

Market in minutes

UK Residential Development Land

The land market is becoming increasingly polarised

Summary

- As the residential property market begins a 'second slip', the land market is becoming increasingly polarised.
- The rate of value increase slowed for the second consecutive quarter. Greenfield land values increased 2.4% in Q3 2010, urban values were up 0.2%.
- A permanent rift is opening up between small, serviced sites for which demand is strong, and large, strategic regeneration sites and bulk land, which are seeing little trading activity.
- London and high value Southern markets offer real prospects – but competition for sites is increasing. London residential land values continue to rally.
- The opportunity now lies in taking advantage of bulk land in the best locations to deliver serviced land product.

As the residential market begins to show signs of a 'second slip', the land market is becoming increasingly polarised. For the second consecutive quarter, the rate of growth in greenfield land has slowed. It was up 2.4% in the third quarter of 2010, while urban land values grew by just 0.2% (Figure 1).

This reflects not just underlying weakness in the housing market, but also the dearth of debt funding, uncertainty around the localism agenda and shortage of long-term equity. With public sector austerity measures now taking effect and, at best, weak recovery in the economy, housebuilders and developers remain vulnerable and therefore selective in their land purchasing activity.

A permanent rift

The national picture disguises some key trends, not only in terms of location, but also by type of site. A permanent rift is opening up between the value of small, serviced sites for which demand is strong, and large, strategic regeneration sites and bulk land, which is seeing little trading activity. The opportunity lies in taking the larger, longer term sites and converting them into a de-risked, serviced product appealing to the new, cautious market.

We are also observing distinct variations in regional performance. Land markets in the North never really recovered from the first round of falls, and have slipped

a further -4% over the last year in the case of urban land, stand -71% below peak.

Greenfield land has fared only marginally better, increasing a modest 3% in the North during the last year, and now standing at -61% off its former peak.

By contrast, the relatively buoyant South East recorded greenfield land value increases of 25% over the last year, along with urban land value increases of 13%, bringing falls from peak to -35% and -46% respectively.

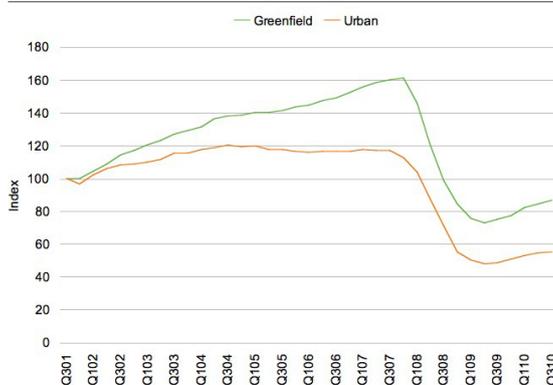
Such stark regional variation reflects the polarised of housing markets of the North and South of the country. With the North more exposed to public sector cuts and reliance on debt funding while the South has greater access to cash and equity, this is a trend likely to become further ingrained.

London outperforms the regions

Residential land values in London continue to perform well compared to the rest of the country. A shortage of housing supply and a steady influx of overseas cash into the housing market has led to competition for residential development sites.

The opportunity lies in taking the larger, long term sites and converting into a de-risked, serviced product.

Figure 1
Land value recovery slows



Source: Savills Research

► Residential land values increased 8.1% over the last six months, compared to 7.4% in the South East over the same period. This brings annual increases in London to 31%. While London sites may require more working capital than their regional counterparts, funding is typically easier to secure as the level of risk is often perceived as lower.

Hotel and office development land in London also saw increases over the last six months, reflecting improved confidence and supply constraints in these sectors. Hotel land values increased 9.2% between March and September, while office land values were up 12.7% over the same period.

Nonetheless, the recovery in these sectors has not been as pronounced as that seen for London residential land, where average values are now just -23% off their 2007 peak (Figure 2). This means that there is continuing market pressure for commercial sites to be converted to residential in the right locations.

Residential land values in London continue to perform well compared to the rest of the country.



Outlook

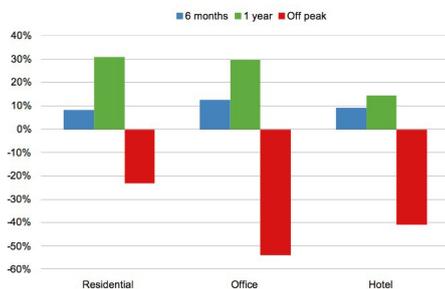
We expect the value of serviced plots and serviceable land to grow over the next few years. The supply of this type of land is likely to become increasingly constrained following uncertainty and some hiatus in the planning system, in turn driving up prices.

By contrast, the outlook for value growth of bulk land at the national level is poor. With so many large strategic regeneration sites unworkable in the current climate; we do not foresee any significant recovery in the value of this type of land in the medium term.

Location is key. Funding will only be forthcoming for the best sites where local housing demand will sustain targeted new delivery. Difficult sites in lower value areas requiring any kind of major remediation will remain off the development radar for some time to come.

In the short to medium term, opportunity lies in adding value to bulk land by converting into serviceable land, or fully serviced plots. Players will need to actively invest in land to maximise values, delivering an easy-to-develop, de-risked serviced product to the market. ■

Figure 2
London development land performance



Source: Savills Research

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 right).

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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

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