

Market in Minutes | January 2018

# UK residential development land



**Summary** Land values are growing faster than average in the North and Scotland, while housing associations are increasingly competitive in their land buying with strategic land becoming popular

■ Land values are growing faster than average in the North, where we forecast higher than average house prices in the next five years. Investment by Homes England is supporting development in this region, helping to increase the number of developers in the market to meet local housing need.

■ Housebuilders have enjoyed a relatively benign land market recently, thanks to limited competition and a growing number of consents being delivered. Unless land supply continues to grow, this is likely to change as more developers, including housing associations, are now competing for sites.

■ Major housebuilders are replacing land they have built out, sourcing more permissioned land from their own strategic pipelines, focusing on controlled growth. This has resulted in slow growth of greenfield land values (1.7% annual growth).

■ Medium-sized housebuilders are buying larger sites, increasing from an average of 72 plots per site in 2016 to 87 plots per site in 2017. Housing associations have become more competitive in the market, refining their payment options.

■ Strategic land is a focus for a range of developers and investors. In the last year, Savills was involved in the sale of several strategic land portfolios, totalling 60,000 plots. The major housebuilders are buying more of this longer-term land.

## Manchester leads the way

In the past year, urban land values in Manchester rose 24%, compared with 4% for the UK as a whole. Strong house price growth in this relatively affordable market has supported the increase.

House prices in Manchester rose by 8.6% in the 12 months to October 2017, more than double the national average of 4.2%. The market has been gaining momentum with greater belief in the future for the city as development continues.

There have been more land buyers bidding for sites, including housing associations who are bidding competitively on sites which were previously only of interest to the PLCs.



### Rise in urban land values\*

24%  
(Manchester)  
4%  
(National average)



### Rise in house prices\*\*

8.6%  
(Manchester)  
4.2%  
(National average)

Source Savills Research Notes \*12 months to December 2017. \*\*12 months to October 2017

## Majors continue measured approach

Major housebuilders are replacing land they have built out, sourcing more permissioned land from their own strategic pipelines while focusing on controlled growth of completions. More consents and relatively low numbers of developers compared with before the global financial crisis, means the land market remains relatively benign.

In the year to June 2017, 16% more consents were granted in England compared with the previous year. However, there are fewer developers, with only 53% of the number of builders currently registered with the National House Building Council (NHBC) compared with the average between 1995 and 2007.

As a result, greenfield land values remain relatively flat. Values rose 0.1% in the last quarter of 2017, taking annual growth to 1.7% – in line with 2016 growth of 1.8%.

The land market therefore remains benign, with land value growth remaining below house price growth on average.

The major housebuilders have been able to buy land at or above their hurdle rates. In its annual report, Bellway stated: “We will continue to acquire land which meets or exceeds our acquisition criteria”. Meanwhile, in its latest trading update, Barratt said: “The land market remains favourable and we have secured attractive land opportunities which exceed our minimum hurdle rates.”

Some 25% of Barratt’s completions in the last year have been on land from their strategic pipeline. Savills sold 8% more plots year on year to the major housebuilders between 2013 and 2017, reflecting the measured growth in land buying.

Most of the major housebuilders are planning for controlled growth in completions. Completions by eight of the PLC housebuilders (those with published data for 2017) increased by 6.1% on average between 2016 and 2017, in line with growth over the previous two years.

### Recovery rate Land values have grown more slowly than house prices since the global financial crisis



Source Savills Research, Nationwide Note Land values exclude London

## Look north for greenfield growth

Over the last 12 months, greenfield land values in Scotland and the north of England have grown faster than the national average, increasing by 4.2% and 2.7% respectively, compared with 1.7% for the UK.

House prices in these regions are more affordable and we forecast them to grow by

17-18% over the next five years, compared with 14% for the UK.

Investment by Homes England (formally HCA) has supported developments across the country. According to Savills agents, investment in sites in the North has helped grow confidence in the development market.

## Diversity drives competition

Savills agents are seeing more developers becoming active in the land market.

There is competition for sites across the market from medium-sized housebuilders, developers and housing associations, supporting land values and pushing them up in some areas.

Medium-sized housebuilders bought 54% more plots through Savills in 2017 than in 2015 (10% more than 2016), mostly through larger than average site sizes.

The median site size bought by medium-sized housebuilders through Savills increased from 72 plots in 2016 to 87 plots in 2017. This reflects their continued growth supported by better availability of finance.

London developers have been moving beyond the capital, supporting or pushing up urban land values in markets such as Woking, Guildford and Chelmsford.

These developers tend to be building apartment blocks targeted at people working in London who are looking for more affordable homes outside the city.

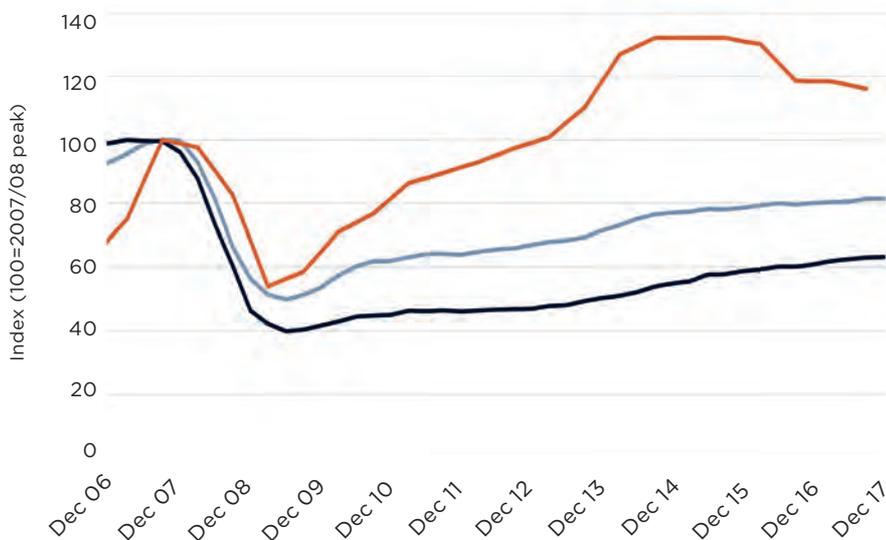
Across the UK, urban development land values increased by 0.5% in Q4 2017, with annual growth of 4.0%, more than double the growth in greenfield land values.

Larger housing associations are becoming more active in the Oxfordshire-Buckinghamshire area, along with other SME housebuilders. This area is particularly attractive for several key reasons: its connectivity to London and other strong employment markets; its location beyond the London green belt; and government support for strategic development in the Oxford-Cambridge corridor.

To maintain relatively benign land market conditions with additional developers, more consents will be needed.

**Urban generation** Urban land value growth continues to outperform greenfield land, albeit from a lower base

■ UK urban ■ UK greenfield ■ Central London residential



Source Savills Research

## Strategic focus

Strategic land is being sought by a range of developers and investors. In the last year, Savills was involved with the sale of several strategic land portfolios, totalling 60,000 plots.

Among the major housebuilders, Bellway acquired 9.5% more strategic plots in 2017 than 2016, while the value of Crest's strategic land increased by 16.5% between 2016 and 2017.

Acquiring strategic land continues to be a key strategy. Barratt plans to continue to build 25% of its homes on land sourced from its strategic pipeline while Linden aims to get to similar levels by 2021. Relying more on strategic land allows the major housebuilders to retain greater control over their land pipelines and maintain margins, albeit there is planning risk involved.

**60,000**  
Number of plots related to strategic land sold by Savills in the last year

## Government support

In the Autumn Budget, the Chancellor announced new measures for supporting housebuilding to reach delivery levels of 300,000 homes per year in England.

A focus of the Government's plan is the Oxford-Milton Keynes-Cambridge corridor. If the area is to maximise its economic potential, up to one million homes will need to be built in the corridor by 2050.

It is likely that at least one of the new garden towns proposed in the Budget will be within this corridor to support such growth. The Government has also agreed a housing deal with Oxfordshire to target delivering 100,000 homes in the county by 2031 in return for a package of support for infrastructure and economic growth.

Much of the land around Oxford is already being promoted, and landowners will be seeking development partners in due course.

## Savills team

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