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Homeowners hit by down-valuations

By Tanya Powley

Homeowners in Northern Ireland and north-west England are more likely than those in the rest of the UK to have had their homes marked down in price by surveyors last year – making it harder for them to secure a new mortgage deal.

Exclusive analysis for FT Money by Esurv, the UK's largest surveying firm, shows that the highest number of so-called "down-valuations" – where a surveyor instructed by a mortgage lender cuts the estimated value of a property following a mortgage application – occurred in Northern Ireland in the fourth quarter of 2011.

More

The region saw 84 per cent more down-valuations compared with the national average.

Homeowners seeking mortgages in the Isle of Man, the Outer Hebrides and Lancaster were also more likely to be told by surveyors that their properties were worth less than they had expected.

Mortgage applicants in Lancaster experienced 61 per cent more instances of prices being down-valued, while surrounding areas such as Carlisle, Blackburn, Blackpool and Liverpool saw more than the average number of down-valuations.

In comparison, homeowners in London and south-east England, where property values have remained relatively buoyant, were less likely to receive a down-valuation. Properties in Cambridge have seen almost half the number of down-valuations compared with the national average, with south-east London and south-west London also experiencing below-average levels.

"There is a very clear geographical distribution to the results," said Richard Sexton of Esurv. "The further out from London one travels, the greater the incidence of occasions where estimates are greater than actual valuations.

"Property prices in these areas are falling more rapidly and local sentiment may not yet have 'caught up' with actual values on the ground."

Sexton noted that the data show "a band of misery" extending from the west to east of England, along the approximate route of the M62 connecting Liverpool and Manchester with Leeds and Hull – where a large number of homeowners have had the value of their properties cut.

“Down-valuations are much more common now and are a principal source of fall-throughs [in sales],” noted Ed Mead, director at Douglas & Gordon, the estate agency.

A lower-than-expected valuation can scupper sales, as it will affect the size of mortgage the lender is prepared to advance, leaving the buyer with the option of making up the shortfall with savings or negotiating with the vendor to lower the price.

It can also affect homeowners looking to remortgage. Changes in property value can affect the mortgage rate a borrower can get as it could push them into a higher loan-to-value banding.

Since the credit crisis, lenders have increased the price differential between different loan-to-value bands, with cheaper rates going to borrowers with more equity in their property.

Last month, Santander removed its 80 per cent loan-to-value band and now only has different rates at four loan-to-value bandings: 60, 75, 85 and 90 per cent. According to Aaron Strutt of mortgage broker Trinity Financial, this means that a person borrowing at 77 per cent loan-to-value who cannot raise another 2 per cent of deposit cash to qualify for the 75 per cent banding would be forced to borrow at Santander’s more expensive 85 per cent loan-to-value rate.

For example, a two-year fix at 75 per cent loan-to-value is 3.19 per cent, while the same deal costs 4.09 per cent at 85 per cent loan-to-value.

Homeowners disappointed by a low valuation can challenge it through their lender. But borrowers need to do their research first and expect to pay another valuation fee, experts warn.

“Those who find their property is down valued should see whether they can find comparables in the area to support a challenge,” explained Mark Harris of SPF Private Clients, a mortgage broker.

“While challenges tend to be rare, we have seen clients be successful, so it is worth trying.”