



# Residential Development Land

## Slowdown in the land market

Transactions in the land market have slowed significantly over the last quarter. The current economic uncertainty, increased costs and slower sales rates have led many parties to pause land buying in both regional and London markets.

The net balance of Savills development agents reporting new sites launching onto the market fell to

its lowest levels seen in over 10 years, at -54%. In Q4 2022, Savills sold 10% fewer development sites than in Q4 2021. Recent market disruption has also led to some land deals falling through and an increase in deferred payment structures as parties look to manage risk as seen during the Covid-19 pandemic.

Although there is less transactional

evidence for land values this quarter, evidence indicates that development land values have started to fall as parties build greater risk into their land bids. UK greenfield and urban land values fell by -2.2% and -1.6% respectively in Q4 2022, taking annual growth to 2.0% and 2.7%. This marks the largest quarterly falls in land values in the index since Q2 2009.

**Focal points**  
Development news and analysis in brief



### HIATUS IN THE LAND MARKET

The land market has slowed significantly over the last quarter, reflective of wider market uncertainty. Fewer new sites are being launched and Savills sold 10% fewer development sites in Q4 2022 versus Q4 2021.



### LOWER DEVELOPMENT LAND VALUES

Development land values started to fall in Q4 2022 as demand tempered and parties built greater risk into their land bids. UK greenfield and urban land values fell by -2.2% and -1.6% respectively in Q4 2022.



### MIXED DEVELOPMENT APPETITE

Some parties including those supported by private equity remain active in the land market, whilst others have paused land buying and are waiting for there to be more clarity in the housing market before deciding on their land buying strategy.

Current sentiment more subdued than during the height of the Covid-19 pandemic



Source Savills Research

## UK land values

UK land value growth



**UK Greenfield**

**Q4 change** -2.2%  
**Annual change to December 2022** 2.0%



**UK Urban**

**Q4 change** -1.6%  
**Annual change to December 2022** 2.7%

Source: Savills Research

## Selective land buying

Over the last quarter, there has been noticeably less competition for many sites as parties adopt a much more cautious approach to land buying. The number of bids per site in Q4 2022 has continued to decrease in comparison to previous quarters. A net balance of 39% of Savills development agents reported a decrease in the number of bids in Q4 2022 compared to Q3 2022 (20%) and considerably lower than the immediate Covid-19 period in Q2 2020 when there was a net increase in the number of bids of 17%.

Development appetite is mixed. Some parties including private housebuilders and SMEs supported by private equity remain active in the land market and continue to acquire land, whilst many parties have paused land buying and are looking to take stock of market conditions over the next quarter. Although many of the major housebuilders have slowed their land buying, they are remaining active in regions where they have limited immediate land pipelines. Across both London and the regional markets, there are some opportunistic players

with cash looking to buy distressed sales, however there is little evidence of such sales in the land market yet.

Parties also continue to be increasingly selective about their requirements for land, prioritising sites within their normal size criteria and core markets. As a result, there is reduced appetite for sites in secondary and tertiary locations in many regional markets as players seek oven-ready sites with capacity for 100-300 units in primary locations where they are more confident about future sales rates.

## Wait and see: future performance of sales rates

The recent slowdown of new build sales rates has considerably impacted sentiment in the land market. Accompanying the recent house price falls in the wider market, activity has reduced, driven by higher interest rates and stretched mortgage affordability. Mortgage approvals fell by 28.6% in November compared to the 2018-2019 November average, according to the Bank of England. Over the course of the year, residential transactional volumes are forecast to fall to 870,000 and remain constrained, according to Savills forecasts.

In addition to restricted affordability and rising pressures on household incomes, the new build market is also challenged by the end of the Help to

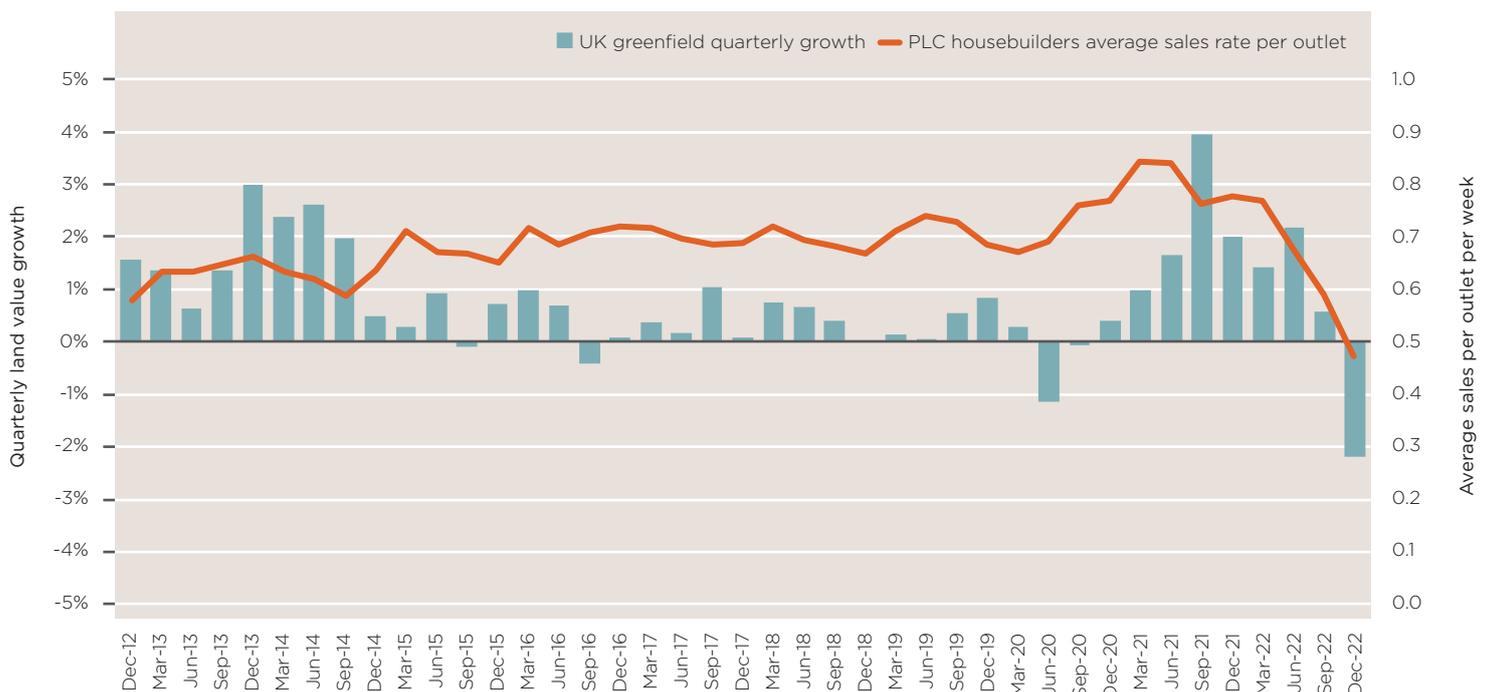
Buy scheme. Sales rates have reduced significantly over the last six months in response to market uncertainty. Data from the major housebuilders shows an average sales rate of 0.3 sales per outlet per week for Q4 2022, down from a peak of 0.8 in Q1 2022. In response to slowing sales rates, the major housebuilders have slowed down land buying activity, focusing on selective land investment. Many anticipate significantly fewer land additions in 2023 compared to the previous year with some major housebuilders pausing land buying altogether and others reporting cancellations of previous land approvals.

Supported by the strength of their land banks with an average stated landbank across

the major housebuilders of 5.1 years in 2022, the major housebuilders are able to pause activity to monitor future sales over the next few months and reassess land buying decisions. The future performance of sales rates in Q1 2023 will likely determine future land buying strategy for the major housebuilders.

Slower sales rates also present a greater opportunity for housebuilders to diversify into alternative tenures such as single family rental (i.e. Build to Rent) to boost their delivery levels. However, several players are waiting for greater certainty in the market around the economic outlook and the cost of debt before resuming activity.

Sales rates per outlet in Q4 2022 fall to their lowest levels in over 10 years





**In the short term, we expect the major housebuilders to be much more selective or pause their land buying whilst they wait for sales rates to pick up**

## Tempering cost pressures

Build costs remain a fundamental challenge for housebuilders. With further house price falls forecast for this year, rising build costs are no longer being offset, adding further downward pressure to land values. However, build cost inflation is beginning to soften and stabilise as a result of slowing construction output and suppressed demand. Material costs for new homes increased by 10.1% in the year to October, down from 21.9%

over the equivalent period in 2021 according to BEIS. Supply chain constraints including materials shortages have also reduced significantly as main development constraints at 30% in 2022 down from 60% in 2021, according to the latest annual FMB survey. The easing of build cost inflation is echoed in the lower BCIS forecasts for tender price inflation over the next five years at 12.7%, as inflationary pressures are tamed in the medium term.

## Continued reliance on strategic land

Strategic land remains a key priority for many players in the land market as it is less exposed to cyclical market conditions. Over the last quarter, there has been an increase in appetite for longer term land opportunities

requiring less upfront expenditure. A net balance of 83% of Savills development agents reported increased interest in strategic land in Q4 2022, significantly higher than the previous quarter at 33%.

## Outlook

In the short term, we expect the major housebuilders to be much more selective or pause their land buying activity whilst they wait for sales rates on their existing sites to pick up. We therefore expect a slower transaction market and less competition for land.

However, this will provide more opportunities for HAs and well-financed regional and SME

housebuilders to acquire sites having been outbid over the last year due to the exceptionally strong competition.

We expect land values to continue to soften from their recent highs and return to levels which account for realistic build costs, environmental costs and house price prospects as well as meeting higher hurdle rates.

However in the medium term, we expect demand for sites to increase as those that have paused land buying refill their pipelines. With changes to planning policy likely to reduce the number of sites gaining consent, we also expect the supply of consented sites to reduce. As a result, land values are likely to remain resilient in the medium term.

## Savills team

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