

Market in Minutes

UK Residential

Development Land

August 2013



SUMMARY

Government stimuli are boosting demand for housing, what is the effect on the land market?

■ Developers are working through their land banks more quickly than at any time since 2007/08. This is now feeding into higher demand for land.

■ Housebuilder sales rates are rising and those issuing 2013 trading statements cite further sales rate growth, aided by Funding for Lending and Help to Buy.

■ Bidding has strengthened for sites brought to the market recently, suggesting that we are in the early stages of a more substantial increase in land value.

■ Help to Buy will help to unlock land in lower value, more mortgage constrained, housing markets. It will be particularly valuable for smaller housebuilders, given no equity contribution is required on their part.

“Developers are working through their land banks more quickly than at any time since 2007/08. This is now feeding into higher demand for land”

Jim Ward, Savills Research

→ Improved market sentiment, buoyed by Funding for Lending and the equity loan element of Help to Buy is having a positive impact on new home sales rates. Launched in April, the scheme yielded almost 7,000 reservations in its first three months alone.

Across the top eight listed housebuilders, the average sales rate per outlet per annum in 2012 stood at 28. This figure rose to 33 for those issuing trading statements for the year to June 2013. The outlook remains positive; the June Home Builders Federation survey presented the most optimistic assessment of future sales since January 2007.

Increased sales activity will mean more site openings as housebuilders accelerate delivery to meet demand. As existing landbanks are worked through at a faster rate, demand for land is likely to grow, sustaining price growth.

The Help to Buy initiative will be particularly beneficial to sites in more mortgage constrained residential markets that may not otherwise provide the sales volumes to make new schemes viable. The NewBuy mortgage guarantee scheme, for example, saw its highest take-up in the lower value markets of the North of England and the eastern fringe of London. Given the scale of the Help to Buy initiative, a similar trend may help to unlock more marginal sites.

Help to Buy is also likely to be valuable for smaller housebuilders, given that no equity contribution is required on their part. This is in contrast to FirstBuy which required equity input from the housebuilder, putting the scheme out of the reach of many cash-strapped smaller players.

We are already seeing better take up of Help to Buy from smaller builders, supporting their delivery programmes. Question remains, however, on the impact on sales rates when the



programme comes to an end in 2016. The government needs to provide clarity on how the transition to a post Help to Buy era will be approached.

Improving market sentiment and faster rate of sale of new homes is yet to translate to any significant rise in the value of residential development land as tracked by our index.

In the second quarter of 2013, greenfield land values rose by 0.6%, and urban values increased by 0.5%, bringing the annual rate of growth to 4.3% and 3.1% respectively. Bidding has strengthened for sites brought to the market recently, suggesting that we are in the early stages of a more substantial increase in land value.

National and regional land price growth disguises a complex localised picture. Permissioned sites in strong housing markets continue to achieve multiple bids and the price of this type of land is rising quickly. Medium-sized sites in the 50-200 unit range are seeing aggressive bidding in the right locations.

In many high value towns around the country, a shortage of permissioned land in the right locations is pushing values close to, and in excess of, their former highs.

Delivery by housing associations is building again after adjusting to the new Affordable Housing Programme, including lower levels of grant.

The top 50 housing associations delivered fewer homes in England in the 2012/13 financial year than in 2011/12. Starts among the top 50 are up, from 17,350 in 2011/12 to 27,938 in 2012/13.

To offset reduced subsidy, more housing associations are building homes for sale and rent on the open market, to cross subsidise their affordable housing programmes.

As housing association development programmes become increasingly ambitious and more strategic, building and developing a supply of sites will be critical to delivery of a wider range of housing types. ■

“In many high value towns around the country, a shortage of permissioned land in the right locations is pushing values close to, and in excess of, their former highs”

Paul Tostevin, Savills Research

Landbanking

Housebuilder landbanks are falling

Citing low levels of housing completions, some commentators have claimed development land is being hoarded unnecessarily as landowners wait for values to increase. Our analysis of the permitted landbanks of the top eight listed housebuilders would suggest otherwise, see Graph 1 below.

Permitted land held by the top eight fell by around 100,000 plots between 2007 and 2012, as land buying slowed and existing stocks were built out. Relative to recovering build rates, the supply of land held by housebuilders is in fact falling. In 2009 the volume of permitted land held by the top eight peaked at held 7.5 years of permitted land, as the rate of delivery slowed.

In 2012, permitted landbanks declined to 5.3 years supply. Some builders, such as Barratt, are actively targeting shorter landbanks to improve capital efficiency.

These headline supply figures are deceiving as not all of this permitted supply will be financially viable to develop in the short term. Landbanks will include permitted land in weaker markets, and larger sites that need to be phased for delivery.

Help to Buy will aid the rate of delivery of land in marginal locations. An emerging build to rent sector offers the opportunity to increase delivery while creating a reliable income stream.

Housebuilders are actively finding ways of improving return on capital and examples are emerging of how institutional forward funding of build to rent can boost this measure.

Part of the challenge lies in bringing forward those permitted sites not under the control of developers and housebuilders. In London, Molior has concluded that 45% of permitted sites are held by 'non-builders', but note that many of these are historic landowners (rather than speculative purchasers), or are in public hands. Not all this land will be viable. Growing demand, emerging investment in the private rented sector and broader industry expansion will help to unlock more of this land for delivery.

GRAPH 1 **Permitted landbanks** Top eight housebuilders



Source: Housebuilder annual reports

Savills Research team

Please contact us for further information



Jim Ward
Director
020 7409 8841
jward@savills.com



Susan Emmett
Director
020 3107 5460
semmett@savills.com



Paul Tostevin
Associate
020 7016 3883
ptostevin@savills.com

- **Savills plc**
- Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.
- This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. Whilst every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.