

Japanese knotweed and prime property

savills

While the presence of Japanese knotweed has the potential to impact the value of a property, the ‘real world’ impact can be exaggerated...

Japanese knotweed, or *Reynoutria Japonica*, is a herbaceous perennial of the knotweed and buckwheat family. It is native to East Asia and was introduced into the United Kingdom in the mid-19th Century.

It was originally popular with landscapers because of its ability to grow quickly and form dense screens leading to its extensive planting in parks and grand gardens. However, the implications of such rapid growth gradually became apparent; initially given its ability to out-compete indigenous flora and later concerns about its potential to cause damage to buildings and associated structures.

Japanese knotweed began to get bad press out of proportion to its danger to buildings and by 2007 many UK mortgage lenders were becoming increasingly unwilling to lend on affected properties because of the difficulty in assessing the risk. Some lenders refused to lend at all and many potential purchasers became increasingly risk-averse as a result.

Industry response

In 2012 RICS (in conjunction with main mortgage lending organisations) published a paper called *Japanese Knotweed and Residential Property*. The paper set out four risk categories, with the highest being properties with an infestation within seven metres of habitable space of a house or where it is causing serious damage to outbuildings, drains, boundary walls etc. The paper was well-received by the vast majority of lenders.

At the same time, the Property Care Association created its Invasive Weed Control Group as a specialist division to control the standards, management plans and warranties.

The position today is that a seller of a property is required to state whether Japanese knotweed is present on their property or within three metres on any adjoining property as part of the conveyancing process. At this point, if there is an infestation, a seller will provide copies of whatever management plans, warranties and insurance backed guarantees are in place.

Though it is not illegal to have Japanese knotweed in a property, failure to report its existence – where it has been identified either prior to or during the sales process – is likely to lead to legal action based on loss of value



Japanese knotweed: Despite the rhetoric, the body of evidence regarding the impact on property values is relatively weak

to the property (as a result of the infestation). Furthermore, the presence of Japanese knotweed at a property has the potential to impact on the value reported for loan security purposes.

Maligned & misunderstood

However, the ‘real world’ body of evidence of the impact on residential property values is relatively weak, something acknowledged in the RICS draft guidance note currently subject to public consultation. This creates difficulties in accurately determining the loss incurred by a purchaser, particularly given some of the rhetoric surrounding the issue.

Para 3.1.1 of the RICS of 2012 information paper outlines the problem succinctly: “Japanese knotweed has caused problems in the residential market because of the damaging effects of this invasive plant. However, these concerns are often based on misunderstanding and overreactions.”

This is ably demonstrated by a simple internet search which will yield unqualified assertions that, on the one hand, the presence of Japanese knotweed will reduce the value of a residential property by 10% to 20%; on the other, the fall in prices will be commensurate with the cost of treatment, provided an insurance backed guarantee for that treatment is provided.

The difference between the two can be substantial, particularly for higher value

properties (in what is generally referred to as the prime housing market).

Assembling a body of evidence

Against this backdrop, we have surveyed agents from Savills and Knight Frank to gather evidence of the impact of the presence of Japanese knotweed on the marketability and value of prime properties. We have sought this in cases where its presence was discovered either prior to or during a period of marketing.

In doing so, we have attempted to establish the impact of the presence of Japanese knotweed on a case by case basis and in circumstances where buyer and seller were fully aware of it.

As such, this evidence should not be tainted by either parties’ desire to maximise or minimise the scale of loss in the course of legal proceedings.

Acknowledging diversity

We would expect the impact of Japanese knotweed to vary according to the precise circumstances of each case.

Therefore, in compiling our survey, we have sought to have regard to:

- a) The nature of the property concerned
- b) The nature and level of infestation
- c) Underlying market conditions



Our survey points to a higher than normal propensity for agreed deals to fall through

As far as possible we used the classifications proposed by Philip Santo FRICS, (sat on the working group who assembled the RICS information paper), in his paper entitled 'Assessing Diminution In Value Of Residential Properties Affected By Japanese Knotweed' that was published in the Journal of Building Survey, Appraisal & Valuation (Volume 6 Number 3) in 2017.

We have also sought to establish whether any infestation was within seven metres of a habitable structure (the highest category of risk according to the RICS Information Paper) adopted by most mortgage lenders in determining their appetite to provide lending.

Two surveys...

To investigate these issues we conducted two surveys:

Survey 1. For use in circumstances where the presence of Japanese knotweed had previously been evident but had been treated prior to marketing.

The results of this survey have helped us to understand whether once treated the historic presence of Japanese knotweed would stigmatise a prime property, leading to a lasting impact on value even after treatment.

Survey 2. For use in circumstances where the Japanese knotweed was present and found either before or during the sales process.

In this case we have been able to gain a clearer picture of the impact on factors such as the pool of potential buyers, the time taken to agree a sale, the risk of an agreed sale falling through and ultimately the impact on the price achieved for the property.

Approaching 100 responses

We obtained 98 responses across our two surveys:

- 30 in relation to Survey 1
- 68 in relation to Survey 2

Importantly, it should be recognised that this level of survey response does not reflect the number of times agents employed by these two firms will have dealt with properties where the known presence of Japanese knotweed has been encountered. Instead, it is reflective of an agent's inclination and ability to respond to the survey during a busy period of market activity.

This said the sample size has been sufficient to draw some useful conclusions around the impact of the presence of Japanese knotweed having regard to the general profile of the properties concerned,



Reynoutria Japonica has the potential to grow to 7ft in height over summer months

the nature and level of infestation encountered, market conditions and nature of remediation. However, it gives more limited potential to segment the results to have regard to the precise impact of each of these individual factors.

What is in the mix? The profile of properties and the state of the market (see Appendix 1)

Given the nature of the properties sold by the two firms, it is inevitable that the sample was dominated by desirable and highly desirable properties representative of the prime market.

Though there was a wide variation around the average, this is reflected by the fact the median asking price of properties within Survey 1 was £1.45m, while in Survey 2 it was just below £1.1m. The majority of cases took place in stable market conditions when prices were broadly static. Less than 30% occurred during a period of price rises and very few in a period of falling prices.

This general market stability was reflected in the average sale price achieved as a percentage of the asking price, in cases where we have details of both. Across the 24 cases where this information was provided in response to Survey 1, it was 98%, and in the 46 cases where this information was provided in Survey 2, it was 99%.

Importantly, this minimises the risk of the results being unduly affected by unusual or extreme market conditions.

What is in the mix? Nature of infestation and impact on Amenity (see Appendix 2)

The nature of the infestation was spread over a variety of circumstances, though in most cases it was evident on the subject property (as opposed to being on adjoining land).

The infestation had been more commonly within seven metres of a habitable space in those cases where it has already been treated prior to marketing. In all likelihood, this reflects a greater level of urgency to treat an infestation when it is perceived as potentially having a material impact on existing structures.

In most cases the level of infestation was confined, having little or no practical impact on the use of the gardens or grounds. However, in cases where the infestation was not treated prior to the point of marketing, it was more likely to have had a moderate impact.

In the majority of cases where present it had been treated prior to marketing:

- The Japanese knotweed had been treated using chemicals (19 of the 23 cases where known)
- The treatment had taken place in the three years prior to the sale (20 out of 25 cases)
- There was a continued management plan in place (19 out of the 25 cases)
- There was a guarantee and insurance policy in place in respect of the previous treatment (21 of the 24 cases).



The eventual sale price was only affected in a minority of cases

The results of Survey 1: Treated prior to marketing; limited impact on marketability as a result of disclosure management plans, warranties and guarantees

Our responses showed the previous presence of Japanese knotweed undoubtedly has the potential to put off some buyers, that being partly dependent on the previous extent of infestation, the distance from the property and the nature of treatment.

It also suggests some lenders can be reluctant to provide mortgage finance and there is a higher than normal propensity for agreed deals to fall through. Indeed in six of the 30 cases, a previously agreed sale of the property had fallen

through because of the historic presence of Japanese knotweed, though only two properties were withdrawn from the market unsold.

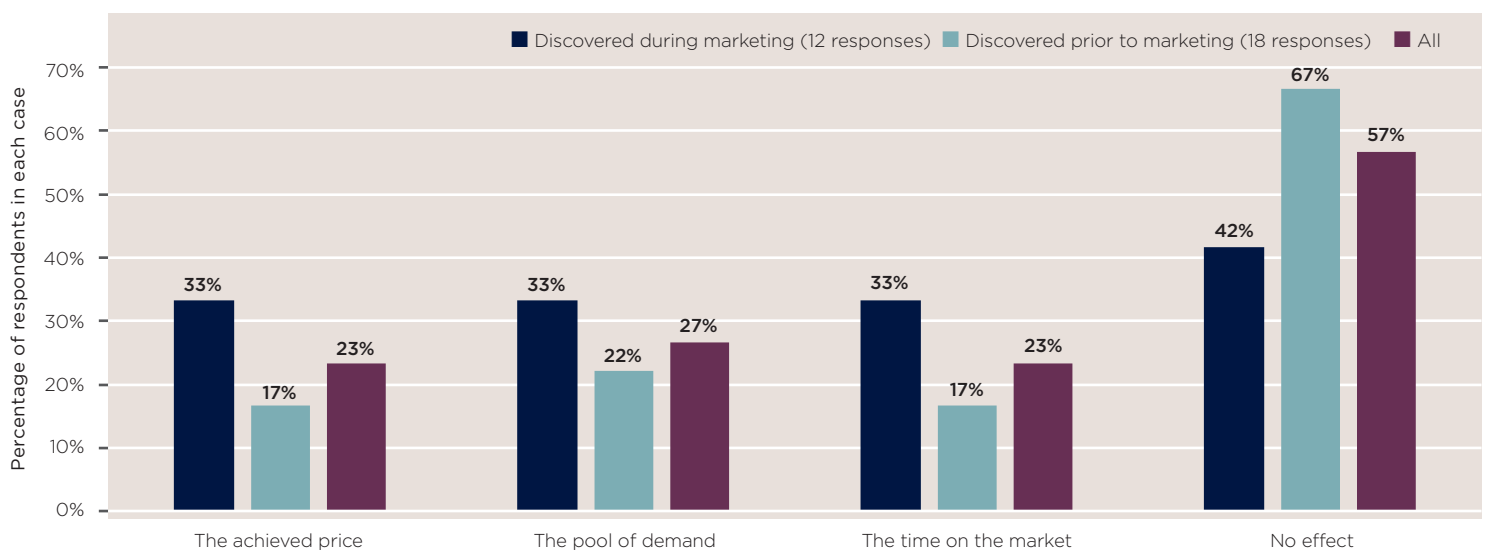
However, the commentary provided by agents supports the contention that such risks are mitigated where:

- The historic presence of Japanese knotweed is flagged with potential buyers,
- An appropriate management plan and documentation is in place, and
- The treatment is backed up by a guarantee.

Indeed, 17 of the 30 respondents said that the historical presence of Japanese knotweed had no impact on either the time required to achieve a sale, the pool of demand or the price achieved.

Despite a low sample size, the results suggest that any impact on marketability is likely to be higher where a previous infestation of Japanese knotweed was within 7m of a habitable space as shown in the figure below.

The results of Survey 1 Instances where the historical presence of Japanese knotweed affected marketability of prime properties

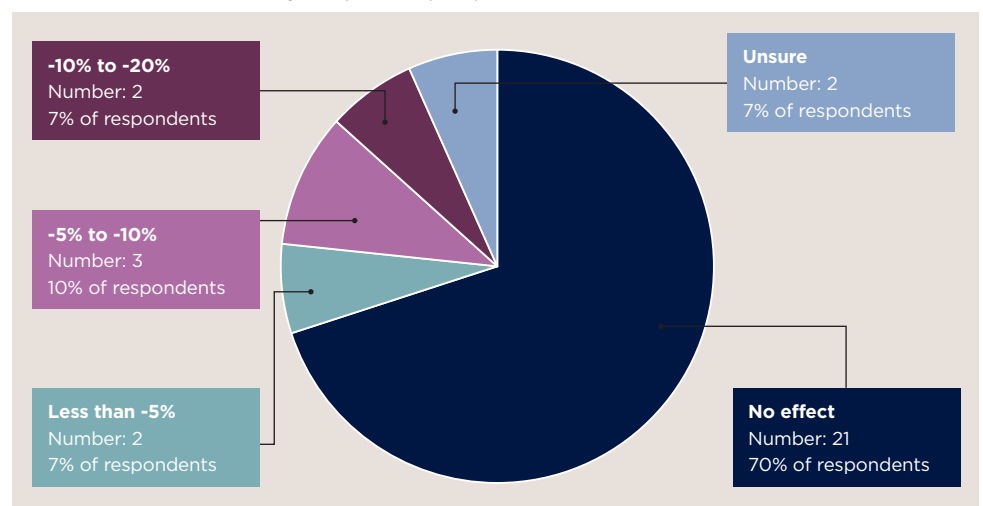


Source: Savills Research

But still only seven of the 30 respondents identified an effect on the eventual sale price (one quarter of the properties where a sale was achieved). As is shown, in this minority of cases, the view on the impact on value varied. (On average these properties achieved 93.1% of their asking price, though this figure needs to be treated with caution; as the asking price may have already been discounted to reflect the historical presence of Japanese knotweed).

Notably, of the two cases where the impact on price was considered to be over 10%, one was considered to be a property with reduced marketability for reasons other than the historic presence of Japanese knotweed.

Survey 1: Scale of impact on price affected marketability of prime properties



Source: Savills Research

The results of Survey 2: Evident during marketing (without prior treatment); more likely to impact on price but not a racing certainty

Unsurprisingly, the results of our second survey show that the presence of Japanese knotweed is more likely to have an impact on the marketability of a prime dwelling where it is untreated prior to that property being brought to the market.

The proportion of respondents who reported that knotweed had no impact on either the achieved price, the pool of demand or time on the market, was somewhat lower in Survey 2 than in Survey 1. However, it remained at 41%, meaning that an impact on marketability is far from a certainty.

Just over 40% of respondents to this second survey specifically reported an impact on price,

still some way less than half of all cases studied (but somewhat higher than in cases where treatment had been undertaken).

Within this group, the propensity for the price to be affected was noticeably higher in cases where the Japanese knotweed was discovered during, rather than prior to, the period of marketing.

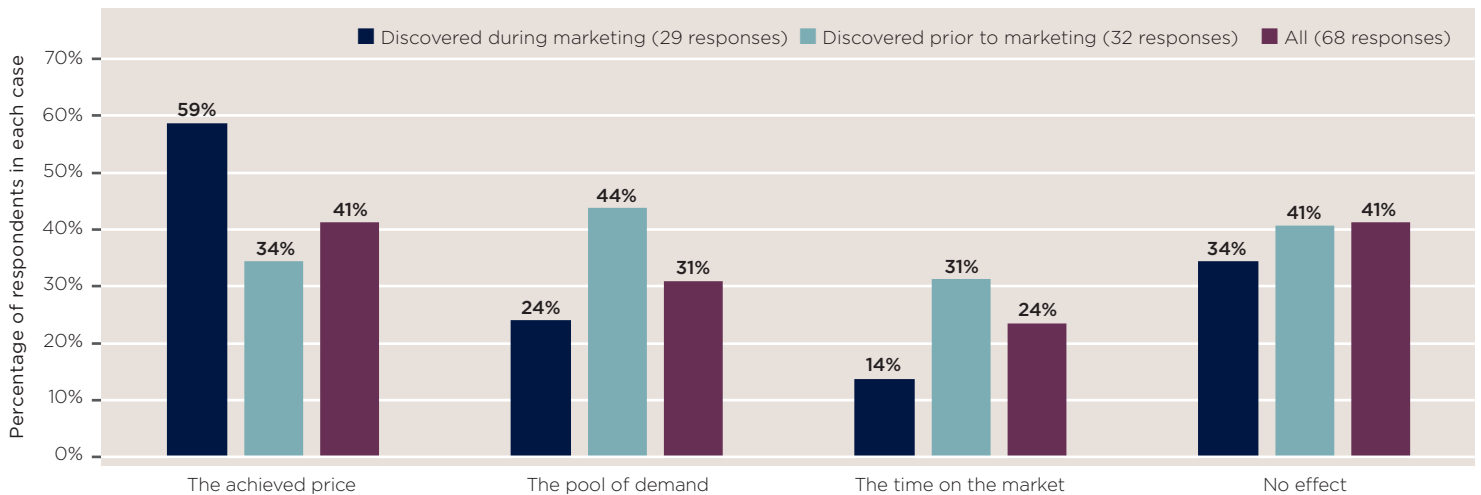
This indicates the presence of Japanese knotweed is likely to be more of an issue where it comes as a 'surprise' to potential buyers. This is backed up by evidence on the likelihood of agreed sales falling through. Again, this was significantly more pronounced where Japanese knotweed was

discovered during the marketing period.

More specifically, there was evidence of sales falling through in 10 of the 29 cases where we know that the presence of Japanese knotweed was discovered while the property was being marketed or was in the process of being sold. By contrast, there was only evidence of this occurring in four of the 32 cases where we are sure that Japanese knotweed had been discovered prior to a property being offered for sale (such that it would have been known by potential buyers earlier in the marketing process).

Where there was an impact of price, opinion was split as to whether it was of a similar order of scale

The results of Survey 2 Instances where the presence of Japanese knotweed affected the marketability of prime properties



Source: Savills Research

to the cost of remediation or significantly higher (though responses were weighted to the former).

However, the majority of those who reported an impact on price considered that it was less than 5% of the underlying value of the property.

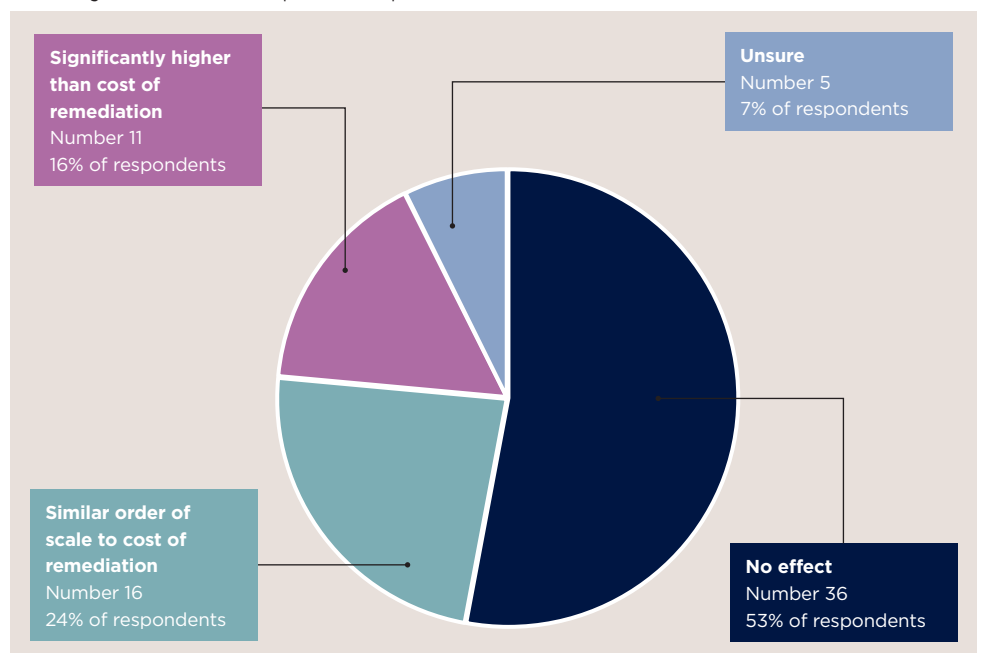
Because of the sample size and the array of circumstances to be accounted for, segmenting these results presents similar challenges to Survey 1.

When looking at the results of Survey 2 in the round, it should be remembered that there was generally a higher propensity for the infestation of Japanese knotweed to be more than seven metres from buildings (though also more cases where there was a moderate impact on the use of gardens and grounds).

In the 13 cases where Japanese knotweed was found within 7m of a habitable structure, the price was affected on eight occasions. With such a small number of cases, this finding needs to be treated with some caution.

So, a more pertinent finding is that, in the other 55 cases there were only three circumstances where the agent reported a fall in value of more than 5%.

Survey 2 Scale of impact on price



Source: Savills



Where there was an impact on price, it was typically less than 5% of value

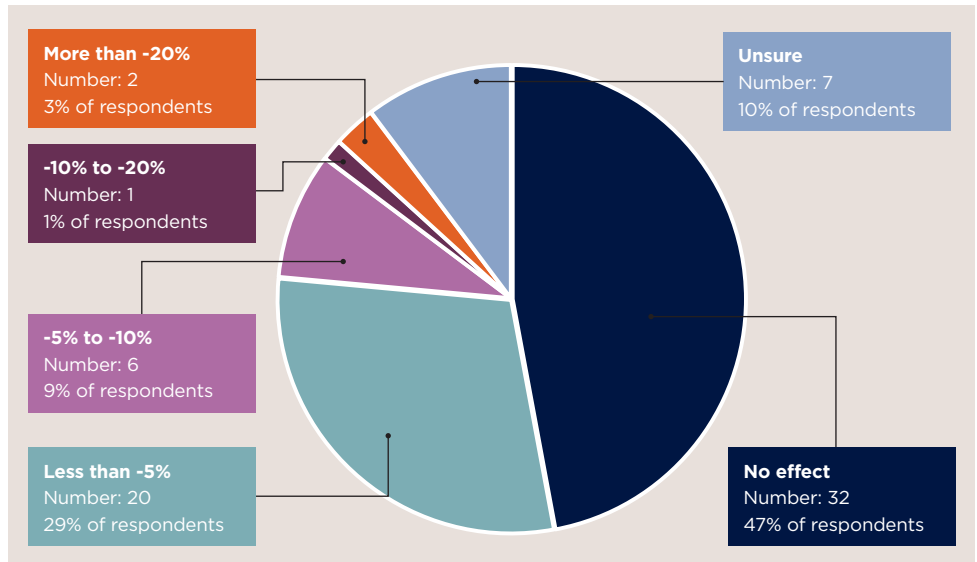
More than just statistics

The comments provided by agents within the free text section of our surveys, provide further insight and additional useful context into the impact of the presence of Japanese knotweed on the marketability (and ultimately price) of prime properties.

With this in mind we have provided a representative sample of some of those responses at Appendix 3. Again they cover a variety of responses and market reactions but generally support our findings that:

1. The presence of Japanese knotweed can reduce the pool of demand for a property, create difficulties in the mortgage and conveyancing process and can contribute to purchasers withdrawing. These risks are heightened where the presence of Japanese knotweed is discovered during the marketing process for the first time.
2. However, this does not automatically mean that a prime property will sell at a discount, especially where the presence of Japanese knotweed is located more than 7m from a habitable space.
3. Sellers can mitigate the potential impact on the saleability of their property by having in place a treatment plan and an insurance-backed guarantee for that treatment.
4. Where Japanese knotweed has been treated prior to marketing in this manner our survey suggests there is no impact on the price of prime properties in the majority of cases.
5. Where the presence of Japanese knotweed is (or becomes) evident during a period of marketing and there is an impact on price, it is most commonly less than 5% of the purchase price – even though it has the potential to exceed the cost of remediation.

Survey 2 Scale of impact on price



Source: Savills Research



👉 Sellers can mitigate the potential impact on the saleability of their property by having in place a treatment plan and an insurance-backed guarantee for that treatment... 👉

Appendix 1

Profile of property

	Survey 1	% Survey 1	Survey 2	% Survey 2
An exceptional property, highly desirable	7	23%	16	24%
A very desirable property with limited alternatives	14	47%	30	44%
An average property with suitable alternatives in normal market conditions	4	13%	17	25%
A property with a reduced saleability for reasons other than Japanese knotweed	2	7%	4	6%
A very restricted market home, possible unsuitable for mortgage finance for reasons other than Japanese knotweed	1	3%	1	1%
Unsure/Don't remember	2	7%	0	0%
Total	30	100%	68	100%

Profile of market conditions

	Survey 1	% Survey 1	Survey 2	% Survey 2
Very strong, prices rising	9	30%	19	28%
Reasonable, prices static	20	67%	45	66%
Weak, prices falling	1	3%	4	6%
Total	30	100%	68	100%

Appendix 2

Profile of nature of infestation

	Survey 1	% Survey 1	Survey 2	% Survey 2
Japanese knotweed is within seven metres of a habitable space, and/or Japanese knotweed is causing serious damage to outbuildings or structures	12	40%	13	19%
Japanese knotweed is more than seven metres from a habitable space. If there is damage to outbuildings or structures it is minor	8	27%	37	54%
Japanese knotweed was seen on adjoining land in separate ownership. Here, it was within three metres of the boundary, but more than three metres away from habitable spaces of the subject property	4	13%	13	19%
Japanese knotweed was not seen on this property, but can be seen on a neighbouring property or land where it was more than three metres away from the boundary	2	7%	3	4%
Unsure/Don't remember	4	13%	2	3%
Total	30	100%	68	100%

Profile of impact on use of property

	Survey 1	% Survey 1	Survey 2	% Survey 2
Little or no impact on the use of gardens or grounds	26	87%	49	72%
Moderate impact affecting a noticeable proportion of the gardens and grounds	3	10%	16	24%
Significant impact, seriously affecting or restricting use of grounds or garden	0	0%	0	0%
Extent of infestation renders grounds or gardens unusable	0	0%	1	1%
Unsure/Don't remember	1	3%	2	3%
Total	30	100%	68	100%

Appendix 3

A sample of responses from agents involved in the sale of prime properties affected by the presence of Japanese knotweed

Survey 1

“The owners had treated the outbreak informally and thought they had eradicated it, however in order to sell had to then pay for an insurance backed monitoring and treatment plan.”

£525,000 property, Dorset
(Impact on Value -5% to -10%)

“The presence of knotweed had made buyers nervous. This was a new home and having a treatment package in place helped. But lack of knowledge means buyers get spooked. I think in this case the buyers just wanted to use it as a little leverage.”

£1.45m property, Bath
(Impact on value less than -5%)

“This is one of a few cases that we have dealt with over the past few years. Some buyers will not touch a property with knotweed at all. On this occasion the buyer made sure the warranty was extended by the seller to 20 years.”

£2.35m property, South West London
(No impact on value)

“Was a concern, but far enough away from the house and a plan was put in place which was handed over to the buyers.”

£2.5m property, Essex
(No impact on value)

“The developer wasn’t upfront with the buyer. (The deal) fell through as the buyer felt there was a lack of trust. It is now under offer after competitive bidding £250,000 more than last year, both bidders are (‘touch wood’) fine with it now as the developer was upfront.”

£5.5m property, South West London
(No impact on value)

Survey 2

“Perception of risk varies. Buyer pragmatic. Others wouldn’t even view.”

£700,000 property, Dorset
(No impact on Value)

“Lack of proper treatment plan and future guarantee severely impacted on the initial marketing until our advice was accepted.”

£800,000 property, Derbyshire
(Impact on value -5% to -10%)

“There was significant infestation of land owned by the council opposite the house, and a small infestation on the property. The presence of knotweed delayed the transaction whilst the council inspected, acknowledged and dealt with the knotweed to the buyer/solicitors satisfaction. In addition we had to get a treatment plan in place for the knotweed on the property.”

£1m property, Hampshire
(No impact on value)

“Presence of knotweed didn’t really affect sale price but did affect time sale took to go through due to issues with mortgage lender and the time it took to start treatment process.”

£700,000 property, Sussex
(Impact on value 0% to -5%)

“We made buyers aware upfront to minimise the impact on value. It was located at the bottom of the garden and was under control. We felt it was negligible but a few buyers were spooked (lack of understanding).”

£1m property, Bath
(No impact on value)

“The impact was felt in terms of limiting the market, with many potential buyers not wanting to consider the property given the knotweed. It caused delays in the transaction as solicitors wanted extra surveys were conducted.”

£1.9m property, Berkshire
(Impact on value -5% to -10%)

“Prior to the successful buyers (who had no issue with the knotweed), we had the property under offer to another party. This sale fell through and the knotweed (despite this being disclosed on the original viewing) was given as one the reasons.”

£4m property, Somerset
(No impact on value)

“Knotweed was discovered during the survey. As a result the sale fell through on surveyor and lawyer’s recommendation. Strongly advised to withdraw from the purchase irrespective of price.”

£850,000 property, Devon
(Impact on price more than -20%)

“Cash buyers who were going to treat the problem themselves after purchase. They had a survey carried out prior to purchase and cost was not of concern as the style of house was what they wanted.”

£850,000 property, Cheshire
(No impact on value)

“There were additional checks for the mortgage but otherwise there were no reasons for the sale to be jeopardised.”

£2m property, West London
(No impact on value)

Savills team Please contact us for further information

Lucian Cook

Head of
Residential Research
lcook@savills.com
020 7499 8644

Ed Hampson

Associate
Residential Research
ed.hampson@savills.com
020 3107 5460