

Market in Minutes | April 2018

UK residential development land



Summary Urban land values grew strongly, notably in the Midlands, due to regeneration, competition from the Build to Rent and student sectors, and London developers looking beyond the capital

Greenfield land values are edging up where house prices are rising, increasing by 0.8% in Q1 2018 and taking annual growth to 2.1%. This compares with 0.1% quarterly growth in Q4 2017 for the UK on average. Growth is focused in the Midlands and Scotland where house prices have continued to climb.

UK urban land values increased by 4.0% in Q1 2018 taking annual growth to 6.3%. Demand for land in Birmingham city centre, Coventry, and London commuter towns has supported this growth. Regeneration, competition from the Build to Rent and student sectors, and London developers seeking opportunities beyond the capital, have contributed.

Land in outer London has been in demand despite some developers moving beyond the capital. There are numerous bids for sites of around 100 plots with consent. These are from a range of developers, including housing associations and housebuilders.

There is less demand for smaller sites in outer London, providing an opportunity for smaller private developers and housing associations. However, if this situation continues, the aspiration of the draft London Plan to deliver 24,600 homes per year on smaller sites over the next 10 years is unlikely to be met.

In central London, hotel land values continue to climb while office and residential values have fallen or been flat. London hotel operational performance has stayed resilient in the face of Brexit, helping developer confidence.

Focused growth in greenfield land values

During the past quarter, greenfield land values in the UK have grown by 0.8%, rising from 0.1% in Q4 2017. Growth has been focused in Scotland and the Midlands, particularly where recent house price increases have been stronger.

In the west (West Midlands and South West), greenfield land values increased by 1.3% in Q1 2018. In Coventry, Solihull and Leamington Spa, land values have grown by more than 7% in the past year. In 2017, house prices in these places rose by 8.5%, 7.6% and 5.1% respectively, outperforming the national average of 4.1%.

Scottish greenfield land values are also increasing above the UK average as house prices grow faster than in London. In Q1 2018, greenfield land values increased by 2.8%, rising for the first time in the last year.

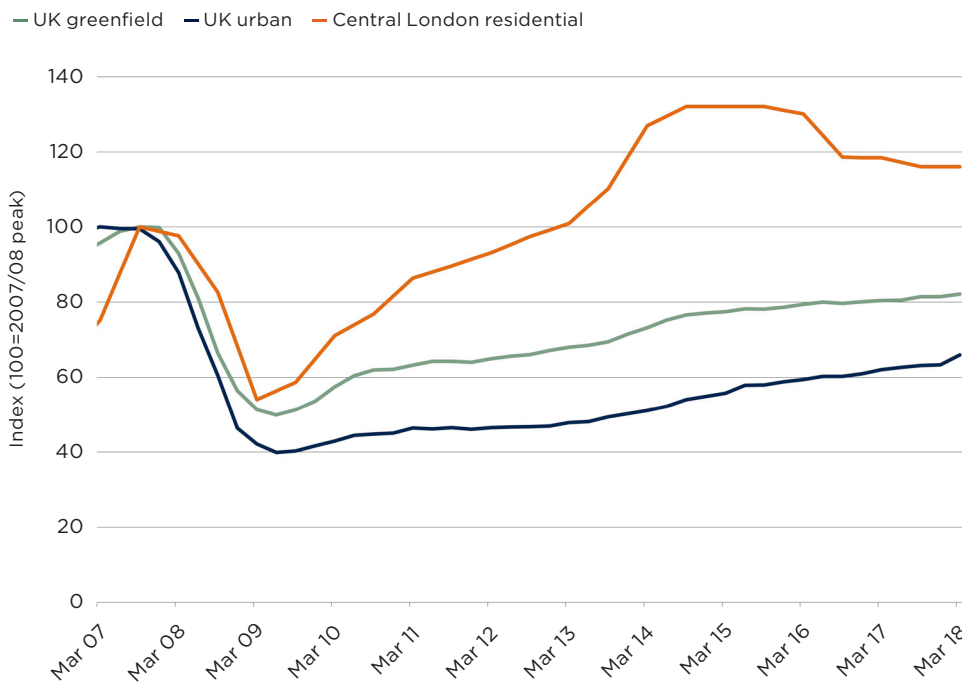
House prices in Scotland rose by 5.0% in 2017, compared with the 1.7% Greater London average, according to Savills house price indices (see our Spotlight: *Scotland's Residential Property Market*).

Undersupply in the major cities has driven the need to build more homes and there is more political certainty with the lessened prospect of another Scottish referendum.

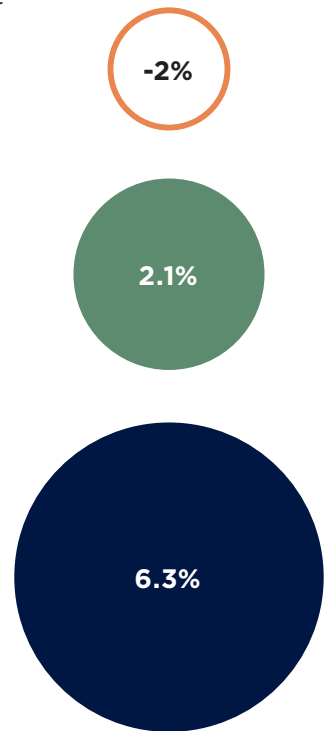
7%+
Yearly growth in greenfield values in Coventry, Solihull and Leamington Spa

5%
Rise in Scottish house prices in 2017, compared with 1.7% in London

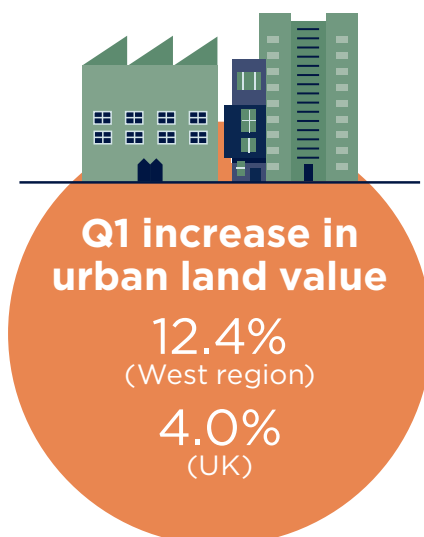
Growth resumes Greenfield and urban land values picked up in the first quarter of 2018, whereas residential land values in central London remain flat



Annual change



Source Savills Research



Birmingham leads urban increase

Urban land values in Birmingham have grown particularly strongly in the last quarter, contributing to the higher growth in UK urban land values in Q1 2018 (4.0% increase). Land values in the city centre have increased because of higher-density schemes, institutional investment and significant regeneration.

HS2, the 2022 Commonwealth Games and the strength of the private rented sector are key drivers for inward investment into the city. There are currently seven Build to Rent schemes under construction in Birmingham and the sector is growing significantly. The sector has increased fivefold nationally since 2013 (see www.bpf.org.uk/what-we-do/bpf-build-rent-map-uk).

Land values have also risen in Coventry. House prices are growing at twice the UK average and the same rate as Birmingham. In the past year, house prices in Coventry, Birmingham and the UK have grown by 8.5%, 8.6% and 4.1%, respectively. Demand for student accommodation alongside other residential uses in Coventry has contributed to the growth in land values.

London developers are continuing to look beyond the capital for land. Planning constraints and slowing house price growth in London are encouraging them to buy land in commuter markets such as Chelmsford, Luton and Reading. Most commonly, they are seeking urban land and building flatted developments within the commuter towns.

Central London hotel demand lifts prices

During the last eight years, land values for hotel development in central London have continued to climb. Meanwhile, in the last two years, land values for residential and office space have fallen. Looking at the most recent figures over the past six months, land values for hotels have increased by 0.5% while residential and office use have remained flat and fallen by 1.4%, respectively.

London hotels have remained resilient in the face of Brexit as the devalued pound enhanced London as a tourist destination, supporting strong operational performance. As a result, operator and developer confidence has remained relatively robust.

Despite this reliance, rising build costs are mitigating the growth in hotel land values.

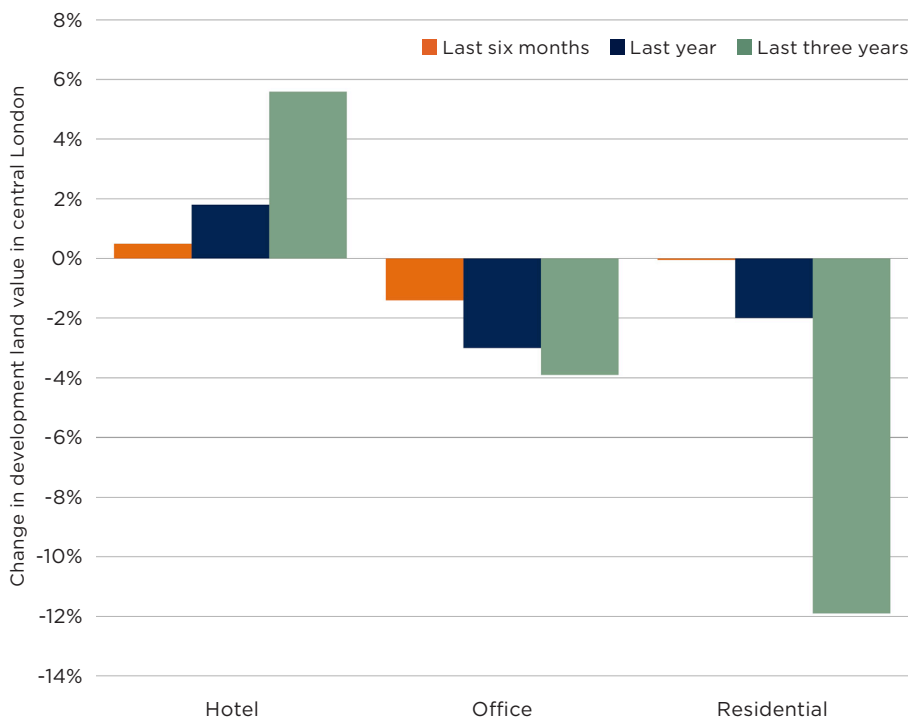
Office land values have continued to fall. Although rents have remained stable along with investment yields for the sector, build costs have risen, putting downward pressure on land values.

Residential land values in central London remain flat, bringing annual falls to 2.0%. Prime house prices continue to weaken, falling 0.8% in the last quarter and 4.0% in the past year. Developers continue to factor in the need to deliver 35% affordable housing on site following the Mayor's strong position on the issue.



“Land values for central London homes continue to assume 35% affordable housing provision on site”

London hotspot Hotel land values show consistent growth



Source Savills Research

Target for smaller sites under threat

Land in outer London has been in demand despite some developers moving beyond the capital. Sites of around 100 homes with consent are in high demand from a range of developers including housing associations and housebuilders.

However, mergers between housing associations have meant they are increasingly seeking sites of 100 or more plots and are less attracted to smaller sites. Notting Hill and Genesis are the latest housing associations to complete such a merger. As a result, there is less competition for smaller sites.

In the draft London Plan, there is an emphasis on the delivery of homes on smaller sites. The expectation is to deliver 24,600 homes per year on these smaller sites over the next 10 years.

Due to the weaker demand for these sites, there is an opportunity for smaller private developers and housing associations to take these sites forward. However, if there continues to be less demand for these sites, the aspirations for housing delivery on small sites in the draft London Plan are unlikely to be met.

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