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Follow the plot as number of self-builders rises

By Tanya Powley

Published: May 20 2011 18:53 | Last updated: May 20 2011 18:53

Wealthy homebuyers are increasingly opting to build their own dream homes, as good quality family houses remain scarce at the top end of the property market.

In recent months, buying agents have reported a rise in the number of clients looking to buy plots of land with planning permission for large family houses.

Adrian Wright of Private Property Search (PPS) says his company has recently acquired four sites in Hampshire and Dorset on behalf of clients, at prices varying from £1m to £5m.

This trend towards self-build has been reflected in stronger demand for self-build mortgages since the beginning of the year.

According to Buildstore, a company that sources building plots and self-build loans, there was a 30 per cent increase in the number of self-build mortgage offers in the first quarter of 2011, compared with the same period last year.

Government policy is expected to drive further growth in coming years. Earlier this month, Grant Shapps, the housing minister, announced that he wanted self-build to become a mainstream housing option – and said the government would look to make more publicly-owned land available for use by “ordinary people to build their own homes”.

The appeal of self-build has also been boosted by the prospect of paying no VAT – at 20 per cent – on building materials, as well as savings on stamp duty.

“The self-build market is thriving as wealthy buyers in particular buy fairly average or dated houses in great locations, knock them down, and build much swankier properties to their specifications,” says Melanie Bien of Private Finance, the mortgage broker.

Bien says Private Finance recently arranged funding of up to £17m on a single plot in Mayfair, on which a block of four flats was knocked down to create a single house.

Self-build is particularly popular with wealthy buyers looking to build family homes in the country. PPS says it has bought a 150 acre plot in Hampshire with planning permission for a 15,000 sq ft country house – including an indoor swimming pool, stables and outbuildings – for less than the guide price of £5m. It has also secured a 55 acre plot with planning permission for a 10,000 sq ft house, plus 6,000 sq ft of ancillary buildings, for just over £2m.

But, while building a home to exact personal specifications will appeal to many, experts warn that the process is often costly and time-consuming.

Simon Barnes, a London-based buying agent, says it is crucial to employ professionals. “You really need to know what you are doing and have a good team in place,” he explains.

Jaclyn Thorburn of Buildstore advises self-builders to set a realistic budget – including a contingency of at least 15 per cent.

Build costs at the top end of the market can vary significantly. Wright of PPS says that, generally, top-end buyers would look to spend between £160 and £250 per sq ft depending on specification, but some can go over £300 per sq ft.

Securing finance for self-build is also harder than it used to be. "Self-build has been decimated as a result of the credit crisis and lenders that would once have been worth a call will no longer look at self-build," says David Hollingworth of broker London & Country.

On the high street, BM Solutions and Halifax offer self-build mortgages, but the majority of other self-build lenders are building societies. This week, Norwich & Peterborough eased its lending criteria for self-build mortgages, increasing the maximum loan-to-value from 75 to 80 per cent.

Self-build loans are more expensive than traditional mortgages. N&P charges 5.3 per cent, with a £995 fee. However, self-builders seeking larger loans could try a private bank. According to Aaron Strutt of broker Trinity Financial, Bank of Scotland Private Bank can offer rates as low as 3 per cent over bank base rate.

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