

Residential Development Land



Shortage of sites leads to upward pressure on development land values

A shortage of supply of residential development land relative to increasing demand has led to an increase in UK land values in the first quarter of 2021, and the need for more immediate sites to be brought to the market. UK greenfield and urban values grew by 0.9% and 0.7% respectively in Q1 2021 bringing annual growth to 0.0% and 0.8% respectively.

SMEs, RPs and major housebuilders looking to fill gaps in their land pipelines are particularly seeking oven-ready sites of 50-150 units.

However, the relative shortage of such sites is the result of both the long-term reduction in the number of 50-150 unit sites gaining planning consent and the disruption due to Covid-19.

Since 2016, the number of sites with 50-150 units has fallen by 17% from 2016 to 2020 even though the total number of homes completed over that period grew significantly, increasing by 21% between 2016 and 2019 before the disruption due to Covid-19. The proportion of this size of site gaining consent also fell from 37% in 2016 to

25% in 2020, as larger sites prevailed.

Although most of our agents are reporting that more sites are being brought to the market (a net balance of 53% of Savills development agents surveyed in Q1 2021), there are still not enough appropriate sites to meet the demand resulting in upward pressure on land values in many areas. Unless more sites of this preferred size are brought through planning, land values will continue to be pushed up despite rising build costs, and fewer homes may be built.

Focal points
Development news and analysis in brief



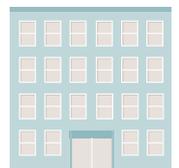
LACK OF LAND SUPPLY

The lack of immediate land to meet demand is leading to some upward pressure on land values. In Q1 2021, UK greenfield and urban land values rose by 0.9% and 0.7%.



INCREASED DEMAND

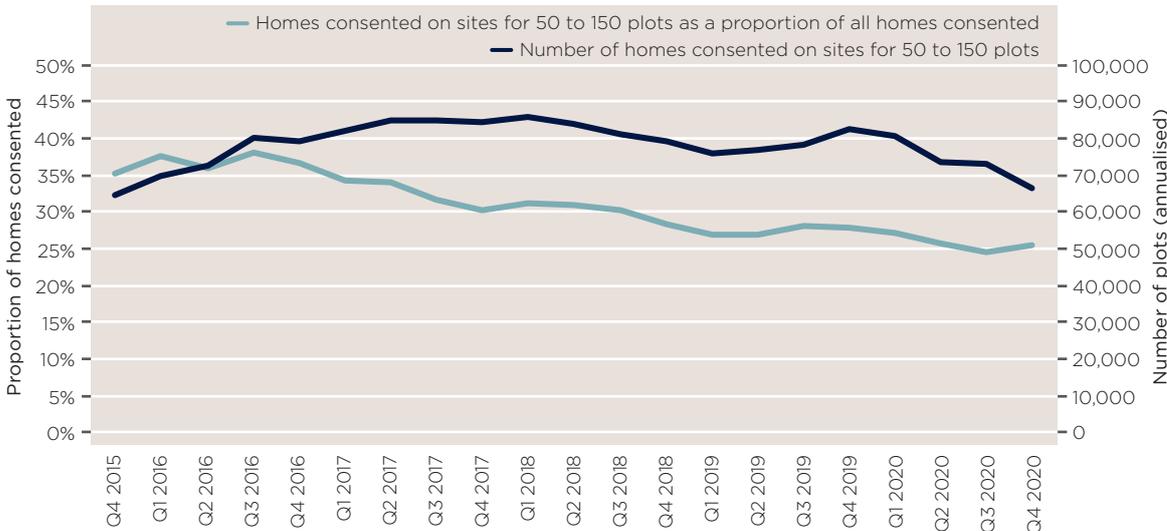
Across most of the country, there is strong appetite from SME, regional and major housebuilders, RPs and Build to Rent developers, particularly for oven-ready sites of c.50-150 plots.



ACTIVE LONDON MARKET

There are more land sales across London with increased demand for sites despite reduced development aspirations from RPs due to their focus on existing stock. Land values have fallen only slightly in the last six months.

Planning pipeline in England for sites of 50-150 homes



Source Savills Research using Glenigan

Increased demand for land across the UK

The strong housing market and prospects of economic recovery have given confidence to housebuilders and developers, which, coupled with increasing investment in Build to Rent, has led to rising demand for development land.

House prices across the UK have risen by 5.7% in the year to March, according to Nationwide, and transactions in February were 49% above 2020 levels, according to

HMRC. The extension to the stamp duty holiday and furlough have also improved prospects for the housing market, with our latest forecasts estimating house price growth of 4% in 2021 and 5% in 2022.

New home completions are above pre-Covid levels, with levels in February to mid-March 12% higher than in 2020, according to EPCs for new dwellings. And despite the changes to Help to Buy, forward sales

by the major housebuilders remain robust, with some housebuilders up to 50% and some 70% forward sold for 2021 completions.

As a result of the stronger-than-expected market, having completed more homes and scaled back land-buying activity in 2020, housebuilders need to replenish and add to their immediate land supply to continue delivering homes over the short to medium term.

There is also increased demand from the Build to Rent sector, with a greater number of developers now considering Build to Rent across urban and suburban locations, including those areas where there isn't already an established Build to Rent market. In Q1 2021, 25 Build to Rent schemes gained full planning permission with capacity for 7,000 homes, representing the highest number of full permission achieved in a single quarter.

Although this growth is being driven primarily by core cities, there are an increasing number of sites coming through in regional hubs and suburban locations across the country.

Looking ahead, demand for land is likely to be supported to some extent by the next round of Homes England's Strategic Partnerships. Around £7 billion of funding is available to support 130,000 new homes (outside of London) between 2021-26.

The round closes on 18th May and this time is open to for-profit RPs, and local authorities, as well as traditional non-profit housing associations. It is likely to support a steady level of demand for land in the future through its multi-year grant agreement for land-led delivery of affordable housing.

UK land value growth



UK Greenfield

Q1 2021 Annual growth 0.9%
0.0%



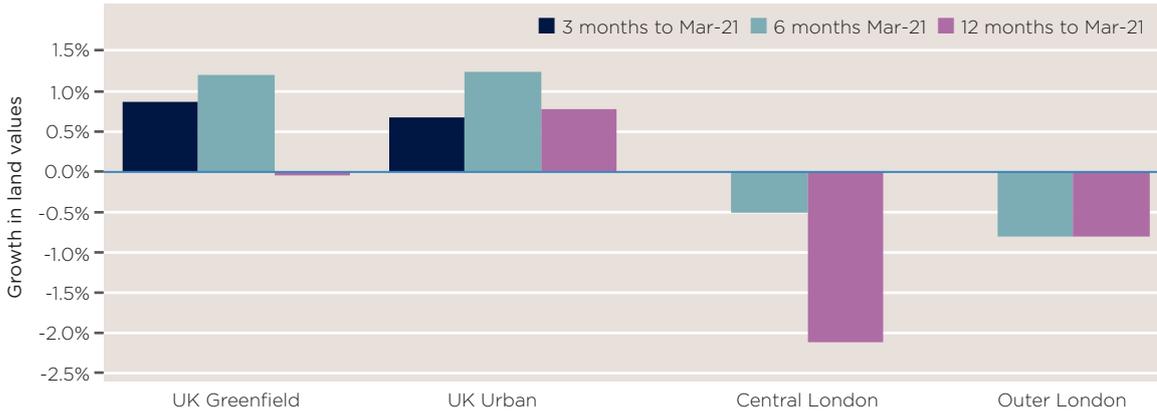
UK Urban

Q1 2021 Annual growth 0.7%
0.8%

Note Figures to March 2021

Source Savills Research

UK land values have increased and those in London only fell slightly



Source Savills Research *quarterly figures not available for central and outer London index

London land activity improves

Across London the land market is active, albeit values have remained relatively suppressed over the last six months. The increase in activity has been supported by improving home sales market conditions and demand from a range of parties, from smaller developers to larger ones looking to replenish their land pipeline after a period of not buying as much land.

There has also been increased demand from Build to Rent, retirement housing and co-living developers where the demographics for each of these sectors work. Most transactional activity has been for smaller sites, with relatively few larger sites marketed in the last six months. The more positive demand is expected to

support continued activity in the London land market and improving economic confidence and increased international travel is giving vendors more confidence to launch their larger sites.

Although demand has been stronger, there is reduced appetite for development from RPs who have significant cladding and fire risk remediation costs which has reduced their demand for land in the capital.

Despite the general increase in activity, central London residential development land values fell by 0.5% in the six months to March 2021 and in outer London, they fell by 0.8%. The pressure on land values has in part been the result of slower new build sales rates in the capital due to economic uncertainty, and travel restrictions reducing international demand.

New build sales in the six months to March 2021 were 34% below the same period in 2020 according to Molior. However, the lower end of the London new build market has held up more robustly, supported by Help to Buy and the stamp duty holiday. The increasing demand has meant that values have been more stable recently.

London's development land

| | Six month growth | Annual growth |
|----------------------------|------------------|---------------|
| Central London residential | -0.5% | -2.1% |
| Outer London residential | -0.8% | -0.8% |

Note Figures to March 2021

Source Savills Research

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