



**Land can be a valuable commodity, especially if there is an interest in developing it into housing. There are a few best practice steps in preparing to value land for development that can help both land owners and developers maximise value and minimise risk.**



## Establishing The Facts

Our Registered Valuer must become familiar with the characteristics of the development site in question and gain a solid knowledge of the development components. This will involve a physical inspection of the site and other appropriate research to reveal information such as:

- Identification of the extent of the site (frontage, width, depth, areas ready for development)
- Details of any existing buildings (number, size, etc)
- Evidence of (or the potential for) site contamination
- Features of archaeological or historic significance
- The risk of flooding
- The availability and capacity of local infrastructure.

The information available will change depending on the stage of the project at which the valuation is undertaken. So a review of the valuation might be needed later if more details become available.

## Assess the Development Potential

With the development site 'facts' established, it's essential to carry out an accurate assessment of the form and extent of the physical development that can be accommodated. As part of this, we will review current permissions on the site e.g. the capacity for the development desired, the identification of what planning consents would be needed in order to achieve, plus potential obstacles etc.

Finally, we will identify the potential demand for the desired development – bearing in mind its location, any local amenities, car parking space, and the market supply of competing developments in the area. Any adjacent land will also be considered, as it may be necessary to acquire this land in order for any development to take place.





## Independent & Impartial

When representing a landowner, developer or buyer, Watsons are able to inspect and value the land independently and impartially, with consideration to the sale or development potential. Our Surveyors will undertake valuations of land for commercial, residential and mixed-use developments on behalf of a variety of providers, including Banks, Local Authorities, Housing Associations and private developers.

## Comparison Method

This method looks to analyse and compare the price against other sites with similar development characteristics such as location, size, and type of development. While this comparison may seem simple on paper, there are several factors to bear in mind that could affect the prices elsewhere.

### These might include:

- Values varying considerably within a small region
- The density of development between sites could differ
- The differing condition and type of the comparable sites (Greenfield vs. Brownfield, etc)
- Varying site infrastructure and construction requirements and costs
- Any planning obligations
- The sale date of the comparable price (especially pertinent in a changing marketplace).

## Residual Method

This approach to valuation is used where a development is particularly different or complex and there are few comparable sites. (Although it's always useful to attempt even a limited investigation of other comparison site prices to see if the residual valuation result is reasonable.)

A residual valuation requires input of known data about the site, plus a series of base assumptions, in order to evaluate its eventual worth to the developer. The general equation is that it's an assessment of the value of the desired development after completion, minus the development costs, developer's profit, and any fees to be paid. Consequently this approach is a little more complex, as you can see with the breakdown of the RICS Residual Valuation Method in the right-hand column.

## Breakdown

Costs to consider here include:

- Construction
- Landscaping
- Professional fees
- Finance costs
- Marketing costs
- Contingency allowance
- Developer's profit
- Purchaser's costs.

After making a reasonable allowance for profit and contingency, the difference between the gross development value and costs (including profit and interest accrued on capital borrowed over the development period, build costs and professional fees) represents the value of the land.

Being more subjective, this approach arguably has the potential to provide a more specific valuation for a particular site and developer. But with so many imprecise or unknown variables being used, even a small change or uninformed assumption in any of them can affect the value of the land significantly.

However, in practice, a combination of both approaches will usually be used to reach a land valuation.

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