

Residential Development Land



Cautious optimism post-election

2019 was a year of uncertainty, but the general election result has brought some confidence to the land market.

The increased uncertainty in the last quarter of 2019 resulted in a general slowdown in the land market, with fewer sites coming forward, slowing transactional activity and deals taking longer to complete leading up to the election in many parts of the country.

However, there is more confidence

from buyers of homes and land post-election due to increased certainty. Many surveyors reported rising numbers of new buyer enquiries for homes in December, a net balance of +17%, up from -5% in November, according to the latest RICS survey. Sentiment in the land market has also improved following the election, with a net balance of opinion of +53% as reported by Savills agents this quarter, compared to +35%

in Q3 2019. Share prices for many of the major housebuilders have also risen since 12 December, underlining greater confidence in the housebuilding market.

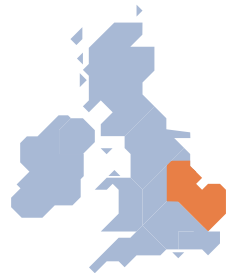
Overall, the number of residential development sites sold by Savills in 2019 increased by 9% compared to 2018, albeit the number of plots sold was slightly down (-4%) consistent with the high demand for smaller sites that we have seen in the market.

Focal points Development news and analysis in brief



ELECTION RESULT BRINGS MORE CONFIDENCE

After a slowdown in land activity leading up to the general election, the result has brought greater confidence to buyers.



LAND VALUES GROW IN THE EAST

Land values have increased this quarter after a period of stagnation. Growth has been driven by the East.



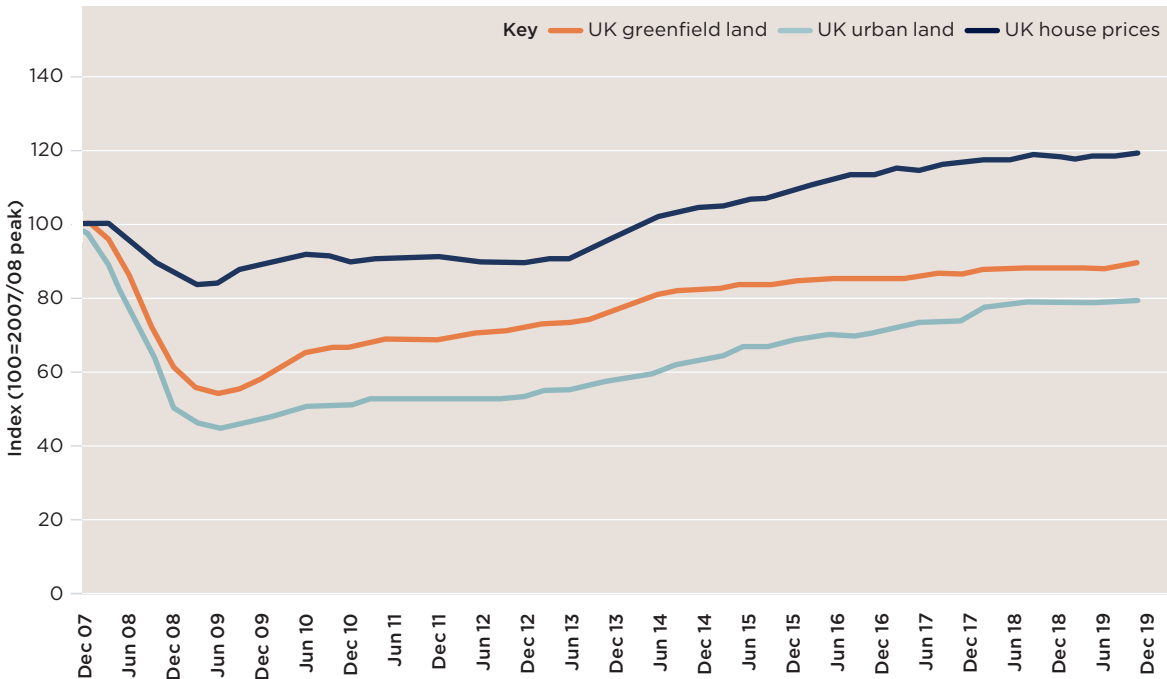
ENERGY EFFICIENCY IN NEW HOMES

Energy efficiency has jumped up the housebuilding policy agenda. The Future Homes Standard proposes changes to building regulations which will result in higher build costs.

Source Savills Research

Land values rise

Land values have started to increase, with more demand for sites



Source Savills Research, Nationwide

Land values tick up

Land values have started to increase this quarter, albeit marginally. UK greenfield and urban values increased by 0.9% and 0.3% respectively in the last quarter, bringing annual growth to 1.6% and 0.9%.

The strongest growth in land values this quarter has been in the East (East Midlands and East of England), where greenfield and urban values rose by 2.2% and 2.5% respectively. This growth is being driven by relative affordability

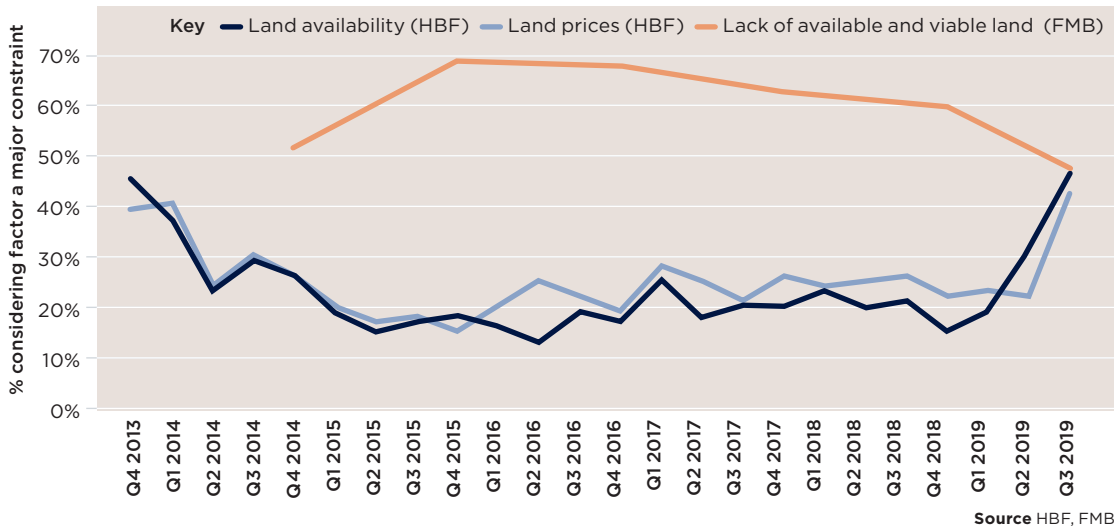
in the lower value parts of this region with resilient sales rates and competition for sites in secondary locations.

There is more demand and competition for sites, particularly for sites of 80-150 plots, which have attracted a wide range of bidders. This includes some of the major housebuilders, who are reducing their minimum unit requirements in order to secure smaller sites which are faster to build out and less risky.

Despite high levels of planning consents, availability of land is a major constraint for both large and SME housebuilders. According to the Q3 2019 Home Builders Federation survey of housebuilders, 46% consider land availability a major constraint compared to 31% in the previous quarter and 19% in Q1 2019. This suggests more sites of the right size in the right locations are needed. For SMEs, land availability is still

the biggest development constraint according to the Federation of Master Builders 2019 survey, but has eased in the past year, decreasing from 59% of respondents in 2018 to 43% in 2019. Technologies such as Rightmove, Zoopla, and Homes England Land Hub have helped raise awareness of small local sites.

Residential development Factors constraining housebuilding



Source HBF, FMB

The growing ‘green’ agenda

Building energy efficient and sustainable homes has jumped up the housebuilding policy agenda following the adoption in June 2019 of legislation requiring the UK to bring carbon emissions to net zero by 2050. There will be higher costs to implementing this in developing new homes, which may put pressure on land values.

The Future Homes Standard consultation proposing changes to building regulations is aimed

at lowering the carbon footprint of new homes by 80% by 2025. To achieve this, new homes will need to be future proofed with alternative technologies and low-carbon heating systems such as heat pumps, triple glazing and direct electric heating.

The consultation proposes that action is required this year to reduce carbon emissions in new homes by 20% or 31% (the preferred option) compared to current Part L 2013 requirements.

MHCLG estimates that the extra costs to meet these standards from 2020 are £4,487 for a house and £2,256 for a flat. Historically, there has been little evidence that higher energy standards achieve higher values, although occupier attitudes are changing fast and we are monitoring the potential emergence of a premium to sales rates and pricing. Nevertheless, in the short term, we are seeing evidence of land values being impacted.

UK land value growth Greenfield and urban values in Q4 2019



UK greenfield
 Quarterly growth 0.9%
 Annual growth 1.6%



UK urban
 Quarterly growth 0.3%
 Annual growth 0.9%

Source Savills Research

Impact of design on land value

High-quality design of building and places has become increasingly central to the planning process. In October 2019, the government published the National Design Guide, primarily for local authority planning officers, highlighting how well-designed, successful buildings and places can be delivered.

The National Design Guide, alongside the wider work of the Building Better, Building Beautiful Commission, illustrates the government focus on better design and quality in terms of both building and place.

Some developments will need more thought throughout the planning process in order to meet government design criteria, leading to higher costs for planning and building. However, there is a growing volume of evidence that in some markets, greater and earlier investment in infrastructure, local amenities and public spaces creates more valued and valuable places, with greater land returns in the long term. (See Savills *Spotlight Development: The Value of Placemaking* and The Prince’s Foundation’s *The Value of Community*).

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 plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

