

How valuable are Home Survey Reports?

Online



A growing trend

Real estate forms the most important component of most individual asset portfolios. In Dubai the value of residential real estate alone is equivalent to half the entire Stock Market capitalisation.^{1,2} It is therefore unsurprising that a growing number of purchasers are now choosing RICS Home Surveys in order to gain assurance over their new investment. The scheme was originally introduced in the UK in 2009 and has now evolved significantly. The accompanying RICS Home Survey Standard, which became effective in 2021, aims to demonstrate consistency, deliver the highest quality of service, meet with evolving consumer needs and contribute to delivering trust in the home survey market across the UK and worldwide.³ Home Surveys available in the UAE from chartered surveyors are carried out according to this Standard, providing additional assurance to buyers beyond the mandatory surveys undertaken by mortgage providers. The process has gained traction over the past decades, neutral advice website noted that in the UK that 'One in five homebuyers only gets a mortgage valuation report, so it's no surprise that many are hit with unexpected repair bills when they move in'.⁴ Typically, in a property environment dominated by resale properties, on average UK homebuyers spend £3876 on such repairs.⁵ But it is not the average cost that is the main concern: it is the outliers, with some buyers having to replace entire roofing, combat damp or the effect of previous flooding, or even carry out structural repairs. These may in turn affect future sales prices. It is not surprising that buyers are increasingly prepared to pay for better assurance of their future potential repair and maintenance expenditure by commissioning Level 3 (full structural) and not only Level 2 surveys.

The contribution of surveys to current value

Home Survey reports are a very small price for peace of mind. In the UAE, they cost approximately AED 10-30 per sq m, depending on size, geographical location, and the level of MEP inspection. As a guide therefore, a Level 3 Home Survey report on a 3,000m² villa in Emirates Hills would cost approximately AED 50,000, around 0.1% of the total purchase cost and certainly not itself a determinant of the price. The detailed report that the survey generates gives potential buyers not only an indication of the existing condition of the property, ranging from internal fixtures and fittings to common services, but a budget cost to rectify defects, even on new homes, and therefore the basis for negotiations with the buyer. In practice, if a Level 3 report in particular identifies work to be done, such as a new roof, replacement wiring or interior decoration, the report can at the least serve as a negotiation tool for the buyer. Evidence from multiple jurisdictions suggests that depending on market conditions, and hence the balance of power between buyer and seller, the cost of remedying defects prior to purchase can fall anywhere between 50-100% on the seller. From a valuation standpoint, the Home Survey report can be thought of as akin to an insurance contract.⁶



The impact of surveys on future value

Regarding the benefit of a Home Survey report solely in this 'one-off' or static way may however tell the whole story of the value proposition it offers. Behavioural economics suggests that what one might call the 'audit trail' of an apartment or villa will have a potential value impact derived from both refinancing and sales. Both mortgage valuers and buyers will undoubtedly appreciate the evidence of a previous report that always provides more detail than mortgage valuations, especially if it is combined with corroborated evidence that any work required has been done and relevant guarantees provided. A Home Survey report can therefore be thought of as an investment, akin to extending a lease or even a physical improvement. Examples in the UAE would be installing a swimming pool or properly landscaping the gardens and external areas. Putting in air-conditioning in an old house in Australia or insulation in the UK or New Zealand would be comparable examples.

With so many homes now purchased using Home Survey reports, it is not possible to produce statistical estimates of the value benefit that a Home Survey report brings. In a different market, however, that for second-hand cars, information is available. How much is the equivalent - a full service history - worth? One source suggested that 'The motor trade says cars without any kind of service history are worth between 5 and 10% less than cars with a full service history',⁷ whilst on the other hand

ICM Research back in 2011 found much more dramatically that 'A full service history can increase the value of a used car by 26%'⁸ Some explanation may also lie in the difference between purchase and sale; unlike the real estate market, the second-hand vehicle market is dominated by dealers, who seek to capitalise on service history as a source of their own profit by emphasising its importance to sellers and downplaying it for buyers. The difference may also be explained by a difference in the type of service record: the ICM research focused on main dealer servicing, which might be reasonably compared to an RICS Home Survey report rather than a less authoritative report. Main dealers can now create digital service records in the car's own electronics, a thought for the designers of the property registries of the future.

Nevertheless, in what might well be a pointer to the future for real estate, the ICM research suggested that the reason for much of the disparity lay in liquidity: without a full service history, one in three buyers would not even consider buying a vehicle. This should be a significant

Conclusion: A rising trend

As the secondary market increases as a proportion of overall sales throughout the Gulf, and the property stock ages, the risks associated with a lack of due diligence increase and the attractiveness of the Home Survey report is set to grow in response.

But in contrast to the vehicle market where sales are frequent and service records are well-established over many decades, value impact is not yet well understood. Home Survey reports are therefore not – yet – costed on their full potential benefits. This information asymmetry and potential arbitrage benefit for those making use of them may go some way to explaining why take-up of the Home Survey product has been steadily increasing amongst discerning buyers since it was made available by chartered surveyors in the UAE market.



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