MARKET IN MINUTES
Savills Research

Residential Development Land

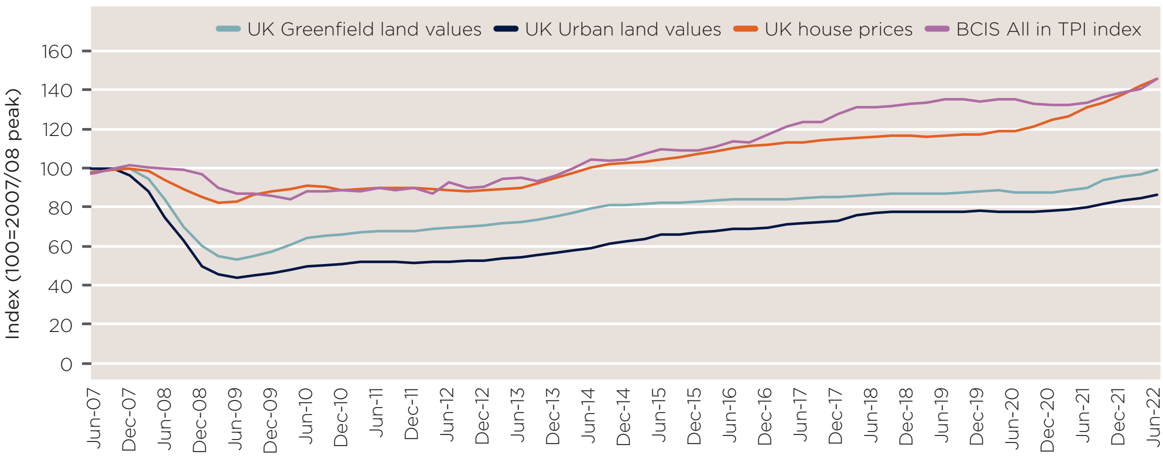
Continued land price growth, but for how long?

The land market remains cautiously positive as demand continues to significantly outstrip supply, maintaining growth in regional land values. In Q2 2022, UK greenfield and urban land values increased by 2.2% and 1.9% respectively, taking annual growth to 9.9% and 7.4%. UK greenfield values are now only 1.0% below their 2007/08 peak.

Competition for sites, limited supply, high house price growth (10.7% annual increase to June 2022 according to Nationwide) and the current demand for homes all support this growth in land values. However, there are mounting pressures on land values with increasing build cost inflation and environmental requirements, the end of Help to Buy, prospects of slower house price growth and rising inflation.

As a result, the land market in general remains robust, particularly for the best sites. But there are signs of weakness in some parts of the market. In some cases, typically for complicated sites, parties have renegotiated deals or deals have fallen through, especially where build cost expectations have risen sharply. Insolvencies in the construction sector have also been rising (up 85% in the 12 months to March 2022 according to BEIS) showing signs that some businesses, especially contractors, are struggling with these rising costs.

UK greenfield land values grow close to their 2007/08 peak



Source Savills Research, Nationwide, BCIS

Strong competition for land

Build to Rent developers and Housing Associations are becoming more competitive in the land market alongside the major housebuilders. Over the last quarter, the number of bids per site has been maintained at high levels as more parties are bidding for fewer sites.

Major housebuilders are still proving to be aggressive in the land market and are actively seeking both immediate and strategic land to build up their land pipelines to provide them with the security of 4-6 years of land pipeline and enable them to meet their medium growth targets. They are able to be competitive through their ability to squeeze margins and cash rich positions as well as gaining confidence from their strong sales rates and forward sales positions.

Housing associations are at the forefront of activity in many regional markets and becoming increasingly competitive in the land market. This is partly due to their need to deploy grant received through the Strategic Partnerships programme and fulfil their delivery targets over the next five years.

Build to Rent developers are increasingly seeking opportunities for single family Build to Rent sites (house led). For example, Harworth launched its single family Build to Rent portfolio in May, set to deliver 1,200 new homes across Yorkshire, the Midlands and North West. As single family Build to Rent investors have become increasingly confident in the market, demand has grown and as a result in some locations they are able to offer higher values for sites than housebuilders.

Alternative uses are also becoming more competitive in some locations. With viability stacking up for residential schemes, land values for higher value alternative uses with less onerous planning requirements such as life sciences, industrial and logistics, are increasingly competing with residential land values.

Focal points

Development news and analysis in brief

CAUTIOUSLY POSITIVE LAND MARKET

Despite mounting pressures, land values are still increasing due to sustained competition for sites. UK greenfield and urban values rose 2.2% and 1.9% respectively in Q2 2022.

INTENSE COMPETITION FOR LAND

BTR developers and HAs are becoming more competitive in the land market due to investor confidence in the market and the need to fulfil their Strategic Partnerships programmes respectively.

HOW LONG WILL GROWTH BE SUSTAINED?

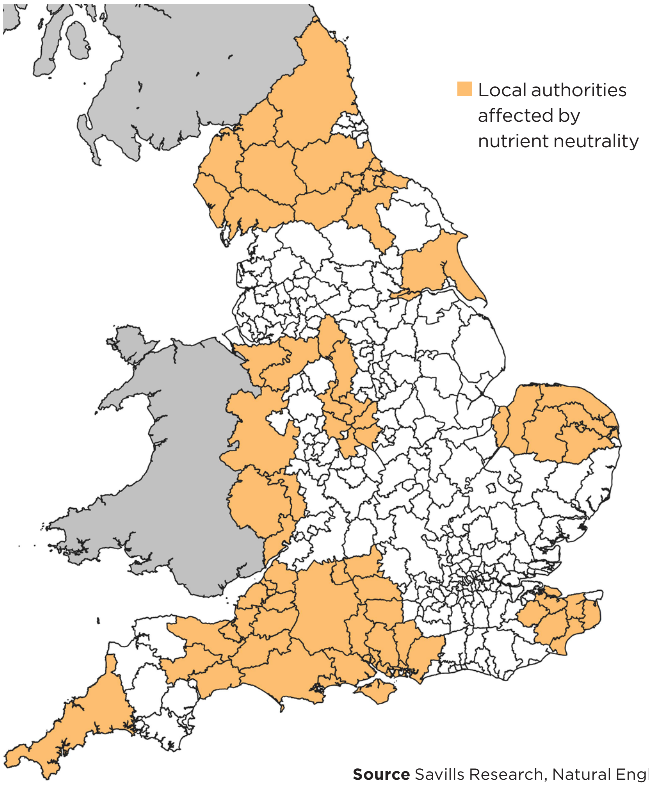
Capacity for further growth in land values is limited due to build cost inflation and slowing house price growth albeit demand for sites remains strong.

Supply remains constrained

Despite the number of homes granted consent remaining relatively robust, there is still a general shortage of land for residential development relative to demand that is fuelling competition for sites. In England, 9% fewer homes were granted consent in the year to Q1 2022 compared to the 2019 peak in planning consents. However, in some areas sites have been slow to come through the planning system, particularly in places impacted by nutrient neutrality. Until mitigation policies and strategies are in place, sites in the identified markets are held up in planning, further heightening the scarcity of land.

> **There is still a general shortage of land for residential development relative to demand that is fuelling competition for sites**

74 LAs across England are now affected by nutrient neutrality



Source Savills Research, Natural England

Build cost pressures

Build costs are rising rapidly but continue to be at least partly offset by house price inflation for now. Construction material costs for new housing have risen by 23% in the 12 months to May according to BEIS with steel, timber and concrete price growth exceeding these levels. BCIS is reporting tender price increases of 9.1% in the year to Q2 2022 and are anticipated to grow by a further 24.1% over the next five years. However, the major housebuilders, with more control over their supply chains have been able to see smaller increases in build costs. As well as the material cost increases, the increase in overall build costs have been driven by higher energy costs, the conflict in Ukraine and labour costs.

Limited land value growth ahead?

The strength of the housing market has given confidence to the land market to date. However recently the level of housing stock has been increasing as buyer demand is slowing, putting supply and demand for homes back towards balance according to the RICS survey, curbing future house price growth. We expect the shortage of stock to support house price growth in the short term. But over the next five years, affordability pressures are expected to bite and lead to a slowing of house price growth in the UK (see our latest forecasts here). Help to Buy, which supported c.22% of new build completions in 2021 (according to DLUHC), is also coming to an end with the final reservations using the scheme to be registered by October this year. This will put new build on a more level playing field with the second hand market.

We therefore think that capacity for further growth in land values over the next few years is limited due to downward pressure from build cost inflation, slowing house price growth and wider economic uncertainty. Albeit this is against a strong platform of demand and areas where supply is very limited. Competition for land will continue to support growth in land values until cost pressures become more of a factor.

Where supply and demand in the land market come back into balance, it will allow other players (such as HAs and SMEs) to replenish their pipeline of sites, having been squeezed out of the market of late.

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