

Market in Minutes

UK Residential Development Land

January 2017



SUMMARY

Land for housing back in demand but buyers more selective

■ The development land market has returned to more normal conditions at the end of 2016 recovering from the market caution immediately after the EU Referendum.

■ However, land buyers are being more selective, seeking more due diligence and negotiating deferred payments in many cases, resulting in land sales taking longer to complete.

■ Urban land values have increased more strongly than values for greenfield land over the last

quarter picking up from the slow or negative growth in Q3 2016 following the Brexit vote. This has been led by growth in regional cities including Birmingham, Manchester and Glasgow.

■ The strongest demand is for oven-ready sites in established residential areas or close to good infrastructure. Generally, there is less demand for sites in more rural or economically weaker markets and for those needing remediation.

■ The PLC housebuilders have been more active in their land buying activity after pausing in the summer and early autumn, albeit they are able to be more selective about sites. Generally, there is sufficient land availability to replenish their land pipelines.

■ In areas where there is less intense competition for land, more land owners are engaging with joint venture agreements with developers, to generate higher land value over a longer period.

→ A RECOVERING MARKET

Since the summer the land market has picked up again in many parts of the UK. Sentiment and the number of bids per site has improved, and land values have returned to growth. However, there remains variation across the country and activity in the land market is concentrated in stronger markets.

Positive sentiment returns for low risk sites

According to our survey of Savills agents, sentiment for both greenfield and urban sites was more positive in Q4 than in Q3, when there was much caution in the land market due to uncertainty after the Brexit vote. The number of bids per site was, on balance, more positive than the negative result in the previous quarter.

However, there is still caution in some parts of the country which means that larger housebuilders are continuing to bid selectively. In general, land buyers are taking less risk, focussing on oven-ready sites in areas of stronger home buyer and renter demand, close to established residential areas or good infrastructure.

Generally, there is less demand for sites in more rural or economically weaker markets and for those needing remediation.

Land transactions lower

Although activity in the land market picked up after a dip immediately following the Referendum, caution in the second half of 2016 means that transactions of development land have been lower than in the previous year. The appetite for land remains robust but the more selective nature of housebuilders means that deals are taking longer to achieve.

Urban land values increase more than for greenfield

Urban land values have increased more strongly than values for greenfield land over the last quarter, picking up from the slow or negative growth in Q3 2016 following the Brexit vote. On a UK wide basis urban development land values increased by 1.2% in the last quarter of 2016 bringing annual growth to 3.6% while

greenfield development land values increased by 0.5% in Q4 2016 with annual growth of 1.7%.

Regional cities demand

Growth in regional cities including Birmingham, Manchester and Glasgow contributed to the demand for urban land, pushing up values. In Birmingham, where land values increased in Q3 despite the Brexit vote, demand for sites is strong from PRS and institutional funds.

In Manchester it is suburban brownfield sites, just outside the very centre of the city, that are drawing strong demand as developers look beyond the city apartment market for alternative opportunities. Glasgow has a lack of supply of sites in prime locations which continues to drive land values in these markets. →



1.2%

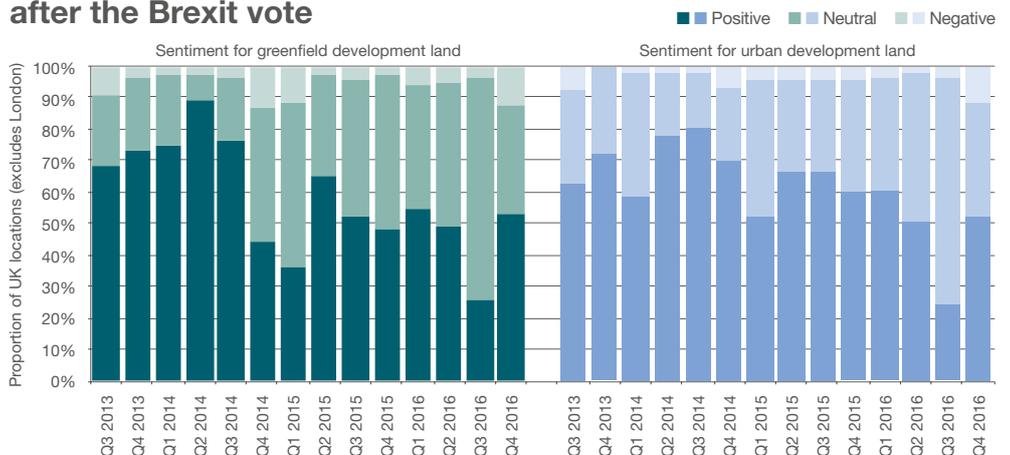
UK urban land value growth in Q4 2016 (3.6% annual growth)



0.5%

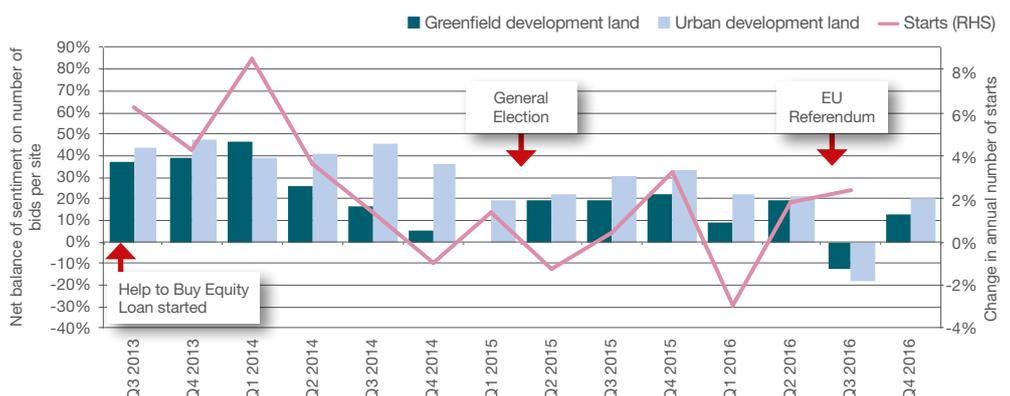
UK greenfield land value growth in Q4 2016 (1.7% annual growth)

FIGURE 1 Land market sentiment is more positive than immediately after the Brexit vote



Source: Savills Research survey of land agents' opinion across 81 greenfield and 50 urban locations in England, Wales and Scotland.

FIGURE 2 The number of bids per site has increased since the summer



Source: Savills Research survey of land agents' opinion, DCLG

→ DIFFERENT BUILDERS

PLC housebuilders returning

The publicly listed housebuilders (PLCs) are becoming more active in the land market again having been the most cautious about purchasing land in the summer and early autumn.

The largest PLCs; Persimmon, Taylor Wimpey and Barratt, have all recently reported increases in completions (outside London) with higher profits and an awareness of the uncertain political and economic backdrop. They, along with the other PLCs continue to target increased output over the coming years.

The greater supply of consented land and the need to just replenish their pipeline of land means that the PLCs can be selective about the sites they buy. Oven-ready, permissioned land parcels of c.100-150 homes are generally preferred by the PLCs at the moment. Greater due diligence has been required on sites, deferred payment terms have become more common and hurdle rates have been raised to reduce risk.

Regional housebuilders expanding

Regional housebuilders or larger private housebuilders have been able to take advantage of the more selective land buying by the PLC housebuilders. Being privately financed and having more flexibility, they have been able to continue to make bids on sites, paying upfront in many cases.

Regional housebuilders are expanding and need the land to continue to do so. The top 11-50 largest builders are the fastest growing group, increasing the number of completions achieved by 31% in the year to October 2016 according to the NHBC.

Opportunities for SMEs and others

SMEs generally operate on smaller sites (less than 25 homes) than those wanted by the larger housebuilders. They have been able to continue their activity in the land buying market where they have access to finance, which continues to be a constraint.

There have been more SMEs entering the market in places such as Devon and Cornwall and in some cases are looking to work on larger sites of 20 or more units.

Housing Associations have increased their land buying activity. Four times as much land was bought by Housing Associations in 2016 through Savills than in 2015 and L&Q, for example, owned three times as much permissioned land in 2016 than in 2015.

Levels of competition

In areas where there is less intense competition for land, more land owners are engaging with joint venture agreements with developers, to generate higher land value over a longer period. Build licences are often used.

In a similar way to deferred payments, it means that housebuilders don't have to foot the cost of the land upfront. These areas of less intense competition provide more opportunities for a wider range of developers to enter the market. ■

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"Regional housebuilders are expanding and need the land to continue to do so"
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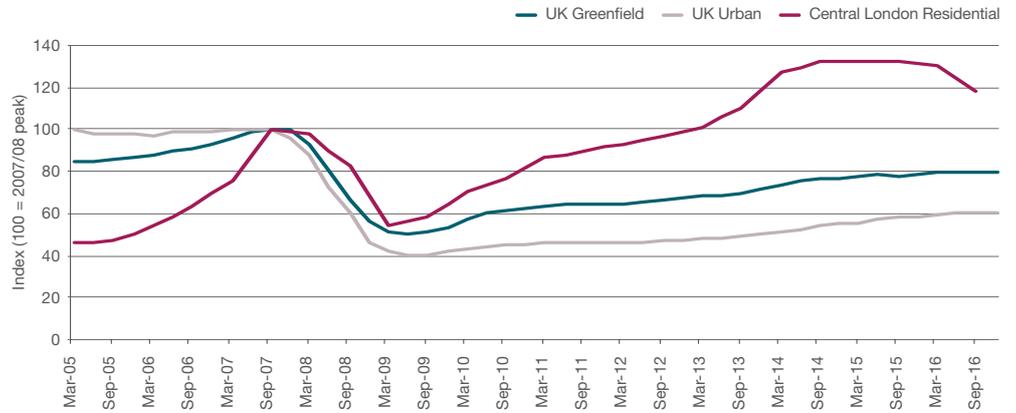
Jim Ward, Savills Research
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31%
Increase in completions of top 11-50 builders



FIGURE 3 Savills residential development land index



Source: Savills Research

NB: The indices measure blended residential development land value including the provision of affordable

OUTLOOK

New homes delivery is set to increase and more land is needed to replenish stocks

■ There is land buying appetite from housebuilders who have seen relatively strong sales rates in the second half of 2016 with targets to continue to expand their output. Support from Government includes the £3bn Home Building Fund and Help to Buy Equity Loan, now extended to 2021. However, land purchasers are likely to continue to be selective and more careful about the sites they buy.

■ We expect continued high demand for low risk sites close to established markets or good transport links with little or no remediation required.

■ Urban and suburban sites in regional cities will continue to see interest from those looking to expand or move their activities to areas with greater chance of growth.

■ The availability of labour continues to be a notable factor constraining the expansion of the industry, although it has

eased as an issue. 39% of builders consider it a major constraint according to the Q3 2016 HBF Survey compared with 63% in Dec-14. We still need to expand the skilled workforce to build the homes needed.

■ Several Government policies are set to bring more development land to the market including:

- ▶ The £2bn Accelerated Construction Fund which aims to deliver 15,000 homes on surplus public sector land.
- ▶ The announcement of 17 further Garden Towns and Villages which have the potential to provide almost 200,000 new homes across the country.
- ▶ The announcement of 30 local authority partnerships set to be the first to build Starter Homes on brownfield sites, backed by the £1.2billion Starter Homes Land Fund. At the time of publication we await the confirmation of the definition of Starter Home.

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