Market in Minutes
UK Residential Development Land

February 2014

SUMMARY

Positive market sentiment, tight supply and acquisitive housebuilders drive land price growth

- Sentiment is positive as acquisitive housebuilders seek to secure five-year pipeline.
- This is putting pressure on prices: greenfield values grew 3% in Q4 2013, the highest rate of quarterly growth since 2010.
- Greenfield land value growth continues to be led by the south east (5.8% in Q4). With the market recovery spreading, the second best performing region was the north (2.3%).
- As the economic recovery becomes entrenched, confidence in larger and longer term development sites is building, particularly in the stronger markets.
- The Government's Right to Contest scheme, launched January, could represent a major pool of potential development sites.
- Help to Buy has been pivotal for new homes markets outside of London and will continue support the new build market in 2014, and in turn demand for land.

"Confidence in larger and longer term development sites is building"

Jim Ward, Savills Research

Land market sentiment is positive, with housebuilders acquisitive and seeking to secure pipeline. According to Savills new land sentiment survey (see below), 76% of the locations we monitor in the UK saw positive market sentiment in Q4 2013, up from 69% in Q3 (Graph 1). Meanwhile, the number of locations where price increases were recorded on closed deals increased sharply: 68% of greenfield locations in Q4, against 31% the quarter prior. This is reflected by an increase in our land value index (see Table 1).

Land supply remains tight and this in turn is putting pressure on prices. The number of sites coming to market increased on only 19% of locations monitored (71% recorded 'no change').

Land price trends

Greenfield development land prices grew by 3% in the final quarter of 2014, the highest rate of quarterly growth recorded since 2010. The value of permissioned, greenfield land finished 2013 up 6.5%, with urban land values growing by 6.7% over the same period.

Land price growth continues to be led by the south east of England, where greenfield values increased by 5.8% in Q4, 8.1% between June and December. Well located sites in markets such as Oxford and Sevenoaks have already exceeded former peak values, while sites in other south east locations such as High Wycombe and Reading are approaching former highs.

Greenfield prices in the north of England were the second best performing in Q4, with growth of 2.3%. Marked land price rises were recorded in Durham, Leeds and Sheffield, with Help to Buy a catalyst for markets outside London and the south east.

TABLE 1

National land price growth (excluding London)

	Greenfield	Urban
Q4 2013	3.0%	1.8%
2013	6.5%	6.7%
Off peak	-29%	-51%

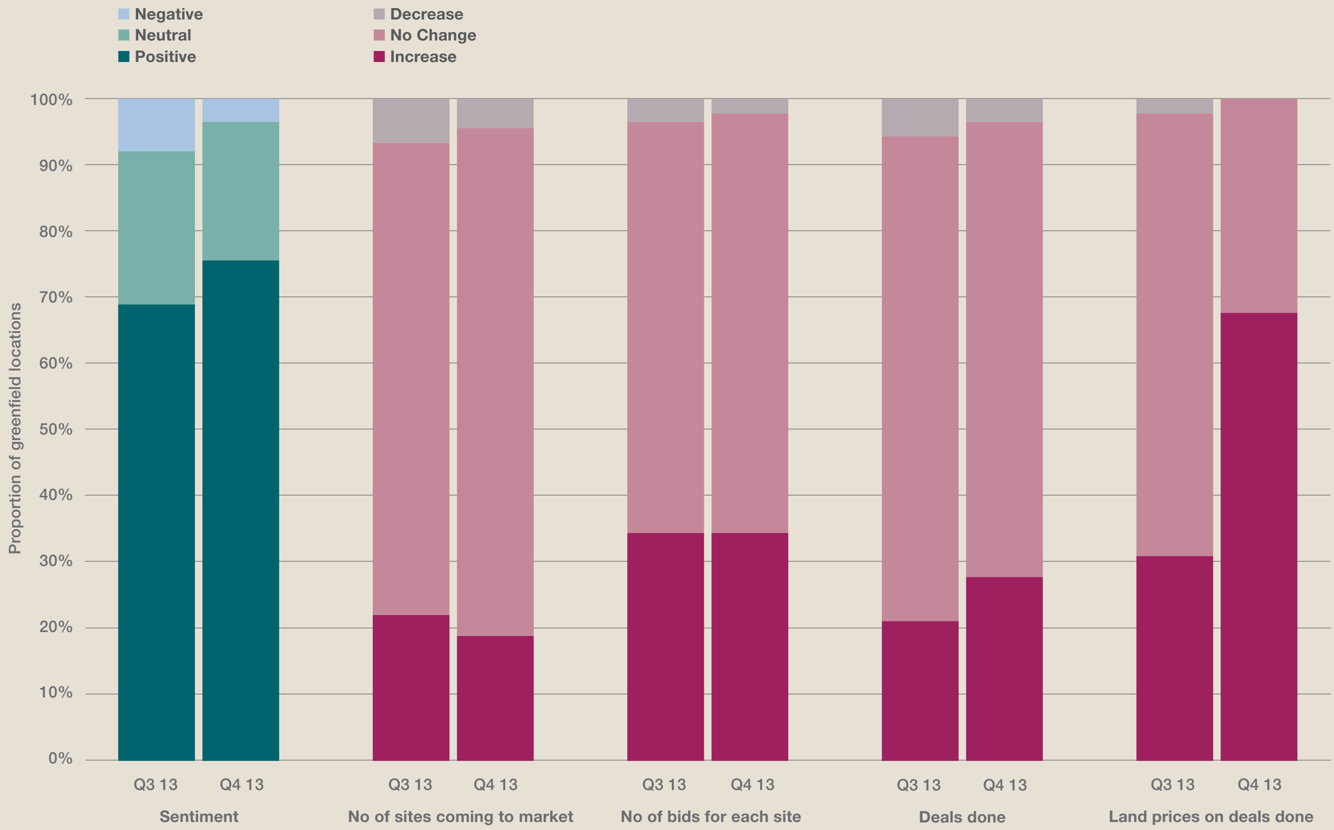
Source: Savills Research

GRAPH 1

Greenfield land market sentiment survey

Savills land market sentiment survey monitors the land markets of 90 areas in England, Scotland and Wales. It tracks the opinions of Savills agents active in the market, on the following:

- Land market sentiment
- The change in number of sites coming to market
- The change in the number of bids on sites
- The change in the number deals completed
- The change in prices achieved on closed deals



Source: Savills Research

Some urban markets which have remained almost entirely dormant since 2008 are also seeing new signs of life. In Birmingham, where development has been flourishing in wealthy pockets such as Solihull, there are signs of renewed market interest in some Birmingham city centre sites as developers and investors plan for a wider housing market recovery – although deals remain some way off. Early market interest is also being observed in select Manchester city centre locations.

In London, a strong mainstream market and widespread demand from first-time buyers presents opportunity in the lower and mid-mainstream sector, with new build sales values under £700 per square foot. Central London land values exceeded their former peak in 2013. There is value to be unlocked on more marginal sites outside of core zone 1 & 2 locations.

Large sites & strategic land

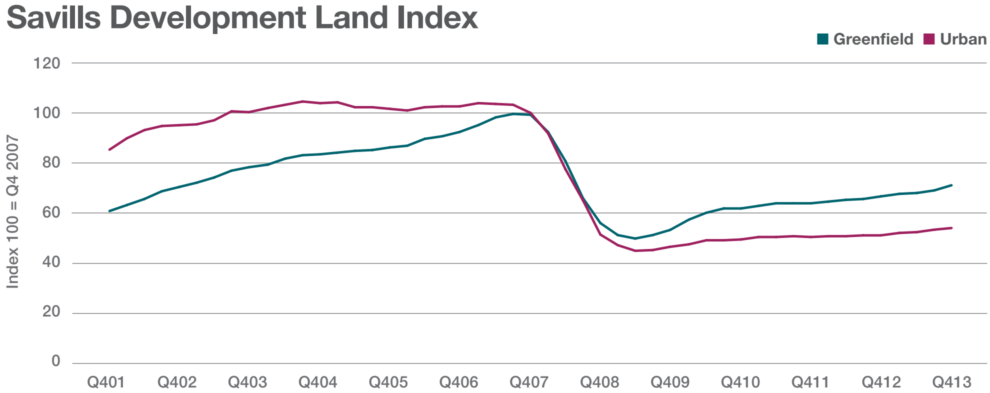
As the economic recovery becomes entrenched, confidence in larger and longer term development sites is building. The value of 30 acre permissioned sites increased by 7.5% in 2013 (up 3.7% in Q4 alone), compared to 5.8% and 6.4% for one and five acre sites, respectively.

Larger permissioned sites (with capacity for up to 200 units) have been targeted by housebuilders and developers looking to replenish their supply pipeline.

Strategic land is also back in play, as investors, developers and financiers commit to the UK market recovery most notably in the stronger markets in which it is possible to sell quickly enough to generate a competitive return on capital. Many such sites, stalled in the downturn, are entering a new phase of activity, with plans re-evaluated for the new market era.

GRAPH 2

Savills Development Land Index



Source: Savills Research

OUTLOOK

Prospects for 2014

■ The Government's Right to Contest scheme launched in January. The £330bn of government land and property represents a huge potential pool of development sites. This scheme will be driven by the public and therefore demand led. A convincing case for alternative use will need to be made, with viability at its core. Such sites should be well positioned to deliver new housing supply.

■ Help to Buy has been pivotal for new homes markets outside of London and the south east, boosting sales rates. Since its launch in April 2013, the equity loan element of Help to Buy has supported 12,875 sales. Help to Buy Scotland, has had a positive market impact since its launch at the end of 2013, while Help to Buy Wales was launched in January. These schemes will continue to support the new build market in 2014, and in turn demand for land.

■ Rapidly increasing output is putting pressure on build costs. Material and skills shortages have been cited by builders as constraints on output. The biggest barrier to delivery remains the availability of viable land. Renewed activity on strategic sites will pay dividends in the long term, but in the short term the availability of permissioned sites remains an issue.

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