MARKET IN MINUTES
Savills Research

Residential Development Land

savills

Uncertainty and variation in land values

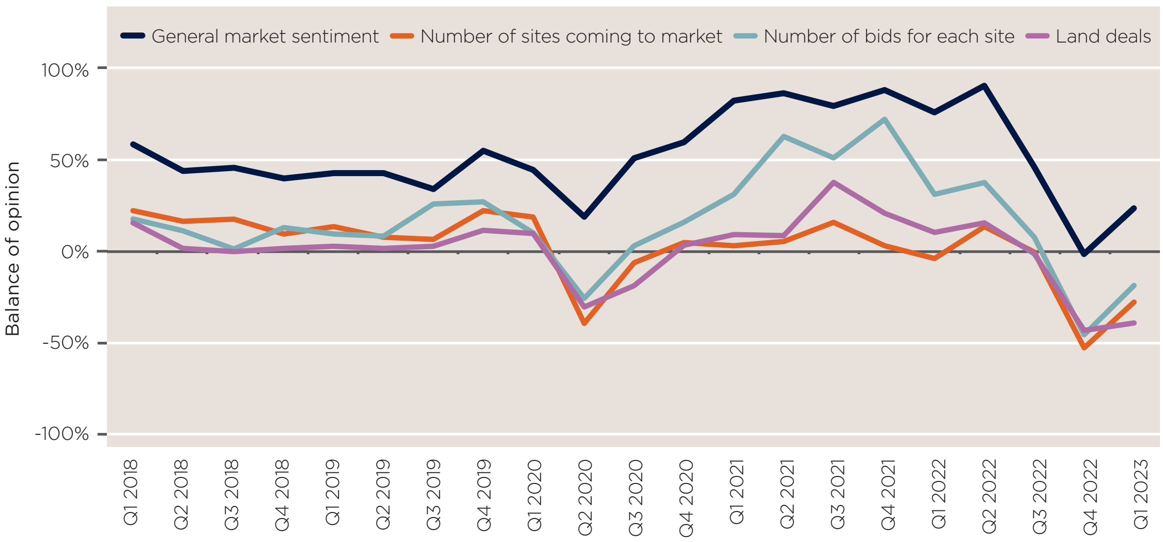
In the first quarter of 2023, the land market has continued to be slow with fewer land transactions and new sites launching onto the market, reflective of the wider housing market slowdown and the loss of the Help to Buy scheme. This has led to -9% fewer Savills land deals in Q1 2023 compared to the same quarter last year. Land values have also softened.

There is significant variation in both activity levels and the change in land values on a site by site basis. In some locations there have been price falls over the last quarter, but in other areas the ongoing lack of land supply has limited those falls. Sites in undersupplied markets remain in demand and are holding their value.

The lack of transactional activity makes it challenging to robustly assess the movement in development land values in Q1 2023. At a national level, the Savills Development Land Index shows further softening in land values over the last quarter as the market adjusts to more realistic pricing. UK greenfield and urban values fell by -1.7% and -1.8% in Q1 2023, marking -3.8% and -3.4% falls respectively since September 2022, following the Government's mini-budget and the shift in housing market conditions. However, there is the potential for further price adjustments as land transactions start to take place in future quarters.

Despite the challenging market backdrop, our Savills sentiment survey suggests there are signs that activity is picking up compared to the previous quarter. A net balance of 23% of Savills development agents reported positive market sentiment, up from -3% in December 2022. The Savills sentiment survey also reveals a slight improvement in the net balance of agents reporting new sites coming to the market and the number of bids per site. There has also been a modest uptick in activity in the new build sales market since the start of the year, with average sales rates at 0.6 per outlet per week in February as reported by the major housebuilders, up from an average of 0.3 in December 2022. This follows an easing in the cost and availability of mortgages, coupled with a scarce supply of homes for sale in the second hand market.

Early signs of improving sentiment in the UK greenfield land market



Source Savills Research

UK residential development land value growth

UK Greenfield

Q1 change	Annual change to March 2023
-1.7%	-1.2%

UK Urban

Q1 change	Annual change to March 2023
-1.8%	-0.5%

Source Savills Research

Focal points
Development news and analysis in brief

VERY FEW LAND SALES
The residential land market continues to be slow with fewer land transactions in most markets. However, the ongoing shortage of supply is sustaining competition for land in some locations.

REGIONAL LAND VALUES SOFTEN
Land values have softened in Q1 2023, reflective of caution in the wider housing market. UK greenfield and urban land values fell by -1.7% and -1.8% respectively in Q1 2023.

FALLS IN OUTER LONDON LAND VALUES
Residential land values in Outer London have fallen by -9.5% over the last six months to March 2023. However, Central London has been more robust with residential land values holding steady (+0.3%).

The land market continues to be slow

Land values continue to face downward pressure with rising build costs, falling house prices and slower sales rates in the new build market. Build costs increased by 8.6% over the last year and are forecast to increase by 17% over the next five years to Q1 2028, according to BCIS. UK house prices also fell by -3.1% in the year to March 2023, marking the biggest annual falls since 2009, according to Nationwide.

As a result of the weaker housing market, there has been reduced competition for sites over the last quarter as parties have become more cautious. There has been a greater preference for conditional deals, deferred payment structures and more examples of deals being renegotiated or in some cases falling through.

The major housebuilders have been largely out of the land market, only topping up sites in regional markets where they need to build up pipelines. However, small and medium sized private housebuilders and housing associations have remained active, using the current lack of competition to acquire sites. Homes England has recently updated its funding guidance for the Affordable Homes Programme 2021-26 allowing grant funding to be deployed more flexibly including on completed market sale stock.

There is appetite from developers considering alternative tenures from affordable housing to Build to Rent and student housing to diversify large sites in order to reduce exposure to the sales market.

Sites in undersupplied markets remain resilient

Oven-ready consented sites between 50 and 150 units in primary locations with no significant upfront infrastructure costs are attracting the greatest interest from parties and are remaining resilient in some locations.

Land buying is more competitive in locations that are heavily constrained by a lack of supply. For example, sites in the East of England in locations such as St Albans are selling well due to the significant undersupply of consented land in these markets.

There is also significant regional variation. In parts of the North and Wales there is appetite for land from a range of parties, supported by greater buyer affordability and stronger sales rates on new build sites in these markets.

In Wales, the new build market is also being supported by the extension of the Help to Buy scheme. Northern greenfield and urban values at March 2023 have remained on par with December levels.

Two-tier land market in London

Over the last six months, land transactions in London have slowed significantly as in the regions, and there has generally been less competition for sites, including from the major housebuilders. The transactional evidence for land values in Q1 2023 that there has been, indicates greater downward pressure on values across London, albeit this is not uniform. Central London residential land values have remained stable, increasing by 0.3% in the six months to March 2023, taking annual falls to -5.5%, underpinned by activity from cash buyers and overseas buyers with less reliance on borrowing. This also reflects where demand has held steady in the sales market. Prime Central London house prices remained relatively static at -0.6% in the six months to March 2023 according to the Savills Prime London house price index.

However, the picture in Outer London is different. The land market in Outer London has generally been more impacted by build cost inflation, slowing sales rates, the end of Help to Buy and rising mortgage rates. Residential land values in Outer London fell by -9.5% in the six months to March 2023, taking annual falls to -16%. However, there is variation across sub-markets in Outer London and on a site by site basis. Demand has remained more robust for smaller sites in well-established upper-mainstream markets and well-connected larger sites where there are opportunities for alternative residential uses such as Build to Rent and student housing.

In the London office market, land values have also faced a noticeable correction. Central and Outer London office land values fell by -17.6% and -22.6% in the six months to March 2023 respectively, driven by the increase in the cost of debt, outward yield movement, softening investor demand and general weaker market sentiment, particularly in more secondary locations.

London development land values

Residential Office

Central London

	Six-month change to March 2023	Annual change to March 2023
Residential	0.3%	-5.5%
Office	-17.6%	-17.6%

Outer London

	Six-month change to March 2023	Annual change to March 2023
Residential	-9.5%	-16.0%
Office	-22.6%	-26.2%

Source Savills Research

> "The ongoing shortage of supply of sites is sustaining demand for land in some locations. As a result, there hasn't been the price adjustment to reflect the wider residential market slowdown and to enable larger volumes of transactions in the land market"

Outlook

The extent to which demand returns to the land market largely depends on the recovery in new build sales. According to our latest research **'What does the current new build market mean for demand for development land?'**, if the recent uptick in the sales rates seen since the start of the year is maintained, activity in the land market is likely to return by the summer as developers become increasingly confident to start on new sites alongside sustained demand from alternative sources (Housing Associations, Build to Rent developers and student housing developers).

Our Savills development agent sentiment survey also suggests early indications of improving appetite for land. More new sites are gearing up to launch and there are more interested parties, suggesting that the land market is starting to open up slowly.

However, there remains uncertainty over land values in the short term. The ongoing shortage of supply of sites is sustaining demand for land in some locations. As a result, there hasn't been the price adjustment to reflect the wider residential market slowdown and to enable larger volumes of transactions in the land market. Therefore, in some markets, a return to volume land sales may entail further downwards price adjustment.

Savills team

Please contact us for further information

Lucy Greenwood
Director
Residential Research
020 7016 3882
lgreenwood@savills.com

Lydia McLaren
Associate Director
Residential Reserch
020 3428 2939
lydia.mclaren
@savills.com

Will Holford
Analyst
Residential Research
020 7409 9909
will.holford@savills.com

Patrick Eve
Head of Regional
Development
01865 269071
peve@savills.com