surprised how many managers or valuers are just targeted on getting the instruction and so simply over value and over promise in order to get your property onto their books and hit their individual targets.

The commission paid to a negotiator not on pooled commission is usually between ten and twenty percent of the fee the agent is charging. As such negotiating a low fee is not always as clever as you might think. If you feel very pleased with yourself for having bargained with a dozen agents and finally found one you could twist down to 1% consider this:

- The fee on a £250,000 flat at 1% would be £2,500 of which a negotiator on 10% commission would get £250. If you pay 2% the negotiator gets £500. Which property do you think the negotiators will work harder on, not only to sell, but to ensure the agreed sale progresses to exchange?
- If you managed to negotiate the fee down either the person who came to see you (the valuer) or the agent is weak and lacks confidence. If they cannot justify their fee to you, how well will they justify the price of your property to buyers?

If you instruct a weak agent that lacks confidence they are likely to get you a lower price. Say its 3% lower than the stronger more confident agent. On a £250,000 flat you have saved yourself £2,500 but it cost you £7,500. You are £5,000 worse off, clever you!

The Fee and the Staff

Here is a contradiction. You *should* attempt to negotiate the fee and see how low you can get it. This will give you an idea of what most of the vendors who are using that agent are paying. From this you will get a clear idea of how much the staff are generally being paid. If they do negotiate low fees their staff will be earning less than an agent who sticks to his guns. By definition this means the staff he can recruit are less experienced and, once they have become experienced, they will move to an agency that pays better which by definition means one that charges a higher fee.

Agencies that charge a higher fee and refuse to negotiate on it generally have more experienced, better motivated staff, and a lower staff turnover

There is a long way to go between agreeing a sale price and an exchange. The solicitors must be chased and managed, the buyer must be educated, the surveyor must be kept happy, the lender must be pursued and the process must be bought to a speedy conclusion. None of these things will happen if:

- The negotiator does not understand the process himself due to lack of experience
- The negotiator is not motivated because financially your deal is worth very little to him
- The negotiator leaves the agent halfway through to get a better paid job elsewhere

Any competent negotiator should know everything in this book, as a minimum. To get an idea of the myriad of events that can cause a transaction to fail simply read through the true stories in each chapter.

An agent that is prepared to negotiate to a low fee is likely to achieve a worse price for your property and that deal is more likely to fall through before reaching exchange

The Fee and the Advertising

Advertising and market presence are crucial but they should not be confused with advertising your property. Buyers will start studying the property papers weeks before they actively begin their search. The agents they will call first are the ones where the brand names have been burnt into their minds week after week. They agents they continue to call during their search will be chosen on the same principle.

Advertising is expensive and so those agents that negotiate their fee too low will have to compromise on this. The result is fewer buyers know about your property and there is a higher likelihood that you will get a poorer price.

If the agent says they advertise in a paper such as the London Evening Standard ask to see an example. Is it a black and white box or a full colour page. Is it every week or do they stop during the summer and the winter when the market is quieter and they try to cut costs?

Every agent should have a web site. Check it yourself. Is it easy to use and informative? How often is it updated? How many visitors does it attract every month? If you look for properties for sale in your area on any of the major search engines does the site come up?

If the advertising is strong and consistent then things are looking promising. As mentioned above, however, when you are on the market don't get bogged down thinking its all about advertising *your property*. It isn't.

A vendors property in the paper, on a web sites or a set of details in the front window will keep vendors happy, generate some viewings but does not necessarily marry the right person to the right property. The overall aim that agents set out to achieve when they carry out marketing is to demonstrate that they have different types of property, across the price ranges, in a wide variety of areas. In other words: "Whatever you are looking for, we probably had it, have it, or will have it so come and get registered".

Serious buyers build a relationship with good agents who gain an understanding of what works for them and what doesn't. They build a trust and will go and view a property if the agent says they should, whether or not there are a set of details prepared. Someone who makes a random call because they saw your in the paper is unlikely to be at an offering stage.

Most vendors find this concept difficult to understand and so most agents just tell them what they want to hear which goes something like this:

- "Don't worry Mr Smith, the details of your property will be ready next week"
- "Don't worry Mr Smith, your property is in next week's paper"
- "Don't worry Mr Smith, we'll get your details in our front window this weekend"

Don't get side tracked by these irrelevancies. Feedback from viewings and honest advice are far, far better. The agent knows none of them are particularly effective but they know the vendor thinks they are. In the meantime they crack on with registering active buyers and trying to match them to your property.

It is also worth considering that some agents have now stopped advertising particular properties altogether preferring awareness campaigns and pushing buyers to look on their web sites .

Big Agent, Little Agent

Its easy for a vendor to be dazzled by the talk of large agents. They point to the fact that their office has ten, fifteen or even twenty negotiators operating out of one place. Its tempting to believe that with so many people on the case they cannot fail to sell your property for top dollar.

Beware!

These very large offices often cover vast geographical areas so that in reality their competitors may have the same number of staff for the same area, simply spread over more premises.

A more telling figure is how many negotiators they have per property on the market. As an example a large office with fifteen negotiators may have six hundred properties on the market so the ratio is forty properties per negotiator. The smaller competitor may have four staff and one hundred properties giving it a ratio of twenty five properties per negotiator. In this latter case competition between the negotiators fighting to agree deals on limited stock will be more intense.

Estate agents operating large offices are not necessarily better if they are only large because they cover huge geographical areas

The size of an agent's office should only become a crucial deciding factor when it becomes too small. As a minimum check the agent has at least two sales negotiators and a manager. That is two sales negotiators, not sales and lettings negotiators. Any fewer staff than this and holidays, illness or someone leaving will have a dramatic impact on their ability to sell your property for a good price, or even sell it at all.

Using More than One Agent

If you are using just one agent the term associated with this is sole agency. There are three other scenarios that any vendor should be aware of, at least one of which should be avoided:

- Joint Sole Agency
- Split Commission
- Multiple Agency

Joint Sole Agency

This is a fallacy and a very glossy way of saying you are on with two agents. You are either sole agency or with multiple agents. The term has evolved as a way of agents offering you a sole agency fee, in other words a lower one, even if you are on with another agent. In advertising the words "joint sole" can be used to make the property sound exclusive in some other way than having to say "multiple".

Split Commission

This will often happen without the vendor knowing it and works something like this:

- You instruct Agent A to market your property after deciding they are the best to represent you.
- Agent A calls Agent B and offers to lend him your keys on the understanding that if agent B sells the property Agent A will still get part of the commission, and often vice versa.
- You come home one night to find agent B showing someone round your home and wonder why you spent so much time choosing an agent if, by default, it has led to others being instructed anyway

Agent A will justify this scenario by telling you that you have the benefit of two agents or more for the price of one but there are downsides. Firstly, if the commission is being split on a regular basis then by definition the staff must be poorly paid, with all the problems that have been covered earlier. Secondly, you have no idea who actually has keys and an agent you may have decided to avoid is actually on the case.

Split commissions are most often found in very small agents where they do not have the staff or resources to market effectively.

Multiple Agency

Most agents will try to make you feel bad about going on with more than just them. They will use words like, "Everyone registers with us, so why bother going on with someone else, you will only have to pay a higher fee."

Funnily enough the latter part of that sentence is exactly why you should be going on with someone else. A higher fee means their staff will get paid more if they sell your property and neither agency wants to have their nose rubbed in it when the other agent gets you an offer. More motivated staff, more commission on offer and an adversarial environment are all more likely to get you the best possible price and hence why you will find most professional developers and investors almost always use two or three agents.

There are limits however, and you should be very cautious about instructing more than three agents. If three cannot sell your property there is either something wrong it or something wrong with the price.

More than three signs outside the place you are trying to sell immediately makes buyers perceive that you are either desperate and low offers are worth trying or they will wonder what is wrong with the property that has meant five agents cannot sell it.

Even if you limit the amount of boards, in this day and age it is quick and obvious to see when the same property appears over and over again on various internet sites, every time listed with a different agent, and many buyers will not even call to view because of their suspicions.

In short one agent is alright, two agents are good, three agents are not bad but four or more agents are a no-no!

Changing Agents

If you have made a sensible choice of agent or agents think very carefully about the exact reason why you want to change. Some of the more ridiculous reasons are:

- They were slow to get details prepared
- You don't like the details
- Your property has not been advertised regularly
- Your property is not in their front window
- They have not had many viewings
- Some other agent may have different applicants
- They got a low offer

Slow preparation of the details - Many vendors get sidetracked by the details. If the negotiators in the agent are well motivated they won't be waiting for details to get their hot applicants into your property. If they hesitate their colleague will be faster and get the deal (and the money).

You don't like the details - This is, in the world of marketing, an extremely good sign. Advertisers claim that if their client does not like the campaign it is halfway to success as they are exactly the people that the campaign is not aimed at. Do not get bogged down thinking that the reason you bought the property is the same reason your new buyer will offer. If the agent(s) you have chosen are doing regular business leave them to it. You are paying them for their skills in selling so don't interfere.

Your property has not been advertised regularly - Good agency is not about shoving your property in a newspaper, taking the calls, doing the viewings and agreeing an offer. Good agency is about taking the constant stream of applicants registering and matching them to the properties on the market. It is naive to think that one photograph in the local paper will solve everything. It is far more likely to create a spate of viewings from window shoppers. A good agent will filter these out which means that despite having received many calls, very few viewings will actually occur. If a buyer is serious they will already have registered with that agent anyway.

Your property is not in the front window - Again, it is crazy to think agency is all about popping a photo in the window and hoping someone will walk in desperate for it. If you have chosen your agents well the front window is a very small part of the business and more often than not attracts no more than idle shoppers.

They have not had many viewings - If the negotiators are motivated and the agent is solid then the staff will be busy. They will know that poorly qualified applicants result in lots of viewings but very little business. If the staff are paid on commission they will want to stay focused on only taking the right people to the right properties. A classic case is the vendor who has a two bedroom flat where the second bedroom is very small. A bad agent will drag every two double bedroom applicant round there and then tell you the feedback is that the second bedroom is too small. A good agent will ask the applicant, at registration, why they need the second bedroom. If it is too rent out they will discount your property. Much fewer but much more focused viewings.

Another agent may have different applicants - If you have instructed at least two good agents the chances of a third agent actually having someone different are pretty remote. Many vendors change agent simply for peace of mind that they are actually doing something. In reality if you go under offer quickly this is more luck than anything else.

They got a low offer - Or did they? Perhaps they got the actual market value of your property but you do not want to face it. This is especially true if they have received two or more low offers on your property. You should also bear in mind that by law the Agent must put up all offers to you unless you have specifically instructed them in writing not to inform you about offers below a certain level.

It is unbelievably common for a vendor to swap agents after a low offer and the new agent is already rubbing their hands with glee. In their mind the previous agent has done the hard work. In other words they have found the market value of your property and all they need to do is get an offer in the same region, even slightly lower.

True Story - Changing Agents for different buyers

There were two properties for sale on Dagmar Terrace in Islington. One with agent A and one with Agent B. Both agents were well known and represented to the extent that you could reasonably assume anyone registered with Agent A would also register with Agent B. They were all getting regular viewings but none were attracting any offers. At the same time both vendors decided it was time for a change. The one on with Agent A went over to Agent B and the one on with Agent B went over to Agent A.

Both properties sold within the week to new buyers that had registered just after the transfer. Both vendors were absolutely convinced that the reason for their own successful sale was down to their decision to swap agents!

They can then argue that a second or third offer at the same level is proof of what your property is worth. Very often they know that mentally you will be coming round to this way of thinking and will agree.

Summary

Finding professional estate agent is not an easy task but there are some simple steps to follow in order to make sure you are successful and negotiating low fees is not one of them. Once your property is being marketed consider feedback and offers carefully and avoid knee-jerk reactions which may be of little benefit.

From a buyer's point of view it will soon become clear how well your agent operates and if they are a disaster zone of poorly motivated and inexperienced staff sale agreed may never make it to completion.

Glossary

Agreement in Principle - A mortgage lender will, after obtaining certain information from the buyer, issue an Agreement in Principle (AIP). The information given by the buyer is taken at face value and not checked, it is simply the mortgage lender saying "If what you have told us is true, we are prepared to lend you this much". See the chapter **Sorting Out Your Mortgage** for more information. See also **Pre Arranged Mortgage**.

AIP - See **Agreement in Principle**

Annual Property Cycle - This shows the way in which the housing market is traditionally quieter in the Winter and Summer and busier during the Spring and Autumn. Full details can be found in **Understanding the Property Market**.

Applicant - A term most often used within an estate agency to describe potential buyers. In order to monitor their business they often analyse such trends such as 'the number of new applicants last month' or the 'total number of applicants currently registered'. They will also use these figures when they try to persuade a potential vendor to list their offer with the agent.

Asking Price - The price a property is being advertised at. The price at which the vendor agrees to sell it is the **Agreed Price** and this can be above, below or at the asking price.

Attended Exchange - Where **exchange of contracts** is required urgently the seller's and buyer's solicitor can agree to meet face to face - for one to 'attend' the other one's office - and go through the paperwork face to face. Using this method it is possible to exchange contracts within a few hours rather than a few weeks or to define a **Conditional Exchange**.

Bewitching Hour - This is a term given to the moment of **completion**, normally mid day. It is so called because it is that strange moment when the buyer and seller own nothing, have no utility accounts, no home, and so on.

Bidding Wars - Where one or more parties has offered on a property the seller may try and play one buyer off against the other asking each one to bid higher until they stop in a similar manner to an auction. However because this is emotionally charged the winning buyer often withdraws a few days later when they realise they got carried away. Most professional agents will recommend **sealed bids** as an alternative. See the chapter **How to Really Make an Offer** for more information.

Bowing Roof - see **Sagging Roof**.

Building Control Approval - Where a property has had structural changes made to it (say it has been converted from a house into apartments or an internal wall has been removed) the owner will need the local authority to approve the works have been carried out to certain minimum standards as defined in law. This is known as 'Building Control Approval'. Usually, but not always **planning consent** is also required. Be aware that building control only started in the mid 1980s and so if changes were made to a property before this they will not have, and do not need, building control approval.

Building Insurance - This is often confused with **contents insurance**. Buildings insurance covers the structure of the building itself and usually includes fittings such as flooring, fitted kitchens and bathroom ceramics (toilets, baths, etc.) It does not cover furniture. Should you suffer a flood, for example, the repair work will be covered by buildings insurance while damaged furniture and personal belongings are covered by contents insurance. If you take out a mortgage then buildings insurance is usually compulsory so the bank can cover its' investment.

Building Regulation Approval - See **Building Control Approval**

Bulging Wall - Occasionally the wall of a property can start to show a 'pregnant bump'. This is where pressure from above, such as a replacement roof that is too heavy, of movement in the building is starting to affect the stability of the wall. The problem is usually rectified by 'pinning' the unstable wall to a stronger part of the building with one or more steel rods. See the chapter **What a Property Survey Really Means**for more detail.

Cash Buyer - A cash buyer is someone who does not need to borrow (take out a mortgage) or to sell anything in order to buy. Some **first time buyers** sometimes believe they are 'cash buyers' but this is incorrect if they need someone else's funds, i.e. a mortgage. Some properties are offered for sale to 'Cash Buyers Only'. These are usually ones where a bank or other lender would not feel comfortable lending. Common cash only purchases would include properties with **subsidence** (and no insurance) or properties with no inside bathroom.

Certificate of Lawful Use - Where a property has had changes made to it that require planning permission (and not all changes do) this should have been sought by the local council before the works were carried out. However sometimes they are not but a property owner can apply for a Certificate of Lawful Use later which is basically retrospective planning permission. The success of doing this depends on a number of factors covered in the chapter**Legal Matters in Property Purchases**

Chain - Where more than two properties are involved in a transaction (Mr A wants to buy property X but needs to sell his own place first) there is a chain. The bottom of the chain is the person who needs to sell before any other transactions can happen. The top of the chain is the person who can move out without finding a property to buy. As an example - Mr B owns property X. When he sells it he will move out and rent somewhere else. Mr A wants to buy property X but needs to sell Property Y first. Mr C offers to buy Property Y. Mr C and Property Y are known as 'the bottom of the chain'. Mr B and Property X are 'the top of the chain'. A chain can have any number of properties in it. If any of the transactions **fall through** this is referred to as a 'Broken Chain'

Chain Free Buyer - A buyer who does not need to sell anything in order to buy. Sometimes also called a **first time buyer**. Note a chain free buyer is not necessarily a **cash buyer** (because they will need a mortgage) or **first time buyer** (they may have decided to rent out the property they currently own).

Chain Free Property - A vendor who will sell his property and move out as soon as the solicitors sort out the paperwork and the buyer has the funds in place is offering his property 'Chain Free'. This is different from the chain situation where a vendor accepts an offer subject to him finding a place to buy. Chain Free Properties are extremely attractive as any purchase should only involve five people - you, the vendor, the lender and the two solicitors. The fewer people involved and the shorter the time-scales, the more likely it is that everything will happen successfully (see the chapter **Time Costs Deals**).

CLM - See **Council of Mortgage Lenders**.

CLM Handbook - The **Council of Mortgage Lenders** (CLM) issue a handbook to all solicitors. This explains, for each bank or lender, what they would like to know about a property before they are prepared to secure a mortgage on it. Each lender has a different set of requirements so the work a solicitor needs to do in a property purchase can vary depending on the mortgage provider the buyer is using. Requirements of an individual lender can also vary depending on the **Loan to Value** of the mortgage is.

Completion - This is the date on which the legal title of the property moves from the previous owner to the new owner. It can be the same day as **exchange of contracts** or any time after. The exact moment of completion is sometimes referred to as **Bewitching Hour**. See **The Property Buying Process in Theory** for more detailed information.

Conditional Exchange - Where both the buyer and seller want to be more firmly tied into the deal a conditional exchange can be arranged. This is **Exchange of Contracts** subject to certain terms or events. At this time the buyer will need to give his solicitor funds for the deposit and should he then pull out of the purchase (unless the conditions of the exchange are not met) he will loose these funds to the seller. The conditions laid down can vary and be small items such as confirmation of planning permission for a change on the property or substantial such as the terms of a lease.

Conservation Area - Often misunderstood, a conservation area does not necessarily mean a place where people cannot build or make changes to a building. It can simply mean that there are certain restrictions such as the type of materials used or the size of extensions that are allowed on a property. The restrictions vary from area to area with places like the city centre of Oxford being among the strictest.

Contents Insurance - This is often confused with **building insurance**. Building insurance covers the structure of the building itself and usually includes fittings such as flooring, fitted kitchens and bathroom ceramics such as toilets, baths, etc. It does not cover furniture. Should you suffer a flood the repair work will be covered by buildings insurance while damaged furniture and personal belongings are covered by contents insurance.

Contract - This is the document which states who is the buyer and who is the seller and how much the transaction (price of the property) is. Both seller and buyer must sign this before **Exchange of Contracts**.

Contract Race - Where more than one person or party has offered on a property the seller may accept both offers but state he will ultimately sell to the person who can prepare the legal paperwork and be ready for **exchange of contracts** fastest. Most professional agents, however, will recommend **sealed bids** as an alternative. See **How to Really Make an Offer** for more information.

Conveyancer - See **Solicitor**.

Conveyancing - The name given to the legal side of the property buying process. In most cases a **solicitor** will carry out the conveyancing and they may be referred to as the conveyancer. It is possible for a buyer or seller to do their own conveyancing but at their own risk. For more information on this process see **Choosing a Solicitor or Conveyancer**, **The Property Buying Process in Theory** and **Legal Matters in Property Purchases**

Council of Mortgage Lenders - Almost all banks and lenders that offer mortgages in the United Kingdom are members of the Council of Mortgage Lenders (CLM). This body acts to promote the interests of the industry but also carries out other work such as compiling the **CLM Handbook** used by solicitors when they are checking the paperwork on any given property.

Credit History - Each person has a credit rating (see **Credit Rating**) which is created using their credit history along with factors such as being on the Electoral register. Your credit history will show how well you have kept up payments on past debts or contracts (such as a mobile 'phone contract) as well as where you have lived. It will also bring together your various aliases so that it is recognised, for example, that Johnathon Windsor Smith is also known as John Smith.

Credit Rating - Every person has a credit rating which is a numerical score of how good they are at handling debt. It is based on how well a person has kept up to date paying back loans or honouring certain agreements (such as monthly payments on a mobile 'phone). Outside of this being on the electoral register also helps improve a credit rating. Those who have rented or avoided debt often have poor ratings due to a lack of historical data. You can access your credit rating via a number of agencies to check there are no errors on it and to ensure the details are up to date.

Damp - There are two main types of damp. **Rising damp** is when water in penetrating though the floor or lower walls of a building and then 'rising' upwards. Not all rising damp should be treated. **Penetrating damp** is where moisture is coming in through walls, often where they join to a window or where an exterior wall has cracked.

Deeds of Variation - A lease is usually a large document and lays out what the leaseholder of any particular property is, and is not, allowed to do and the responsibilities of the **leaseholder** and the **freeholder**. When small changes need to be made to the document it is preferred to append this to the lease rather than write the entire lease again. The document that is appended to the lease is called a deed of variation but it must be agreed and signed by both the leaseholder and the freeholder (or his agent).

Down Dizing - A person who is moving to a smaller property is said to be down sizing. This can often be seen with couples whose children have left home and they no longer require a large property.

Down Valuation - After you have agreed a sale price with the vendor you, or the lender who is providing a mortgage, may instruct a **surveyor** to confirm the property is really worth the price you have agreed. If the surveyor believes you are offering too much he will 'down value' the property. The result of his report is known as a down valuation.

Draft Contract - When a buyer and seller have agreed the sale price of a property, the seller's solicitor sends the buyer's solicitor a proposed contract for the sale. As the exact wording and terms have not been agreed between both parties yet it is known as the 'Draft Contract'.

Drainage Search - This search is carried out to check a property has the right to be connected to the mains sewerage system, which is not always the case. See the chapter **Legal Matters in Property Purchases**

Drive by Survey - Where the buyer is providing most of the funds for a property purchase the lender may not need a physical inspection of the building. Instead they will just want to check that the property exists and so the **surveyor** will simply visit the site where you claim you are buying. This is known as a 'drive by survey'.

Dry Rot - Dry rot is very common due to the amount of timber used in both old and new buildings. It can be found anywhere in the property but the most common places are in the roof (suggesting a leaking roof), in the bathroom (suggesting poor seals around shower trays, baths, etc.), in the kitchen (suggesting leaking washing machine or sink) and in the beams that hold the floor (usually to be found with rising damp). Generally treatment should be carried out immediately as dry rot can spread throughout a property and cause major damage.

DX System - All professional property solicitors are part of the DX system (short for Document Exchange). This is an express service which allows solicitors to move large amounts of paperwork between each other quickly. As such they often use terms such as "I will DX it tonight". Note you should avoid using solicitors who are not on the DX system as they slow down the buying process immeasurably.

Environmental Search - This search looks at the quality of the soil that the property is built on. Given the industrial history of many cities in the UK this can be a frightening report although it is totally normal. For more information see **Legal Matters in Property Purchases**

Equity - How much more your property is worth compared to a loan secured on it. So if your property is worth £200,000 and the mortgage on it is £120,000 then you have £80,000 of equity in that property. Where a property is worth less than the mortgage or a loan secured on it, this is known as **negative equity**.

Exchange of Contracts - This is the moment when the buyer and seller agree legally to buy and sell and a date when the legal ownership of the property (completion) is set. This can be on the same day that the sale price is agreed or any time after.

Fall Through - If a price has been agreed between a buyer and a **vendor** but this deal collapses (and cannot be bought back to life) it is known as a fall through. An agreed sale can fall through within hours of an offer price being agreed or several weeks later for any number of reasons including a simple change of heart by either parties.

Financial Advisor - A financial advisor is a person who can help you find the best mortgage deal on the market for your purchase. A financial advisor who works for a particular bank or lender will only offer you products from that bank or lender. An **Independent Financial Advisor** will be able to offer you mortgages from a range (but not necessarily all)_of banks or lenders. Note that financial advisors do not need any qualifications and they are only loosely regulated so their quality varies substantially. Different advisors also have different offers, even from the same bank, so you should aim to meet with as many advisors as you do estate agents.

First Time Buyer - Originally this term arose to mean exactly what it said, "A buyer who has nothing to sell because this is their first purchase". Over time it has become associated with anyone who does not need to sell in order to buy, be this their first or their twentieth property purchase. It's worth letting any agent know if this is your situation as you will be much more attractive to many vendors. Your advantage is that, should you make an offer, the vendor is only reliant on you and your solicitor to get the sale through. If you have something to sell, even if an offer has been agreed on it, there is still twice as much to go wrong and the vendor you wish to purchase from knows absolutely nothing about the stability of your buyer. In recent years it has become increasingly popular for home owners to sell and move into rented accommodation before they start looking for something to buy. Many have realised the cost of renting is often outweighed by the lower offers that are accepted by vendors from First Time Buyers. Such buyers are also sometimes referred to as **chain free buyers**.

Fixtures and Fittings - The vendor must prepare a fixtures and fittings list which states exactly what they intend to include in the sale. This might include lighting, fitted carpets, kitchens or kitchen appliances, beds, tables, etc. Note this document does not have to be prepared until after an offer from a buyer has been accepted.

Freehold - A part of the building that includes the ground it was built on and the structure of the building. Most houses are freehold meaning the current occupier owns it all. There are however a large number of leasehold houses as well. In the case of apartment blocks, the block and the ground are the freehold while the owners of each apartment are **leaseholders**. Sometimes these leaseholders buy the freehold. If this occurs the apartments of the people who bought the freehold are known as **Share of Freehold** rather than **Leasehold**.

Freeholder - A person who owns a building and the ground on which it sits is a freeholder. Most house owners (but not all) are freeholders. In a case of a block of **leasehold** flats, each owner of each flat is a **leaseholder** and the freeholder is a separate entity. They could be the owner of one of the flats or even a foreign bank.

Further Enquiries - After a sale has been agreed the vendor's solicitor will send the buyer's solicitor the contract and a number of other papers relevant to the sale. The vendor's solicitor may decide this is all that he needs. However he may decide he requires more information either for his own piece of mind or because the mortgage lender requires it. As such he will ask these further questions and refer to the situation as 'I am raising further enquiries'.

Gazump - Where a property is under offer but another buyer makes a higher or better offer, the second buyer is said to have 'gazumped' or be 'gazumping' the first buyer. This is because before contracts have **exchanged** a property is only **under offer** and the seller has no legally binding agreement to actually sell. Note it is possible to gazump another buyer not exclusively by offering more. You may, for example, offer slightly less but have no property to sell and so be a more attractive buyer. The original buyer will loose any legal or survey fees they have paid and as such some companies offer 'gazumping insurance' for this.

Ground Rent - Leaseholders (those who live in a **leasehold** property) are allowed to live in a property for as long as the lease lasts (the lease length). During this time they pay an annual or bi-annual rent to the freeholder for the 'ground on which the building is' - hence ground rent. See **The Property Buying Process in Theory** for a detailed explanation

Guide Price - Properties sold at auction have a **reserve price** and a guide price. The reserve price is the value below which the seller will not sell. The guide price is the value the auctioneer expects the property to fetch. In general much of this is an advertising gimmick to attract potential bidders through the door. Properties usually sell for substantially more than the guide price.

Heave - Heave is when a property starts to rise and is commonly found in areas where the soil is predominantly clay which absorbs water and expands, forcing the property upwards. It can happen because of heavy rain or where a tree or trees that were draining the soil via their roots are cut down. Note some properties have an annual cycle of heave and subsidence which does not affect them structurally in any way. For more details of this see the chapter**What a Property Survey Really Means**

Homebuyers Survey - A type of **Survey** more detailed and more expensive than a **Valuation Survey** because the surveyor is instructed to report not only on the value but the general condition of the property such as windows, damp, etc. This type of survey does not include any structural issues unless they are immediately obvious and may affect the value of the property. As such they are quite popular with those buying a flat who not only want to see the value but also any immediate issues. The surveyor, however, should not speculate on the costs of any issues he reports. For more information see **What a Property Survey Really Means**

Indemnity Insurance - Where there is an issue with a property that cannot be solved reasonably quickly indemnity insurance can be used. As an example, 15 years ago the seller replaced a basement window with a larger one but never got planning permission to do so and he should have done. The buyer takes out an insurance policy that says "Should the local authority ever pursue the matter the insurance company will pay the costs". Indemnity insurance is widely used to deal with small and large issues. See **Legal Matters in Property Purchases for more details.**

Independent Financial Advisor - A financial advisor is a person who can help you find the best mortgage deal on the market for your purchase. A financial advisor who works for a particular bank or lender will only offer you products from that bank or lender. An Independent Financial Advisor (IFA) will be able to offer you mortgages from a range (but not necessarily all)_of banks or lenders. Note that financial advisors do not need any qualifications and they are only loosely regulated so their quality varies substantially. Different advisors also have different offers, even from the same bank, so you should aim to meet with as many advisors as you do estate agents.

Joint Sole Agency - This means a property is being marketed through two estate agents who are both charging the seller their sole agency fee rather than their multiple agency fee (which is higher). It is often used in marketing to try and make the property seem more exclusive but it is more a fancy dressing and a way for an agent to offer a reduced fee to the seller in order to win an instruction.

Land registry - Land Registry is the government office for England and Wales that records every property transaction for these regions. They are often quoted by the press because their data is accurate. However it should be treated with caution as it is historical and lags behind the real market. See **The Media and Property Prices**

Landslip - When the ground that a property sits on moves this is known as landslip. It may be caused by very wet soil when the property is on a hillside but also by works being carried out nearby as well as a number of other factors.

Lease Extension - If you are buying, or own, a **leasehold** property this is simply something which you may keep for a number of years (the **lease length**) and then must return to the **freeholder**. You can, however, increase the lease length. This is done by agreeing with the freeholder (or via arbitration) how much more the property would be worth with the longer lease. This figure is paid to the freeholder.

Lease Length - If you are buying a leasehold property you are essentially buying the right to live in that property for a certain number of years after which it must be returned to the freeholder. The number of years left on the lease before it must be returned are known as the lease length or the length of the lease.

Lease Value - The value of the lease could have two meanings. The first simply means the value of the property. As an example an apartment has 100 years left on the lease and just sold for £150,000 so the value of the lease is £150,000. The second meaning revolves around the value of the lease if it were extended so the same property, with a 120 year lease may sell for £155,000. In this case the value of the **lease extension** is £5,000.

Leasehold - A property that is leased from the **freeholder** for a set number of years. A person may buy an apartment with a lease of 100 years. After 100 years it must be given back to the freeholder. Note the leaseholder can, in some circumstances, force a lease extension to stop this happening. The lease can be sold to another party, hence the term, 'this property is leasehold'. Most apartments are leasehold but some houses are as well.

Leaseholder - A leaseholder is the person who owns a **leasehold** property. As a leaseholder you usually need to pay a **service charge** and **ground rent**. See **Viewing Properties and Making Offers** for a full explanation.

License to Assign - When buying a leasehold property you need the permission of the freeholder to take possession. In most cases this is a formality but there are exceptions. See **The Property Buying Process in Theory** for details.

Lifetime Mortgage - Traditionally mortgages were offered over 25 years. You had 25 years in which to pay back the loan and become the true owner of a property. However, as property prices have risen, some lenders have started offering longer terms such as 35 or 45 years. These time-scales can represent the entire working life of an individual and so are known as lifetime mortgages

Listings - Any one estate agency has a stock of properties on their books which they are offering for sale. These are known as their listings and traditionally the 'list' was offered in hard copy to potential buyers. Now most are kept on-line.

Loan to Value - A lender will consider this when looking at a mortgage application and it is usual expressed in percentage terms as the amount of the property value they will be funding versus what you are putting down. So if the property is worth £200,000 and you need a mortgage of £180,000 your loan to value is 90%. LTV is often used as short hand for Loan To Value.

Local Searches - Local searches check what is planned for the area (planning applications that may affect your decision on buying or the banks decision on whether or not to lend), that the property has the right to be connected to the mains sewerage and the quality of the soil on which it has been built. For more on local searches see **Legal Matters in Property Purchases** for a detailed explanation on local searches.

LTV - See **Loan to Value**

Managing Agent Enquiries - If you are purchasing a **leasehold** property your solicitor will want to see what the service charge was over the last few years and that the person you are buying from is up to date with their payments as service charge debts are tied to a property, not a person. For full detail see **Legal Matters in Property Purchases**

Mortgage Term - This means the time you have to pay back the mortgage to the lender. It will be defined by the lender as the number of months or years. Most standard mortgages are for 25 years (the mortgage term is 25 years) but you can choose a shorter time-scale. Alternatively many lenders now offer longer terms.

Mouse Holder - A person who lives in a town or city and buys a property to rent out in another town or city is known as a Mouse Holder. This is a route sometimes followed by people who cannot afford to buy a property for themselves in the location that they live so they buy something somewhere else more affordable, rent it out and wait for the value to rise. They then use this equity (either by selling or re-mortgaging the property) to raise the funds needed for a deposit on a home they actually want for themselves. Full details of this are in the chapter **Getting on the Property Ladder**

Multiple Agency - When a property is on the market with more than one estate agent it is multiple agency. The term is usually of more relevance to the vendor because most agents will charge a higher fee if another agent is also instructed. They have one fee for '**Sole Agency**' and one fee for 'Multiple Agency'. When the property is on the market with two agents it is occasionally referred to as '**Joint Sole Agency**'.

Negative Equity - When the value of your home falls below the value of the loan or mortgage secured on it then you are in negative equity - you owe more than you have. If your home is worth £200,000 but the mortgage is £220,000 then you have negative equity of £20,000. As local markets rise and fall on an annual basis, but rise in the long term, many people move in and out of negative equity without realising it. The situation only becomes an issue if the owner needs to sell and does not have other funds to cover the difference.

Negotiator - A person who works in an estate agency and is responsible for helping the buyer and seller agree a sale price is sometimes called a negotiator (or 'neg' for short).

New Build - This usually refers to properties which have been built in the last 50 years or so. See also **Purpose Built**, **Period Property** and **Period Conversion**.

Off Plan - Many people choose to buy 'off plan'. This means they are purchasing a property which has not been built yet, they are making their decision to buy not by viewing the building but 'off the plan'. Off plan buying is extremely popular with investors as it includes some element of risk. You cannot tell, for example, exactly what the view from the window will be like or exactly how bright the property is. This risk element means prices are generally lower as there are a more limited number of buyers. However in recent years too many purchasers have assumed this and some off plan properties have sold fore above the current market value, rather than below it.

PAM - See **Pre Arranged Mortgage**

Penetrating damp - This is when damp is coming in through the walls rather than rising from the ground floor (rising damp). Common places to find penetrating damp are around windows and doors where the seal is no longer sound. Penetrating damp should be treated as soon as possible to ensure it does not get worse so if you have seen this on your survey ask a specialist company to quote for the work.

Period Conversion - A period property that has been converted into apartments. This is very common with Victorian or Georgian two and three storey houses where each floor has been converted into one or two bedroom flats.

Period Property - Usually referring to Victorian, Georgian or Edwardian properties but also generally used to describe anything over about 100 years old.

Planning Consent - The Town and Country Planning Act 1947 requires that properties built after this time require permission from the local authority. Properties that have substantial changes made to them also require planning permission - a house converted into apartments in 1970 would need planning permission as would a house that adds a large extension. It is important to note that some small extensions in certain areas do not require planning permission - check with the local authority for exact details in your area. If you want to find out if the property you are buying has got planning permission the files are freely available at walk in centres operated by the local council. Some also have on-line databases accessible over the internet. Planning consent is also often referred to as **Planning Permission**.

Planning Permission - See **Planning Consent**.

Pooled Commission - Some estate agents work on a system where all the negotiators get paid an equal share of the fee charged by the agent. If you are selling such agents should be avoided as the negotiators have no incentive to compete with each other and so the price you achieve for the sale of your property is likely to be lower.

Power of Attorney - This is when you hand your rights to do something over to someone else. You could, for example, give a friend or your solicitor power of attorney to sign the **contract** of sale if you are travelling abroad. See **Legal Matters in Property Matters** for more information.

Pre Arranged Mortgage - A Pre Arranged Mortgage (PAM) is one step beyond an **Agreement in Principle**. With a PAM the bank has credit checked you and confirmed the amount it will lend. It may also have guaranteed you the mortgage at certain terms or at a certain rate for a specified time period (say 3 months) even if they withdraw the product or increase the rate in the meantime. They are saying that all that needs to be checked is the property (with a **survey**) and the loan is agreed.

Property Bubble - A property bubble occurs when property prices rise to an unsustainable level. When they drop back down the 'bubble has burst'. Note a bubble only occurs when the above happens in isolation from other factors. As such there has never actually been a property bubble in the UK as value drops only occurred when the wider economy goes into recession. This compares with the dot-com bubble which burst even though the rest of the economy (and house prices) continued to grow.

Property Cycle - There are two types of property cycle - the long term one and the annual one. **The Long Term Property Cycle** refers to the way property prices rise over a number of years before falling back, usually as the economy goes into recession. Historical patterns suggest this cycle is about eighteen years long and follows the boom-bust cycle of the overall business sector. **The Annual Property Cycle** refers to the way property prices move up and down throughout any given year. Prices are generally higher during the Spring and Autumn and lower during the Summer and Winter. For a full explanation on why this occurs see **Understanding the Property Market**.

Property Details - These usually refer to the set of information that has been put together by the estate agent that is marketing the property. This can be in paper or electronic format and usually includes photographs, text about the property and a location map. It may also contain further information such as a floor plan or details about the lease in the case of leasehold properties. A good solicitor acting for the buyer will always request these from the agent in order to get a better understanding of the type of property involved in a transaction.

Property Particulars - See **Property Details**

Purpose Built - Many properties in the UK are period houses which have been converted into apartments (and so called **period conversions**). To differentiate apartments that were built to be apartments, the term purpose built is often used. Some buyers see this as an advantage because conversions do not always have the sound proofing or build quality of purpose built properties. Note purpose built does not necessarily mean **New Build**. Many Victorian and Georgian properties were built to be apartments.

Repossession - When a home owner can not pay their mortgage for several months the mortgage lender often has the power to take the property and sell it themselves in order to recover the debt. The process of taking the property away from the owner is known as repossession. Mortgage lenders often want to sell the property fast and so place it in an auction or price it just below the market rate. As such they are often bargains but the buyer must be able to move fast and there are strict time lines from offer to **exchange**.

Reserve Price - For properties sold at auction there is a price below which the seller will not sell. This is the reserve price.

Retention - The use of a retention is often to allow exchange of contracts or even the completion of a sale (so the buyer can move in) when there are still matters outstanding. The retention funds are usually held by a solicitor. Example One: The property is a flat and the seller owes some service charge payments but it is not clear how much as the managing agents books are out of date. The seller agrees that

£5,000 should be held in retention to clear these debts when they are clarified. The balance - any amount left from the £5,000 - is then given to the seller. Example Two: In a survey it is suggested that the roof of a house must be replaced but due to the unusual nature of the structure quotes from builders vary and none of the builders are prepared to guarantee their quotes. £50,000 is held in retention until the work is carried out by the buyer (after they move in). Any funds left over are then forwarded to the seller.

Rising Damp - This is a cause for concern on a modern property (less then 50 years old) as the technology existed to avoid this when they were built. However it is common in period houses and in ground or lower ground flats in **period conversions**. The surveyor may bring it to your attention but it is actually not always a good idea to treat it. See **What a Property Survey Really Means** for what to do if rising damp is found in the property you are thinking of buying.

Sagging Roof - Also sometimes called Bowing Roof. This may or may not be serious. There are two cases where it may not be and these both relate to period properties:

- In the mid 1900s it was popular to replace Victorian roof tiles with concrete one. These were much heavier and the beams were not strong enough. However as long as the roof sagged and then stopped it is not a problem
- For period properties roof sagging may not be an issue as long as the movement has stopped. Just as the whole building can move and stop, so can the roof

In any case you would be advised to ask a roofer to look at it but try to find one who charges for an inspection. One who does not will, more likely than not, find some work for himself. See **What a Property Survey Really Means** for more detail on what to do if the survey says the property has a sagging or bowing roof.

Sealed Bids - Where one or more parties has offered on a property, usually at the asking price, the buyer may decide to go to sealed bids. A date is set by which you are asked to put forward your best offer. The seller then chooses the buyer he would like to go forward with. Note this is not always the buyer who has offered the most. See **How to Really Make an Offer** for more information on how to handle sealed bids.

Sellers Questionnaire - When a person decides to sell they must prepare answers to a questionnaire which will ask them if there is anything about the property (such as disputes with the neighbour) that the buyer should be aware of. For more detail see **The Property Buying Process in Theory**.

Service Charge - **Leaseholders** (those who live in a leasehold property) are usually required to pay a service charge. This goes to the freeholder or their managing agents and is to pay for the general maintenance of the entire building as well as regular expenses such as cleaning of communal areas. See **Viewing Properties and Making Offers** for a full explanation on service charges and the nature of leaseholds.

Settlement Cracks - This can refer to both new and old properties. With new properties the cracks are only visible inside the property with cracks appearing in the plaster as the block settles. Cracks less than 1-3mm wide are quite normal. On period properties settlement cracks can be much wider (over 1 cm) and are more often caused by movement. They can be clearly visible on the interior and exterior walls. Cracks on the exterior walls should be filled to make sure the property does not suffer **penetrating damp**. Note a large crack on a period property may not be serious as it may relate to movement decades ago. If in doubt ask a **structural engineer** to have a look. For more detail see **What a Property Survey Really Means**.

Share of Freehold - With all the charges to pay and restrictions to adhere to on a leasehold property it is not surprising that many **leaseholders** decide that they would like to own the **freehold** of the building in which they live. Under certain conditions they have the right to buy the freehold from the **freeholder** at a "reasonable" price. It's a lengthy procedure but increasing in popularity, especially as it has a perception of adding value or desirability to a property. See **Viewing Properties and Making Offers** for full details on the characteristics of a Share of Freehold property.

Sink Fund - Most **leasehold** and **share of freehold** properties have a sink fund. This is an amount, kept in a bank account, to pay for major expenses such as a new roof or new windows. It is not meant to be used for day to day purchases and maintenance. Note that just because there is a sink fund, this does not mean it contains adequate funds and it may have to be topped up by the leaseholders should urgent and major repairs need to be carried out on the building.

Sitting Tenants - These are tenants who have the right to remain in a property, often for long periods or even until they decide to leave. Some have their rent fixed or rent rises capped. It is quite possible to buy a property with sitting tenants but you should check their rights carefully and note that not all banks will lend on when this is the situation.

Slip - see **Landslip**.

Sold Subject to Contract - Once an offer is agreed the property is sold subject to a contract being agreed. The contract includes the completion date so a property is always sold subject to contract until all monies are paid and the new owner takes legal possession.

Sold Subject to Survey - In reality almost all sales are sold subject to survey as well as being **sold subject to contract**. However some buyers choose not to have a survey on the property if they are buying for cash and they are confident about its' quality and value. In this case it is only sold subject to contract. If a survey is required (for example if a bank is going to secure a mortgage on it) the property is 'Sold subject to contract and survey' although the law only requires agents to state 'Sold Subject to Contract'.

Sole Agency - When a property is on the market with one estate agent it is sole agency. The term is usually of more relevance to the vendor because most agents will charge a higher fee if another agent is also instructed. They have one fee for 'Sole Agency' and one fee for '**Multiple Agency**'. When the property is on the market with two agents it is occasionally referred to as '**Joint Sole Agency**'.

Solicitor - Although it is possible for the buyer or the seller to do their own legalities when it comes to buying and selling properties most choose to hire a solicitor to act on their behalf. This individual is legally qualified to handle property purchases and sales and should they miss something in the paperwork that later affects the value of the property they can be sued. They are also sometimes called **conveyancers**. See also: **Choosing a Solicitor or Conveyancer**, **The Property Buying Process in Theory**, **Legal Matters in Property Purchases**, **Why Vendors are Poorly Prepared**.

Split Commission - Often found in very small estate agents. One agent will win an instruction to sell a property for a certain fee. He will then offer to split this fee with another agent if they can sell it - often without telling the vendor. There are security issues with this and the seller ends up with a lack of control, not knowing where or how their property is being marketed.

Structural Engineer - A structural engineer is often bought in after a **Structural Survey** but any survey can report suspected issues with a property's structure. The structural engineer is a qualified individual who can state if there is really a problem with a building such as **heave**, **subsidence** or **slip** and how much it will cost to rectify the issue. Buyers should note that not all types of subsidence are a problem, some are normal and do not affect the value of the property. See **What a Property Survey Really Means** for more information

Structural Survey - A type of Survey more detailed and more expensive than a **Homebuyers Survey** because the surveyor is instructed to report not only on the value and general condition of the property such as windows, damp, etc. but also to investigate the structure. It should be noted that surveyors are not qualified to say definitively if there is a structural problem, if he suspects this exists he should only recommend the building be inspected by a **structural engineer**. Structural surveys are popular with those buying period houses or buildings who not only want to see the value but also any immediate issues. The surveyor, however, should not speculate on the costs of any issues he reports. For more information see **What a Property Survey Really Means**.

Subject to Contract - See **Sold Subject to Contract**.

Subsidence - There are two main types of subsidence - 'up and down' or 'heave and subsidence', the property moves up and down on a regular basis and there is no cause for concern - 'down' or 'subsidence', the property or part of the property is moving down continuously and needs to be **underpinned**. See **What a Property Survey Really Means** for more information on subsidence.

Survey - A report created by a **surveyor** who looks at a property to see if it is worth the price that has been agreed between the vendor and the buyer or the price the vendor is asking. The survey can also include particular issues with the property such as damp, structural problems, plumbing, roofing and electrics. The surveyor is qualified to spot the issues but not to fully assess them or the cost of their repairs. For this a specialist must be bought in. For full details on surveys see **What a Property Survey Really Means**.

Survey Booked - When the lender who is providing the funds for the mortgage requests a survey this is usually sent to a panel which farms the work out to the surveyors that the panel believes would be right for the job or have time to do the job. The panel will offer the work to a surveyor at which point it becomes known as 'Survey requested'. If the surveyor accepts the work the status becomes 'Survey Instructed'. Once he has booked a time with the agent or owner to visit the property the status becomes 'Survey Booked'.

Survey Instructed - When the lender who is providing the funds for the mortgage requests a survey this is usually sent to a panel which farms the work out to the surveyors that the panel believes would be right for the job or have time to do the job. The panel will offer the work to a surveyor at which point it becomes known as 'Survey requested'. If the surveyor accepts the work the status becomes 'Survey Instructed'. Once he has booked a time with the agent or owner to visit the property the status becomes 'Survey Booked'.

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Survey Sent to Panel - When the lender who is providing the funds for the mortgage requests a survey this is usually sent to a panel which farms the work out to the surveyors that the panel believes would be right for the job or have time to do the job. The panel will offer the work to a surveyor at which point it becomes known as 'Survey requested'. If the surveyor accepts the work the status becomes 'Survey Instructed'. Once he has booked a time with the agent or owner to visit the property the status becomes 'Survey Booked'.

Surveyor - A surveyor is a person qualified to carry out a **Survey**. He is instructed to do so by the mortgage lender if a loan is being secured on the property. If not the buyer can choose to hire a surveyor if he wishes but it is optional.

Tenanted Properties - These are properties with tenants who are renting. It is quite possible to buy such a property if the mortgage lender agrees and it will also save you time in finding your own tenants if this is a Buy to Let purchase. However you should check if they are standard tenants with a normal short assured tenancy agreement or **Sitting Tenants** who have the right to remain long term, sometimes at special rents.

Title - Title refers to who owns a property. A solicitor may say 'I need to check the title on the property' by which they mean they need to find out who owns it. Note this is not always the person who is selling, it may be a bank who gave the seller his mortgage or another creditor who has a debt secured on the property.

Title Deeds - This is the document which states who owns a particular property. If there is a mortgage on the property the title deeds will be with the lender or bank, otherwise they will be with the vendor.

Trading Down - See < ahref="http://www.howtoreallybuyaproperty.co.uk/what-does_down-sizing_mean.php">Down Sizing.

Trading Gap - This is the difference between the price of a property that is being sold and the price of the property being purchased when someone is moving up the property ladder. So if a person is selling their property for £100,000 and buying for £150,000 the trading gap is £50,000. Many people moving up the property ladder would prefer to do so in a falling market because although their property is worth less, the one they are trying to buy will have lost a greater value - the trading gap has decreased.

Trading Up - See **Up Sizing**.

Traditional Property Cycle - See **Annual Property Cycle**.

Under Offer - When someone has made an offer on a property and the vendor has agreed to the price put forward the property is known as 'Under Offer', and also as '**Sold Subject to Contract**'. Note that at this time there is nothing binding between the buyer and seller except their word so it is fully possible to make an offer on a property that is under offer and gazump the original buyer.

Underpinning - If a property has subsidence it may need to be underpinned. This is a method by which a concrete foundation is inserted under the structure to stop any further movement and is often required on period buildings at some point. See **What a Property Survey Really Means** for more information on underpinning and how it works.

Up Sizing - A person who is moving from a smaller property to a larger one is said to be up sizing. This is often a popular move when the market is falling as the **Trading Gap** between the smaller and larger property is lower.

Vacant Possession - This is often confused with **chain free properties**. Just because a property is empty it does not necessarily follow that it is being offered chain free so always double check.

Valuation Survey - A type of Survey to assess the value of a property and note any major issues that would affect the value. For more detailed information on this and other types of survey see

Valuer - A **surveyor** is occasionally called a valuer because he will give a value for a property based on other similar properties that have sold in the area. However the term is more often applied to a person in an estate agency whose primary job it is to gain new instructions by persuading home owners to list their property for sale through their company. In smaller agencies the manager is also often the valuer.

Vendor - In property sales the vendor is the name given to the seller of the property. This does not mean they are the owner or full owner. A person may have a mortgage which means a bank owns most or all of the property but he can still, with their permission, sell it.

Wet rot - Wet rot is usually restricted to areas where the damp actually is - say under a leaking bath. Most fungus that cause the damage with wet rot need high levels of moisture to grow and cause more damage so if the timber is still sound, and the cause of the damp can be stopped, cost will be minimal.

Yield - The yield of a property is often used when buy-to-let investors are considering the purchase price of a property versus how much they might be able to rent it out for. They can then decide if they believe their funds may perform better elsewhere, such as in a savings account. How to calculate and use yield is covered in the chapter **Buying to Let / for an Investment**.