

Home buyers suffer as banks slash valuations

Sales put in jeopardy as lenders leave borrowers facing big shortfalls

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MORTGAGE lenders are cutting the value of properties by almost 20% as the recovery in the housing market runs out of steam.

The Royal Institution of Chartered Surveyors warned last week that prices were set to weaken again after a strong start to the year, with sales falling last month for the first time since September. Figures from Halifax showed house prices fell 2.4% in April.

Further evidence of the housing downturn came from estate agents and brokers, which reported a rise in "down-valuations". This is where a surveyor acting for a lender cuts the valuation of a property after the borrower has requested a mortgage. The would-be purchaser is left struggling to fill the shortfall and complete the deal.

Ed Mead from Douglas & Gordon, a London estate agent, said: "In half of all deals involving a mortgage, a down-valuation will result in further negotiations and heartache for the buyer."

E.Surv, the national valuation firm, said that a third of properties assessed by its members in the past year were judged to be worth less than the agreed sale price.

John Charcol, the broker, said that last week a new-build flat in Guildford, Surrey, had been down-valued by 17%, from £575,000 to £475,000.

David Hollingworth of London & Country, the broker, said: "In the current uncertain climate, valuers are likely to be more nervous about overstating values. With so few transactions taking place, it's hard to get a clear idea of the value of comparable properties in the local area."

Down-valuations are a particular risk with unusual properties and new-builds, where comparable evidence of recent sales is hard to find, but it can also happen with mainstream properties.

It may scupper buyers' plans as lenders use the valuations from surveyors, not the purchase price, to decide how much they will lend.

Say you were buying a £400,000 property with a £100,000 deposit, and the surveyor estimated the property was worth only £320,000. If your lender stuck to its original offer of 75% of the property's value, it would then be agreeing to lend only £240,000, leaving you £60,000 short.

If the bank agrees to lend more, the rate charged to the borrower could be significantly higher, pushing up the cost of repayments.

Hollingworth said: "If the valuation is too low, the buyer may not be able to borrow enough and will often have to pull out. If they decide to proceed, they could find it hard to bridge the gap."

Down-valuations are also common with remortgage cases. Andrew Montlake at Coreco, another broker, said: "A lot of down-valuations tend to happen where remortgages are concerned as many owners still believe their properties are at the top end of the price scale, and can get a nasty surprise when faced with a cautious valuer."

While brokers and estate agents agree that any valuation is at least a little subjective, E.Surv insists that professional valuations are based on hard evidence.

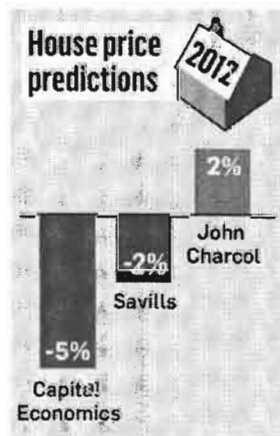
If the property you want to buy is down-valued, you may be able to lodge a challenge based on the evidence of sale prices for comparable homes in the same area.

Mark Harris from SPF Private Clients, the broker, said: "While challenges tend to be rare, we have seen some clients who have been successful, so it may be worth trying."

Potentially, borrowers could also use the lower valuation to try to renegotiate the agreed sale price.

Ian Gray from largemortgageloans.com, the broker, said: "Buyers have the ammunition to negotiate the price down to the level of the valuation — meaning you could put in a lower deposit and borrow less."

If you are remortgaging, check recent sales data on sites such as zoopla.co.uk before contacting your lender. You can also check with local estate agents to get a guide price, though you may want to reduce this figure to achieve a more realistic estimate.



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