

The property crisis has trapped thousands of off-plan buyers in a legal nightmare. Their flats are now being sold as bargains – but are they? **Claer Barrett** visits one fire sale to find out

THE NEW PROPERTY TRAP

In a garishly-coloured block of flats in Barking, East London, which was sold off-plan to buy-to-let investors at the height of the boom, the sale of virtually every flat has fallen through. Originally billed as 'first-time buyer heaven', the market has slumped into negative equity hell.

Buyers agreed to pay up to £250,000 for a two-bed, two-bath flat two years ago, but current mortgage valuations fall far short, and the few remaining buy-to-let mortgage deals require huge deposits. Unable to stump up the difference, the original purchasers have walked away en masse.

The developers have retained their 10 per cent deposits, but are saddled with nearly 80 empty flats that must be sold. The solution? A heavily publicised "stock liquidation sale" at huge discounts to original prices, which had bargain hunters queuing round the block last weekend.

Gutted that you missed out on a bargain property?

Well, don't be. This won't be the last 'fire sale' of new-build flats in the current slump. But canny investors looking to snap up a distressed buy-to-let bargain should think very carefully before jumping in, and pay careful consideration to the plight of the original investors.

Regeneration game

The Barking Central regeneration scheme has delivered hundreds of brightly-coloured flats in the middle of the town centre. Aimed at City professionals, most flats in the Bath House ended up being sold to buy-to-let investors.

Walking here from Barking train station, it hardly seems a place that the former group would choose to live. The station boasts a Wimpey, the high street is dominated by betting shops, and traders at the local street market are selling three bras for a pound. Nevertheless, the scheme's website boasts that the ►

Flats in Barking's
Bath House



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► development will be 19 minutes from the Olympic Village, and just over two hours from Paris when the Eurostar comes to Stratford.

So how did the regeneration dream turn sour? Originally developed by Redrow, the housebuilder sold the Bath House block to private developers City & Docklands and Galliard while it was under construction. In turn, they sold it on to a consortium of private Irish investors, who sold on the individual flats at inflated prices. When these sales failed to complete, the Irish investors defaulted, leaving the developers with the task of re-selling the flats – and fast.

Galliard's sales director David Galvin is truly a man who can turn water into wine. The marketing concept of a 'stock liquidation sale' is a powerful one, blasted out in full-colour press adverts which scream "Purchasers' failure to complete enables up to £70,000 savings!" The sales are conducted on a first come, first served basis.

We meet outside the block at 9am ("You can't miss it, it's bright orange and brown," he says) and there is already a long queue. The team of sales staff, solicitors and mortgage advisers inside the building look

pleasantly relieved as they down the first coffee of what will be a very long day.

"This is nothing compared to Poplar," says Mr Galvin. A fortnight ago, Galliard conducted a similar 'fire sale' of virtually a whole block of flats near Canary Wharf affected by exactly the same problem – non-completion.

A queue of 500 people clamoured to buy a property after adverts claimed discounts of up to 50 per cent off the original sale prices.

"We did 130 sales on the Saturday morning just like that," Mr Galvin says. "It was truly phenomenal. Two-thirds of the sales were to owner-occupiers, mostly helped out with deposits by their parents, and a third were sold to investors. Buy-to-let mortgages are still hard to come by, but there were loads of cash buyers," he adds.

A few miles east in Barking, the queue is again dominated by first-time buyers lured by the price reductions, and curious investors (see box, below).

'It's not a bargain at all. If you think that's a good price, you're living in cloud cuckoo land'

Barking mad – or a bargain deal?

Michael Tao, 26, is first in the queue and slept out all night to secure a cut-price flat in Galliard's Bath House development. A first-time buyer, he and his wife live with his parents in Wembley, and relatives have helped swell their deposit.

"I already know which one I want," he says, pointing at the plans. "It overlooks Canary Wharf." But have the Taos considered staying at home, and waiting for prices to fall further? "It's come to that time," he says. "If we rented somewhere, we might as well stay at home. I'd rather pay my parents money than a landlord."

Imran Ditta and his wife, Nadeem Chaudhry, are both 26 years old. They already rent a flat in this block, and like it so much they have borrowed the deposit from their parents to buy a £140,000 one-bed flat. They currently pay £700 a month in rent, and expect their mortgage to work out much cheaper.

With a 25 per cent deposit, they have been offered fixed-rate mortgage deals of 3.2 per cent. "That deposit size is required for all new builds," says Mr Ditta. "When you rent, you're throwing your money away. This is a new building, and everything's under warranty for two years." Their neighbour paid £180,000 for an identical flat six months ago. "That's going to be an interesting dinner party," says the sales rep.

Other first-time buyers in the queue report no problems getting hold of a mortgage – providing you have a substantial deposit. But some queuing find they need more than they bargained for.

"It is a bit cheeky to say they are selling two-bed flats for £165,000," says number four in the queue, 27-year-old Yash Kulshreshtha. "There is only one available for that price. The next cheapest is £180,000 which is quite a jump." Looking at the adverts, there is a tiny 'from' before the price.

"It seems a bit risky, but we'll have a look," is the attitude of Steven Law, 25, who is joined in the queue by fiancée Katie Kwok, 25. "We were planning to get a house in Barkingside with a garage, but for the same money we could get two flats here." His wife-to-be explains: "One to live, one to let!" Their biggest turn off is the absence of parking (although there is a bike shed).

Others in the queue say they lost out at the Poplar sale, and have come to try their luck here. Dinesh Savjani is considering buying a flat for his 24-year-old accountant daughter. "They are advertising discounts of £70,000 but, in reality, it isn't, as most flats are more expensive," he says. "Still, it obviously attracts people."

Zafar, who turned to buy-to-let investing in his retirement, is a little more cagey about his motivations. "I think I can get £750 a month rent for a one-bed, or £1,000 for a two-bed," he says. "That would give me a rental yield of 6 per cent."

He confesses he hasn't phoned any local estate agents to check these rents. "That's a good idea," he says. "What did they say?" A few hours later, he ends up buying a two-bed flat. "It was a good price," is all he says.

Stephen, an investor in his 50s from Enfield, is more cynical. "I don't know if it is a bargain. Yes, the price has dropped, but prices everywhere have dropped. I think I can get a better deal in my local area."

His friend Ali, another buy-to-let investor, is more concerned about the service charge. "There's a concierge in this block, and that's expensive," he says.

Val, 46, is another investor who says he is a cash buyer, and will buy a flat if he is given an even bigger discount than what's on offer. "I am a bit disappointed with these prices," he says. "The discount tempted me out here, plus it's close to the Olympics. But if I don't achieve what I want today, I will walk away."

Working mum Iman has bought a flat for her 19-year-old daughter who starts university in London in September. "All of our savings are going into this," she says nervously. "But the cost of renting in London is so high."

Buying the flat in her own name as a second property, Iman went to eight mortgage lenders. "Only one said yes, as it's a new build, and the interest rate is 5 per cent," she says. She is shocked when I tell her first-time buyers are able to get rates as low as 2.5 per cent. "I just hope we will be able to sell it in three years when she finishes college."



Newly-weds Imran Ditta and Nadeem Chaudhry are satisfied purchasers

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The sales criteria are strict – after all, the developers cannot afford to have sales fall through again.

Upon registration, would-be buyers are told they need deposits of 20 per cent (owner-occupiers) or 35 per cent (investors) to proceed. The exchange takes place on the day, and sales typically complete within 14 days.

At Barking, they are also given a pep talk about the block's lurid orange and brown interior, which is slowly being painted white.

The marketing campaign works like a dream; all but a handful of flats are sold, and there are plenty of satisfied buyers emerging clutching their paperwork, thinking they've got a bargain. But have they?

Hard bargain

Message boards on the popular website Global House Price Crash are very cynical about the sales techniques. "There's no such thing as 50 per cent off, as the flats were never actually sold for that price," says one post. "There are two-bedroom flats nearby for the same money," comments another. Obviously, there's no queue round the block for those.

In Barking, similar sentiments are expressed. "It's not a bargain at all," says local estate agent Paula Taylor of Edward James. "If you think that's a good price, you're living in cloud cuckoo land."

The cheapest two-bed flat is being sold for £165,000. But for just £1,000 more, the buyer could have plumped for a three-bedroom terraced house with a garden, minutes from Barking station.

Some investors in the queue had rental aspirations of £750 a month for one-beds, and £1,000 a month for two-beds. However, in Ms Taylor's opinion, the market rent for a one-bed flat is £600 a month, and £700 for a two bed.

"That area's very noisy at night as it's right in the middle of the town centre," she adds. "I've never had anyone come in and say they want to live there."

The sales must go on

For bargain-hunting readers, there is every reason to expect more of these 'fire sales' as the market lurches downwards. At present, it is developments in less-established locations built by thinly-capitalised private developers that are likely to be sold off at big discounts. But if house prices continue to fall, and the mortgage market remains tight, the trend could spread.

Other developers are not so quick to cut their losses and are suing buyers who fail to complete the purchase of off-plan sales. Landmark Docklands development Pan Peninsula is currently the subject of a fierce legal battle between the private developer, Ballymore, and a group of 90 investors who are struggling to complete purchases (see box, Castles in the Air).

But even the large quoted housebuilders admit they are affected by the problem.

"It is a problem," says Berkeley's managing director Rob Perrins. "Historically, we have always had 1 per cent of sales that fail to complete, even in boom

times. People overextend themselves, their circumstances change; on a rare occasion, the buyer dies."

Today, that 1 per cent has become 3 per cent, and Mr Perrins cites "mortgage valuations coming in very low" as the number one driver. "The banks only want to lend on 25 per cent deposits, which is quite critical for the market," he says.

Berkeley's standard contract involves a 10 per cent deposit, although many buyers opt to pay more, which has helped to protect its position. "Buyers sign an unconditional contract which forces people to complete," says Mr Perrins. His unspoken implication is; if you don't complete, we will sue.

Prices are 50 per cent below peak valuations in 2007, but that doesn't mean it's a bargain'

Home economics

Against a backdrop of vastly depleted sales (even Berkeley's reservation rate has slumped by 50 per cent) non-completions are another thorn in the side for housebuilders. Housebuilding analysts remain very twitchy on the subject of off-plan sales falling through, although there is an argument to suggest the worst is over.

"Forward sales dried up in September 2007 after Northern Rock went bust, so hopefully there won't be too many more of these situations left to resolve," comments one broker.

But another hints at the hidden depths of the problem. "All the quoted housebuilders are negotiating with buyers who find they can't complete," admits the broker. "This could involve negotiating on the price, doing a deferred equity deal, a second charge loan, or even transferring the purchase to a less expensive unit. With the market the way it is, they'd be stupid not to."

The problem is certainly widespread. Quoted property company Quintain Estates had 80 buyers fail to complete off-plan purchases made at its Forum House

The US-style marketing of cut-price flats in Barking attracted bargain hunters



Castles in the air

One of the tallest residential towers in the UK, Pan Peninsula in London's Docklands promised to be the ultimate in luxury living, boasting a private cinema, luxury spa, and even a cocktail lounge on the 48th floor.



When construction began in 2006, studio apartments were sold off-plan for £250,000 and the most expensive penthouse was marketed at a cool £12m. Fast forward to 2009, and mortgage valuations are up to 30 per cent below the agreed sales prices. Buyers report that banks will only lend to a maximum of 60 per cent loan-to-value, leaving them to make up the shortfall.

Developer Ballymore has made it quite clear that buyers who try to walk away from their deposits and abandon the sale will be sued for non-completion, as the contracts were not agreed on a 'subject to mortgage' basis.

development in Wembley last month. It has retained around £3m of forfeited deposits.

And Aim-traded Telford Homes has been hit hard by failed completions. It is in the process of placing affected schemes within the ownership of a separate subsidiary vehicle.

Recovery position

This autumn London Residential Opportunities hopes to become the first listed vehicle to target distressed new build (see page 50).

And outside London, there are further signs that a 'two-tier' market is emerging, with homogenous new-build product falling faster and further in price than anything else. To this end, the wonderfully named Residential Property Recovery Fund is now in the throes of its first fund-raising. Targeted to raise £25m with a minimum investor contribution of £25,000, director Barney Buik says he has "distressed, mis-priced residential property" in the Midlands and northern England firmly in his sights.

"Prices are circa 50 per cent below peak valuations in 2007, but the fact that property is cheap doesn't necessarily mean it's a bargain," says Mr Buik. The main source for purchases are housebuilders and

Now a group of 90 buyers, who have exchanged contracts on around 100 flats in the development, have formed the Pan Peninsula Buyers Association (PPBA) to mount a collective legal action against the developer. A further 70 buyers have signalled their support on the association's website, but are not contributing legal fees. Overall, the PPBA estimates it has support from 44 per cent of those who have bought flats, saying the majority still want to complete, but wish to negotiate on price.

"Total deadlock," is how the PPBA's spokesman describes progress to date. "Our members believe that Ballymore Properties have misrepresented and breached certain aspects of their contract. As a collective association, we aim to work with Ballymore to make good these issues where possible and reach an amicable solution. However, our members are simply being ignored."

Ballymore disputes the association's claims, stating that completions are "going well" at the development. "There are some people having difficulty completing because of their current financial circumstances," Ballymore's spokesman confirms. "On an individual case-by-case basis, we are helping them. Some can afford to close and are just trying to get out of the deal because the market has softened, but they signed a binding contract. In what other walk of life would they expect to renege on a contract – so why try it on with their property contract?"

In the meantime, the situation becomes more desperate. "Many of our members are professionals and their work is Financial Services Authority regulated," adds the PPBA's spokesman. The risks of being sued or made bankrupt could have devastating implications for their careers. Those who dreamt of living in the sky have come back to earth with a bump.

developers "in deep trouble", as well as receivers and banks. The fund hopes to benefit from rising capital values in time, but its first concern is to generate cashflow by renting its properties.

"We are not scared of city centre flats in places like Leeds, where property has become a dirty word," Mr Buik says. But rather than search for the 'young professionals' these developments were originally targeted at, he intends to pursue lettings to students and housing associations.

"Working with housing associations is great, as they offer a very decent covenant and pay close to market rents," he adds. "We are not scared of social housing, even if it is direct from councils."

But what of investors who have managed to complete a new-build purchase, only to find their luxury block becomes home to a very different type of tenant?

"Any investor has got to be aware that if you make an off-plan investment, there is an inherent risk," Mr Buik proffers. "Those who believed that the market would keep on trebling have now got to take stock. Maybe they didn't make the right decision. But if you're a cash buyer, and you know what you are doing, there are great opportunities out there."