

# Market in Minutes

## Northern Ireland development land

Q1 2012

Savills latest research indicates that land values in Northern Ireland have fallen further in the last 12-18 months.

A lack of activity in the Northern Ireland land market has compounded the rapid loss in values that took place between 2008 and the end of 2009. The lack of funding coupled with weak demand from both the residential and commercial sectors has resulted in a further drop in values of approximately 30% from early 2010 to the end of 2011. Values in 2012 are estimated to be back to those last transacted in the early 2000s; demand is expected to remain weak and will focus on areas with strong demographics.

Sales activity in the residential/commercial land market has come to a virtual standstill with any on-going development being led by occupier demand with little speculative development. Key speculative developments have been shelved in the last four years. There are no speculative investors/occupational tenants ready to commit and therefore developers have ceased construction to avoid further funding drawdown and the liability for statutory payments such as building control and vacant rates.

This is likely to remain the case until there are sufficient purchasers/occupiers capable of committing to reasonable prices/lease terms which justify the cost of taking on building projects. This lack of activity has compounded the downward pressure on residential and commercial land values across all sectors and any evidence of land sales in the last twelve months have been driven by opportunistic purchasers or experienced developers with clear end user tenants/occupiers or for owner occupation.

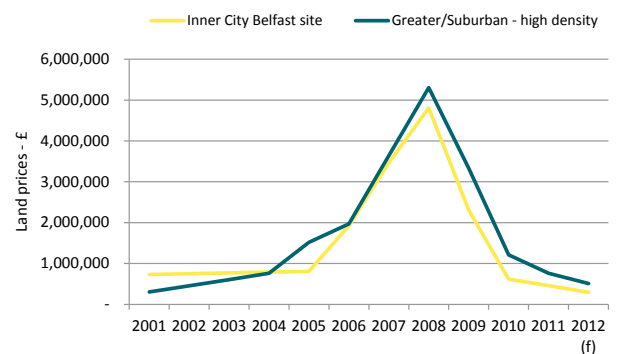
### Sectoral Trends

**Residential land** – The residential land market has come under increasing pressure from the lack of liquidity and a lack of demand for speculative land banking. The second half of 2010 and 2011 saw a further reduction in the level of offers for sites with the exception of a very small number of infill sites in the sub £500,000 category. There are currently a few larger sites in excess of 30 plus acres which have attracted interest from people acquiring land banks for the future; however if sold the prices achieved would be estimated to be in the region of 95% from peak values in 2007.

This trend has been compounded by what has been considered to be a dysfunctional mortgage market throughout the period limiting the amount of willing purchasers able to acquire homes. However, there were some signs of increased transactions in the residential market in 2011 thanks to the return of mortgage products like the Co-ownership scheme, but this has been extrapolated from a very low base in 2009-2010.

**Office** – Given current occupier demand, the achievable rental levels (ERV) do not make the construction cost of new office space viable, therefore we consider there will be little change in the value of land in this sector in the medium term (estimated 5-7 year time frame).

GRAPH 1  
**Average land prices in Belfast**



Source: Savills - (based on selected benchmark sites)

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“Looking ahead to the end of 2012, it is estimated that the prices achieved for sites will be back to those last transacted in the early 2000's. Demand will focus on areas with strong demographics.”

Neal Morrison, Director  
Savills Belfast

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➔ It is worth considering new models for development in this sector and perhaps a replication of the ground lease model that was used to develop the Gasworks in the mid-late 1990s and early 2000s.

Industrial – The industrial land market shows similar symptoms as the office market – currently achievable rental and capital levels do not make development viable, therefore demand in this sector is likely to be generated solely from cash funded owner occupiers who require bespoke buildings not readily available in the market.

### Outlook

Any activity of cash funded developers is expected to be focused on building out small low risk sites for cash flow in the foreseeable future. A return to license agreements or joint ventures (site fines) are likely to become more prominent in the local market as a route for developing out sites which are under the control of the banks/or individuals with land banks. The amount of housing supply which could come to the market as the year progresses as NAMA, Banks and Receivers/Administrators decide whether to release stock will have an impact on the level of this type of activity that may emerge in 2012. A recovery in the residential land market will be led by a return to economic growth, a recapitalised banking sector and an increase in the availability of funding. There is a note of positivity with what appears to be an increased level of transactions throughout 2011.

However we must be conscious of the pending austerity measures from the UK Government and employment security as being a negative factor in transactions in the residential market going forward.

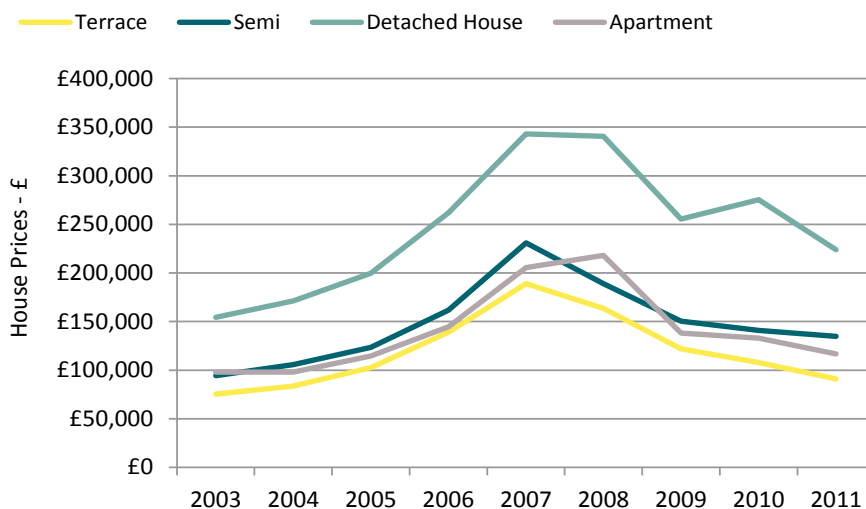
Recovery in the commercial land market will be led by occupier demand and is currently driven by food stores which at some point will meet their natural ceiling of provision in a market of c.1.7m people.

In summary, while pressure on prices continues and the cost of money potentially increases it is difficult to envisage developers initiating new projects with any short term recovery in land prices. ■

“A recovery in the land market will be led by a return to economic growth, a recapitalised banking sector and an increase in the availability of funding.”

Joan Henry, Director of Research, Savills Ireland

GRAPH 2 Average house prices in Northern Ireland



Source: UJ House Price Survey, BOI

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