

# HIP Ahoy

**Matt Lyward of Phillips & Stubbs looks ahead to the residential property market in 2007.**

As if house buyers and sellers haven't enough to think about in 2007, the government is planning an extra special treat.

Over the past year several interest rates hikes, house price inflation of about 10% and harder conditions for first time buyers have all combined to create a challenging legacy for the New Year. However, apart from a concern that there may be further interest rate rises, pushing rates to as much as 5.5%, it is the threatened introduction of Home Information Packs, or HIPs, on 1st June 2007 that could have the most dramatic effect on market behaviour during the coming year.

While there is yet no guarantee that HIPs will happen - already the home condition report element has been demoted from a compulsory to a voluntary one - the government appears to remain keen. It considers that there will still be some particular benefits in its Home Information Pack legislation. To whom is not yet clear.

The government thinks HIPs will address consumer dissatisfaction – it claims nine out of ten consumers aren't happy with the current process.

Almost 30% of property sales nationally fall through after terms have been agreed, and it is thought that this high rate of attrition will be reduced with the introduction of HIPs.

The government wants more up-front transparency. At present key information about a property only becomes available to a buyer after the terms of the sale have been agreed.

HIPs could bring down the high cost of moving caused, in part, by the cost of failed transactions.

Finally it is clear that the legislation is designed to try and combat drawn-out transaction times, currently the slowest in Europe, and lift the veil of uncertainty caused by delay or failure, often through a chain of inter-related house sales.

All this, the government hopes, will give consumers more confidence through a better standard of transactional service, underpinned by an approved redress scheme.

Of course the entire Home Information Pack idea came about because of EEC energy efficiency regulations. The current plan is that every property sold after 1<sup>st</sup> June 2007 will have to have an energy efficiency certificate. These reports alone will cost each and every home seller in the region of £130.

Quite whether HIPs will have the desired effect is the subject of much industry, media and political conjecture. What seems probable is that on the 1<sup>st</sup> of June there will be a new set of legal requirements before a property can even be put up for sale.

Perhaps in the long run the selling process will be made better, but sellers this year will have to act as involuntary guinea pigs. So what is a seller to do? Estate agents and many who bought and sold in 1988 well remember the stampede to buy before the abolition of joint tax relief on mortgage payments. They also remember the bitter market freefall that followed – a time of plunging property values.

Fortunately in 2007 we don't have the high unemployment, punishing interest rates and rock bottom confidence that accompanied that particular nightmare, an event that helped prompt a serious property recession.

From a current perspective it is hard to see, despite the government's message about good intentions, how HIPs won't complicate sales and even cost sellers more to sell their homes in the short term. A cynic might comment that the price of the compulsory components of the Home Information Pack may by-and-large add to the cost of buying a home, especially if it also incurs Treasury attractive VAT. It is expected that the all-in average cost of a HIP will be about £350.

But on balance the cost implications are that if a seller is not buying on, it will cost more to sell. If they are buying on then the cost should largely even itself out, as the vendor provides the HIP information that up to now the purchasers would have paid their solicitor to supply. First time buyers or those in a similar position will find that under HIPs legislation the disbursements connected to home purchase will be reduced.

Notwithstanding the potential rights or wrongs of HIPs it looks as if we all may have get used to a new house selling process from 1<sup>st</sup> June 2007. So it is appropriate for those people planning to sell their properties this year to ask the question, what is the best month to put my property on the market? The answer seems pretty clear – January or February!