Market in Minutes
UK Residential Development Land

November 2016

SUMMARY

Caution prevails in the land market after Brexit vote

- There is caution in the land market due to uncertainty after the EU referendum across much of the UK leading to falls in land value in some areas.

- Land values have stagnated or fallen over the last three months according to our development land index. UK greenfield development land values fell by 0.4% in Q3 2016 whilst urban land values increased only slightly, by 0.1% in the last three months.

- Caution from some land purchasers has led to sentiment becoming more neutral and in general reduced the number of bids for sites.

- However, there are areas of the country where demand for land has been maintained. These include outer London, connected markets in the South and central Birmingham.

- The central London market is behaving very differently from the rest of the country. It has seen the greatest falls in land value because factors other than the referendum are at play.

- In central London falling house prices have meant land values for residential development have reduced significantly (8.9% decrease in the last six months, the largest falls seen since 2008/09).

- Land value for office development in central London have fallen (5.9% decrease in the last six months) due to the risk of occupational demand as a result of the Brexit vote.

DEVELOPMENT LAND IN THE UK

UK greenfield land value falls

Land values have stagnated or fallen over the last three months according to our development land index. Only our UK urban development land index has seen a slight increase in value.

Whilst in many markets prices have remained static, overall our UK greenfield development land index has fallen 0.4% in Q3 2016 reflecting increased caution by land buyers. Urban development land values have increased by just 0.1% in Q3 2016.

More neutral sentiment

Since the EU referendum, sentiment in the development land market is more neutral for both greenfield and urban land. Land buyers are prepared to take less risk in buying sites and in some cases hurdle rates have been increased.

Where are the price falls?

Most areas of the country have seen no changes to land values since June with low levels of transactions being part of the picture. The small shift in the UK-wide index results reflects price falls seen in parts of the country including Kent, Cornwall and Scotland.

In Kent, there is limited competition for lower value sites at present, although the better areas continue to perform. This is because the county is dominated by major housebuilders who hesitated post Brexit.

Land buying activity in Cornwall and Scotland has been maintained on the whole. But those purchasing land require higher margins which is reducing the value they are prepared to pay for sites.

Land price growth in some markets

Land buyers caution means that there is a focus towards lower risk sites. There is continued activity and prices are holding up, or even slightly increasing, for the best sites. The best sites tend to be those in economically strong markets where house price growth has not peaked.

Demand has been maintained for greenfield sites in locations west and north of London including around Milton Keynes, Newbury and Reading. Markets such as Cheltenham have also continued to see sales of smaller sites. In and around Bristol, both major and regional housebuilders are competing for land where supply levels have not been keeping up with the growth of the city.

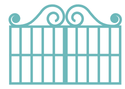
City centre sites in Birmingham have seen continued demand as underlying regeneration stimulus such as HS2 and the demand for Build-to-Rent have supported land value growth. Investors who had previously focused on London are looking for opportunities beyond the capital and are supporting the demand for sites in the city.

An eye on sales rates

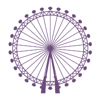
Housebuilders are watching sales rates on new build developments closely to understand the current market, alongside other market indicators.

FIGURE 1
Land value movements

-0.4%
UK greenfield land values fall in Q3 (2.0% annual growth)



0.1%
UK urban land values increase in Q3 (4.0% annual growth)

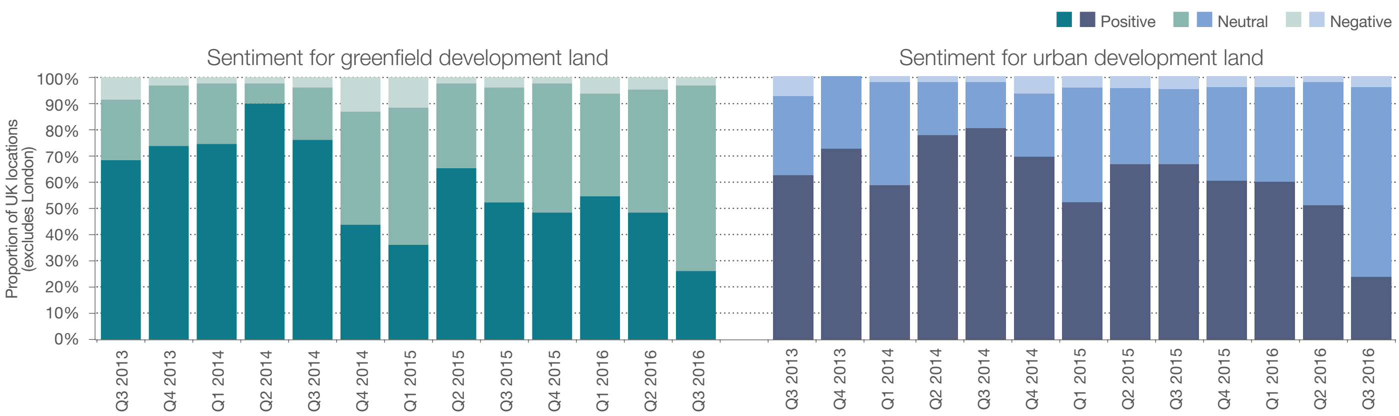


-8.9%
Central London residential land values fall in last 6 months (-10.2% annual change)

-5.9%
Central London office land values fall in last 6 months (-5.3% annual change)

Source: Savills Research

FIGURE 2
Sentiment in the development land market is at its most neutral in three years



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

The HBF survey of member sentiment shows that new build reservations and site visitors have returned to 2015 levels in September after weaker market conditions immediately after the referendum.

This is in line with other market and economic indicators. The RICS survey shows that new buyer enquiries in September increased for the first time in seven months against an economic backdrop that has been stronger than expected in Q3 2016.

Reduced number of bids

Overall, caution has meant that the number of bids for sites has been reduced. Our survey of Savills agents shows that a net balance of 10-17% of agents noted a decrease in the number of bids per site compared to last quarter. There are, however, some areas where the number of bids has been maintained.

Amongst markets showing recent strength, bid levels have been relatively strong in the markets in and around Birmingham, consistent with the land value growth seen in the city.

Within the capital we have seen the strongest demand and most transactions in outer London in markets where new build sales values are £450-850 per sq ft.

Central London land value falls

Values for residential development land in central London have fallen by an average of 8.9% in the last six months (10.2% falls over the year) predominantly due to a decrease in house prices. Central areas of Mayfair and Knightsbridge have felt the greatest impact; our prime Central London house price index shows that second hand house prices have fallen by 10.6% since the 2014 peak, in large part due to stamp duty changes.

However, in outer London, which our index currently does not cover, we are seeing some of the strongest demand for land and values are more stable.

Central London office land values fall too

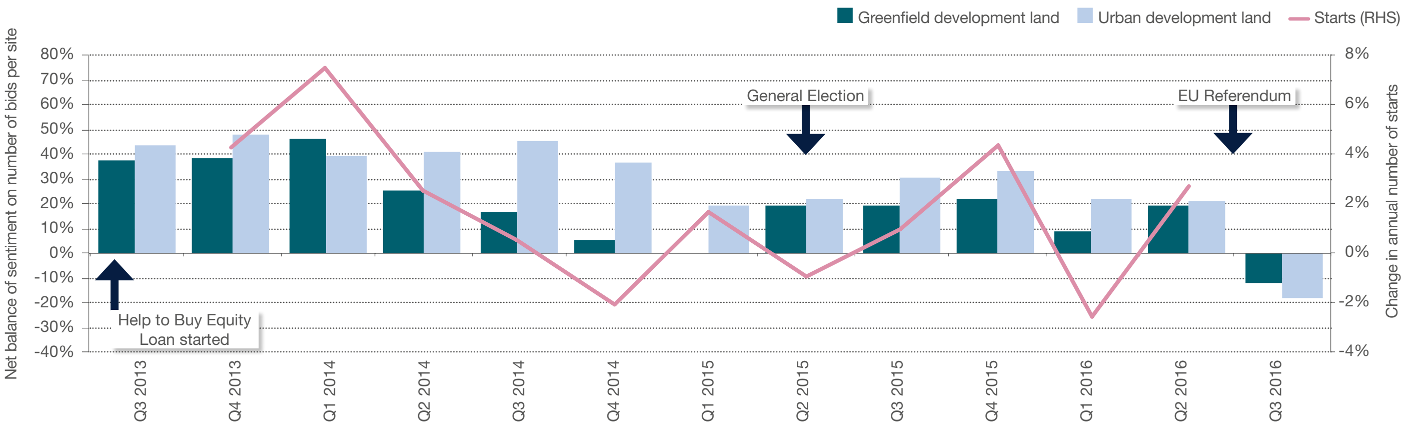
Central London office development land values have also fallen, decreasing by 5.9% over the last six months. While demand had been strong before the EU referendum, the vote has brought occupational demand into question. This uncertainty has put some developments on hold while developers consider their options for sites.

Alongside this there are increased challenges in raising debt finance. Build costs have continued to increase and gross development value has reduced due to increases in yields, reflecting perceptions of risk amongst investors.

We expect that there will be a reduction in the number of planned central London office development starts or wholesale refurbishment completions in 2018 and beyond.

> "The central London market is behaving very differently from the rest of the country"
> Jim Ward, Savills Research

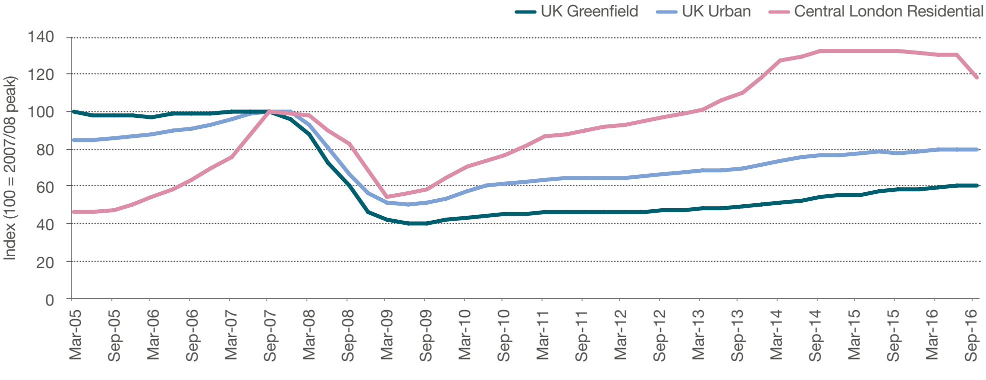
FIGURE 3
The number of bids per site has reduced as seen in our survey of Savills agents



Source: Savills Research, DCLG

FIGURE 4

Savills residential development land index



Source: Savills NB The indices measure 'blended residential development land value', including the provision of affordable housing

OUTLOOK

■ With so much uncertainty remaining over the impact of Brexit, land market conditions have yet to settle. However, by the end of the year, after the Autumn marketing season, the state of the land market and its impact on housing delivery volumes will become clearer.

■ In the long term, demand for homes will continue as the number of households continues to increase, even if net migration is reduced significantly.

■ Housebuilders prefer lower risk, smaller sites in areas where house price growth has been maintained.

■ On other sites, sellers will need to be realistic in their pricing to retain interest from cautious land buyers.

■ Those housebuilders that have not been buying land will need to be shortly if they are to maintain and increase their levels of delivery.

■ The HCA's £3bn Home Builder Fund and £2bn Accelerated Construction scheme is set to help sites to be delivered by providing loans to fund projects and speed up delivery of homes on publicly-owned brownfield land in the case of the latter. A mix of tenures will need to be delivered to ensure absorption on these sites.

■ Build costs are already reported to have risen following the fall in sterling for those sourcing materials from outside the UK. In general this affects all developers, but with potentially least impact amongst the largest housebuilders who can secure UK based supply chains due to their scale.

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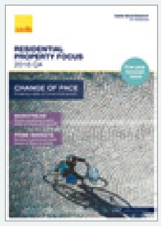

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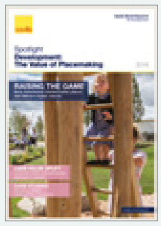

Spotlight
DEVELOPMENT: THE VALUE OF PLACEMAKING

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