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New-build sector loses its price premium

By Tanya Powley

Banks and building societies are becoming more comfortable with lending on new-build property as asking prices have fallen significantly since the peak of the market and now represent better value. But most lenders will still demand bigger deposits for new-build flats over houses, brokers warn.

The new-build property sector has been tainted in recent years by the buy-to-let boom and bust. "New-build" became a dirty word after over-inflated valuations – and an over-supply of stock – sent property prices tumbling, and left thousands of homebuyers in negative equity.

According to figures from SmartNewHomes, the average price of a new-build home fell by 18.3 per cent from the peak of the market in July 2007 to the bottom in October 2010.

But lower, stable prices and better transparency – such as the Council of Mortgage Lenders' Disclosure of Incentive Form that requires all financial incentives given to a buyer by a developer to be declared – has seen lenders start to ease lending criteria for new-build property.

A reduction in the premium for buying a new-build home has also helped. According to the Nationwide House Price Index, at the beginning of 2000 there was a 15 per cent premium for buying an average new-build property in the UK over an equivalent "second-hand" property. By the thrid quarter of 2011, this premium had dropped to just 2 per cent.

"For the volume schemes that went up pre-peak, that premium has been eroded – not least because of difficulties in obtaining mortgage funding and because there is a lot of competitively priced second-hand stock available in the mainstream market," explained George Cardale, head of residential development sales at Savills.

Last month, Nationwide announced that it would change its approach to valuing new-build houses and flats. It will now value new builds on an "as new" basis, rather than on a resale basis. Mortgage brokers said this showed Nationwide was now more comfortable with new-build property prices.

While the government's recently announced new-build mortgage indemnity scheme will help buyers with only a 5 per cent deposit, experts point out that there are already a number of lenders providing loans of up to 90 per cent.

According to David Hollingworth of London & Country, the mortgage broker, Nottingham Building Society and Skipton Building Society will lend up to 90 per cent on new-build homes, while Santander will lend this much specifically to first-time buyers. Woolwich and Nationwide Building Society will lend a maximum of 85 per cent loan-to-value.

However, lenders remain more cautious on new-build flats, which were at the heart of the buy-to-let crash.

"Buying a new-build house is usually okay, but lenders still have a big problem with flats," noted Mark Harris of SPF, a mortgage broker. "Banks are heavily exposed to new-build flats and are still restricting loan-to-values as a result."

For example, Skipton Building Society will lend up to 90 per cent on a new-build house but restricts its maximum loan-to-value for flats to 75 per cent. Santander and Nationwide also have lower loan-to-values for flats.

But some banks will lend the same across both property types: Halifax will lend up to 80 per cent, and Woolwich's 85 per cent maximum applies to all new-build developments.

A premium still exisits, however, for "prime" new-build properties, particularly in central London. According to Knight Frank, in the super-prime market – properties worth £5m-plus – there is a premium of up to 25 per cent for new-build.

"The new-build premium at the top end of the prime central London market is now at its greatest – testament to the fact that new-build stock has been cleverly targeted at overseas demand in a supply constrained market," said Lucian Cook, director of research at Savills.

In spite of this big premium, however, private banks are happy to lend on new-build properties. "Private banks are generally fine with new builds as they are cautious enough on their loan-to-values that the loss of the new-build premium is not going to be a problem," said Nigel Bedford of Largemortgageloans.com.