



Prospect Mortgage Services
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What you need to know...
Self-Builds



Offering Independent Mortgage Advice

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About 12,000 people build their own homes in the UK each year (about 7% of all new housing). Attracted by the prospect of acquiring the house that they want, built to the specification that they want and in the location that they want, it's easy to see why so many people consider this option.

Although a self-build home can be considerably cheaper than the price of an equivalent existing property, there are still substantial costs involved.

Project Planning

Possibly the most vital part of any self-build project, project planning helps to ensure that everyone involved in the project is 'on track'. Project planning also helps you keep track of costs throughout the project.

As such, the very highest priority needs to be given to the planning stage of a self-build project, moving to a detailed plan as quickly as possible. It is essential to have a clear vision of:

- **what needs to be done**
- **when it needs to be done**
- **who is going to do it**
- **what the cost will be**

One of the most common reasons why self-build budgets are exceeded are delays, which can create the knock on effect of contractors being unable to begin their work whilst still having to be paid for their time. As such, however detailed a project plan, it remains sensible to **include an additional 10% - 15% contingency sum** into planned costs to cover unforeseen increases.

Lenders also typically need to know if and when any existing mortgage commitments are to be repaid. This is of particular significance if applicants will not be in a position to redeem their current residential mortgage until their new property is complete. Applicants will therefore need to be able to simultaneously satisfy the lenders' affordability requirements in respect of both the current mortgage and the new self-build mortgage being applied for.

Project planning – build costs

Estimating the actual build cost of a project is usually the best place to start in project planning. Arriving at this initial figure will enable you to:

- Decide if the project is worth pursuing at all
- Work backwards to decide how much money is available to buy a plot of land
- Calculate how much money may need to be borrowed
- Get an idea of the type of house that can be built within budget

The main factors that will affect build costs are:

- Type of construction, traditional (masonry or timber frame) or specialist
- Choice of materials, the number of bespoke or design items involved in the build (together with their overall quality) will have a considerable effect on cost
- Where it is, the costs of materials, labour and equipment can vary widely depending on geographical location
- Size, economies of scale can often apply
- Site conditions, contaminated ground, a steep slope or problems with access can be expensive
- The number of specialist contractors to be employed



The Architect

Most self-builders appoint a qualified and experienced architect to act on their brief and design the house. An architect can often effectively coordinate a whole project by negotiating and advising on statutory requirements such as planning permission and buildings regulations approvals

The architect will also be able to:

- Inspect and certify the building work as well as provide guidance on costs
- Advise if you need to employ other specialists (for example, engineers or surveyors)
- Help to find appropriate people to undertake the construction work.

Properly qualified architects are shown on the public register held by the Architects Registration Board (ARB) and you are advised to check this register before making an appointment.

Go to the Architects Registration Board website www.arb.org.uk to find out more.

Project planning – other costs to remember

These will include:

- The cost of buying the land
- Professional fees - Typically incurred from an Architect, Planning Consultant, Bricklayer, Electrician, Engineer, Ground-workers, Joiner, Material Suppliers, Plasterer, Plumber
- Surveyor and a Solicitor
- Borrowing costs (including mortgage set up costs and repayments)
- Insurances

Reclaiming VAT

New houses are zero rated for VAT, which means that self-builders can reclaim most (but not all) of the VAT that they incur during the build. All reclaims are handled by HM Revenue and Customs (HMRC) and it is essential that an applicant read and understand the rules surrounding VAT reclaim. Claims need to be made within strictly observed time limits. Find out more at hmrc.gov.uk/vat/sectors/consumers/new-home.htm

Buying the land

This is the first formal step in the process and as such is particularly significant.

Finding a plot-

There are several online databases that can provide details of local plots for sale. In addition it is recommended to spend some time in each area under consideration speaking to estate agents, land agents and researching any land sale advertisements in the local press.

Other people to contact include developers, the local council and the utility organisations for the area, all of whom may have an individual plot of land that is surplus to their requirements and available for sale.

A further suggestion might be to get together with a group of other potential self-builders and buy a bigger piece of land to develop.

Buying the land

Many development plots are sold via auction, where typically a 10 percent deposit will be required on the day of purchase, with the balance due within 28 days. Therefore the finance required must be securely in place before the auction takes place in order to avoid any possibility of entering into a commitment that cannot subsequently be met.

Alternatively plots can be purchased via land agents, who perform a similar role to residential estate agents. They will source suitable local land that is available for sale that meets a buyer's criteria and convey offers to a seller. Again, it is normal for land agents on behalf of their client to insist that a potential buyer can prove their ability to meet the purchase price. If this is to be partly funded by a mortgage, an approval from the lender will usually be required at an early stage.



Planning permission and access

Obtaining permission to build your house on your plot is paramount in ensuring your project goes ahead.

Without planning permission, your lender will not release the funds for your project.

The most important consideration when selecting a plot of land to buy is the likelihood of obtaining planning permission for the build. Many plots are sold with planning permission already in place although these are usually considerably more expensive. If buying land with full planning permission already in place, detailed development plans will have been submitted to the local planning authority and it is therefore important to ensure that the actual permissions granted are entirely suitable. Local planning authorities are required by law to keep a public register of all planning applications, which applicants should be able to access easily.

Planning permission expires after three years and so purchasers should be satisfied that there are not any significant time restrictions attached to existing permissions.

Plots are also sold with outline planning permission. Although offering the purchaser less security, this is often cheaper to obtain and it will also offer an indication of the type of full planning permission that should be achievable in the future.

The cheapest way to buy land is to select a plot without any planning permission. This can be a risky option and a purchaser could then expect to see the value increase substantially once planning permission has been granted. However, to apply for lending to build a property, plans and planning permission must already be in place and lenders will want to be satisfied that development of the site can commence prior to the expiry date of the planning permission.

To make a planning application you first need to work out who makes planning decisions in the relevant area. There is normally a two or three-tier local authority system, consisting of a county and district council, in most cases a parish council may also be involved in this process. The majority of decisions are taken by the local district or borough council, however, where a unitary authority is in place, it will act as the local planning authority.

Access to the land is another key consideration when selecting a plot to buy. The build costs will be substantially higher for a plot of land that is difficult to reach or requires specialist machinery. Plots that are on a hill or a steep slope may also create additional building difficulty and therefore increase cost.

While every self build mortgage lender will have its own specific set of criteria to be satisfied, most will require copies of the build plans and planning permission to be provided to their valuer on or prior to inspection of the land and throughout the property build stages.

Land surveys and Stamp Duty

Having a survey done on the land helps ensure a site is suitable for building on. Customers are strongly advised to obtain a survey of the land that they are proposing to buy. In addition a solicitor should be able to report on a number of issues concerning the suitability of the land for purchase, including:

- Checking what is likely to happen to land that is in the vicinity of the house
- Finding out if utilities (gas, water, electricity and phone) are connected or in existence nearby. If they are not connected, how easy would it be to do so, and what would it cost?
- Ensuring that the plot is not on a flood plain and be wary of any nearby streams
- Ensuring that brownfield sites do not present unforeseen problems that are connected to its previous use e.g. chemical contamination arising from a historic industrial use
- Checking that the land is not legally subject to any restrictive land covenants or ransom strips (where somebody retains ownership of a section of the plot) that materially affects its use or access.

If the cost of the building plot does not exceed the current threshold set by the government, Stamp Duty is not applicable. Where the threshold is exceeded, Stamp Duty will be levied on the amount by which the cost of the building plot exceeds that threshold.

Customers are advised to check the HMRC website (www.gov.uk/stamp-duty-land-tax-rates) to confirm the current threshold applicable.



Self build mortgages

Self build mortgages represent specialist lending and differ from normal residential mortgages in that payments are made at a number of separate stages, which represent logical breaks in the overall building process.

Typically these stages might be:

- Purchase of land
- Completion of the footings and foundations
- Construction of the walls
- Roof on
- Completion

Some lenders will also allow customers to **receive an initial stage payment to help them to buy the land** as well as releasing funds at the more usual build stages.

Structural warranties and guarantees

Before lending on newly built homes banks and building societies usually require either confirmation that an acceptable building standards indemnity scheme is in place or confirmation that the supervising consultant/architect can meet specified criteria. Lenders should be contacted to establish which guarantee/warranty providers they are prepared to accept and the criteria that the supervising consultant/architect must meet.

Construction

At the building stage, it is important to ensure you adhere to building regulations, know the different construction options available and are properly covered by insurance.

Regulatory requirements

As well as ensuring that appropriate planning permission is in place, you will also need to ensure that your build complies with building regulations. These are national regulations and contact needs to be made with the local authority Building Control Officer who will require details of the proposed new build.

Construction options

When it comes to the actual construction of the property there are several options that are available. The most common types of construction in the UK include:

Timber Frame.

- Extremely popular with self builders due to its energy efficiency
- Relatively quick method of construction

Brick and Block.

- The traditional method used to construct houses in the UK
- Easiest type of property to re-sell

Steel Frame

- A relatively rare method in the UK



Insurance requirements during construction

Insurance needs are likely to vary as the project develops. At the outset the main priority may be to cover the land for flood or fire risks etc, but as soon as work begins insurance will be required in the event of anybody getting injured on the site. It will also be important to keep the structure itself insured during all the phases of its construction, and it therefore follows that your insurance requirements should be kept under close review.

Each build will be unique and multi-faceted and it is extremely important to make sure that it is properly covered. This is definitely not an area to cut back on.

Some of the most common types of self build insurance are listed below. Customers are strongly advised to seek expert professional advice from an insurance broker.

Public Liability Insurance.

This is vital cover as it protects you against possible claims made by a person or organisation in respect of losses arising in any way from the building operations. This can even extend to somebody trespassing on the land and accidentally injuring themselves. When claims do arise they can be substantial.

Employers Liability Insurance.

Whether or not you are directly employing people working on site you will usually have a “duty of care” to them while they are there. Full cover is required against the risk of injury.

Site Insurance.

Sometimes called Contract Works Insurance - this protects you against losses that can be caused by vandals, theft, fire, flood, delivery vehicles and other eventualities that can cost time and money.

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