

# Valuations and surveys

## LEARNING OBJECTIVES

In Topic 13 we looked at the information about the property that the lender requires as part of the mortgage application. Once the lender has this information, it will usually carry out a basic valuation. This indicates whether the value of the property, if repossessed and sold, would be sufficient to repay the mortgage loan. Buyers may also want reassurance as to the value and soundness of the property they are buying, and this topic outlines the different types they can arrange.

By the end of this topic, you should have an understanding of:

- the basic valuation and how the lender uses it;
- the different types of survey available to a borrower;
- property defects and their impact on the lending decision;
- warranties and guarantees for new properties.



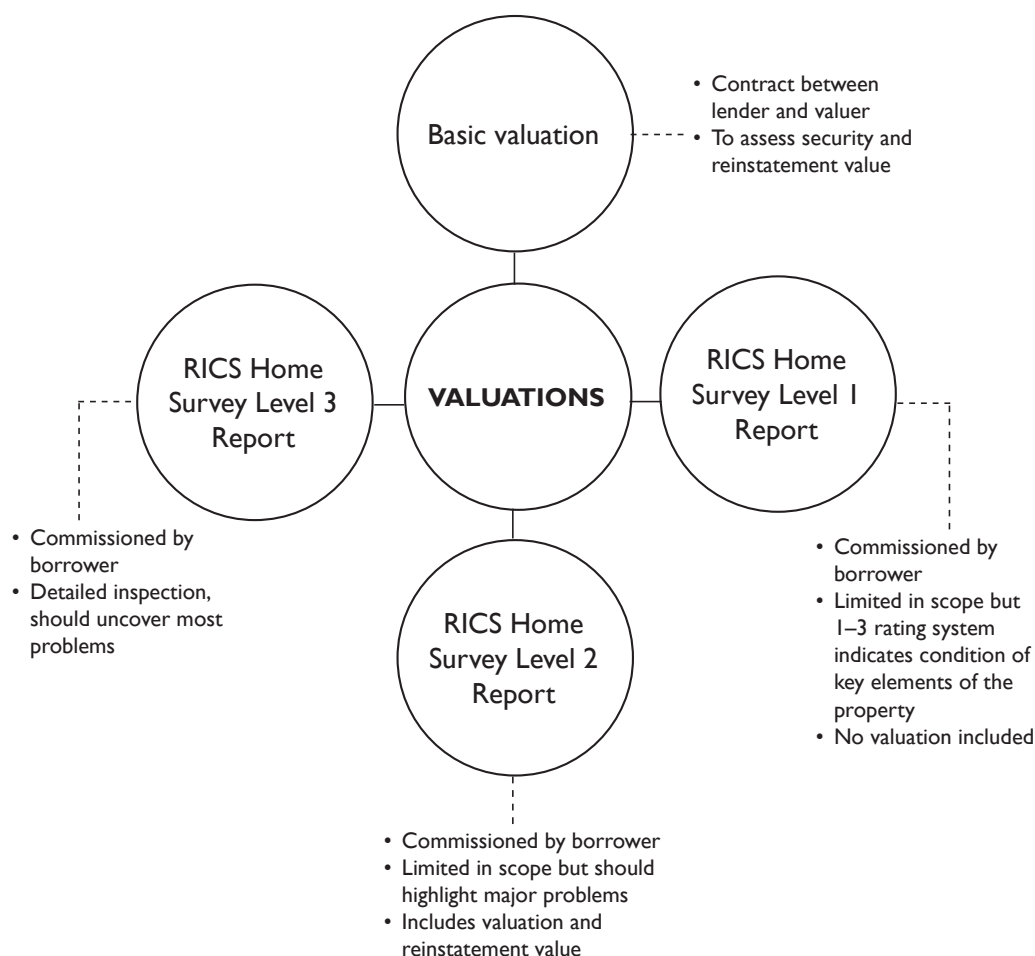
## THINK ...

Before you start work on this topic, take a moment to think about what you already know. For instance, if you have been involved in buying a property:

- what was covered in the lender's valuation report?
- did you decide to pay for an additional survey report, such as a RICS Home Survey Level 1 Report or a RICS Home Survey Level 2 Report? How did you decide which type to have?
- did the lender require you to carry out repairs as a condition of the mortgage? We touched briefly on retentions in Topic 6 - can you remember what they are?

If you have copies of valuation reports and survey reports, you might find it useful to refer to them as you work through this topic.

**FIGURE 14.1 WHAT VALUATIONS ARE AVAILABLE?**



## **14.1 What is a basic valuation?**

The Building Societies Act 1986, amended by the Building Societies Act 1997, requires a building society to make an assessment of the security offered for each mortgage secured on land. In the case of new mortgages, this requirement is satisfied through a valuation report. Other lenders have no statutory obligation to carry out an assessment, although the vast majority will do so as part of a prudent approach to lending.

The valuer may be an independent professional valuer or an employee of the lending institution. A basic valuation often takes as little as half an hour and is, by definition, a fairly superficial inspection.



### RIGHTS OF THE APPLICANT

The contractual relationship for the basic valuation is between the lender and valuer, although the applicant pays any fee charged for the valuation. As they are not part of the contract, the applicant has few rights in relation to the valuation.

**FIGURE 14.2 WHAT DOES A BASIC VALUATION INVOLVE?**

#### Interior

- The valuer inspects the property, noting room sizes and the superficial appearance of the property
- Obvious defects or potential problems are noted, but no carpets are lifted, no furniture is moved and a loft is unlikely to be inspected

#### Exterior

- The valuer looks at the exterior of the property, again noting any obvious defects without close inspection

#### Comparison

- The valuer completes the valuation in the office by comparing prices of similar properties and calculating the reinstatement costs for insurance purposes

### WHAT IS A DESKTOP VALUATION?

In certain circumstances the lender may arrange a desktop valuation, which is carried out in the office using computer software and does not require an inspection of the property. The valuer researches data on comparable properties and sales from a range of public data sources, and then selects a number of properties (perhaps three) that are the closest comparisons to the property being valued.

#### What are its limitations?

The desktop valuation helps the valuer to establish a market price, but it may not be very accurate because it uses historical data that may not reflect the situation in a rapidly rising or falling market; additionally, it does not take account of any risks posed by the property's condition that might be identified in a physical inspection.

### When is it most suitable?

The desktop valuation is most suitable where the property has been inspected in the relatively recent past, perhaps where the application is for a remortgage. It may also be possible for a prospective buyer to arrange for a desktop valuation on a property they are thinking of buying to obtain an assessment of the market price.

The valuer sends the report to the lender, recommending whether the property is acceptable as security for the advance requested, stating the value of the property for lending purposes, the insurance reinstatement amount and any essential (and obvious) repairs that are needed. The valuation for lending purposes is not necessarily the same as the market value of the property, because the valuer has to consider the situation if the lender had to take possession and sell the property in the event of default. Properties sold in this situation are unlikely to achieve the best price, and may be sold at auction, where prices tend to be lower than on the open market.

### RETENTION

A portion of the loan held back by the lender until the buyer provides evidence that specified repairs have been completed satisfactorily.

The lender will use the valuation to make the lending decision: whether to lend and, if so, how much. It will also decide whether to insist that the applicant undertakes to carry out specified repairs within a given period, or even to hold back some of the advance pending the repairs (known as a retention).

All lenders disclaim any responsibility for the condition of the property implied in the valuation report, and specifically state that they do not give any warranty as to the reasonableness of the purchase price.

The valuer's duty of care varies, depending on the type of borrower, and they could be sued by the borrower or the lender if it can be proved that negligence caused a financial loss. Courts have ruled that a valuation that errs by more than 5-10 per cent above or below the true value could be deemed negligent, although the exact figure will vary between types of property. A claim for negligence is only likely to succeed in two circumstances:

- the disclaimer was insufficiently prominent;
- the borrowers were inexperienced – this would typically apply to first-time buyers or those of modest means buying a home.

In relation to buy-to-let and commercial property, courts have made it clear that investors and business borrowers should be experienced enough to understand the limited nature of a valuation report and arrange their own inspection if they have any concerns.

#### **CASE LAW: NEGLIGENT VALUATION**

In *Smith v Bush* [1990] it was held that a valuer could not avoid liability for losses caused by his negligent valuation simply because he had included a disclaimer – despite the fact that it had appeared on both the mortgage application form and the copy of the valuation report sent to the buyer. A key factor was the Smiths' level of perceived experience in property matters: the courts found that the disclaimer was 'unreasonable' because the Smiths were 'first-time buyers at the lower end of the market'.

#### **CASE LAW: NEGLIGENCE CLAIM REJECTED**

In *Stevenson v Nationwide Building Society* [1984] the plaintiff's attempt to claim for losses caused by a negligent valuation (irrespective of the fact that there was a disclaimer) failed because:

- he was an estate agent, and could therefore be expected to have a good understanding of property matters; and
- he had signed a form that included the disclaimer in a prominent position.

### **14.1.1 What is the valuation report?**

The valuation report forms the basis of the lending decision and will influence the following:

- whether to lend at all;
- the size of the advance;
- the percentage advance (loan-to-value ratio) that should be made available;
- reinstatement value (which is usually lower than the market value);
- the recommended conditions of the advance.

The list below outlines the typical structure of a valuation report, but reports will vary between lenders and valuers.

**FIGURE 14.3 TYPICAL CONTENTS OF A VALUATION REPORT**

- Details of the property to be mortgaged
- When the property was built
- Dimensions of the property
- Approximate floor area
- Tenure and, if leasehold, term unexpired
- Valuation for mortgage purposes
- Valuation for insurance purposes – main property and outbuildings
- Evidence of subsidence, heave or landslip affecting the property or the immediate neighbourhood
- Essential repairs\*
- Minor repairs\*
- Major defects\*
- Recommendation for a specialist report\*\*
- Recommendation for undertaking or retention
- Recommendation for reinspection
- A narrative report on the property in the valuer's own words
- A prominently placed disclaimer notice, stressing the limited nature of the valuation as a superficial inspection for assessing the security for mortgage purposes, rather than as a survey to evaluate the property's condition. It will also state that the lender is not making any comment upon the reasonableness of the purchase price, whether explicit or implied, in its decision whether to lend or not
- Comparable valuations of three similar properties
- Any detailed comments the valuer feels need to be included

\*The report will only comment on those issues that can be identified from the superficial visual inspection

\*\*If a valuer is in doubt about any features of the property, based on the relatively superficial inspection, they will recommend a further, more detailed report prior to a final decision. In particular, any evidence of subsidence or heave (where the ground is unsound beneath the property) will need to be investigated fully

**FIGURE 14.4 ACTIONS THE VALUER CAN RECOMMEND TO A LENDER**

<b>Acceptance</b>	The property is adequate security for the loan sought and there are no problems
<b>Rejection</b>	The property is not suitable security for a mortgage and should be declined
<b>Conditional recommendations for acceptance</b>	<p>The valuer may make two types of conditional recommendation:</p> <ul style="list-style-type: none"><li>• An undertaking to repair or make alterations is recommended when the property is good security but certain work needs to be done</li><li>• A retention is more serious, where the lender holds back a sum of money from the advance, pending repairs being carried out to the lender's satisfaction</li></ul>
<b>Lower valuation</b>	<p>The valuer may consider the property value to be lower than the purchase price, in which case the advance may be reduced. There are three potential outcomes:</p> <ul style="list-style-type: none"><li>• The purchaser makes a reduced offer to the vendor</li><li>• The purchaser continues on the basis of the agreed price but has to meet the funding shortfall from personal resources</li><li>• The purchase and sale fall through altogether</li></ul>

Valuers sometimes recommend the involvement of specialists such as structural engineers, drainage experts or arboriculturists (tree experts). In mining areas they may recommend a coal-mining search to ascertain the existence of any past, current or proposed surface and underground coal-mining activity to affect a particular property or site.

### WHAT IS REINSTATEMENT VALUE?

Although it does not directly impact on the value of the property, the reinstatement value is a vital part of the insurance cover. The reinstatement value is the valuer's estimate of the cost of rebuilding the property from scratch in the event of destruction by fire or another catastrophe. The value will be based on the size of the property and building costs for the area.

With properties of standard construction, the reinstatement value will be considerably less than the market value; in the main, this is due to the fact that the market value includes the price of the land, which is not a cost when rebuilding.

A property of unusual design and constructed of non-standard materials may have a reinstatement value that is approximately the same as, or even higher than, the valuation for mortgage purposes. This reflects the fact that the cost of rebuilding with non-standard materials is likely to be higher.

### 14.1.2 The lending decision

The lending decision should take full account of the recommendations in the valuation report, alongside the lender's own experience of similar mortgaged properties. All of these factors must be viewed alongside the assessment of the borrower's status and the affordability.

Once the lender has assessed the property as security, it will decide on the loan it is prepared to offer against the value of the property. As part of its underwriting policy, a lender will decide the maximum loan to value (LTV) it will offer. The LTV is based on the lower of the purchase price and the valuer's assessment of its value. For example, if a property has a purchase price of £200,000 and a valuation of £190,000, the offer will be based on £190,000.

### 14.2 What reports can the buyer commission?

We have established that the lender will carry out an assessment of the property as security for the proposed mortgage, and that any valuation commissioned will be limited and for the lender's benefit. Unless the property is a new build or covered by some form of building guarantee scheme, a sensible buyer should seriously consider commissioning their own, more detailed report that looks at the condition of the property.

The RICS has established three further types of service for mortgage applicants:

- the RICS Home Survey Level 1 Report (previously known as the Condition Report);
- the RICS Home Survey Level 2 Report (previously known as the Homebuyer Report); and
- the RICS Home Survey Level 3 Report (previously known as a Building Survey).

If a valuation or survey identifies a potential concern, further specialist reports may be required, for example a report on the state of the electrical wiring or a damp report. It is important to bear in mind that, if the sale does not go through, the costs of the survey or valuation are not refunded.

#### CAN ADVISERS RECOMMEND A SPECIFIC TYPE OF SURVEY?

Advisers must not recommend a specific type of survey (such as a RICS Home Survey Level 2 Report). For instance, if the adviser specifically recommends a RICS Home Survey Level 2 Report and something later comes to light that would have been picked up by a RICS Home Survey Level 3 Report the adviser may be subject to a claim. However, if the surveyor misses something that should have been covered by the RICS Home Survey Level 2 Report, the adviser will not be liable.



### 14.3 What is a RICS Home Survey Level 1 Report?

The RICS Home Survey Level 1 Report (previously the Condition Report) was launched in mid-2011 as a cost-effective way for home buyers to check the basic condition of their prospective property. It is designed for relatively new, conventional properties that are in reasonable condition and built from standard building materials. Unlike a valuation report, it does not consider the market value of the property nor its value for insurance purposes, focusing instead on the overall condition of the property. It is designed for those buyers with limited budgets who might otherwise rely entirely on the lender's valuation report, which focuses on the property as security for the mortgage rather than on any defects or problems. The contract is between the buyer and the surveyor.

The report aims to comment on and/or identify the following areas, so that prospective buyers are aware of them before they commit to a purchase:

- the construction and condition of the property;
- issues that are serious or need urgent attention;
- issues that require further investigation to prevent further damage;
- issues that may present serious safety issues;
- advice for the buyers' solicitors with a summary of the key risks associated with purchasing the property – planning, guarantees, building controls, etc.

The surveyor provides condition ratings for the main parts of the property on a 1–3 basis (see Fig 14.5).



#### LIMITED SCOPE

The RICS Home Survey Level 1 Report is limited in scope and is a 'snapshot' of the property's condition on the day, not a full survey. The surveyor will not look at hidden or covered areas and the report may not identify all defects. Neither will it make recommendations or give advice regarding how repairs or remedial action should be carried out.

Nonetheless, the report does give the buyer some legal recourse if the surveyor was negligent within the parameters of the report.

**FIGURE 14.5 RICS HOME SURVEY LEVEL 1 REPORT RATINGS**

<b>R</b>	Documents that should be requested before contracts are signed
<b>Condition rating 3</b>	Indicates serious defects or problems that need urgent repair, replacement or further investigation
<b>Condition rating 2</b>	Indicates defects that need to be repaired or replaced, but are not considered serious and action is not urgent
<b>Condition rating 1</b>	No defects are apparent and no repairs are required

## **14.4 What is a RICS Home Survey Level 2 Report?**

The RICS Home Survey Level 2 Report (previously the Homebuyer Report) is a compromise between a basic valuation and a full building survey, offered by lenders as a moderately priced option, well within the budget of most prospective mortgagors. The commissioning of a RICS Home Survey Level 2 Report establishes a contract between the applicant and the surveyor.

There are two versions of the RICS Home Survey Level 2 Report.

### **RICS Home Survey Level 2 (survey and valuation) Report**

The report identifies any relatively obvious problems: the valuer will inspect the property and identify any problems that are visible to them. They will not, however, lift carpets, or move heavy furniture to discover what problems may be hidden by them. The surveyor will carry out a visual inspection of services (gas, electricity, sewers, etc) as far as can be seen, but will not check safety aspects or carry out specialist tests. The surveyor uses the same 1-3 ratings system as the Level 1 report.

The applicant has little comeback in the event that serious problems are encountered later. However, the report aims to identify major defects,

allowing an opportunity to reject the property, make an amended offer or plan expenditure necessary to counter the problems.

**IN  
BRIEF****WHAT ADDITIONAL ELEMENTS DOES THE RICS HOME SURVEY LEVEL 2 (SURVEY AND VALUATION) REPORT CONTAIN?**

The report contains all the elements of the RICS Home Survey Level 1 Report together with:

- a professional market valuation;
- an insurance reinstatement figure;
- a list of any problems or defects that may affect the property's value;
- advice on repairs and ongoing maintenance;
- information about the location, the local environment and the property's energy efficiency.

The surveyor will not carry out an energy efficiency assessment, but will include the details from an Energy Performance Certificate (EPC) if an assessment has been carried out on the property.

The report is presented using the same 1–3 ratings system as the RICS Home Survey Level 1 Report. Typical defects identified in the report would be:

- dry and wet rot where symptoms can be seen;
- problems relating to the condition and position of the damp-proof course;
- problems relating to the interior of the roof space – beams, rafters and the underside of the roof – although the scope of the survey may be limited by accessibility;
- defects in the pointing (ie mortar joints).

The report does not include estimates for the cost of repairs, a detailed description of the construction of the building or detailed advice on specific defects.

## **RICS Home Survey Level 2 Report (survey only)**

The RICS Home Survey Level 2 Report (survey only) includes all the elements of the RICS Home Survey Level 2 Report (survey and valuation) apart from the valuation and reinstatement costs.

### **14.5 What is a RICS Home Survey Level 3 Report?**

Previously known as a structural survey, and more recently a Building Survey, the RICS Home Survey Level 3 Report is a thorough and detailed inspection of the property carried out by a qualified professional surveyor, engineer or architect. It is relatively expensive but worthwhile for many mortgage applicants. If the property is defective, this will almost certainly be discovered by a RICS Home Survey Level 3 Report. If it is not discovered, the borrower has some comeback against the surveyor, whose duty of care is only to the applicant.

Such a survey will be more detailed than the Level 1 and 2 surveys, and uses a similar 1–3 rating system. It will involve a detailed inspection of the structure of the property and all the inspection elements of the Level 1 and 2 reports, as well as an inspection of the electrical system, drains, and other services that can be seen, but only insofar as their operation in daily use. The surveyor will lift carpets, inspect the roof space and generally probe a lot more than they would on Level 1 and 2 reports. The survey should be carried out to certain standards and so, in the event of later problems, the valuer may be liable for any losses as a result of negligence.

A RICS Home Survey Level 3 Report will include a valuation if the purchaser requests it. In some instances, the lender will not accept such a valuation as it has been commissioned by the buyer, and will insist on a valuation for its own use. This situation might arise if the surveyor is unknown to the lender and it would require considerable time or expense to validate the surveyor's credentials.



#### **WHAT IS A HOME REPORT IN SCOTLAND?**

Owners selling property in Scotland are required to arrange and have a Home Report in place before marketing the property. The report must be made available to prospective buyers on request.

**FIGURE 14.6 WHAT DOES THE SCOTTISH HOME REPORT CONTAIN?**

<b>Single Survey</b>
Provides sellers with detailed information about the condition and value of the property, together with an accessibility audit
<b>Energy Report</b>
An energy efficiency rating and the environmental impact relating to carbon dioxide emissions
<b>Property Questionnaire</b>
Completed by the seller with information for buyers, solicitors and surveyors

Prices vary, so Table 14.1 provides only an indication of costs involved. Valuation and survey fees are not refundable once completed. Many lenders offer free valuation as an incentive to attract customers and, where fees are charged, they vary widely depending on the value of the property.

**TABLE 14.1 INDICATIVE COSTS OF VALUATIONS AND SURVEYS**

Type of valuation/survey	Costs
Basic valuation	£175–£1,100 where charged
RICS Home Survey Level 1	£300–£900
RICS Home Survey Level 2	From £400, depending on property value, increasing to over £1,000
RICS Home Survey Level 3	From around £600 up to £1,500 or more, depending on the size, structure and age of the property

### **14.6 What type of property defects affect the lending decision?**

In surveying or valuing a property, surveyors or valuers may come across certain defects that affect the value of the property and which may affect the mortgage lender’s decision to lend.

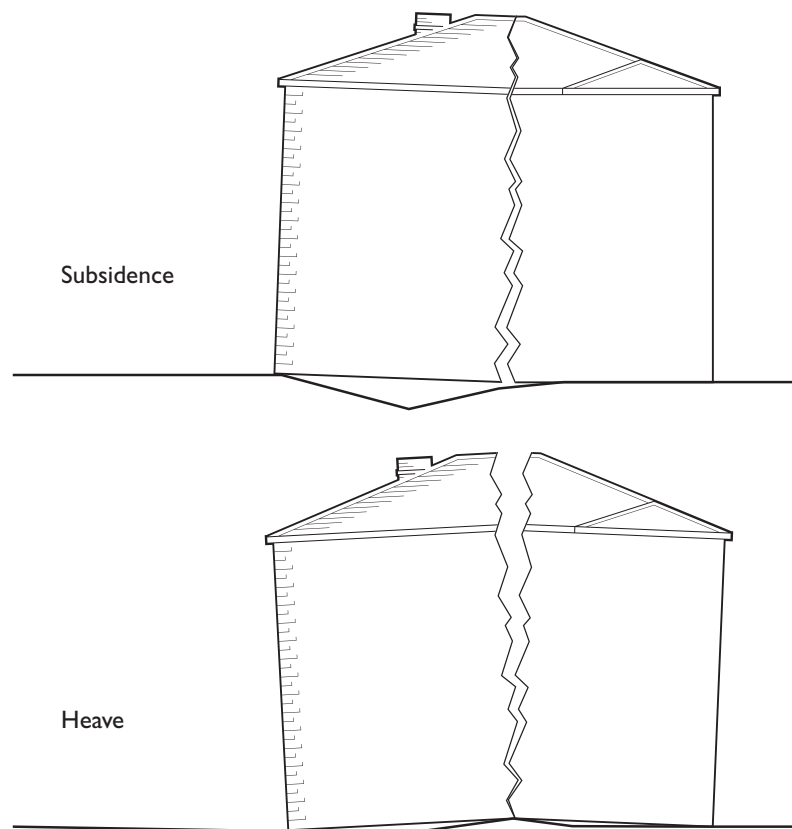
Structural movement is probably the most important defect. It can be related to walls, floors or the whole building, and can be caused by the property itself (such as by poor construction) or by the ground on which the property is built (such as subsidence). The surveyor will consider whether the movement is long-standing and non-progressive or recent and progressive.

Long-standing and non-progressive movement is the term used when the movement happened some years before and has not worsened, and this type of movement will not normally affect the decision to lend. If, however, the movement is recent and progressive, the surveyor will normally recommend that a structural engineer inspect the building and that further investigations be carried out. If the further investigations show that the movement cannot be remedied, the lender may decide to refuse the mortgage.

Two of the most common problems identified in surveys are subsidence and heave (see Figure 14.7).

- **Subsidence** occurs when land below the building drops unevenly, causing it to shift. Subsidence most commonly affects properties that are built on a clay soil and results from a drop in the water table after a long, dry spell of weather, most commonly due to tree roots drying out the soil. It can also be the result of long-term leaking of drains or pipes, or settlement after excavation. The signs of subsidence include:
  - new or expanding cracks in the plasterwork;
  - new or expanding cracks in external brickwork;
  - rippling wallpaper that is not caused by damp.
- **Heave** occurs when underground forces cause the land below the property to rise unevenly and put upward pressure on the building's foundations: the opposite of subsidence. It is usually caused by the removal of trees or shrubs near to the building, by clay soils expanding when wet or occasionally by a chemical reaction in the soil.

Both subsidence and heave can be serious and major expenditure may be required to correct the problem. In the UK, these problems tend to be localised and professional surveyors tend to know areas at risk. For example, some buildings close to the Thames basin in south-east England have been affected in the past due to the presence of shrinkable clays ('London clay').

**FIGURE 14.7 SUBSIDENCE AND HEAVE**

Further defects that may affect the decision to lend, or which may prompt the lender to require undertakings from the borrower, include untreated woodworm, severe damp, previous removal of chimney breasts, extensions that do not conform to building regulations and the replacement of traditional roof coverings with concrete. This list is not exclusive and may vary from lender to lender.

Lenders may attach undertakings or a retention to the mortgage terms.

#### **UNDERTAKING**

A formal agreement that the buyer will undertake specific remedial work within a specific period of time after taking possession of the property.

### **14.6.1 Undertakings**

The work required by an undertaking is not necessarily vital, but will either bring the dwelling up to the standard expected of an average property, or remove obvious defects. A typical undertaking might be to decorate internally or externally, or to tackle some localised dry rot.

The lender will reserve the right to inspect the property after a period of three to six months to see that the work has been done; some lenders telephone the borrower, others may wish to reinspect. Some do not check that the work has been completed.

In practice, there is little the lender can do to enforce an undertaking once a certain time has passed, although, theoretically, the borrower is in breach of the conditions of the mortgage if the undertaking is not fulfilled.

### **14.6.2 Retentions**

Repairs required by a retention are more extensive and important than those where an undertaking may be acceptable. The lender will almost always inspect the work before releasing the retained funds. Examples of reasons for a retention are substantial repairs to a roof, or extensive dry or wet rot problems. If the valuer recommends a retention, the borrower will need to find temporary funds to cover the shortfall and complete the required work.

## **14.7 What are new-build guarantee schemes?**

There are a number of guarantee schemes to provide buyers of new properties with protection against defects in the early years. Traditionally, lenders preferred builders to be members of the NHBC, which introduced the first guarantee scheme in 1965. The scheme was relaunched in 1988 as Buildmark, and serves as both a protection scheme and a warranty.

### **WHAT IS THE NHBC?**

The National House Building Council provides warranties and insurance protection for new homes in the UK. It works with the building industry to raise standards and improve protection for consumers.

Other schemes are now available, all offering similar protection to the Buildmark scheme, and most lenders will lend on new property that is covered by one of the schemes. If the builder is not a member of the NHBC or a similar insurance scheme, the lender usually insists on a qualified supervising architect regularly inspecting the property under construction. There will be a requirement that the supervising architect meet certain minimum standards and has indemnity insurance cover of at least £1m in place.

### **14.7.1 NHBC Buildmark**

To join the NHBC, builders must satisfy certain quality standards and, as part of the Buildmark scheme, must confirm that the property has been built to



NHBC Building Code standards. In addition, NHBC personnel conduct site inspections to monitor standards.

The Buildmark scheme provides protection against defects and damage during the first two years, where it is caused by the builder's failure to meet NHBC standards. A claim is made to the builder for remedial action initially, but will go to the NHBC for arbitration in the event of a dispute. In the event that the builder fails to comply, the NHBC guarantee will cover the costs of remedial action.

For the balance of the first ten years the scheme provides insurance for the full costs of damage over a specified amount, known as the minimum claim value (MCV), caused by major defects in the building's structure. When a policy starts, it is subject to the MCV in place on 1 April before its start date. The MCV is reviewed each year and any changes apply from 1 April. The MCV on existing policies will change in accordance with the review. The homeowner will have to arrange and pay for remedial work if the total claim is below the MCV. All claims are subject to an upper limit, which is reviewed regularly.

The scheme also provides cover from exchange of contracts to the completion date if the buyer loses their deposit or has to pay extra costs due to the builder becoming insolvent or committing fraud.

### **14.7.2 Premier Guarantee**

Premier Guarantee is a UK home warranty provider set up for developers working on new building complexes and conversions; the cover is ultimately provided by a syndicate at Lloyd's of London.

Similar to the NHBC scheme, the insurance provides cover for ten years and the protection is more comprehensive for the first two years – covering snagging defects and arranging for remedial work to be completed if the builder fails to do so. The first two years is the 'defects insurance period' and, from year three to year ten, the 'structural insurance period' covers major structural defects that may compromise the structural integrity of the building. The level of cover is similar to the NHBC scheme and the property must have been built to NHBC Building Code standards.

### **14.7.3 LABC New Home Warranty**

LABC New Home Warranty is a structural/latent defects warranty offered to the builders of speculatively built residential housing, social housing and completed properties. Speculatively built properties are those built by developers, in advance of receiving orders or finding buyers, in areas where they anticipate high demand. Conversely, 'custom-built' properties are built to a specific design on behalf of a buyer or buyers who place an order in advance.

The New Home Warranty is underwritten by the same Lloyd's syndicate, uses the same scheme administrator, offers almost identical terms and conditions as the Premier Guarantee warranty and the property must have been built to

NHBC Building Code standards. The cover is split into three separate periods: the building period, the defects insurance period, and the structural insurance period.

#### **WHAT IS LABC?**

LABC is the member organisation representing local authority building control departments in England and Wales, promoting the design and construction of safe, accessible, environmentally efficient buildings that comply with building regulations.

#### **14.7.4 Other warranties**

Other warranties are offered by other providers, such as Build-Zone.

#### **14.7.5 Consumer Code for Home Builders**

The Consumer Code for Home Builders is a code of practice developed by a consortium of key industry and trade bodies, including the various warranty providers listed above and UK Finance.

The purpose of the code is to ensure that homebuyers are better informed about their rights (both before and after the exchange of contracts); it seeks to reinforce the protection afforded to them by the existing home warranty schemes. The code aims to provide greater clarity and transparency in the documentation given to buyers of new properties, and includes an independent dispute resolution service.

The code requires that consumers:

- are treated fairly;
- know what service levels to expect from their builder;
- are given reliable information;
- know how to make a complaint if they are dissatisfied.

#### **14.7.6 The New Homes Quality Board**

The New Homes Quality Board (NHQB) was established in 2021 to address concerns that consumers had no redress when housebuilders sold poor-quality homes and failed to rectify problems. All stakeholders are represented in the board's composition, and include representatives from housebuilders, consumer bodies, warranty providers, the finance sector and independent participants. The constitution is structured so that no particular group is dominant.

The NHQB introduced an industry code of practice, the New Homes Quality Code, aiming to place greater responsibility on developers to deliver good quality homes. In tandem with the code of practice, the board also established a New Homes Ombudsman Service (NHOS) to provide support for buyers in dispute with their developer.

To be covered by the NHQB Code and Ombudsman Service, the developer must be registered with the NHQB at the time the property is reserved. Registration is voluntary, and purchasers can check the developer's status through the register of developers. If a developer is not registered, they may be members of other schemes, such as NHBC. Several major builders, such as Barratt, Bellway, Crest Nicholson, Redrow and Taylor Wimpey have registered with the NHQB Code but still offer NHBC warranties.

The New Homes Quality Code aims to:

- protect vulnerable customers;
- ensure developers provide all relevant information during the sales process;
- create fair reservations agreements;
- allow customers to have a professional inspection before completion of the home;
- ensure homes are completed by the developer (as opposed to customers being paid to move into incomplete homes);
- ensure developers effectively deal with any issues after completion and provide adequate aftercare.

NHQB (2021)

### 14.7.7 New Homes Ombudsman Service

The NHOS's role is to provide a free and impartial service to help new home buyers to resolve issues that their developer has not been able, or is not willing, to address. It covers issues during the period from reservation to purchase completion, and issues or defects (not major defects) during the first two years after completion.



#### CHECK YOUR UNDERSTANDING

Which type of survey is most likely to be suitable for the following buyers?

- a) Cheryl and Dave, who are buying a semi-detached property dating from the early 20th century in south-east London?
- b) Katya, who is buying a three-year-old house on a new development in Peterborough?

- c) Dan and Greg, who are buying a thatched cottage in Dorset that is more than 200 years old.
- d) Iqbal, who is buying his first home, a 12-year-old starter home, and is on a tight budget.

As an adviser, should you recommend a particular survey to any of these buyers?

### THINK AGAIN ...



Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- explain who engages the valuer and who pays for the work to be carried out for each type of valuation or survey?
- explain the purpose of the basic valuation?
- describe the 'condition rating' system used in the RICS Home Survey Reports?
- explain the different types of inspection carried out for each of the three RICS survey reports?
- explain the difference between an undertaking and a retention?
- outline the different types of warranty available on new build properties?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

### Reference

NHQB (2021) *New Homes Quality Code published* [online]. Available at: [www.nhqb.org.uk/resource/new-homes-quality-code-published.html](http://www.nhqb.org.uk/resource/new-homes-quality-code-published.html)



### Test your knowledge

Use these questions to assess your learning for Topic 14. Review the text if necessary.

Answers can be found at the end of this book.

- 1) A basic valuation is for the benefit of the lender and is paid for by the lender. True or false?
- 2) Which form of inspection gives the borrower the highest level of protection against negligence from the person carrying out the inspection?
  - a) Valuation.
  - b) RICS Home Survey Level 3.
  - c) RICS Home Survey Level 2.
  - d) RICS Home Survey Level 1.
- 3) Lenders generally require valuers to specify both the value for lending purposes and the reinstatement value of a property. True or false?
- 4) Which of the following would be included in both a RICS Home Survey Level 1 and 2 Report?
  - a) A valuation.
  - b) Issues that need urgent attention.
  - c) Advice on how to deal with remedial work.
  - d) A report on the property's energy efficiency.
- 5) A RICS Home Survey Level 2 Report is expected to report on the existence and condition of a damp proof course. True or false?
- 6) A lender will not proceed with a mortgage application if a survey report indicates that a property has suffered long-standing structural movement. True or false?
- 7) A survey shows significant work is required on a property's roof. The lender is likely to:
  - a) require an undertaking.
  - b) impose a retention.
  - c) insist on additional buildings insurance.
  - d) require a warranty.

- 8) Karen has applied for a mortgage on a property which, although structurally sound, is in need of external and internal redecoration. What action is the lender most likely to take?
  - a) Impose a retention.
  - b) Refuse to lend.
  - c) Reduce the mortgage offered.
  - d) Require an undertaking from Karen.
- 9) All new houses have a guarantee of ten years against major defects. True or false?
- 10) Ben bought a newly built house four years ago and it is covered by the Buildmark scheme. It now requires structural repair as a result of a defect in the construction materials. Ben is entitled to:
  - a) require the builder to make good the property.
  - b) claim under the Buildmark insurance scheme for the full cost of the repair.
  - c) claim under the Buildmark insurance scheme if the cost of the work is above the minimum claim value.
  - d) claim a percentage of the repair costs because the cover reduces for each year he has occupied the property.