Market in Minutes
UK Residential Development Land

February 2013

SUMMARY

Industry sentiment is positive moving into 2013, despite uncertain economic backdrop

■ Residential land prices outperformed house prices in 2012. Average UK greenfield values were up 3.6%, urban values grew by 1.7%, set against house price falls of -1.1%.

■ Transaction levels and market activity will continue to be much more important drivers of developer demand for land than house price growth and absolute house prices.

■ Developers and housebuilders continue to target their activity in higher value housing markets in each part of the country, and are finding a shortage of viable, permissioned land in these locations.

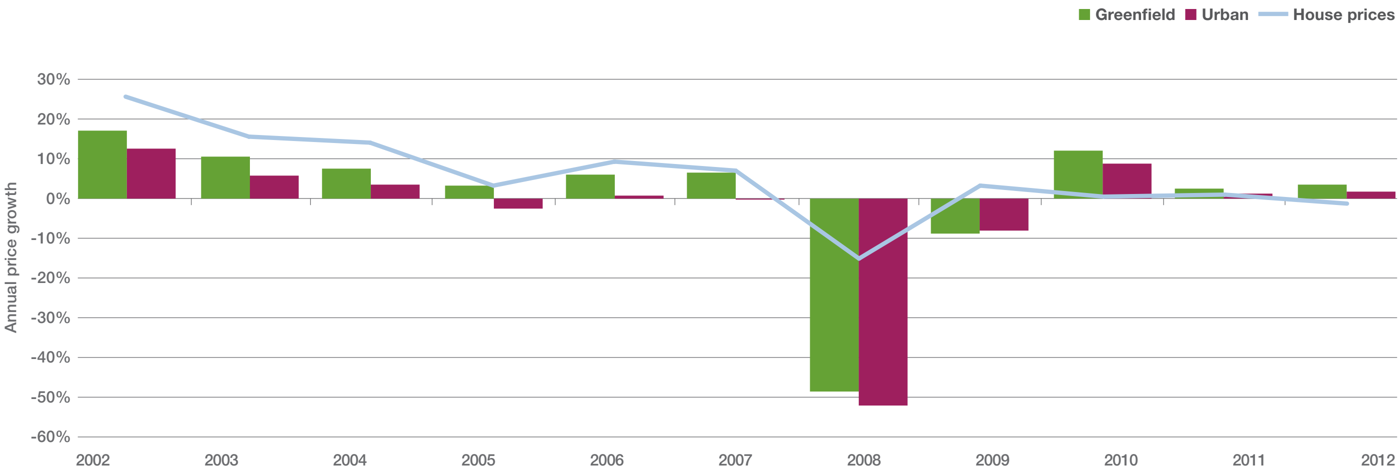
■ The London land market remains buoyant, with overseas equity fuelling demand for central London sites; 71% of London deals took place within zones 1 and 2 last year.

■ Recapitalised housebuilders, reporting steadily increasing profits and reduced debt, are increasingly using up-front payment as a means to secure land in London, the south east and other high value housing markets.

"The London land market remains buoyant, with overseas equity fuelling demand for central London sites"
Jim Ward, Savills Research

GRAPH 1

Annual Land and House Price Growth



Graph source: Savills Research, Nationwide

Greenfield outperforms

During 2012, greenfield values were up 3.6%, while urban values grew by 1.7%. Both outperformed national house price growth, which fell by -1.1% (see Graph 1).

These small value increases reflect a general shortage of suitable, permissioned land in the market, despite early signs that the National Planning Policy Framework is leading to more consents, including those from appeal decisions.

At the same time, demand has increased as housebuilders and developers have worked through their inventory of sites brought prior to the downturn, and are now actively seeking to bolster their land pipeline.

The problem is particularly acute in the West Midlands and South Wales, where very specific market conditions have buoyed land values. An acute shortage of permissioned land, the result of hold ups in local planning systems, has pushed up values as buyers have bid for a limited pool of sites. Savills Western region Greenfield Index recorded growth of 3.1% over the last six months of 2012 alone.

Broadly, the southern regions still outperform those in the north in terms of land value recovery, but the full picture is more complex than a straightforward regional one. Housebuilders are targeting their activity, so demand is strong for consented land in high-value regional towns and cities across the whole country. While locations in the South East still dominate the top 10 performing locations for land price growth in 2012 (see Table 1), locations in the West Midlands, South West, Wales and Scotland are also present.

Cash buyers have edge

Recapitalised housebuilders, reporting steadily increasing profits and reduced debt, are increasingly using their balance sheets to fund land purchases. This has become particularly important in stronger housing markets with limited stocks of permissioned land, where competition is greatest. In these markets, cash buyers have the edge to seal the deal. In central London, nearly all transactions are taking place on this basis.

By contrast, funding and risk issues still remain a major barrier to bringing forward large, complex and marginal sites. This has created the necessity of a ‘build now, pay later’ land development model. Some landowners will increasingly need to be co-investors or joint-venture rather than outright, up-front sellers. This applies to both the public and private sector, but some of the public sector land initiatives recently announced have the potential to start bridging the delivery risk gap.

London land resilient

Buoyed by overseas equity and a strong domestic economy, demand for London residential property is high, and the London land market remains resilient. Land values in some central London locations in are now in

TABLE 1

Top performing towns in 2012 by greenfield land price growth (outside of London)

Rank	Town	Region
1	Sevenoaks	South East
2	Maidstone	South East
3	Crawley	South East
4	Exeter	South West
5	Solihull	West Midlands
6	Canterbury	South East
7	Swansea	Wales
8	Haywards Heath	South East
9	Leamington Spa	West Midlands
10	Edinburgh	Scotland

Table source: Savills Research

“Recapitalised housebuilders, reporting steadily increasing profits and reduced debt, are increasingly using their balance sheets to fund land purchases”

Paul Tostevin, Savills Research

MAP 1

Land transactions in London, 12 months to Oct 2012

Map source: Molior / Savills Research

excess of their 2008 peak. Trading is brisk. There were over 220 residential land transactions in London in the 12 months to October 2012, according to Molior. In total, 71% of these deals were within London transport zones 1 and 2.

This reflects investor demand for flats in central London, with recent schemes achieving high levels of market absorption aided by strong sales at overseas launch, forward funding the development process.

Some 21.4% of land transactions took place in Westminster, the heart of prime central London and lead recipient of global wealth. After Westminster, the boroughs that saw the greatest volume of land transactions were Camden (8.5%), Southwark (7.6%), Wandsworth (7.1%) and Lambeth (6.7%). On the edge of prime London, land in these boroughs has the greatest potential for value uplift through placemaking and infrastructure improvements.

OUTLOOK

Industry momentum builds

■ Industry sentiment has been positive moving into 2013, despite the backdrop of relatively subdued economic conditions and prospects for minimal house price inflation in 2013. The major housebuilders are reporting strong profit growth, while the Home Builders Federation survey reported an increase in net reservations between November and December, a first in its 21-year history. Housebuilder confidence is high.

■ Mortgage lending is showing some signs of easing, boosted by a rise in lending to first time buyers, up 13% in the year to November 2012, according to CML, attributed in part to the Funding for Lending scheme.

■ Our own forecasts are that average UK house prices will grow by just 0.5% in 2013 and remain low for the next five years. Housing transaction levels are also likely to remain low, rebuilding only slowly. Government interventions such as FirstBuy and NewBuy are set to boost market take up. Activity will be healthiest in higher value towns and cities, and in the upper price tiers of the housing market, albeit that, in all markets, good sites with limited competition will always attract interest.

■ There is growing institutional investor demand for larger scale development opportunities in the build to let sector, with new players entering the market. The government's Build to Rent Fund and debt guarantees will help to bring forward more sites including the larger sites where higher rates of market absorption can increase financial viability and accelerate placemaking.

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