# Market in minutes

# UK Residential Development Land

## Values have slowed due to a challenging housing market and lacklustre economy

Land prices remain suppressed, and the rate of growth is falling. Greenfield land increased in value by just 0.2% in Q311, with urban values up 0.6%. Year on year growth in Greenfield land now stands at 3.2%, compared to 15.1% at the same quarter a year earlier. A similar slow down has been observed in urban land, with annual growth slowing to 2.3% to Q311 from 13.3% in Q310.

Slowing growth has been the product of the challenging housing market and lacklustre economy more broadly. Negative sentiment in the industry is a recognition of the difficult short-to medium term outlook. The land market remains polarised as housebuilders and developers concentrate on easily developed, sub five-acre sites in areas of strong housing demand. Large sites are not trading in volume.

### Emerging policy context

The proposed National Planning Framework's emphasis on 'viability' over 'need' may help to unlock more sites for development. It might also be a step toward equalisation in a polarised land market. Greater realism in planning obligations could help to render more challenging sites viable. Nonetheless, the most difficult regeneration projects are likely to remain 'underwater' for the foreseeable future, in the absence of public funding to kickstart these schemes.

The emerging use of CIL will also have significant impact on the

"The emerging National Planning framework, which aims to streamline the planning process, may stimulate the land markets."

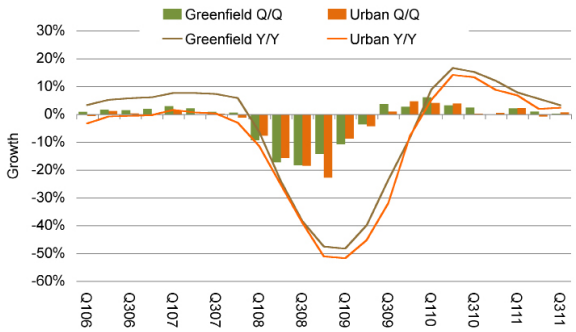
## SUMMARY

### Land price growth slows

- The rate of land price growth is slowing in an increasingly challenging operating environment. On average, UK Greenfield land values grew by 0.2% in Q311. Urban land values were up 0.6%.
- London residential land continues to outperform the hotel and office land markets. Driven by overseas wealth, prime central London land values increased by 4-5% in the last six months.
- Developer margins are squeezed in some locations where demand is strong. The supply of the best sites in these locations is very limited. If the new policy framework is to work, it will need to ease the shortage of this viable land.

GRAPH 1

**Quarterly and Annual National Land Price Growth**




Source: Savills Research

development landscape. The levy cannot be negotiated once set by local authorities. It is therefore critical these schedules are tested with a robust viability assessment before the rates are set in stone.

A levy set too high could stifle new development within a local authority, offsetting any benefits the levy itself purports to bring. Already, there is some evidence to suggest that values of non-permissioned sites are being suppressed by uncertainty surrounding the impact that the new levies may have.

## Central London

In London, prime central locations have seen value increase of 4-5% over the last six months. Finite land supply in prime locations, coupled with sustained demand for end-product from overseas buyers has buoyed values. Conversely, fringe central areas, exposed to more challenging domestic markets have seen little or no growth. This is suppressing the overall growth figures, which stand at 3.8%.

Nonetheless, the London residential land market is still in a better position than its office or hotel counterparts. Whereas residential land in central London, as a whole, has grown by 17% in the past year, office land grew by 15%, while hotel development land increased by 10%.

Central London residential land values, on average, stand just 10% off their 2007 high. Indeed, the divergent price growth strengthens the case for conversion of sites earmarked for office or hotel use to residential. ■

GRAPH 2

### Central London Land Price Growth, by use


Source: Savills Research

# OUTLOOK

■ Viability is at the forefront of developer's minds. The high opportunity cost of capital means there is a focus on short term cash flow. As a consequence, small sites are trading and seeing value growth. New product is delivered to a highly price sensitive market, so margins are being squeezed by developers eager to secure the best land.

■ Our projections suggest housing output in England will continue to undershoot the number of new households forming each year. Unless the scale of output is increased, the cumulative shortfall since 2006 will amount to 1.4 million homes by 2022.

■ More of these newly forming households will reside the private rented sector. We anticipate private renting could account for 20% of households within five years. This has significant implications on the type of product developed, and in turn the supply of land.

■ The new planning framework is a step towards an increase in the delivery of viable, readily developable land. Research by the HBF suggests if 250,000 homes were built annually for 25 years, just 1% of England's land mass would be used. While total land take is small, the challenge of supplying viable sites remains.

## Savills Development Land Index

This Market in Minutes is derived from Savills Development Land Index. Published quarterly, the index tracks greenfield and urban land value movements at a regional level. The index is long running, with historic data back to 1979. For further information on the index, please contact Paul Tostevin (details below).

**Definitions**
**Bulk Land:** Raw tracts of agricultural land, or large strategic brownfield regeneration sites
**Serviceable Land:** Land serviced to the periphery, readily developable without major remediation work, but at some scale
**Serviced Plots:** Fully serviced land parcels, masterplanned, design coded, requiring only the dwelling to be built

# Savills Research team

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