

HOW TO ASSESS A BUILDING PLOT

This fact sheet has been specially put together to help you assess a building plot – making sure you buy the plot of land that is right for you.

KEY POINTS:

1. All plots have a ceiling value but it is still possible to under or over develop them
2. The approximate value of a plot can be worked out before the purchase of the land is made
3. Make sure you get the most out of your plot by carrying out some simple research before you buy

PLOT VALUES:

A plot derives its value from the eventual house or bungalow that is or should be built upon it, establishing that value is important but there is no mystery and no complicated formulae. One home is simply assessed in direct comparison to similar homes and the values they have achieved on the market. A look through the lists of property for sale, or advertised in estate agents windows, can quickly inform you about local values. Otherwise, the Land Registry website has details of all properties that have been sold in all areas.

All property has a ceiling value, a price beyond which it is no longer economically viable. If a plot is in an area where it would best be developed as a four bedroom house and somebody decides, for reasons of their own, that they would like to build a six bedroom house instead, they might find that, despite spending a great deal more money on building costs, the eventual house is not worth much more than the smaller home they should, perhaps, have built. This is because they have overdeveloped and exceeded the carrying capacity of the plot. On the other hand, if somebody decides that they only want to build a two bedroom bungalow on this same plot of land, then they will never realise the full potential of the plot. They would have underdeveloped the plot.

THE FINAL WORTH:

The final worth of any plot is the difference between the building costs and the finished house value. However, that completely excludes any margin or profit and without that very few developers would be in existence, with many self builders losing their incentive.

So the balancing point has to be the extent of that margin. In days gone by, when plots were more plentiful, there was a simple rule, often quoted and still relevant in parts, called the third, third, third rule. This supposed that the plot price would form roughly one third of the value of the eventual house, with the build costs accounting for another third, and finally the increase in equity or profit making up the last third. However, it was only an ideal and even in the best of times it was only a starting point. Factors such as regional variations in build costs, and things like scarcity of plots in particular areas, have distorted it.

That the formula remains at all useful is by very careful reference to its extremes of distortion and their appropriateness to your chosen area. In parts of the Realm where land is readily available, and property prices are relatively low, the principal reduces the average plot price to something like a quarter of the market value of the finished property. In areas that enjoy high retail values with low plot availability, the plot price can equal or exceed half the eventual value.

But when building costs are added to the land price, the profit margins in terms of a percentage yield, or profit related to expenditure, are remarkably similar, holding at or around the 30% mark. In large part this is

caused by the fact that the huge discrepancy in the ratio of land costs is balanced by the relatively small differences in build costs between the regions and the high market values of the finished property.

SOUNDING OUT A PLOT:

When you go out to view a plot, do not just arrive at the site and start looking around. On your way in, make a note of the local architectural styles. Take particular note of new houses that have been built – they give the clue as to just what sort of design the local planning authority is prepared to accept. They also give the clue as to those properties, which find favour in the market. If you decide that you want to buck that trend then be aware that you might be limiting your resale value or market acceptability.

Whilst some areas can carry an eclectic mixture of styles and house sizes, others are of a more consistent nature. Make sure that what you propose to build is going to fit in. If you think that a four bedroom house is going to look incongruous set in a street of two bedroom bungalows then you're probably right. The planners won't like it and even if they did, when it comes to sell it you will have trouble. What fits into the street scene will, in most cases, represent the best property to build and the best return on your investment.