

Market in Minutes UK Residential Development Land

February 2016



SUMMARY

Urban land values have risen but the market remains largely stable

■ Urban development land prices continued to increase faster than greenfield land values. In the last three months of 2015, urban development land values grew by 1.5% while greenfield values rose by 0.7% delivering annual growth of 7.1% and 2.0% respectively.

■ Growth in urban development land values was supported by strong demand for homes in urban and well-connected locations near transport hubs, particularly around Birmingham and Coventry.

■ However, uncertainty surrounding recent policy announcements affecting affordable housing provision and the land value implications of the requirement for Starter Homes continues to subdue the market overall.

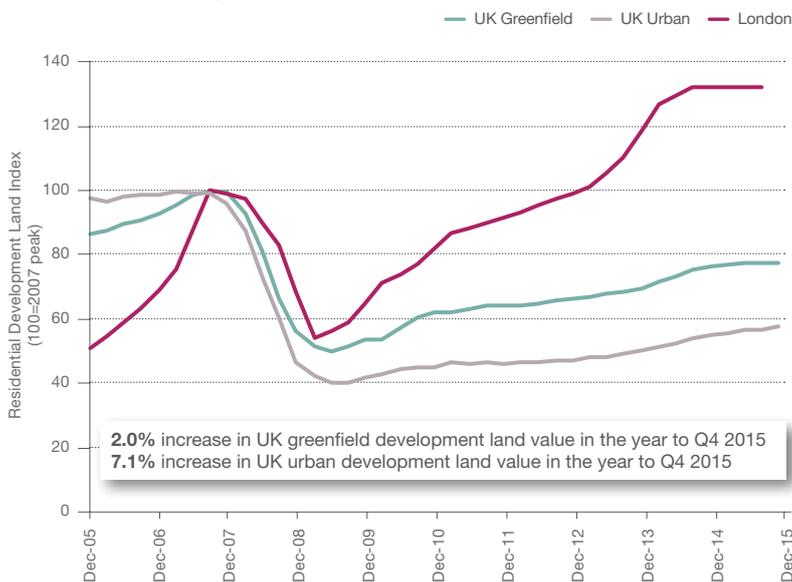
■ Moreover, appetite for new land acquisitions from major housebuilders has not matched their increase in output or their higher profit margins. Rather than acquiring significant volumes of new land, some of the biggest players have been able to rely on converting their existing strategic land sites into permitted plots.

■ Public land disposal will increase the supply of development land, but the rate at which this land is absorbed into the market will depend on the location, timing and type of land disposal. ➔

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“In general, markets remain in balance as a result of uncertainty over policy and ample land supply relative to builder appetite”

Jim Ward, Savills Research
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→ FIGURE 1 **Savills Development Land Index**



2.0% increase in UK greenfield development land value in the year to Q4 2015
7.1% increase in UK urban development land value in the year to Q4 2015

NB: Residential development land values that are used to calculate the index include the provision of affordable housing which contributes less to land value than in 2007

Source: Savills Research

Urban development land outperforms greenfield

Urban development land values across the UK have continued to increase more than those for greenfield land. Growth in urban land values in Q4 2015 was 1.5% (0.2% in Q3 2015) taking annual growth to 7.1%. Greenfield land values increased by 0.7% in Q4 2015 (-0.1% in Q3 2015) bringing annual growth to just 2.0%.

The increase in urban land values reflects a rise in demand, due to an improved economy, stronger markets and increased viability. Additionally, urban values have greater scope to increase than greenfield values because they are further below their 2007 peak (an average of 42% below peak compared to 21% below peak for greenfield land).

In general, development land values are linked to the supply of land and the demand from developers. The largely stable values of development land are in part due to the increase in supply of new permissions – the annualised number of planning permissions in Great Britain increased by 21% in between 2010 and 2015 (year to Q2). Additionally, a lack of new players in the market (and fewer housebuilders – 46% fewer housebuilders registered with NHBC in 2015 vs 2005) reduces competition for sites.

Hotspots and home types

Our agents report that there is increasing demand for land in urban locations close to good transport links on which, more commonly, apartments are built – Birmingham and Coventry exemplify this in the Midlands.

This is reflected in the shift in the type of new homes built. Between 2008 and 2014 houses accounted for an increasing proportion of new build homes, however, since March 2014 this trend has been reversed and we are seeing flats accounting for higher proportions of delivery (35% in the year to March 2015 up from 29% the previous year according to DCLG completions).

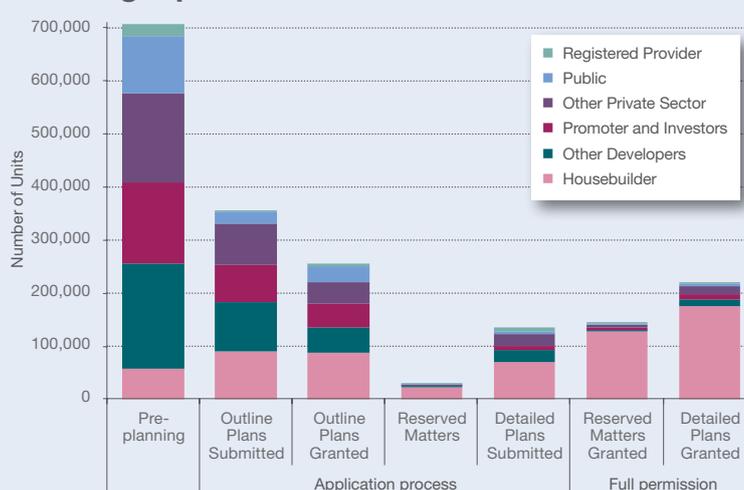
The change in type of home being built reflects the improving viability and ability to finance denser sites. Immediately following the economic downturn, housebuilders focused more on developing houses because

WHO OWNS ALL THE DEVELOPMENT LAND?

Housebuilders are not the only players

Housebuilders are commonly cited as owning land with planning permission and not building on it quickly enough. However, our analysis of site ownership by planning status highlights the prevalence of other market players. These operators, who are bringing land through the planning system, are in many cases servicing the land before selling it on to housebuilders. While housebuilders own the majority of sites (83% of homes) with full planning permission granted, they only own 34% of the land currently in the planning pipeline.

FIGURE 2 **Planning Pipeline**



Source: Savills Development Database, Jan 2016

NB: Pre-planning data should not be considered to be comprehensive, but shows all pre-planning sites captured in the Savills Development Database

→ they require less upfront capital, can be built one at a time and sold as they are finished. However, now that market strength is picking up, there is greater appetite to take on the risk required to build a block of apartments where (apart from off-plan sales) flats are sold only when the whole block is complete.

Oil impact

Sentiment for development land in Aberdeen has become less positive and has impacted negatively on the overall Scottish greenfield development land index (-0.5% in Q4 2015). Land values in Aberdeen have fallen (-2.9% in the year to Q4 2015 for greenfield land) due to the continued low oil price and uncertainty over the future of the industry.

However, in the rest of Scotland, sentiment for development land remains positive and land values have not changed in the last three months of 2015 or seen small increases in value in the case of Edinburgh. The recently announced extension of Help to Buy (Scotland) to 2019 is expected to support the continuation of this positive sentiment.

Policy related uncertainty

One of the biggest factors affecting land value is the amount of affordable housing that the local planning authority will require the developer to deliver alongside open market homes. There is currently little clarity on how the Starter Homes policy will play out at a local level. As a result the appraisal of land value is increasingly challenging (see *Policy Response: The impact of new housing measures on development*, for more details).

Housebuilders

Listed housebuilders continue to perform strongly, publishing positive trading updates showing an increase in both their output and profit. Operating margins are up to or above the targets required across the cycle (18-20%) and completions (the number of homes finished and sold) have increased by an average of 6% across all nine listed housebuilders in the 2015 financial year.

These housebuilders have benefited from Help to Buy (which supports around one third of sales and is now extended to 2021 in England) and, in general, plan to continue to expand their output of new homes. Due to this expansion in output it would be expected that demand from major housebuilders for development land would increase pushing land values higher. However, an increasing proportion of the land they are building on is from converting strategic sites to serviced land with planning permission. For example, between 2012 and 2015 Barratt increased the proportion of land sourced from such conversions from 5% to 24% and Bellway from 51% to 71% over the same period. In addition to an increase in land supply and lack of new players, this means that there is not a related significant increase in demand for permissioned development land despite the major housebuilders building more homes.

Small housebuilders, however, continue to struggle to increase their contribution to the industry. According to the NHBC, private starts by smaller housebuilders have been in decline for the last six months. A recent report by Funding Options suggested that

this was in part due to the lack of links between small housebuilders and the specialised funding available. Further opportunities are expected to arise following the government's announcement that it will directly commission SME housebuilders to deliver homes on publicly owned sites.

Public land

Government policy over the last two parliaments has been directed toward the release of public land for housebuilding in order to help alleviate the undersupply of new homes and generate capital receipts. The Ministry of Defence, as one of the UK largest landowners, has been particularly active, with sites including RAF Wyton and RAF Waterbeach. The release of the public estate will increase the supply of development land; the location and time of release will be the determining factor on how it affects the land value. Whilst in under-supplied areas the new land can be absorbed into the market with little impact, if not carefully managed a large supply of land in a well-supplied market will put downwards pressure on land values. ■

OUTLOOK

The biggest uncertainty for those operating in the development land market is the cost implications of affordable provision and Starter Homes, which is yet to be detailed by the Government. Until we know this the change in value of development land is difficult to predict. However, the urban land market looks to continue to see the biggest increase in land values, especially in locations where the local economy is improving and employment is growing.

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