Savills World Research
UK Development

# Market in Minutes
# UK Residential Development Land

May 2017

## SUMMARY

Rising demand for land in regional cities


■ Regional cities are seeing increasing land values as demand for sites grows. Land within Birmingham, Manchester and Glasgow is in high demand with urban land values growing by 15% or more over the last year. Build to Rent, regeneration and infrastructure improvements are at the heart of the growth.

■ Competition for land is increasing in the Midlands as South East based housebuilders expand into these strengthening markets.

■ Within London, demand for land is strongest where new build values are less than £1,000 per square foot. New housing supply above £700 per square foot is forecast to meet demand over the next five years but those with values lower than £500 per square foot will continue to be the most undersupplied.

■ Land in central London is in lower demand as fewer prime residential sites are starting and occupier demand for office space remains uncertain.


"Birmingham, Manchester and Glasgow have seen the most land value growth"

**Jim Ward, Savills Research**

# REGIONAL CITIES INTEREST

## City sites wanted

City centre sites are seeing increased interest from developers, pushing up average urban land values by 1.8% over the last quarter. Land within Birmingham, Manchester and Glasgow is in high demand with values rising by 15% or more for urban sites over the last year. Previously overlooked sites are now being considered. The interest comes as these cities build their momentum and developers and investors seek opportunities for house price growth. Build to Rent, regeneration and infrastructure improvements are at the heart of the growth.

Urban land values have increased more strongly than values for greenfield land over the last quarter once again. On a UK wide basis urban development land values increased by 1.8% in the first quarter of 2017 bringing annual growth to 4.4% while greenfield development land values increased by 0.4% in Q1 2017 with annual growth of 1.3%.

## Move towards Midlands

There is increasing competition for land in the higher value areas of the Midlands as developers expand their boundaries. Higher end housebuilders, such as Crest Nicholson and Berkeley Homes, have been seeking opportunities beyond the South East where they traditionally focus their development activities. This comes as house price growth spreads further from the South East and values of £300 per square foot for new build homes can be achieved in more locations.

## Competition from Housing Associations

Housing Associations continue to buy more land across the country. As we reported in the last issue, four times as much land was bought by Housing Associations in 2016 through Savills than in 2015. Since then L&Q have acquired Gallagher Estates (with 42,500 plots) and others are increasingly active, adding to demand for sites.

# LONDON

## The focus on sub £1,000 per square foot market

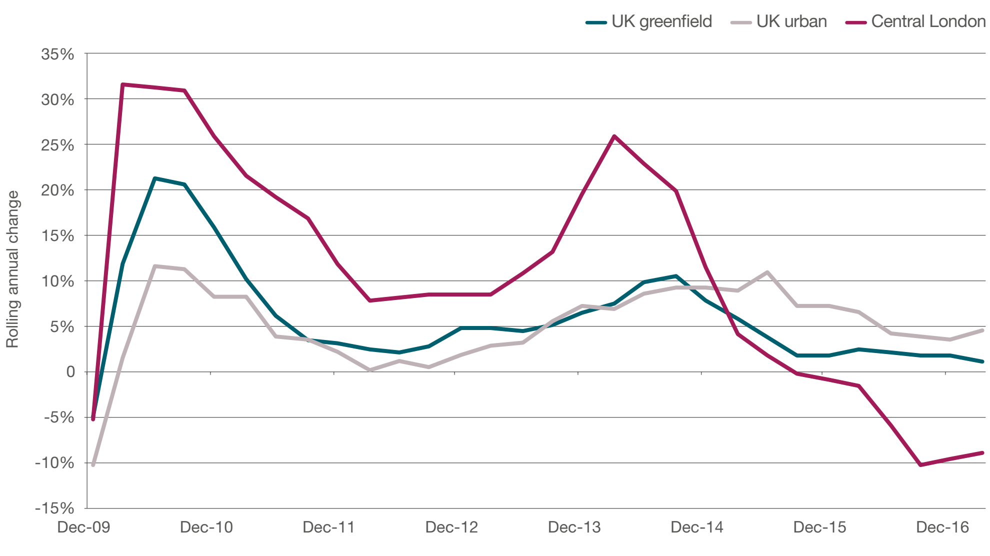
There is strong demand for land, with or without consent, in zones 2-6 where new home sales values will be under £1,000 per square foot. Increasing numbers are preferring schemes at less than £800 per square foot. Competition for these sites is from all types of developers – from UK housebuilders to niche developers. Crucially, funders are comfortable to support developments below £1,000 per square foot and the Build to Rent sector is also targeting markets below this value.

As we reported in our ***Spotlight on London's Future Homes and Workspaces – The Next Five Years***, supply in the upper mainstream market between £700 and £1,000 per square foot in London is forecast to be greater than demand over the

**4.4%**
Annual UK urban land value growth
(1.8% growth in Q1 2017)

**1.3%**
Annual UK greenfield land value growth
(0.4% growth in Q1 2017)

FIGURE 1
### Annual change in the residential development land value indices




Source: Savills

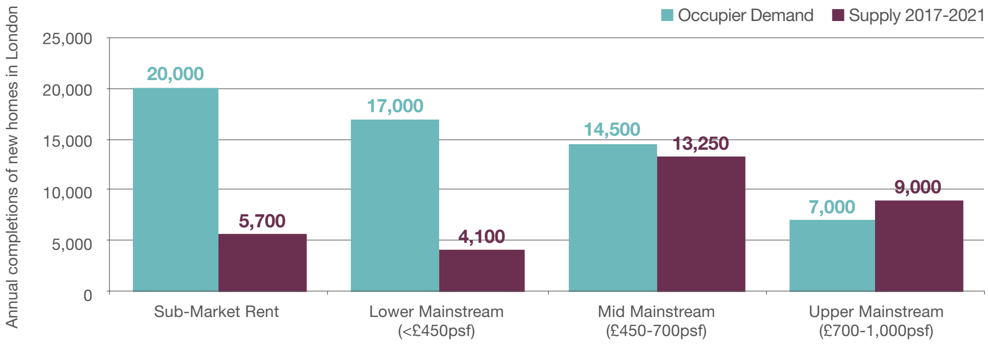
**UK urban**
**38%**
below 2007/08 peak

**UK greenfield**
**20%**
below 2007/08 peak

**Central London**
**19%**
above 2007/08 peak

FIGURE 2

## Supply and demand of new homes in London over the next five years




Source: Savills Research, Molior, Oxford Economics

next five years. Most demand is at prices below this.

### Lower value markets most in need of homes

The greatest scarcity of homes for both owner occupiers and renters is at prices below £450 per square foot. In outer London, in the current strengthening market, funding has become available to invest in remediating brownfield sites. At this part of the market Help to Buy also provides additional support for new build sales.

Compared to the rest of the country Help to Buy has been used relatively little in London since its introduction in April 2013 but there has been an increase in take-up since the 40% equity loan was introduced in February 2016.

The scheme is commonly used in the outer, more affordable boroughs supporting 19% of new home sales (recorded by HM Land Registry) in outer London between April 2013 and December 2015. This has increased to 30% of new home sales since the 40% equity loan has been available (between Q2 and Q4 2016).

### Central London land for homes slow

Competition for land in zone 1 remains relatively low due to slower new build sales rates, higher taxes and uncertainty over the impact of Brexit. Fewer prime residential sites are being started, domestic developers have enough land to build out for the moment and they are cautious about buying more.

This has resulted in central London residential land values staying at the same level as six months ago (0.1% growth since September 2016).

However, there is still some interest from international purchasers for land. Deals can be done where local developers partner with international investment and landowners are prepared to accept lower offers for land than they would have done a year ago.

### Central London land for offices falls a little more

Land values for office space have continued to fall in central London. In the six months to March 2017 our index shows a 1.7% decrease in land values bringing the falls over the last year to 7.6%. The degree to which Brexit might heighten occupational risk is still unclear, although tenant demand is holding up well.

However, it would be normal to see a reduction in development starts if worries about occupational demand begin to rise. Additionally, prime yields in the City and West End remain stable whilst build costs continue to increase putting downward pressure on land values.

## Savills Research team

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