

Complete Guide to Renovating a House

PART TWO: COMPLETING THE DEAL

Finding a renovation opportunity that sets your heart racing is just the start — now you need to make it yours.

Natasha Brinsmead explains how

GETTING IT BOUGHT



IMAGES: 2 X SHUTTERSTOCK

Run-down properties are in high demand, with everyone wanting a project they can put their own stamp on. While the days of making a quick profit by doing something up then moving on may be, for now, behind us, there is still the chance to make money when renovating, hence the premium often placed on houses in need of modernisation.

What all this means is that you are likely to be up against some stiff competition when it comes to actually getting it. Renovation projects more often than not are sold at auction, or else end up going to sealed bids, or best and final offers, and knowing these processes is vital if you are to be the successful bidder.

The key, above all, is to be in the best possible position with finance (see overleaf) and to come to your own independent valuation of what the property is worth to you — so regardless of the buying process, you can approach it sensibly, and be able to walk away if you don't get it, satisfied that you gave it your best shot.

THE PROCESS

THE OFFER

Projects in need of renovation are often sold at auction or go to sealed bids or best and final offers



THE ACCEPTANCE

If your bid is successful, you'll need to be able to move quickly to completion



THE INVESTIGATION

It is essential to get a proper survey carried out on the property — do not just rely on a mortgage valuation



THE LEGALS

Your solicitor will liaise with the vendor's solicitor. They will arrange any relevant searches



THE PURCHASE

A date will be set for the exchange of contracts, after which the property will become your responsibility

how to

Showing you are a reliable, flexible and keen buyer can put you ahead of other interested buyers in a sealed bid, even if they are offering more

JARGON BUSTER

The conveyancing — the legal process of buying and selling property — must be carried out by a regulated solicitor or conveyancer (regulated by the Council for Licensed Conveyancers). They will act on your behalf when buying a property and ensure that the contract is fair and reasonable. They'll also arrange the relevant searches and raise any queries with the seller's solicitor. Expect to pay £500-1,000.

BUYING AT AUCTION

This can be a daunting process, essentially condensing the buying process into minutes as opposed to months and when the hammer falls, if you are the successful bidder, then there is no turning back. Before attending the auction for the property you are interested in, sit in on another auction, just to get a feel of the process. Be sure to thoroughly research the property before the auction too, and carry out all the relevant property and land searches to avoid being hit with any nasty surprises later on down the line.

Buying at auction invariably means committing a significant amount of money without being sure the property is yours. You will need to commission the regular conveyancing work to check boundaries, title, and raise any questions with the vendor's solicitor (and to interpret the selling pack that is usually available from the selling agent).

You might also want to commission a survey. Expect to pay somewhere in the region of £800-2,000 for all this work — meaning that you need to be serious.

Before the auction you will also need to have financial arrangements in place to ensure you have the required 10% deposit available for the day, when the contracts will be signed, and the remaining 90% within 28 days. Most auctioneers accept a cheque (with suitable ID) on the night, but you should check the required payment methods beforehand. As you can see, it's about more than just turning up on the night and hoping for the best.



LOOK ONLINE
Essential Information Group (eigroup.co.uk — pay to access) is a great resource for anyone serious about buying at auction, with full listings and advice on finance, results and more



SEALED BIDS

When there is a lot of interest in a property it will often go to sealed bids. The estate agent will let you know the date and time in which all bids have to be in by. To put your bid in you will need to submit a letter stating your final offer, along with your solicitor's details and ideally a mortgage offer in principle from your lender. Often it pays to write the letter to the owner of the house, setting out why you are a favourable choice, making sure to point

it out if you have no chain, what your deposit will be in terms of your mortgage, and maybe also a little personal information on why you want to buy the property and are a reliable choice. Often run-down properties will have been home to the owners for many years and there will be a strong sentimental attachment, meaning those bidders who seem more reliable and in a better position to be flexible about timing will seem like a better option than those with more to bid.

If the property is uninhabitable you will need to approach a specialist lender

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'Best and Final Offers' is a similar process to sealed bids but not quite so formal. A deadline is set for all offers to be submitted, and then all offers are collated by the agent to be sent to the vendor.

FINANCING YOUR PROJECT

There are several options available here for renovators. If the property you wish to renovate is habitable then you can go straight to one of the usual high street lenders. If you do not have the funds available to pay for the building work required on the house, you might consider a loan, which will hopefully be repaid by remortgaging the completed property.

However, if the property is non-habitable or even non-residential (i.e. you're intending to convert its usage), then you will need to approach a specialist lender.

There are several lenders out there offering mortgages specifically for renovators. The best known of these is BuildStore. Their Accelerator mortgage is an advanced stage payment mortgage aimed at helping renovators buy and renovate a property with only a small cash deposit. Stage payment mortgages release funds at various points during the renovation, for example:

- Purchase of property
- Preliminary costs and structural overhaul
- Wind and watertight
- Plastering and services
- Second fix
- To completion

Funds will either be paid out at the end of each stage (in arrears), or before, known as advance — the

latter is currently unique to BuildStore. They lend up to 90% of the cost of the property and up to 90% of the cost of the build at present. They currently offer a two-year fixed mortgage at 4.99%, as well as a range of variable rate products, including their lifetime variable rate for an advance stage payment mortgage, currently 5.89%.

Norwich & Peterborough Building Society also offer a self-build mortgage suitable for renovators, releasing the funds in up to seven stages, with the initial payment being released to help you buy the property as it stands.

The mortgage allows you to borrow up to 80% of the value of the completed property given by one of their valuers with the initial advance being restricted to 80% of the purchase price, 80% of the value of the existing structure or 80% of the total loan, whichever is the lowest. At present, their self-build tracker mortgage has an initial rate of 4.89% for two years, rising to 4.99% for the remaining term.

Finally there is the Ecology Building Society, who specialise in mortgages for 'green' projects, to include renovations of derelict or run-down properties, which they consider a form of recycling, and conversions. You can currently borrow up to 85% of the property's value at their current standard variable rate, 4.90%.

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You'll need to pay Stamp Duty on completion. Current rates: under £125k — 0%; up to £250k — 1%; up to £500k — 3%; up to £1m — 4%; £1-2m — 5%; over £2m, it's 7%



MONEY-SAVING TIP

If the property you buy is uninhabitable, you will need somewhere to live while you make it liveable. If you want to stay in your old home while the work is carried out, some mortgage providers offer an option whereby you have your own home valued upfront, and then the sales figures for your property are taken into account for your borrowing needs. Once you complete your renovation, or often just before, you put your old house on the market. Once it sells, the final figures are worked out. Try HSBC (hsbc.co.uk)

WHICH SURVEY?

It is absolutely essential — more so than ever when it comes to renovations — to have a survey carried out on the property. Not only will a survey give you an idea of the condition of the house, but also whether it is worth what you intend to pay for it. A survey could provide you with issues that allow you to negotiate money off the asking price, or at least budget more accurately for any future work that will need to be carried out.

A mortgage valuation does not take the place of a survey, although the mortgage company's surveyor can usually carry out a survey for you at an extra cost.

There are several different types of surveys that you can choose from. Firstly there is the Homebuyers' Report. This will draw any problems such as damp or subsidence to your attention, along with anything in the house that does not meet current Building Regs (probably most

things in a renovation project). It will give an independent view of the property's value and costs £250-400.

Next there are Structural Building Surveys. These are more suited to older properties and are detailed reports on the condition of the property. They highlight any issues that should be investigated further but do not include a valuation. Both of the above types of survey can be carried out by a surveyor (rics.org). Expect to pay around £500-1,000.

A Home Condition Survey (HCS) is carried out by a home inspector accredited by SAVA. It will tell you about the state of the property, potential problems and what the rebuild cost of the property is. It does not include a valuation. Expect to pay £100-250.

An energy performance certificate (EPC) tells you about the energy efficiency of the property (which is likely to be terrible for most projects of this sort).

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Surveyors can operate to tight time frames if required — often they are able to be commissioned, visit the property and file a report within a week. Most mortgage companies use the so-called 'Valuation Farms' for their reports. Be aware that when buying a property at auction, some lenders will not commission a valuation survey until you have had an offer accepted (in which case, you should use one of the lenders who will!)

HIDDEN COSTS

Apart from the renovation work, there are some additional costs which you should consider.

Reconnection Fees

You may need to pay some fees to get the house working again, e.g. water supply, cleaning out the septic tank, etc.

Valuation Fees

You will need to pay a valuation fee, often based on the value of the completed property and, with some of the renovation mortgages, there may be a fee to pay before the release of each stage payment.

Council Tax

You'll need to pay council tax on the property from the point of purchase even if you aren't living in it, although some councils offer discounts for empty properties.

Professional Fees

Include planning and Building Regulations approval, surveys, structural engineer reports and any other professional fees (e.g. tree surveys) in your budget.

Contingency Fund

Ideally you should always have a contingency fund in place for anything unexpected that may arise — which is kind of the norm when it comes to renovations.

Legal Costs

A solicitor or conveyancer will act on your behalf. Expect to pay £500-2,000 for this work.

QUICK TIP

"Some mortgage lenders will refuse to lend on properties that are uninhabitable, while others will lend based on the current value of the house but then will not lend anything further until the project is complete. This is known as applying a retention to the borrowing." BuildStore (buildstore.co.uk).

INSURANCE

Once you exchange contracts on a renovation project you become responsible for the site and you must therefore have adequate insurance. If you are taking out a mortgage to fund the project, your lender will not release any money without proof of insurance being in place and should you experience anything such as flooding, theft or fire to the property, having proper insurance will mean your project can continue.

Renovation insurance should include public and employer's liability, cover for building materials and works, plant, tools, temporary buildings, the existing structure, personal accident cover and legal expenses. Typical costs range from £500-1,500 depending on the project. ■



WILL YOU PAY VAT?

The likelihood is that you will have to pay VAT at the full rate on any contracts, supply and fix, labour and materials, and that this will not be recoverable. However, if the property you have bought has been unoccupied for more than 10 years, it is treated as a conversion and VAT is recoverable under the VAT Notice 431C scheme.

If a property has been empty for more than two years then there are rules that lessen the VAT, where a VAT-registered builder or subcontractor can obtain permission from HMRC to charge a reduced rate of 5% on their work. Make sure you don't pay unnecessary VAT on labour and materials, however, as you can't reclaim incorrectly paid VAT. Find out more at homebuilding.co.uk

know this

Looking for ideas about what to do to your new project? Take a look at our website homebuilding.co.uk to see dozens of renovations completed on a range on different budgets

WARRANTIES

Although it is not essential, it is a good idea to take out a warranty on your renovation project. This is a policy which will cover your house against flaws in the design, materials or build quality, along with any problems that occur as a result of these defects. Warranties usually run for 10 years. If you plan on arranging a warranty, do it early on as the premiums escalate the further you get through the project.

MONEY-SAVING TIP

If you're needing finance, your lender will insist on a valuation. If you also want a full structural survey, tell your lender to see if your chosen surveyor is on their panel for valuation reports and, if not, if they could recommend one locally who is. It saves paying for two different surveys, saving £100s.

