

# Market in Minutes UK Residential Development Land

February 2015



## SUMMARY

The pace of development land price growth slows as market stabilises

■ The pace of land price growth slowed in the last quarter of 2014 following reduced demand from major housebuilders and rising build costs.

■ But there are hotspots of land value growth. Land prices in Scotland have bounced back post referendum; greenfield land values increased by 4.8% in Q4 2014.

■ Cambridge and commuter locations in Essex have seen increased demand for development land and associated land value growth.

■ The rise of regional housebuilding activity is confirmed by the distribution of Savills land deals in 2014.

■ Housing has become a political issue leading up to the election. All three main political parties are in favour of building more homes with targets of up to 300,000 new homes per year.

■ Sentiment remains moderately positive for development land reflecting a reduced urgency for land, but the best sites are still highly sought after.

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“Sites are coming forward but housebuilders are being more selective”

Jim Ward, Savills Research  
.....

→ **Development land value growth slows**

The strong growth seen in land values across the UK (outside London) earlier in the year slowed in the last quarter of 2014. Greenfield land price growth slowed more than that of urban land.

Greenfield land values have remained relatively stable over the last quarter with values increasing by just 0.6% compared to 2.0% in the previous quarter. Growth in urban values, which slowed to a lesser degree, increased by 1.6% in the quarter compared to 3.4% in Q3 2014.

Despite the slowing of growth in land values at the end of the year, 2014 saw the greatest annual price rises in both urban and greenfield land since 2010, 9.1% and 7.8% increases respectively.

This slowing in the pace of value growth follows a period where the larger housebuilders were expanding their output. Now this catch-up period has come to an end, the market is back to a more normal period where players of all sizes have the opportunity to compete. Therefore, demand for land is reasonable across the country, in general, but many housebuilders of all sizes have enough land to build out over the short term, and build costs continue to limit the values that land can achieve.

However, within this overall theme, there are hotspots of land price

growth. Post referendum Scotland, Essex commuter areas and Cambridge have seen strong price growth over the quarter in contrast to the national average.

**Scotland land bounce**

Development land values in Scotland are rising. There is more demand for land as developers come back to the market after uncertainty around the referendum. Values for greenfield land in Scotland increased in the last quarter by 4.8% and 12% in the last year.

Small greenfield and urban sites in Scotland have seen the most demand and highest increase in value. In Edinburgh, where the highest land

values are found, prices rises have been as much as 10% in the last quarter of 2014. In Glasgow, it is urban land and greenfield land in high value areas surrounding the city that have seen the greatest increase in values.

**Cambridge strides ahead**

Land in and around Cambridge continues to remain in high demand pushing development land prices to new highs. The demand for land in Cambridge is the result of the city successfully becoming a leading centre of technology and business and the need to provide housing for both the employees of these sectors and the academic population (see the forthcoming Savills Spotlight on Cambridge for additional detail on the city).

**Essex commuting**

Commuter locations in Essex are seeing renewed demand and land values are climbing as a result. Sites are being keenly sought in Brentwood, and Colchester has seen renewed interest with recent sites achieving values above expectations. Along with Colchester, development in these well connected, commuter locations provides housing that is more affordable than in the capital as well as for those in the local area.

**Regional rise**

The increased activity reported in the regional development land markets during 2014 is confirmed by the end of year results from Savills. Our development database shows that whilst in 2013 the largest sites sold were all located in London, only two of the largest ten sites sold in 2014 were in the capital. Additionally the strong results reported in the housebuilder annual reports represent a productive year across the country. This boost in →

**0.6%**  
UK greenfield land price growth in Q4 2014

**4.8%**  
Scotland greenfield land price growth in Q4 2014

GRAPH 1 **UK development land values**



Source: Savills Research



→ the industry has gone a considerable way to increasing the number of homes built per year (140,000 to Q3 2014 from 120,000 to Q3 2013), however, there are limitations to continued expansion including the availability of skilled labour.

### Politics and Policies

With the election looming, housing has become a political issue and all three main political parties are in favour of building more homes to meet housing need. Labour have set a target of delivering 200,000 new homes a year by 2020 by encouraging more house building by housing associations, local authorities, SME house builders and custom build. The Liberal Democrats have a similar approach but a much higher target at 300,000 a year. The Conservatives have not set an overall target. However, the Tories' Starter Home scheme aims to deliver 100,000 new homes on brownfield land to be sold at 20% below the market rates to first-time buyers under 40. ■



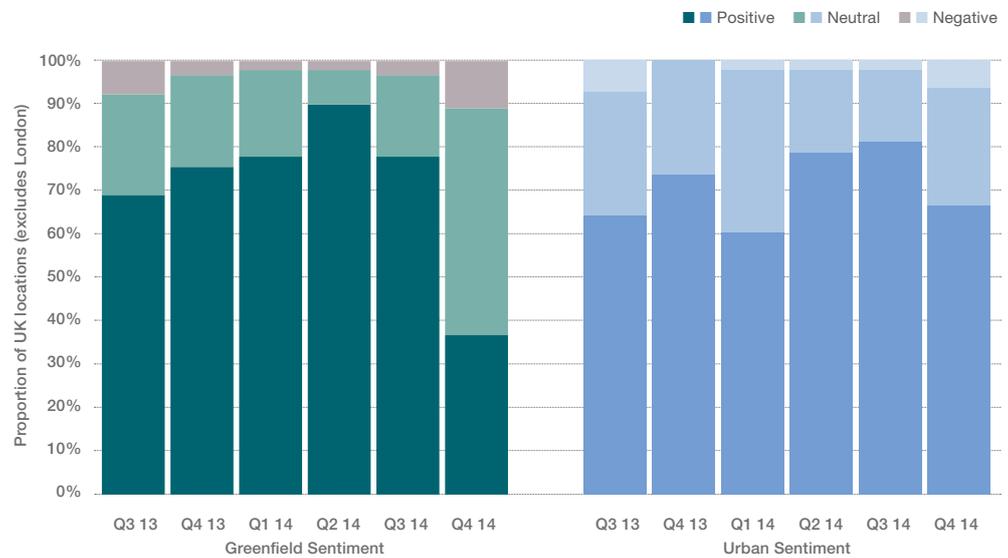
Land in and around Cambridge continues to be in high demand



Values are climbing in Essex commuter locations due to renewed demand

GRAPH 2

### Sentiment in the greenfield and urban land markets



Source: Savills Research

## OUTLOOK

### The best sites continue to attract the most attention

In general, there continues to be moderate demand for land; the best sites attracting the most attention. Sentiment is notably more neutral for greenfield land this quarter, settling from the extremely positive opinion leading up to Q3 2014. The reduction in such positive sentiment for greenfield land is reflective of the reduced urgency for land and indicates that the limited price growth is likely to be sustained in the short term.

Sentiment in the urban land market remains more positive. This positivity indicates that sites in urban locations will continue to see reasonable demand. Urban sites will also benefit from both improved debt availability and regional economics. SMEs, who build out many of these sites, will have greater access to finance, and will benefit from the potential for mixed use schemes due to the rise in demand for commercial property. In the most sought after locations continued price rises are expected.

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