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The sharp rise of down-valuation

You might think the house is worth the money, but what if the lender doesn't?

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This five-bedroom home in Lambeth, south London, was on the market recently for £1.975m. A buyer agreed to pay the asking price, but the mortgage lender valued it at £1.8m. Nevertheless, the house exchanged for the full amount

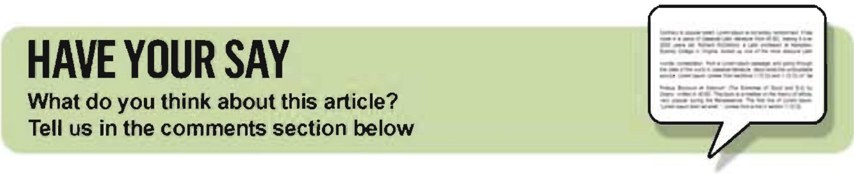
First it was sealed bids, then gazumping, and now there is a new spectre haunting the housing market: down-valuation. While these markdowns — where a surveyor instructed by a mortgage lender cuts the estimated value of a property — are commonplace in falling markets, the recent sharp price rises seen in London and parts of the southeast have woken sleeping demons.

Property prices in the UK soared by an average of 11.8% in the year to June, to a new peak of £188,903, according to Nationwide building society. London values jumped by 26%, and estate agents and mortgage brokers are reporting more instances of down-valuations — usually when a property has gone to sealed bids, often to above the asking price.

In one case, a purchaser in Canary Wharf, east London, wanted to secure a two-bedroom flat priced at £570,000 in a competitive market, so put in a winning offer of £590,000. Yet the valuer employed by the mortgage lender said the property was worth only £560,000. In another example seen by Henry Sherwood, managing director of The Buying Agents, someone purchasing a house in Fulham, west London, for £2.5m was told by the mortgage valuer that it was worth £100,000 less.

"When the market turned after the 2007 peak, surveyors came under fire for putting a price on a property that subsequently went on to lose value," Sherwood says. "We are now seeing this uncertainty returning, and hearing of an increasing number of cases where the prices agents put on a property differ significantly from surveyors' valuations."

Although, nationally, instances of down-valuations have fallen since the crash — 23.6% of properties in England and Wales were down-valued during the first quarter of the year, compared with 54% in the last three months of 2008, according to the surveying firm E.surv — cases are on the rise in hot markets. In the TN17 postcode of Cranbrook, Kent, for example, 30.4% of properties were down-valued in the first quarter, up from 16% during the final three months of 2013, the company says. Prices in the southeast rose by 14% in the year to June.



"There are more instances of down-valuations in a falling market, as people don't want to accept that their property has dropped in value," says Richard Sexton, a director at E.surv. "They are also far more common for remortgages, rather than purchases."

Mortgage brokers say down-valuations are occurring because surveyors have to find three comparable local properties that have sold for a similar amount to use as a benchmark. "The problem has been particularly pronounced for buy-to-lets, because rents have not kept up with rising prices, so banks are reducing the amount they will lend," says Aaron Strutt, product manager at Trinity Financial. He cites an investor buying a property advertised at £770,000 in the City of London, who recently had an offer of £790,000 accepted. Based on rental projections, however, the flat was down-valued to £760,000.

Buyers hit by a markdown can use this to try to negotiate on price; otherwise they will have to stump up more cash to cover the lending shortfall. Nonetheless, more and more buyers are balking at high prices in London and the southeast. This, combined with falling mortgage approval levels — in May, lenders gave the green light to 61,707 loans, the lowest figure for 11 months — is starting to cool the market.

"Properties are hanging around for longer and buyers are becoming more circumspect," says Ian Gray, a broker at Largemortgageloans.com. "In some cases, down-valuations can be a good, healthy thing, helping to get rid of some of the fever in the market."