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Market in Minutes
UK Residential Development Land

November 2013

SUMMARY

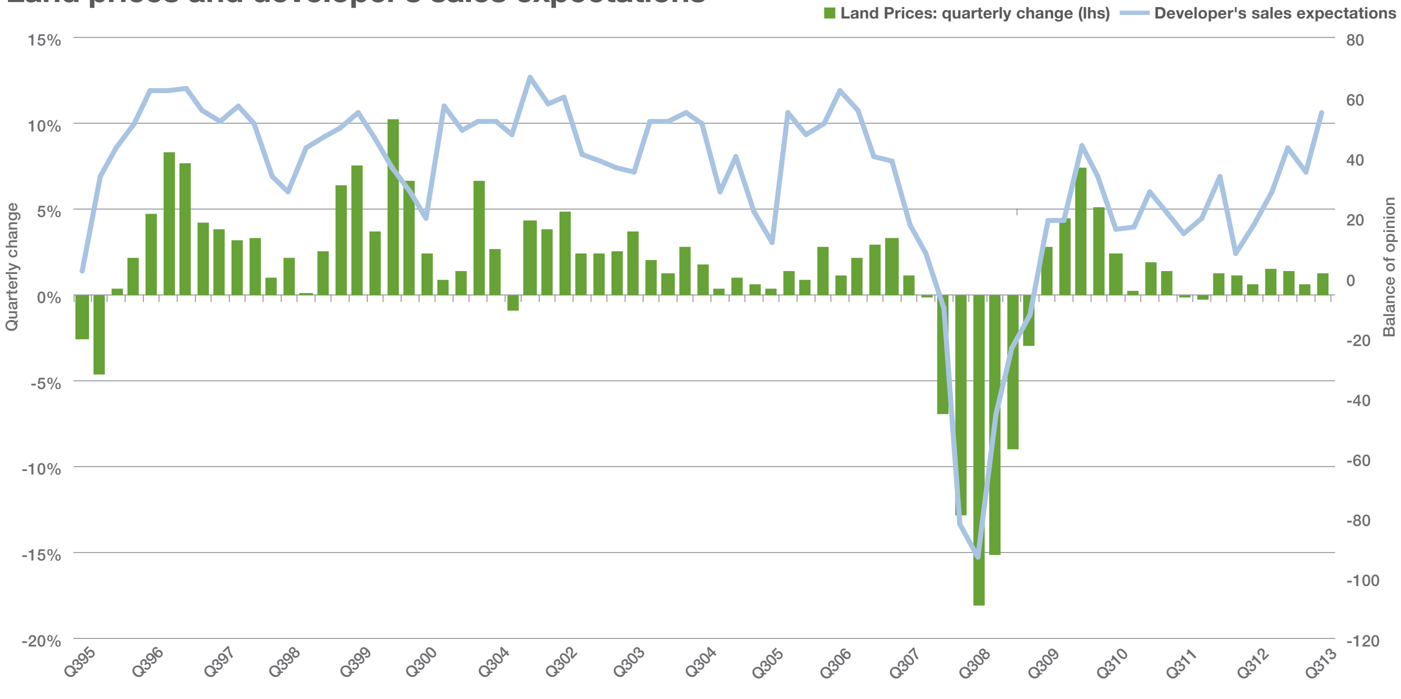
Appetite for strategic and brownfield land returns as builders finance longer term projects

- Average land prices are rising in line with house prices as demand for land continues to grow.
- Appetite for strategic and brownfield land returns as builders channel debt and equity into longer term projects, and banks find renewed confidence to lend on such sites.
- Urban land value growth pushed marginally ahead of greenfield land in the year to Q3 2013, up 5% and 5.2% respectively.
- The pro-development stance of the NPPF and initiatives such as the recently announced 'right to contest' scheme should aid land supply going forward.
- Residential development land in the capital continues to outperform the rest of the country, with values increasing by 13.2% in the year to September 2013.

"Average land prices are rising in line with house prices as demand for land continues to grow" Jim Ward, Savills Research

GRAPH 1

Land prices and developer's sales expectations



Graph source: HBF, Savills Research *Sales expectations figure for Q313 is for August

Appetite for land over the last few years has been mainly for readily developable, permissioned greenfield sites, in equity rich housing markets. With an eye on long term pipeline, many builders are once again taking on more challenging urban sites and strategic land.

Banks, bolstered by renewed confidence in the housing market, are increasingly amenable to lending on longer term sites, while builders are increasingly willing to channel debt and equity into longer term projects. This is impacting on urban land values which grew by 2.2% in the third quarter of 2013 (5.2% on an annual basis), against 1.3% growth in greenfield land values (5% annually). The greatest increases were recorded in the south east (3.2%) and west (3.3%). The highest recorded growth was seen in Cardiff, Maidstone and Birmingham, with values moving off a low base.

Meanwhile, some builders are taking the opportunity to open up strategic sites from their existing landbanks to add to their immediate pipeline. Others, such as Barratt, have stepped up land acquisition, citing over £1bn approved for land purchases, almost double the budget for 2012. It has also transferred more plots from its strategic landbank for operational use.

Prospects for the industry are strong, with investment analysts upbeat on the housebuilder sector, anticipating higher returns to come. HSBC cites 'stellar land-buying conditions'.

Going forward, land supply may be boosted by the 'Right to Contest' scheme. This will allow challenges for the release of publicly owned land that is vacant or underused, even if it is currently in active use. Meanwhile, the HCA has been tasked with reviewing all central government land, with a view to a further tranche of public sector land release. Flexibility on public sector land terms has improved significantly with deferred payment terms common, improving the viability of many public sector sites.

Output is up

Land buying activity has been boosted by Help to Buy, which has recorded 15,410 reservations in its first six months. This has contributed to an increase in new home reservations, from 28 sales per outlet per annum in 2012, to 32 in 2013 to date (among the largest listed builders).

In response, homebuilders are opening more sites, and residential construction is rising at its fastest rate since November 2003 according to the October Markit/CIPS PMI survey. Private housing starts now exceed 8,000 a month in England.

TABLE 1

Annual land price growth
(Sep12 to Sep13)

	Greenfield Land	Urban Land
London	N/A	13.2%
South East	8.1%	7.6%
West	6.5%	10.7%
UK	5.0%	5.2%
Scotland	4.1%	4.9%
North	2.8%	0.1%
East	1.0%	1.2%

Table source: Savills Research

"Many builders are once again taking on more challenging urban sites and strategic land"
Paul Tostevin, Savills Research

Constraints

Rapidly increasing output is putting some pressure on build costs. Material shortages have been cited by builders, but the biggest medium term risk is a shortage of skills. With graduate programmes, apprenticeships and long term training scaled back during the downturn, skills shortages are being felt as the industry scales up today. A mobile European workforce will help, but it will still take time for the industry to find the skills required to upscale.

While the prospects for the large private and listed housebuilders is positive, small and medium sized enterprises (SMEs) are still suffering in a relatively debt-constrained environment. Builders delivering less than 100 units a year accounted for almost a third of all housing output in the early nineties, and a quarter of output by the market peak. Hit hard by the downturn, by last year these SMEs were responsible for just 16% of total delivery. The reduced market participation of SMEs leaves open a space in which Housing Associations may be able to compete.

London

Residential development land in the capital continues to outperform the rest of the country, with values increasing by 13.2% in the year to September 2013.

London benefits from investment from overseas buyers, with high-profile investment in the capital's major regeneration sites. Given the strength of the London market, developers in the capital are willing to take on longer term sites requiring complex planning and remediation. Such sites can offer the greatest payback, set against the higher risks involved.

The London newbuild market was supported throughout the downturn by equity rich buyers, particularly those from overseas. Today, a full pipeline of prime and fringe-prime sites means secondary or lower priced London locations offer significant potential. The strengthening domestic market, including demand from first-time buyers, means there is much potential in the mainstream sector. It is this market segment where the supply shortage is most acute.

> "A full pipeline of prime and fringe-prime sites means secondary or lower priced London locations offer significant potential"
> Jim Ward, Savills Research

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