

Building land value drops 20pc, says agent

By Jonathan Russell

RESIDENTIAL building land, one of the core assets of most housebuilders, plummeted in value by 20pc in the first six months of the year and could fall by up to 50pc before the current slump is over.

Research by estate agent Savills shows the value of brownfield sites, down 19.8pc, and greenfield sites, down 22.5pc, fell by roughly four times the rate of the housing market as investors deserted the sector.

With development land a key part of most housebuilders' asset bases, the valuations will be a major concern for the struggling sector.

Savills' director of research, Yolande Barnes, said: "There are two ways that falling land values affect housebuilders. The first is in pushing down share prices, but the more worrying issue is for those that are heavily indebted and are under pressure from their banks to repay debt.

"At the moment you have to sell development land at fire-sale prices."

The news comes at a sensitive time for housebuilders. Persimmon, Taylor Wimpey and Barratt – the three most indebted – are all due to update the market in the next three weeks. They have already seen their share prices fall by as much as 85pc over the past 12 months.

Analysts are widely expecting some companies to follow the lead set by Taylor Wimpey last month in writing down the value of their land banks to reflect the falling market.

However, Ms Barnes said the plummeting value of development land was presenting opportunities for those with the money to invest.

She said: "There are people with funds that are getting ready to invest. You can start bottom-fishing in the current market. This is the point in the market where development fortunes are lost but also made."

The research shows that the decline in development land values has accelerated over the first half of the year. A fall of around 7pc in the first quarter was followed by a drop of up to 17pc in the second quarter.