FINANCIAL TIMES

February 8, 2013 6:32 pm

New-builds 'offer inferior returns'

By Tanya Powley

©Bloomberg

New-build luxury developments in prime areas of London are popular with investors, but buying a period property could offer better returns, experts say.

Britons still account for the largest proportion of buyers of new-build property in prime London, representing 27 per cent of transactions last year, according to Knight Frank, the high-end estate agent.

New-build developments in the capital are also increasingly popular with Asian investors. Buyers from Singapore and Hong Kong accounted for a 23 and 16 per cent share respectively of the market.

However, property investors in upmarket areas of the capital are likely to get higher returns by investing in a period property.

An analysis of ten major prime new-build developments found that all experienced lower house price growth in the four years between December 2008 and 2012 than the average across prime central London. Some of the sites analysed include The Knightsbridge, St George Wharf in Vauxhall and Academy Gardens in Kensington.

According to Ollie Hooper of Huntly Hooper, the property consultants that undertook the research, four of these sites saw values fall, while the rest experienced price growth but at a lower rate than that of the prime central London average.

The best-performing new development recorded price growth of 33 per cent, while the worst-performing recorded falls of nearly 16 per cent. In comparison, average growth for prime central London was 42.7 per cent over the four years.

Hooper believes the difference in price could widen in the future due to the big pipeline of new-build developments, which will significantly boost supply.

"With period property being in limited supply and new-build property set for large amounts of future supply, economics will dictate that the two types of property will perform differently, despite both being in the same geographical area," he said.

Others agree. "The problem with new-builds, to state the obvious, is that there are always more being built,” said Rachel Thompson of The Buying Solution, a property buying agent. “Therefore, the kudos of owning a new-build is actually shortlived as, within a couple of years, another swankier development would have replaced it.”

Jo Eccles, managing director of Sourcing Property, pointed out that in contrast to period properties, few new-build properties go to sealed bids, as buyers know that almost identical replicas exist and will come up for sale in due course.

“In a large development, there are usually several properties for sale at any time, and because most will be quite similar in terms of style and layout – usually the only variations are the outlook and floor – so prices tend to be more negotiable and values don’t always hold up as well as owners would like,” she explained.

However, Dominic Grace, head of Savills London residential development team, believes new-build properties that are well-located and designed will do “very well” over time.

For those investors that still prefer to buy a new-build property, Hooper advises opting for smaller schemes, which are more likely to hold their value, or investing in a more established development that has been around for longer and therefore should no longer carry a premium.

But securing a mortgage on a new-build property could be more difficult. According to Nigel Bedford of Largemortgageloans.com, the pool of lenders that are happy to lend on new-build as an investment property is small.

“Lenders of all types - including private banks - often restrict the number of flats in a development that they will lend on to limit their exposure to the overall project. It is also common to find the loan to values available are lower than for established properties,” he said.

However, Mark Harris of mortgage broker SPF Private Clients believes most private banks will base their lending decision on the client rather than the property. “As long as the client meets their criteria, it shouldn’t be an issue that they are buying new and not a period property,” he said.