MARKET IN MINUTES
Savills Research

UK Development – Q1 2020

Residential Development Land

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The effect of lockdown due to Covid-19

The effect on housebuilding

After a positive start to the year, the lockdown due to the Covid-19 pandemic has interrupted the development sector, slowing housebuilding and new build sales considerably. However, after most housebuilding sites initially closed, some are starting to reopen.

Across all construction sectors, by the end of March building had stopped on the majority of sites, but by 9 April, 10% of all sites had reopened according to Glenigan, with 17% of those reopened being private housing sites. At 9 April, 59% of private housebuilding sites remain closed. Most of the major housebuilders have shut down operations on site altogether and many housing associations and local authorities have also put construction on hold.

Although, construction can continue if government guidelines are followed, the closure of builders merchants and problems with supply chains have prevented builders from securing materials. Sales offices and show homes have also been closed and many employees both in sales and construction teams were furloughed from late March and early April through the Government's Coronavirus Job Retention Scheme.

The effect on the land market

As the land market is based on longer time horizons, the effects of the lockdown have not been as abrupt as they have been on construction.

Some land deals in train are continuing as before and Homes England has been particularly active, acquiring several major sites before the end of March, and their financial year end, despite the lockdown, bringing their total acquisitions for the year to 19 sites with capacity for 5,000 homes.

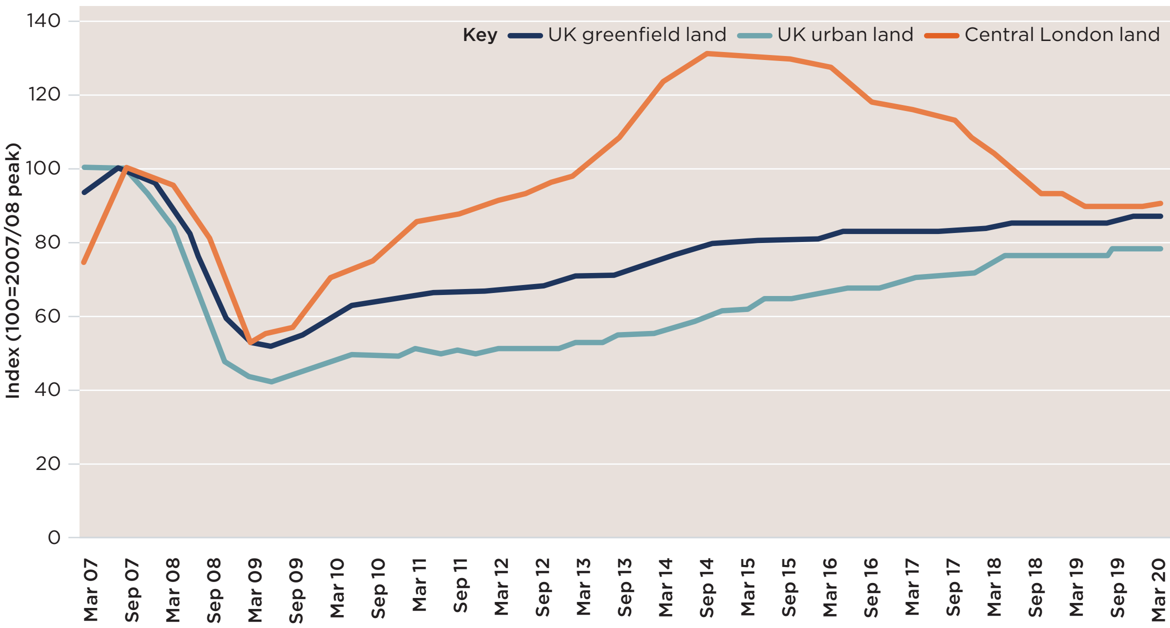
However, some purchasers are seeking to defer payments and other deals have stalled due to reassessment of finance by their funding partners. In order to preserve cash, many major housebuilders have paused land buying activity, furloughing their land teams and are initially directing spending on plots closest to completion. SME housebuilders and housing associations are also generally pausing their land buying.

Cash-rich developers and investors, including institutional investors, are those more actively seeking land. Some are looking for distressed land sales which we have not yet seen but could if the lockdown goes on significantly longer. We anticipate the number of consented sites sold in the short term will slow but there will continue to be activity in the strategic land market as more parties look for longer-term opportunities and the workforce remains active.

An encouraging start to the year before lockdown

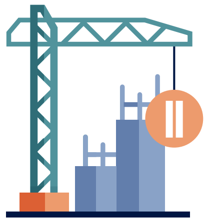
The outcome of the December general election resulted in more positivity and confidence in the land market. However since mid-March, the escalation of the Covid-19 pandemic has meant that many aspects of housing development have been put on pause. Our Q1 index reflects how development land values performed up until 15 March, i.e. before the effects of the restrictions and lockdown could have any significant impact. In the first quarter of 2020, land values remained relatively flat, with UK greenfield development land values growing marginally by 0.3% and urban land values falling slightly by 0.2%. This brings annual growth of greenfield ›

Land values remain relatively constant



Source Savills Research

Focal points
Development news and analysis in brief



CONSTRUCTION PAUSE PAST ITS PEAK?
The Covid-19 pause to housebuilding may be past its peak. At the end of March, most housebuilding had ceased and new build sales had slowed considerably, as housebuilders closed sites and furloughed staff. But some sites are now starting to reopen.

LAND ACTIVITY HAS SLOWED
Although some land deals are still happening, some buyers are deferring payments and many have stopped new land spend altogether.

POSITIVE START BEFORE THE PAUSE
The general election resulted in renewed confidence in the land market resulting in more activity with land values remaining stable.

Source Savills Research

and urban land to 1.7% and 0.4% respectively.

The election result generated more stability and confidence, in both the land market and those buying new homes. Several major housebuilders reported higher new build sales rates, increasing completions and higher numbers of reservations for the first two months of the year. Net reservations for new homes were up year on year in January 2020, with the balance of opinion reaching +46%, the highest record since the start of 2016, according to the HBF. The RICS survey revealed that new buyer enquiries and new instructions increased for the third consecutive month in February before falling in March due to the lockdown.

The positivity also resulted in increased interest for development sites, greater commitment to deals previously delayed in the lead up to the election and stronger trading activity in Q1 2020. Despite the positivity in the first few months of 2020, land values remained relatively static due to the pressures of rising build costs and limited house price growth. Sites of 80-150 plots remained the most sought after, as the most likely to be built out before the end of the 2021-23 Help to Buy programme.

UK land value growth Q1 2020

	Growth in Q1 2020	Annual growth (year to March 2020)
UK greenfield	0.3%	1.7%
UK urban	-0.2%	0.4%

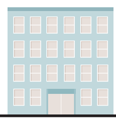
Source Savills Research

Turning point for the central London land market

The election result was a turning point for the central London land market. Land values and house prices had fallen significantly in London since 2014/15 and were starting to show signs of a rebound. In Q1 2020, house prices in prime London increased by 2.0%, rising for the first time since 2015, according to Savills prime index. In the six months to March 2020, development land values in central London increased by 1.0%. The greater political certainty meant that the large volume of investment that had been waiting to be deployed could be released. This resulted in increased demand for residential-led sites in central London pushing land values up slightly, albeit with caution on house price growth and build cost inflation. As a result, land values may well have continued to climb if the lockdown due to Covid-19 had not disrupted the market.

The outer London land market has performed more similarly to the wider UK land market in recent years. The mainstream new build sales market in this part of London has benefitted from the support of the Help to Buy Equity Scheme which will continue with a £600,000 cap for London until March 2023. However, land values here have also been constrained by build cost inflation and limited house price growth. In the last year, outer London residential development land values rose 1.2%, including 0.3% in the last six months.

Central London
Movement in residential and office land values



	Central London residential	Central London offices
Six-month growth	1.0%	0.0%
Annual growth	-0.8%	0.0%

Outer London
Movement in residential and office land values

	Outer London residential	Outer London offices
Six-month growth	0.3%	0.0%
Annual growth	1.2%	0.0%

Note Figures to March 2020 **Source** Savills Research

FIRST HOMES

In February, the Government opened the consultation on the First Homes scheme designed to improve access to home ownership funded by developer contributions. Depending on the level of discount to market value required to make First Homes affordable to local workers, and the relationship to other affordable housing developer contributions, First Homes could reduce other affordable tenures built through Section 106, land values and overall volumes of homes delivered. See our upcoming publication on First Homes for more detail.

Key takeaways from the Budget

These three things have the potential to impact on the development land market. Further detail will be provided in future publications.

Affordable Homes Programme
In March, the chancellor announced that there would be a new Affordable Homes Programme with a five-year settlement of £12bn available from 2021/22, marking a £3bn increase on the current programme. The Government is yet to release further details as to which tenures will be funded under the new programme.

Infrastructure
The Budget provided a huge boost to infrastructure with £640bn of infrastructure spending announced over the next five years with planned investment in roads, railways, broadband and affordable housing. £27bn is to be allocated to Highways England's road-building programme and £1.1bn from the Housing Infrastructure Fund.

Planning for the future
Also announced in the Budget was a planning white paper due to be published in the spring, focusing on reforming the calculation of housing need, improving Local Plan coverage and a greater emphasis on building quality and design.

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