Market intelligence | Winter 2017

dataloftconsult

A Dataloft and Reapit collaboration

Launched at EA Master in October 2018. Front page features in Lettings Agent Today, Property Investor and ARLA

dataloft | REAPIT

Lost potential

An analysis of sales and withdrawals in the UK residential market

June 2018

Gary Bayne
CEO Reapit Group

Last year, Reapit introduced a new management information dashboard to monitor properties withdrawn from sale. During testing, we observed some agents had large numbers of recently withdrawn properties.

It became apparent that clients had not been measuring withdrawn properties effectively and many thousands of pounds of agency commission were being lost.

We decided to look more closely at the data and commissioned Dataloft, an independent data analysis company, to establish a benchmark by which agents could assess their own performance. The findings are quite simply staggering, with the UK industry losing an estimated £4 billion in agency commission last year due to withdrawn properties.

Perhaps 2017 was a particularly bad year, but we have for many years seen big differences between the volume of properties for sale on Rightmove and the number of sales recorded at Land Registry.

More recently, online agents have taken flak about their ability to both a listing site a sale. Perhaps the problem is not unique to the disruptors? It also highlights issues with a no sale, no fee model. The scale of abortive costs has serious ramifications for those who compromise on fees.

This report is not intended to fuel the fire of the debate about online versus traditional agency. Withdrawn stock has a widespread financial and reputational impact across our industry. We are committed to working with our members to improve business performance and we continue to work on real-time tools to proactively identify and deal with issues like withdrawals.

Marina Jones
Managing Director, Dataloft

Dataloft is a data-driven residential market intelligence business and we are delighted to be working in partnership with Reapit.

The huge repository of data stored by Reapit on behalf of its customers, is an enormous untapped resource.

By combining Dataloft's experience of analysing UK residential markets with Reapit's rich source of data, we hope to reveal significant new insights into the estate agency sector.

We intend that this will be the first in a regular series of reports that will promote transparency in the industry and fuel the debate about the structure of the residential property sector.

dataloft | REAPIT

This report examines data on properties **'withdrawn from sale'**. With a no-sale no-fee business model being common currency in the sector, it is clear why understanding the causes and effects of withdrawals is critical. But when traditional businesses are challenged by upfront non-returnable fee models, the question of withdrawals gains even more weight.

The metrics in this report are benchmarks against which every agent can measure their own performance. How much potential fee income is being lost through withdrawals? Is our ratio of withdrawal to sale higher or lower than our competitors, or our region? Can we explain the differences?

Factoring in withdrawals

Withdrawals during the sale process are an accepted feature of the residential property market in the UK. Vendors expect to be able to reconsider right up to exchange of contracts and all parties live with the uncertainty that entails. Current fee levels and resourcing in traditional agency businesses must build in assumptions about withdrawals.

There has been fervent debate in the industry about what proportion of listings result in completed sales. This research demonstrates that withdrawals occur at all stages of the sales progression, in all regions and in all price brackets and that the number of properties taken off the market without a sale is almost as large as the number of completed sales.

New technology may play a role in reducing the number of withdrawals by improving transparency and shortening timescales. The Scottish experience shows that regulation or policy changes can change outcomes.

Big Data has been described as the new oil in our economy, digitisation as the third Industrial Revolution and Artificial Intelligence as the new electricity. Together they are disrupting traditional business models, including professional services and will transform productivity across the economy.

The residential property sector has benefitted from the opening up of the Land Registry and listing on portals but vast quantities of data is still held privately by thousands of estate agency firms. In aggregate, that knowledge becomes big data.

Summary and headline results

45% of properties sold in **Lancashire (LA)** in 2017

37% of properties sold in **London** in 2017

38% of properties sold in **Greater London, Kent and Wales** in 2017 excluding London

July Nov — Withdrawals level in **June** among three months

£4+ billion — Potential **fee income lost** through withdrawal

28% of properties withdrawn **never actually received an offer**

1. The withdrawal ratio across the UK in 2017 was 45%. For London, it was 61%. For England and Wales, it was between 40% and 45%.
2. Given the generally unsettled mood of the nation in 2017, these withdrawal ratios may be higher than in a typical baseline year. However, as these statistics imply, if the property ultimately sold there is one withdrawn, this demonstrates that vendors who progress to sale are paying a substantial subsidy for those who withdraw from the market.
3. Higher priced homes were far more likely to be withdrawn. Below £500,000, sales outweighed withdrawals and above that, the balance reversed.
4. Generally withdrawals peak in July and November, although political events affected the pattern in 2017.
5. The scale of the potential fee income lost to agents as a result of withdrawals could be in excess of £4 billion[1].
6. A surprisingly high proportion of withdrawals (28%) had actually received an offer but in most cases these were never accepted, highlighting the importance of correct pricing and the challenge of managing expectations of both sides.

[1] We estimate potential income lost through withdrawals in our sample data set to be £463 million. This is based on fees agreed on commission on selling price. Our sample dataset represents around 12% of UK sales and we calculated the per sale figure for all properties, belief to minimise total potential income lost through withdrawals.

Key political and market events of **2017**

Overview

This analysis is based on a dataset of over 100,000 properties taken off the market in 2017, either because they were sold or withdrawn[1]. We begin by measuring the ratio of withdrawals to sales and then look at a range of variables including location, price band, time on the market and size of agent, to find patterns in the data.

This is a snapshot of a single year, 2017 – which may be exceptional, or typical. As we build up the series over time, seasonal and cyclical patterns will emerge more clearly.

Withdrawal **ratio**

A little under half of all properties taken off the market in 2017 were withdrawn, a little more than half were sold, creating a national average withdrawal ratio of 45%.

This is our baseline against which all other metrics can be benchmarked.

Sold 55% / Withdrawn 45%

[1] Definition on data:
While we have taken great care to clean and remove anomalies as far as possible, the accuracy of the data held by Reapit is dependent on the vigour of the agents using it. We hope that by publishing these metrics, it will encourage all agents to adopt best practice for maintaining data. Dataloft has developed a proprietary algorithm to identify withdrawals from the raw data. Withdrawals are properties that have been newly under offer and subsequently re-marketed. Reapit introduced functionality to its CRM software in 2017 to prompt agents to record whether a withdrawn property was being relisted with a competitor. With increasing adoption of this function, future analysis of this important distinction should be possible.

Seasonal **rhythm**

Like the housing market, the withdrawal ratio has a distinct seasonal pattern but it also responds to macro-factors such as economic trends and political events. In 2017, the monthly withdrawal ratio peaked in May, this was the same month that Theresa May called a surprise general election. In a typical year we would expect a low point in early summer. There was also a second spike in November, reflecting the underlying seasonality and coinciding with the first interest rate rise in more than a decade.

The number of withdrawals peaked in October/November – a pattern that held true for 2015/16 and 2017. The housing market generally goes very quiet at Christmas and so a decision to withdraw in the pre-Christmas period is unsurprising.

During **October and November** it would be prudent for agents to keep a close eye on properties at risk of withdrawal. Reapit provides a dashboard to automatically track properties where offers, viewings or client contact is at sub-optimal levels. This data can be used to proactively take steps to avoid a withdrawal situation.

Withdrawal rate **seasonal**

The number of sales rose slightly in May but so did the ratio of properties withdrawn. Withdrawals, reaching 45% mirror the sales.

Withdrawals as a percentage of all properties taken off the market

Monthly **distribution** of properties withdrawn

Variation **by price band**

As a broad rule, for listings below £500,000, sales outweighed withdrawals and above that, the balance reversed. For properties priced over £1 million, the withdrawal ratio was more than double that of properties priced below £250,000 – suggesting £1 million homes are more than twice as likely to be withdrawn.

Agents may wish to consider the probability of withdrawal when negotiating fees.

Withdrawal ratio **by price band**

	Sold	Withdrawn
Up to £250k	59%	30%
£250k – £500k	59%	41%
£500k – £750k	47%	53%
£750k – £1m	43%	57%
£1m – £2m	38%	62%
£2m – £5m	32%	68%
£5m – £10m	32%	68%
Over £10m	32%	68%

Regional analysis

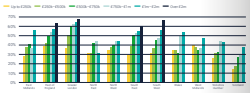
Properties are more likely to be withdrawn from sale in weak or falling markets. This probably reflects the mood on both sides – vendors disappointed by the achievable price and buyers nervous of fixing a value that subsequently falls. In these conditions, nursing a sale through to completion can be a precarious process for the agent and we would expect individual office withdrawal ratios to be highly sensitive to price-setting.

London had the highest withdrawal ratio by a significant margin – 61% compared to a national average of 45%. Without London, the average UK withdrawal ratio falls from 45% to 40%.

Scotland's relatively low withdrawal ratio probably reflects differences in the home-buying system, meaning fewer sales fall through. Buyers are required to have a mortgage agreed in principle upfront, initial searches are completed and solicitors are involved in the process of registering offers. The parties show more commitment because they have already incurred costs – there may be an analogy with the up-front fees business model.

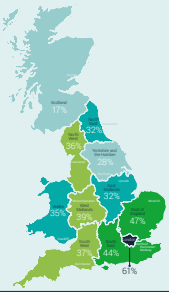
It is interesting to note that some cities have a withdrawal ratio significantly out of line with their region – see especially Leeds, Cardiff and Norwich.

Withdrawal rate by **region and price band**



Highest withdrawal ratios in **London** and **East of England**

% properties withdrawn by region
Under 30% **30–35%** **35–40%** **40–45%** **Over 45%**



Top performer in each region
Area | **postcode**

Greater London Chelsea	31%
East of England Harwich	32%
South East Hastings, Battle, Rye	33%
West Midlands Wolverhampton	28%
South West Chippenham	30%
North West Lancaster	20%
Wales Cardiff, CF	21%
East Midlands Lincoln, LN	25%
North East Newcastle upon Tyne, NE	30%
Yorkshire and the Humber Leeds, LS	20%
Scotland Dundee, DD	9%

The property buying process in Scotland is significantly different to that in the rest of the UK, though there is the mirror of the USA. The key differences are that vendors must commit to the cost of a survey and that offers are made and that offers are legally binding on the buyer.

Focus on London

The withdrawal ratio in Greater London was 61%. In other words, almost two thirds of properties taken off the market in 2017 were withdrawn, not sold. London represents 29% of the data analysed for this research. Trends in the capital are often an early indicator of change in the regions.

Withdrawals might be re-listed with another agent. Vendors could be more disposed to switch agents in a challenging market, or in a high value market where the fees paid for the service are so much greater.

The withdrawal ratio is **significantly higher** in London

London's withdrawal ratio is 21 percentage points higher than in the rest of the country, at 61%. If the London data is excluded, the withdrawal ratio for the rest of England and Wales falls to 40%. This was against a backdrop of a very challenging market (see page **5**). The downward trend begun earlier in prime areas of the capital but by 2017 the slowdown had spread across the city. The number of sales in London fell by 9% in 2017 compared to 2016 – and the weakening had already begun in 2016.

Sold 39% / Withdrawn 61%

+21%
London's withdrawal ratio is 21% **higher** than in the rest of the country

Withdrawal rates across the **33 London boroughs**

Under 45% **45–50%** **50–55%** **Over 55%**

5 boroughs had a ratio **below the national average** of 45%

Higher value, higher withdrawal ratio

Like the rest of the country, the withdrawal ratio in London rises with house price. It was inevitable then that London's prime boroughs of Kensington & Chelsea and also Westminster came out with very high ratios. Even lower priced homes in these boroughs had a higher than average withdrawal ratio. An analysis of homes priced between £250,000 and £500,000 had a 52% withdrawal ratio compared to a 47% national average.

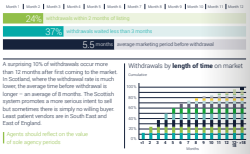
Not all London boroughs had such a high withdrawal ratio. Five of the 33 had a ratio below the national average of 45%. The average price of properties sold in these five boroughs was £452,000 compared with £800,000 or more in the seven boroughs that had withdrawal ratios over 65%.

Withdrawal level **% of withdrawal**	Average price of **sales in 2017**
Up to 45%	£452,058
45%–55%	£526,047
55%–65%	£643,114
Over 65%	£801,120

Source: Land Registry data on all transactions in 2017

When vendors call time

Properties withdrawn from sale in 2017 had been on the market for an average of 5.5 months. Surprisingly, almost 40% of withdrawals occur within 3 months of being listed and a quarter had been on the market for less than 2 months. With typical sole agency agreements lasting between 12 and 16 weeks, there is a significant risk that the decision to withdraw is made before an agreement expires. Overall, half (49.5%) of properties withdrawn in 2017 had been marketed for less than 4 months.[2]



A surprising 10% of withdrawals occur more than 12 months after first coming to the market. In Scotland, where the withdrawal rate is much lower, the average time before withdrawal is longer – an average of 8 months. The Scottish system promotes a more serious intent to sell but sometimes there is simply no selling buyer. Least patient vendors are in South East and East of England.

Agents should reflect on the value of sole agency periods

Withdrawals by **length of time** on market

[2] Definition of agency age: Based on the language used by agencies on their websites to describe their business and number of offices. Independent: 1 office. Regional: 2–10 offices. Local: 11–50 offices. National: 51–250 offices. Mega: 250+ offices. Source: Dataloft analysis of the UK's 2,000 estate agencies. Of the 1,000 branches analysed in this sample, 70% were in independent or in small chains, 20% were in large networks and 10% were in medium sized regional chains.

Withdrawals by **length of time** on market in each region

Over **a third** of withdrawals had an offer

A surprisingly high proportion of withdrawals (38%) had actually received an offer from a potential buyer, although only 6% had been accepted. While failures in chains and issues with sales progression are a factor in withdrawals, most of the properties withdrawn (62%) had not received any offer at all in the time they were on the market and 94% had not received an acceptable offer.

It is surprising to find how quickly vendors made a decision to withdraw. Over half of withdrawals with no offer were taken off the market within four months of listing.

Withdrawn with **at least one** offer 38%

Withdrawn with **no** offer 62%

The significant abortive costs of marketing properties are undeniable, as is the importance of correct pricing.

Properties **over £1 million**

Higher value properties are more likely to be withdrawn without an offer. At over £1 million, 72% of withdrawals had not received an offer, compared to 55% at under £250,000. Unsurprising then, that London had the highest proportion of withdrawals with no offer.

Withdrawn with **£1 million** 72%

The art of price setting

Properties withdrawn after receiving an offer, tended to have received the offer later than those which went on to completion. On average, the offer came nearly three weeks later. The initial setting of price could be a factor in the delayed interest.

3 weeks

Where an offer was made and the property was withdrawn, the offer came nearly three weeks later

Fees matter …

The average fee charged by the agent for a completed sale in 2017 equated to 1.3% of the agreed price. That included fixed and percentage fees. There was no significant difference between the fees agreed on properties that ended in sale, compared with those that ended in withdrawal. On this metric, the fee rate had no material impact on the chances of success or failure in the sale process.

That said, there was a discernible difference in the withdrawal ratio between properties on a percentage fee and those on a fixed price (important to note that, in this case, fixed fee does not mean cut price fee).

Of the properties sold in 2017, 78% were on a percentage commission fee. The other 22% had agreed a fixed fee. A much smaller proportion (13%) of those withdrawn were on a fixed fee. So, listings with a fixed fee were, statistically, more likely to result in a sale. However, there is a strong association between fixed fee and low price – fixed fees are far more popular for low value homes and in areas with lower average values where, in 2017, at least, the sale rate was much higher.

If we commission rates don't seem to have any material bearing on the chances of a sale – we did not conclude that agents cutting fees to win instructions were any more likely to fail to sell the property.

Commission based on **percentage fee** or **fixed fee**

	Percentage fee	Fixed fee
Sold	78%	22%
Withdrawn	87%	13%

1.3%
Average fee earned on sale

… and prices affect fee arrangements

In London, the highest value market, only 7% of sales were on a fixed fee. In stark contrast, more than two fifths of sales completed in the Yorkshire and the Humber, East Midlands, North East and North West were on a fixed fee. For sales up to £250,000, just under half were fixed fee, compared to 9% of those above £250,000.

Overall, fixed fees did not translate into a lower percentage of sale price. In fact, the average for properties sold with a fixed fee equated to commission of 1.36%, compared to an average of 1.27% for properties sold on a commission percentage. Using fixed fees on lower priced properties allows vendors to budget more accurately for costs and does not seem to penalise agents.

Fixed fees are not often used in high value markets.

Properties completed **in 2017**

	Sold **percentage fee**	Sold **fixed price**
East Midlands	51%	49%
East of England	88%	12%
Greater London	93%	7%
North East	44%	56%
North West	57%	43%
South East	86%	14%
South West	81%	19%
Wales	73%	27%
West Midlands	80%	20%
Yorkshire and the Humber	61%	39%
Scotland	89%	11%

7%
of sales in London were on a **fixed fee**

Lost potential
£463,498,968

We calculate that the total potential revenue lost to agents in our sample dataset, via properties withdrawn from the market in 2017, was almost half a billion pounds. Our sample represents less than 10% of the market, so the real figure could be well in excess of £4 billion. In all of these cases, the agent has spent time and incurred expenses, so the opportunity cost of lost revenue is much higher.

This equated to an average of £247,002 per branch. It ranged from around £62,000 per branch in Wales to over £538,000 per branch in London, where lost potential exceeded revenue received by a substantial margin.

The opportunity cost to agents is enormous as is the impact on clients who proceed to sale and, in effect, subsidise vendors who change their minds. This is the stake in discussions about upfront fee models.

Lost potential as proportion of revenue received

Average fees per branch for sales and **potential lost** through withdrawals

	Average fee per branch for sales completed	Average lost fee per branch
1. East Midlands	£79,389	£97,500
2. East of England	£202,274	£193,195
3. Greater London	£331,265	£538,330
4. North East	£160,640	£81,458
5. North West	£160,737	£88,000
6. Scotland	£195,549	£53,778
7. South East	£273,516	£210,305
8. South West	£246,481	£128,472
9. Wales	£119,026	£62,000
10 West Midlands	£176,267	£75,508
11. Yorkshire & the Humber	£152,294	£77,000
12 Total	£247,002	£247,002

[1] This may include some double counting of properties, marketed by more than one agent who will both have "lost" the potential commission.
[2] Analysis excluded branches with fewer than 10 properties sold or withdrawn. **Note:** this could include properties marketed by more than 1 agent.

Conclusions

Housing markets are extremely sensitive to consumer confidence and the UK had more than its fair share of economic and political uncertainty to undermine confidence in 2017. It should come as no great surprise that a large number of homes put on the market were subsequently withdrawn, rather than sold.

But the substantial variations in the withdrawal ratio whether by region, price band or type of agent, suggest that there is more to these findings than can be explained by a challenging year.

The research was undertaken at a time when the cost and effectiveness of the traditional high street estate agent is under intense scrutiny.

While commission-based fees generate higher revenues per sale for agents in the high value London markets, these figures show that agents bear a much higher risk of abortive costs from withdrawals.

It also implies that vendors who progress through to a sale are, in effect, supporting the costs incurred (but not paid for) by vendors that withdraw homes from the market. This ratio would suggest that, for every sale fee, roughly a third covers the cost of this transaction and two thirds will off-set potential income lost through withdrawals.

It raises questions about upfront fee business models. This research shows that high withdrawal rates are the norm, meaning that vendors who pay upfront have a high chance of disappointment.

To some extent, vendors choosing upfront fees are more likely to be fully committed to a sale but withdrawals are not necessarily a choice. Chain breaks may be far beyond the control of any party to this transaction.

While we would not wish to read too much into monthly movements, the pattern in this chart suggests that when weak house price data is released, the withdrawal rate rises. We will continue to monitor this trend.

Withdrawal rate and **price growth**

dataloft

Dataloft is an established property market intelligence company with a long track record of analysing and reporting on the housing market. We are committed to stripping away the mystique of complex data analysis and adding value for clients through interpretation, insight and creativity.

T +44 (0)1962 867712
E hello@dataloft.co.uk
dataloft.co.uk #ofcomproperty#arsalnews

REAPIT

Reapit is the proven platform that successful estate agents rely on to run and grow their businesses – from sales to lettings, from offices to back-office, and everything in between. Contact us to learn how to back and reduce withdrawals.

T +44 (0)843 218 1660
E sales@reapit.com
www.reapit.com

Disclaimer: This report is produced for general information only. While every effort has been made to ensure the accuracy of this publication, Dataloft ltd and Reapit ltd cannot be responsible for any loss or damage arising from any inaccuracy or omission in this publication. Dataloft ltd and Reapit ltd cannot be responsible for any inaccuracy or omission in any of the information provided by third parties or any loss or damage arising from such inaccuracy or omission.

Date of publication: June 2018