

New Homes Ombudsman

Case Study: **Inflated Property Valuation**



Issue

The customer reserved a show home at a price which they thought reflected the value of the property, together with an additional sum for its contents. However, their mortgage valuation was considerably less than the price agreed, and although the developer paid for a second valuation to progress the sale, this was also below the agreed sale price. The developer restructured the deal, reducing the element attributable to the property to bring it in line with the second valuation, but they increased the cost of the show home package. The customer withdrew from the sale. As the cooling-off period had passed, the developer retained the reservation fee.



Relevant sections of the New Homes Quality Code

Part 1

Selling a new home

Part 2

Legal documents, information, inspection and completion

Part 3

After-sales, complaints and the NHOS

Circumstances

- With a reservation fee of £1000, the customer reserved a former show home for £900,000, made up of the asking price of the house (£850,000), together with an additional sum for the show home furniture package (£50,000). The customer had a mortgage agreement in principle, subject to a satisfactory valuation.
- The mortgage valuation of the property at £680,000 was considerably lower than the agreed sale price.
- The developer made a new offer to the customer of £850,000, based on a new property valuation. £775,000 was set as the new valuation of the house, and the show home package increased to £75,000.
- The developer imposed a deadline for the customer, but they decided to withdraw from the sale. They were initially informed by the sales consultant that 50% of the reservation fee would be refunded, but they were later informed that they would receive nothing.

Ombudsman's decision

The Ombudsman reviewed the evidence and found that the developer had not acted transparently. The customer was entitled to full information about the purchase price of the property, but the developer did not provide an explanation when they revised the price after the second valuation.

The developer apologised that it was originally suggested that part of the reservation fee would be refunded, but they say that the sales adviser is not the decision maker on such matters. The developer maintains that retention of the reservation fee is fair, as they claim that the legal fees incurred in this case exceed the customer's reservation fees. However, the developer is only entitled to deduct those incurred in processing and holding the reservation. The solicitor's invoice included unspecified fees.

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Outcome

Complaint **upheld in part**. Customer awarded **£800** – a partial refund of the reservation fee (£500) and a further compensation payment (£300).

The developer has issued an apology to the customer.



Learnings

- Sales advisers should have clear and accurate information about the property they are selling.
- It is important to provide a fair service to customers. Initiating discrepancies in pricing structures without adequate explanation can damage trust.

Recommendations for developers

Ensure sales advisors have the necessary training to provide an accurate service. Misinformation can influence a customer's decision and lead to a stressful outcome, as well as breaching the New Homes Quality Code.

If there is a genuine reason to revise pricing, explain this fully to customers so they can understand the breakdown of these changes.

Understand which fees can be retained from the reservation fee. Wrongfully deducting incurred costs from the customer's reservation fee breaches the Code.

