savills

Market in Minutes
UK Residential Development Land

November 2015

SUMMARY

Residential development land prices flatten

■ There has been little change in development land prices in the last quarter due to housebuilders having enough consented land for their needs in the short term and continued pressure on build costs. Urban development land values have increased by 0.2%, greenfield land values fell by 0.1% and London residential land values have remained flat in the last six months.

■ Recent policy announcements have also contributed to the flattening of residential land prices due to changes to affordable housing provision and uncertainty over the impact on Buy to Let demand.

■ In London, development land prices for non-residential uses have increased over the last six months, unlike those for residential. Between Q1 and Q3 2015, land values have increased by 6.4% for office use and 2.2% for hotel use.

■ Development for alternative tenures is in greater demand in some areas. For instance, Birmingham, Manchester and Leeds are seeing demand from the private rented sector (PRS) whilst in places such as Cardiff and Coventry demand is strong for student housing.

"Policy changes affecting affordable housing and Buy to Let investors are impacting on the land market"

Jim Ward, Savills Research

Little change in residential land values

Development land values across the UK have changed very little in the last three months. Greenfield land values decreased by 0.1% in Q3 2015 (0.9% growth in Q2 2015) bringing annual growth to 1.9%. Growth in urban land values in Q3 2015 was 0.2%, slowing from 3.7% growth in the previous quarter. Annual growth for urban development land stands at 7.2%, exceeding that of greenfield land and residential development land in London. Residential development land values in London have not changed in the six months since March 2015.

London

Residential development land values in London have remained flat over the last six months (zero growth over the period). Sentiment for residential development land in London remains positive and sites continue to attract a strong number of bids. Land outside central London has seen more attention as housebuilders and developers look for opportunities to seek better development margins and to provide homes in markets with greater depth of demand.

Development land values for other uses have seen stronger growth, with those for hotels increasing by 2.2% and offices increasing by 6.4% over the six months to Q3 2015, closing some of the gap with residential values. The growth in values for office use is due to the relatively active office market with more demand for new and refurbished space from both occupiers and investors. This is particularly true in the core central London office market as a result of rising demand and a lack of stock. However, we expect to see more developer interest in 2016 in edge of City locations.

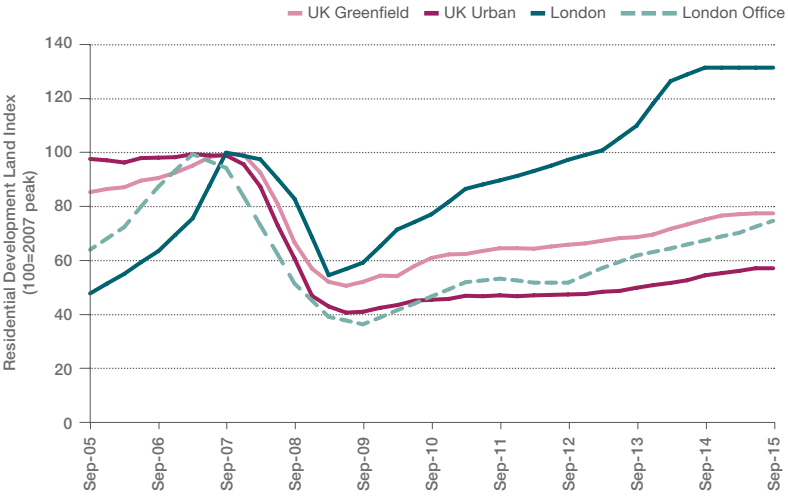
1.9%
increase in UK greenfield development land value in the year to Q3 2015

0%
change in London residential development land value in the year to Q3 2015

7.2%
increase in UK urban development land value in the year to Q3 2015

GRAPH 1

Savills development land index



Source: Savills Research 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

Rest of the UK

There are several factors contributing to the flattening of development land values and the more neutral sentiment for greenfield land. This has softened from the return to positive sentiment in Q2 2015 (the balance of opinion down from +69% in Q2 2015 to +40% in Q3 2015).

INFLUENCES OF POLICY

Several policy changes have already had an effect on the housebuilding sector

- The limit on mortgage interest relief for Buy to Let investors will limit the expansion of Buy to Let investors' portfolios (see Savills Policy Response – Buy to Let Tax Relief document). There is some evidence that this is having an effect in the new build markets although the scale of the impact is not yet clear. The number of investors for Buy to Let making reservations on new build sites has fallen in August more than for first time buyers and home movers, especially in London, according to the HBF survey.

- The reduction in affordable housing rents of 1% per annum from 2016 (instead of an increase of CPI +1% per annum) has meant that housing associations are offering to pay less for Section 106 housing on development sites and are likely to build fewer homes for sub-market rent than previously planned.

- Starter Homes replacing affordable rented homes is the latest strategy by the current government to 'turn generation rent into generation buy'. This will, on the face of it, generate a higher land value on the sub-market housing, but the risk is that new homes are concentrated in too narrow a section of the market and that Starter Homes displace market sales including Help to Buy.

- In the last year the requirement to provide affordable housing (Section 106) on sites of 10 homes or less has changed twice. The requirement was dropped in December 2014 but was then reinstated in a High Court ruling in July 2015. These changes, along with potential for appeals and the alternative affordable tenure of Starter Homes, has brought confusion and uncertainty to the market, potentially delaying development on smaller sites.

NB. The extension and changes to permitted development rights for residential conversion or replacement are not captured in our index results this quarter.

Firstly, many housebuilders have built up enough consented land for their needs in the short term (on average the listed housebuilders have 5.3 years' worth of land to build out at existing build rates before accounting for controlled growth in volume from these levels). However, location matters and there is still strong demand for land in markets with links to large centres of employment where there is a scarcity of sites.

Secondly, labour availability continues to be a major constraint according to the HBF survey. Thirdly, build costs continue to rise (5.4% in the year to Q3 2015 according to BCIS) and lastly, recent policy announcements have led to some uncertainty in the industry.

Despite this, sentiment for urban land remains unchanged according to our survey of Savills agents (the balance of opinion stands at +59%). The positive sentiment and price growth for urban development land reflects an improving market recovering from a lower base which is a more positive environment for new policies designed to bring forward additional brownfield land.

Strong demand continues for land with links to large centres of employment

Other tenures

Demand for development land for tenures other than market sale is becoming more common in city locations.

In places such as Birmingham, Manchester and Leeds demand has been strong from the private rented sector (PRS) whilst in places such as Cardiff and Coventry student housing has led demand.

The retirement home sector is also growing and there is an associated demand for land. McCarthy & Stone (who have recently announced their intention to float on the London Stock Exchange) have acquired 22% more sites in the last financial year compared to the previous year and are on track to increase their output to 3,000 homes per year in the medium term from 1,923 in the last year.

OUTLOOK

Sentiment remains positive

We expect demand for development land in the best locations to be maintained especially as sentiment for urban land remains positive. Elsewhere, housebuilders will continue to replenish their land banks as they continue to keep up their level of output. The full effects of the Starter Homes policy on development land will be better understood when more details are known.

The demand for development land in London is expected to continue. The pressure for more homes will ensure housebuilding continues although as house price growth slows land values are likely to remain stable. Due to the high value of residential development land, development activity for office space is likely to be constrained in central London locations, though we expect to see increasing levels of interest for commercial developments in peripheral office locations alongside residential.

Savills Research team

Please contact us for further information

Jim Ward
020 7409 8841
jward@savills.com

Susan Emmett
020 3107 5460
semmett@savills.com
Twitter @saemmett

Lucy Greenwood
020 7016 3882
lgreenwood@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.