

# Residential Development Land



## Continued but slower regional land value growth

**Leading up to mid September (before the mini-budget),** regional development land values continued to grow albeit at a slower rate.

However, the market faces more downward pressures particularly since the Government's mini-budget announcements on 23rd September.

UK greenfield and urban values increased by 0.6% and 1.1% in Q3 2022 (three months to 15th September 2022), taking annual growth to 6.3% and 6.2% respectively. UK greenfield values are now 0.4% below their 2007/08 peak.

Land values have been supported up to now by an ongoing scarcity of

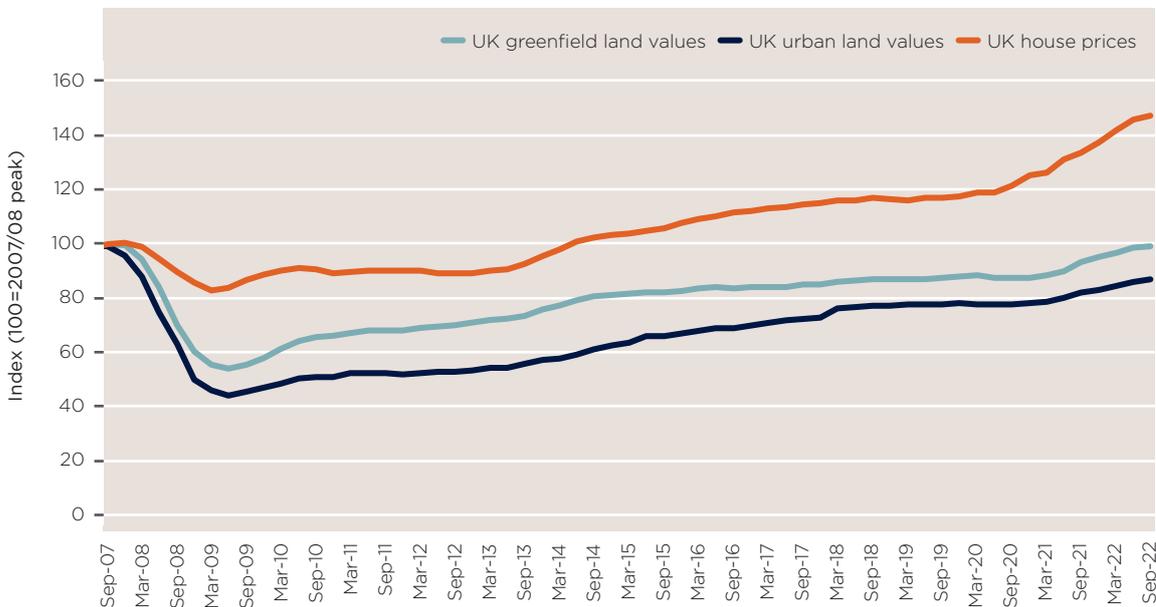
sites and continued demand for land from a range of parties across all tenures. Sites remain in short supply, given the delays to Local Plan production in some areas, under-resourced planning departments and the issue of nutrient neutrality in affected markets. Nationally, 11% fewer planning consents were granted in the year to Q2 2022 compared to the previous 2019 peak.

But there have also been mounting pressures on land values. After a period of exceptional strength, house prices have started to slow, build costs continue to rise, the cost of debt is increasing, and Help to Buy is ending.

In September, UK house prices remained static, taking annual growth to 9.5%, according to Nationwide. UK tender prices increased by 8.0% in the year to Q3 2022 according to BCIS, and are now unlikely to be offset by house price inflation. And October is the last month reservations can be made using the Help to Buy scheme which has supported 30% of all new build sales since 2013.

**In the outlook we discuss the prospects for the market going forward.**

**Growth in regional land values slows**



Source Savills Research, Nationwide

“ Growing concern about the future demand and pricing for new homes has led many parties to become more selective and considered in their land buying ”

### Focal points

Development news and analysis in brief



#### SLOWER LAND VALUE GROWTH

Regional development land values continued to grow albeit at a slower rate in Q3 2022, driven by increased uncertainty. But, the market faces more downward pressures.



#### SOME FALLS IN LONDON

Land values in London have generally weakened in the last six months, more-so in Outer London. However, residential sites in primary locations have retained their prices and remain highly sought after.



#### UTILITIES CHALLENGES

Securing utilities connections for sites is becoming more challenging in some areas, in particular for water, gas and electricity, leading to delays and additional costs.

## Demand for land is shifting

Despite the growth in land values, sentiment has become more subdued over the last quarter. A net balance of 40% of Savills development agents reported positive market sentiment in Q3 2022, down from 74% in Q2 2022.

Growing concern about the future demand and pricing for new homes has led many parties to become more selective and considered in their land buying, focusing on their priority areas. The number of bids per site in Q3 2022 has eased in slightly and the last couple of weeks has led to further uncertainty. A net balance of -20% of Savills development agents reported an increase in bid levels in Q3 2022 compared to the previous quarter.

The major housebuilders have been the

most competitive in the land market but many have started to shift their focus towards securing sites of over 100 units within the core markets, instead of smaller sites in 'out of core patch' locations.

Appetite for Single Family Build to Rent (house-led) has grown over the last quarter, with an increasing number of investors looking to deploy capital into the sector. Housebuilders looking to de-risk sites and deliver a more diversified range of tenures have sold parcels for Single Family Rental.

The Single Family Rental sector is forecast to grow substantially in the coming years, surpassing 70,000 homes by 2032. Growing evidence of Single Family Build to Rent

transactions have been seen in regional markets such as Oxfordshire, East Anglia and the East Midlands, in the last quarter, driven by core investors offering competitive bids for sites.

In the short term, recent disruption to the economy has impacted the land market, leading to some land deals taking longer or purchasers seeking to amend their terms and SMEs having issues with development finance in some cases.

Market headwinds including cost inflation and the rising cost of borrowing are likely to be much greater for smaller and medium sized housebuilders, especially if they are highly geared.

## Two tier land market in London

Land values in London face downward pressure from the combination of slowing house price growth, rising build costs, enhanced building standards and increased affordable housing requirements. Over the last six months, land values in Central and Outer London have started to reflect these challenges. Central and Outer London residential land values fell by -5.8% and -7.2% in the six months to September 2022, taking annual falls to -6.0% and -7.5% respectively.

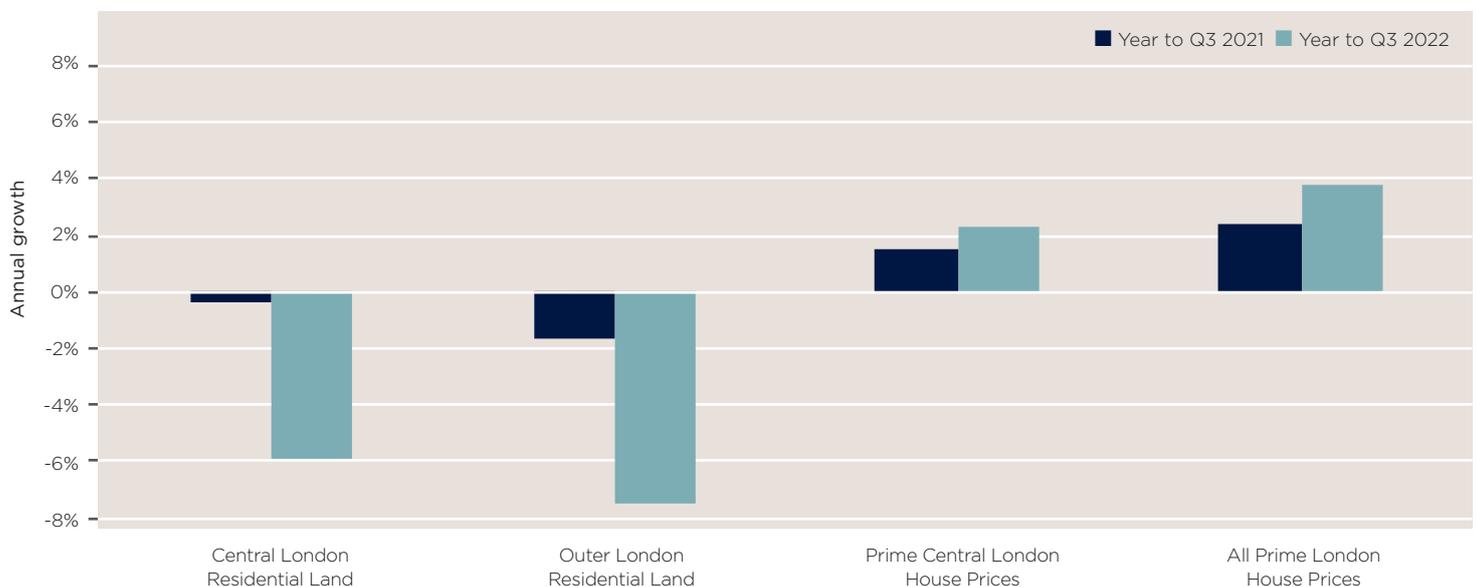
However, falls in land values have not been

uniform. As in the regions, stock constraints are sustaining competition for land. Well-designed sites in primary locations remain highly sought after and continue to trade at previous levels of pricing. There are many needs-based buyers trimming their margins in order to remain competitive. Appetite for Build to Rent opportunities as a form of de-risking sites is also supporting values on primary sites. In contrast, more challenging sites located further away from transport hubs are struggling to maintain similar levels of competition and pricing. Sellers

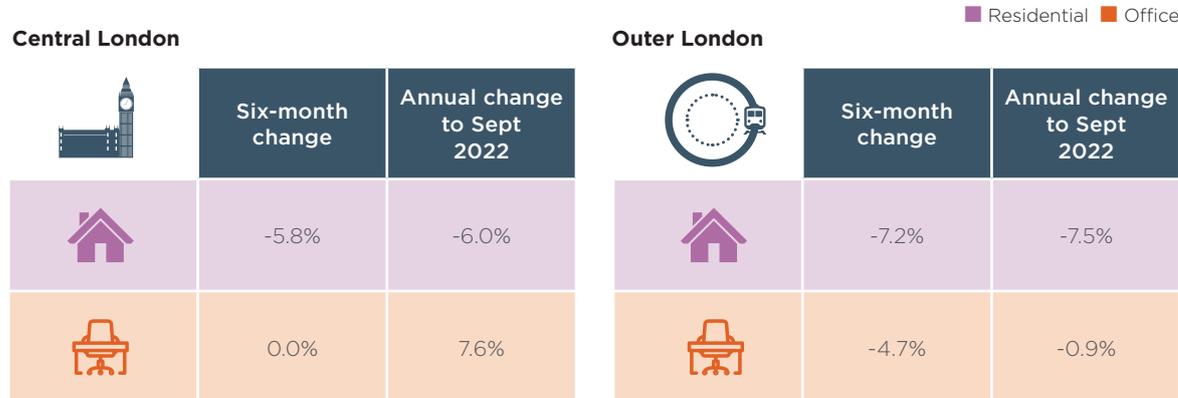
expectations of values remain high with limited evidence of landowners under pressure to sell, and many holding onto their sites.

Looking at the London office market, it's a similar story. Office land values in Central London have remained flat at 0% over the last six months, whilst in Outer London, values have fallen by -4.7%. In Central London, demand for core located development opportunities continues whereas in Outer London, there is less appetite for assets in less mature office locations.

Downward pressure on land values in London



## London land values



Source: Savills Research

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## Infrastructure and grid capacity

A lack of grid capacity and the ability and timing of securing utilities connections on sites including electricity, water and gas, are becoming more prevalent concerns for parties when buying land in some markets. Until capacity is significantly expanded and with

pressure on the grid only set to increase, limited access to power and utilities on sites has the potential to impact the viability and deliverability of sites. In particular, large sites that have significant power and infrastructure requirements.

## Outlook for the land market

Land values are likely to come under increased pressure as purchasers need to factor in prospects of house price falls and reduced transactions in the coming year. The rise in interest rates may be a challenge for some investors and housebuilders carrying debt which may have an

impact on the land market with some players being more cautious in the near term.

**We therefore expect more selective land buying activity. But the shortage of deliverable consented sites is likely to mitigate significant falls in land values.**

The underlying undersupply of homes and strong rental demand (UK rents grew 11.9% in the 12 months to August 2022, according to Zoopla) means however, there is a continued need for more housing for sale and rent in the right places.

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## UK land values

### UK land value growth



**UK Greenfield**  
 Q3 2022  
 Annual growth

0.6%  
 6.3%



**UK Urban**  
 Q3 2022  
 Annual growth

1.1%  
 6.2%

Note: Figures to September 2022

Source: Savills Research

