UK Development – Q3 2019

# Residential Development Land

savills

## Parity in London land values

In many areas across London, land values for different uses are now equivalent. In central London, development land values for offices, hotels and residential are broadly comparable. In outer London, it is residential and industrial development land values that are converging.

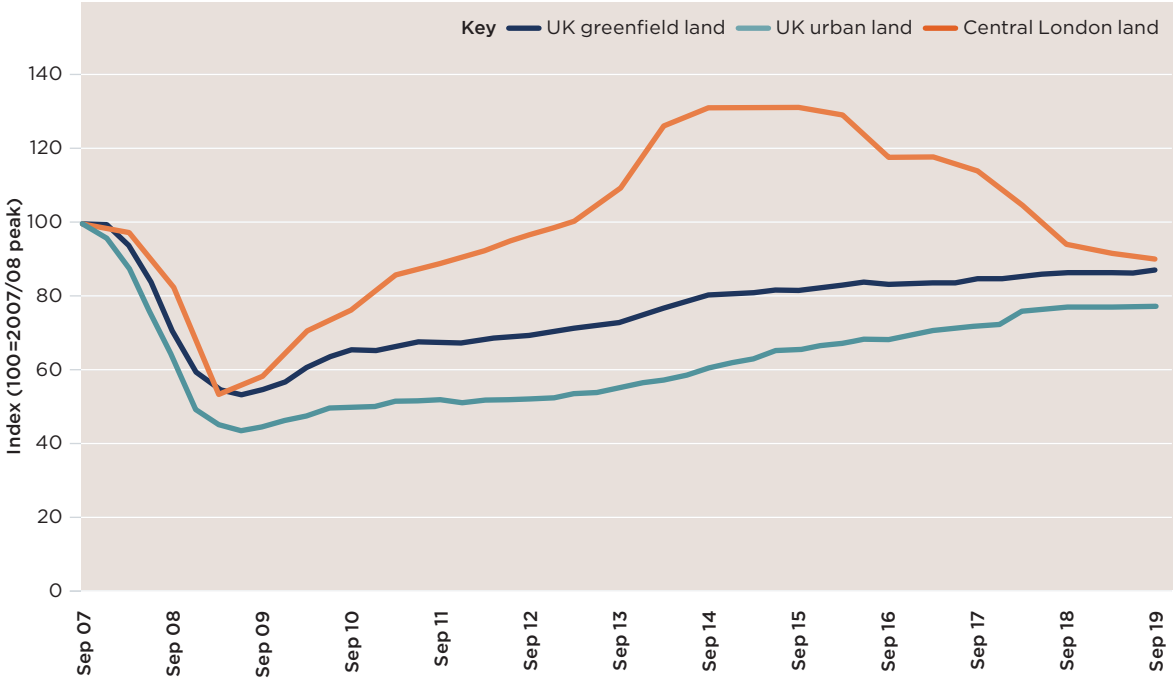
This parity in land values in central London is the result of a fall in residential land values, largely due to the higher on-site affordable housing being provided. The adjustment was most notable in 2018 when the policy became increasingly embedded in land value. Total falls in our residential development land value index for central London since the 2015 peak are 31%. However, more recently the falls have slowed. In the year to September 2019, central London residential development land values fell by 4.3% and in the six months to September 2019 they fell by 1.8%. These figures reflect our revisions to the index which we have undertaken with reference to increased evidence in a low transaction market.

If providing policy compliant levels of affordable housing on-site means that the land value is below alternative use value, either the site is switched to the alternative use or the affordable element is negotiated down to reach the same land value, often then with a review mechanism in place.

As a result, landowners have the choice of bringing their land forward for a range of different uses, rather than residential being the preferred option. Consequently, there has been a reduction in the number of residential-led planning consents being granted, particularly in central London. There were 49% fewer homes consented in Kensington and Chelsea and Westminster in the year to Q2 2019 compared with the same period a year ago.

The pressure on land value is also resulting in landowners choosing not to sell their land for development at the moment, while the market is more challenging and there is no pressure to sell. This is reflected in the low number of sites being sold in central London particularly.

**Land values** In Q3 2019, UK greenfield and urban land values rose by 0.6% and 0.4% respectively. Central London residential land values fell by 1.8% in the last six months




**Source** Savills Research

### UK LAND VALUES REMAIN FLAT

Sentiment in the land market remains neutral. There remains demand for medium-sized sites in some markets, but in others, transactions are taking longer to complete, partly due to ongoing political uncertainty.

In Q3 2019, UK greenfield and urban land values increased by 0.6% and 0.4% respectively, bringing annual growth to 0.8% and 0.5%.

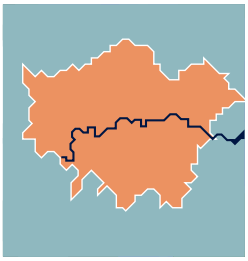
There are signs of growth in land values across some cities such as Glasgow and Bristol, but primarily in cities in the East Midlands. This echoes the pattern of recent national house price growth which has rippled out from London and the South East to the rest of the country.

Eastern greenfield land and urban values increased by 1.6% and 1.1% in Q3 2019. This is driven by demand for sites in areas where there has been above average price growth and where there is a lack of available sites in prime locations, such as in Nottingham, Derby and Leicester, where annual house price growth is at 5.2%, 2.6% and 4.6% respectively.

Across the country, sites of 80-100 plots are in the highest demand and in short supply. Sites of this size give housebuilders the opportunity to build out in the short term before the end of Help to Buy. They are also sought after by SME housebuilders and HAs as they are not too large.

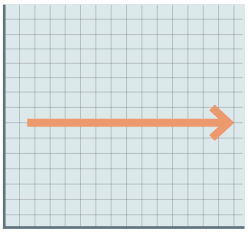
### Focal points

Development news and analysis in brief



**LONDON LAND EQUALISES**

In many areas across London, land values for different uses are now equivalent. This is in part due to the fall in residential land values because of the higher on-site affordable housing being provided.



**STATIC UK VALUES**

UK land values remained fairly static in Q3 2019. Demand is focused on sites that can be built out before Help to Buy is due to end in 2023.

**A DIVERSIFIED APPROACH**

There are increasing numbers of partnerships between different parties to support delivery. Housebuilders have been delivering more affordable and build to rent homes.

# Housebuilders respond to uncertainty

With increasing pressure on sales rates and muted house price growth, housebuilders have been focusing on diversifying market absorption in an attempt to limit market risk and exposure to the forthcoming changes to Help to Buy. Housebuilders also face build cost pressures against a backdrop of flattening house price growth.

Housebuilders have been delivering more affordable housing, which is less reliant on the housing market cycle than private units. Affordable housing is delivered through various routes, including joint ventures and partnerships, and shifting tenure from market sale to shared ownership through grant and deals with housing associations, both traditional and for profit providers.

While private home registrations fell by 20% in August, the number of new affordable homes registrations increased by 19% compared with the same period a year ago, according to NHBC. Many of the major housebuilders have increased their affordable housing delivery during the past year. Redrow increased affordable housing completions by 55% compared with a 13% rise of total completions. Barratt increased affordable housing delivery by 10% while total completions increased by 2%.

There are also signs of housebuilders delivering, or looking to deliver, more private rental homes. Some 8% of build to rent units currently under construction are being built by housebuilders. A further 4% in planning are controlled by housebuilders.

**Across the UK**
Movement in greenfield and urban land values

| | Greenfield | Urban |
|---|---|---|
| Q3 2019 growth | 0.6% | 0.4% |
| Annual growth | 0.8% | 0.5% |

**Central London**
Movement in residential and office land values

| | Central London residential | Central London offices |
|---|---|---|
| Six-month growth | -1.8% | 0.0% |
| Annual growth | -4.3% | 0.0% |

**Source** Savills Research

> Housebuilders have been delivering more affordable housing, which is less reliant on the housing market cycle than private units

# From site-by-site partnerships to long-term relationships

There is widespread sector awareness of the importance of working collaboratively through partnerships and joint ventures to deliver a more diverse range of tenures. We are seeing far more partnerships across the sector, driven by the appetite of housing associations and local authorities to collaborate. Increasingly, these partnerships are moving beyond site-based ventures towards longer-term strategic relationships.

Evera, a joint venture of housing associations in the East of England, has long-term ambitions to build 2,000 new homes through innovative delivery methods, such as modern methods of construction (MMC) and community land trusts. The West Midlands Combined Authority recently announced a deal with Lovell Partnerships to deliver 4,000 multi-tenure homes over the next eight years.

Other partnerships include TfL's appointment of Grainger as its investment partner for its Build to Rent programme. Together, they plan to deliver 3,000 homes across eight sites in London.

In addition to partnerships, we are seeing more mergers. The most recent is Bovis Homes and Galliford Try's Linden Homes and Partnerships & Regeneration divisions which will combine from 2020.

The high-profile merger has the potential to widen opportunities for housing associations as Galliford Try's partnerships business worked with around 70 HAs.

## Savills team

Please contact us for further information

**Jim Ward**
Director
Residential Research
020 7409 8841
jward@savills.com

**Lucy Greenwood**
Associate Director
Residential Research
020 7016 3882
lgreenwood@savills.com

**Lydia McLaren**
Analyst
Residential Research
020 3428 2939
lydia.mclaren
@savills.com



savills