

# Market in minutes

## UK Residential Development Land



### Summary

■ In the strong, high-demand housing markets, competition amongst bidders for land is high and values are recovering strongly.

■ This comes as some developers have recapitalised and are actively searching for new, small 'easy' sites.

■ The land market has divided into two tiers. Many large sites, even those with planning permission, needing promotional capital beyond the means of developers remain mothballed.

■ Land values saw relatively modest growth over the second quarter of 2010. Average greenfield land values rose by 3.2% over the quarter and urban land values

rose by 3.8%, bringing annual rates to 16.6% and 14.1% respectively.

■ These averages disguise a wide range of discrepancies, polarised between North and South; high value and low value housing markets; large, infrastructure-hungry sites and small easy to develop de-risked sites.

■ South East, greenfield values are growing fastest. By contrast, urban values in the North continue to slide.

■ In London, land values have grown particularly strongly. Among the three types of development land we monitor, small to medium sized residential sites in prime locations have led the way.

The UK development land market remains constrained by a lack of debt finance, but some purchasers have recapitalised and are actively searching for land. Housebuilders are seeking out good sites in areas with an identifiable housing requirement or shortage. The rarity of small, easily developable sites in prime locations is driving prices up. Competitive bidding is in some instances pushing values to just -20% below their 2007 peak levels.

This is most notably the case in the South East, where our greenfield index now stands at -37% below its 2007 peak. Bulk land requiring infrastructure investment is still attracting little land buyer interest.

Many of these sites are unviable in the present climate, even if they have planning permission, and

remain mothballed. Many brownfield sites especially require promotional capital beyond the means of a fundamentally cautious and under-capitalised market.

Average residential development land values, covering both high-demand and low demand sites, grew modestly over the last quarter. UK greenfield land values rose by 3.2% in the second quarter of 2010, and by 3.8% in the case of urban land. Annual growth stands at 16.6% and 14.1% respectively.

### Urban strategic sites

Urban land values, particularly among the larger sites, continue to languish. The capital-intensive, longer-term promotion and preparation costs associated with this type of land is taking its toll on value growth. ►

► The large, up-front speculative payments that had been made on some brownfield land prior to the downturn are no more, and the suppressed value growth reflects this.

This has been particularly felt in less established urban land markets in the North of England. This was the only region to record falls in Q210, with urban values down a further -2.2%, bringing falls from peak to -71%.

## London Land

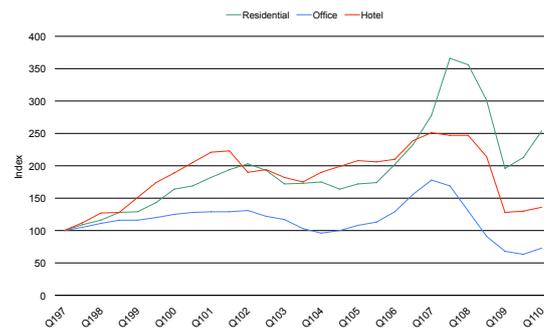
Land values in London, have diverged in terms of levels of growth between the three types of development land we monitor (Figure 1). Residential land performed particularly strongly over the six month period to Q110, with increases of 21%, for small to medium sized consented sites in the best locations. London residential land values still stand -29% below their 2007 peak though. Transactions levels are still low, but much higher compared to a year ago. The renewed value setting reflects the resilience of the underlying London residential market and the confidence of the development industry in it.

Office land values also saw growth over the six month period to Q110, up 15%, although values in this sector remain some -59% below their 2007 peak. Recovery in the office land markets reflects tight office supply in the capital and the associated recent emergence of rental

The speculative city centre flat building boom of the early noughties is very much a thing of the past in these areas, and urban land values reflect this.

The apartment market is, however, beginning to show signs of life, but only in prime areas of the country, and there are now some limited markets where apartment schemes are now possible.

**Figure 1**  
London multi-use development land index



Source: Savills Research

growth. Hotel land values meanwhile saw more modest growth of 4.7% over the same six month period.

## Outlook

The UK development land market is seeing significant improvements, limited to the best locations, and the most readily-developable sites. Re-financed housebuilders and developers are actively competing for this type of land and prices are recovering.

The land market has undoubtedly turned a corner but is still characterised by low transaction numbers and a highly polarised market. Such is the desire amongst active housebuilders to generate cash flow on low-risk sites for high-value houses that there is a risk that mini bubbles have formed as bidding competition fiercer.

The market is a thin one, and any kind of funding for difficult strategic sites and bulk land is scarce and likely to remain so for some time to come.

Funding innovations are helping developers to compete. Phased payments for example are increasingly common and there is now an acceptance amongst landowners that this is needed to provide liquidity. These innovative approaches to funding will need to be further developed if the market is to see beyond 'easy' sites and begin to tackle the more complex and infrastructure hungry ones.

The challenge in future will be convincing owners of bulk land to recognise the sea-change in the development land markets. It is no longer possible to sit on un-serviced land and simply wait for its value to rise or indeed expect it to do so automatically on grant of planning permission – especially if that permission is commercially unviable. It is working the land: creating place, servicing and providing infrastructure and vision that will add value in future. Active investment and place management is required to deliver a serviced product appropriate to today's market.

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## 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 left).

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