UK Development – Q3 2024

MARKET IN MINUTES

Savills Research

Residential Development Land

savills

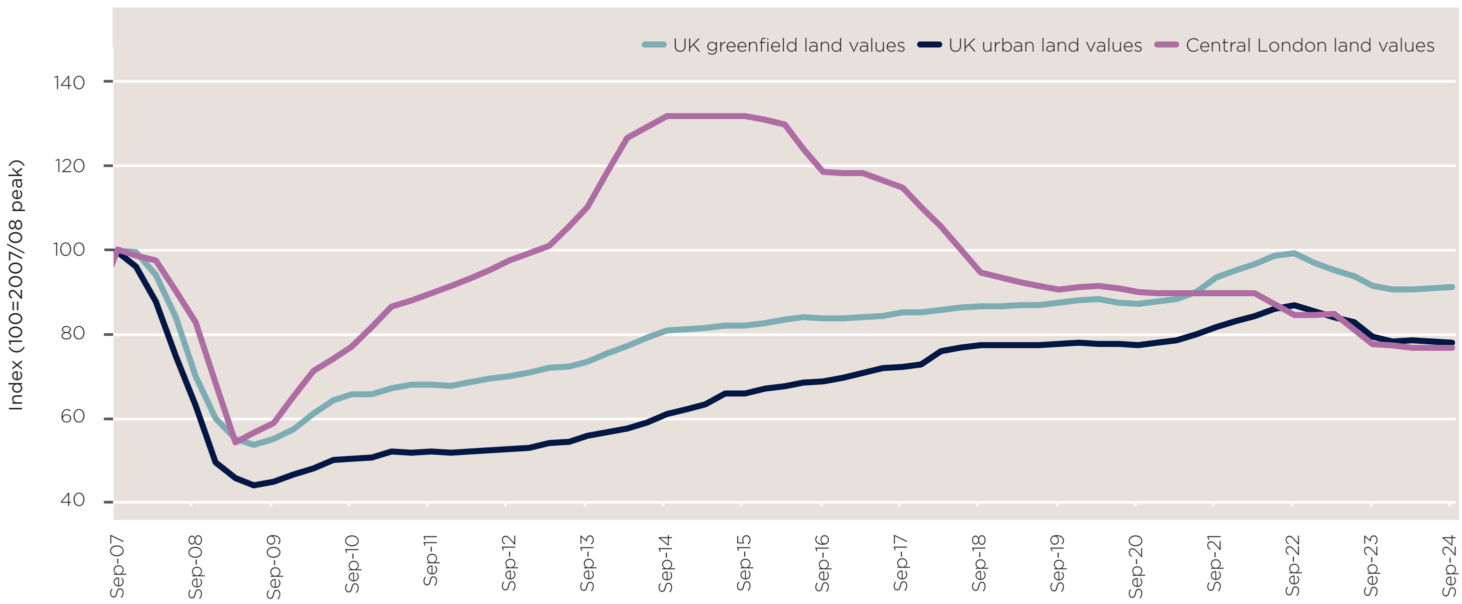
Greater positivity in the land market, but muted transaction levels

The development land market has remained stable over the last quarter. The general election and announcement of the changes to the National Planning Policy Framework (NPPF) have boosted confidence and appetite for land, including from the major housebuilders who have largely returned back to land buying. However, this has yet to lead to a significant uptick in land deals. Nationally, land sales in Q3 2024 were -21% below the previous three year average according to Savills. Despite greater interest, many parties are still cautious, seeking de-risked sites with alternative routes to delivery and opting for deferred payment terms.

Little change in greenfield development land values

Over the last quarter, UK greenfield development land values have remained relatively flat, with quarterly growth of 0.4% in Q3 2024, taking annual change to -0.1% in the 12 months to September 2024. This reflects the greater stability in the economy and the housing market, supported by falling mortgage rates following the cut to the base rate in August 2024, improving affordability for buyers. Still, these are very different conditions from those seen before the 2022 mini budget. National house prices grew by 3.2% in the 12 months to September 2024, according to Nationwide, marking the highest rate of annual growth since November 2022. This is whilst the new build market remains relatively reliant on sales incentives, with some sites experiencing faster private sales rates than others.

Consecutive quarterly growth for UK greenfield development land values



Source: Savills Research

Key stats

-0.1%

UK Greenfield Land

Annual change to September 2024

-1.7%

UK Urban Land

Annual change to September 2024

-31%

Fewer planning consents in England

In the 12 months to Q2 2024 vs. 2021 peak

Source: Savills Research, HBF

Weak performance of high-density urban schemes

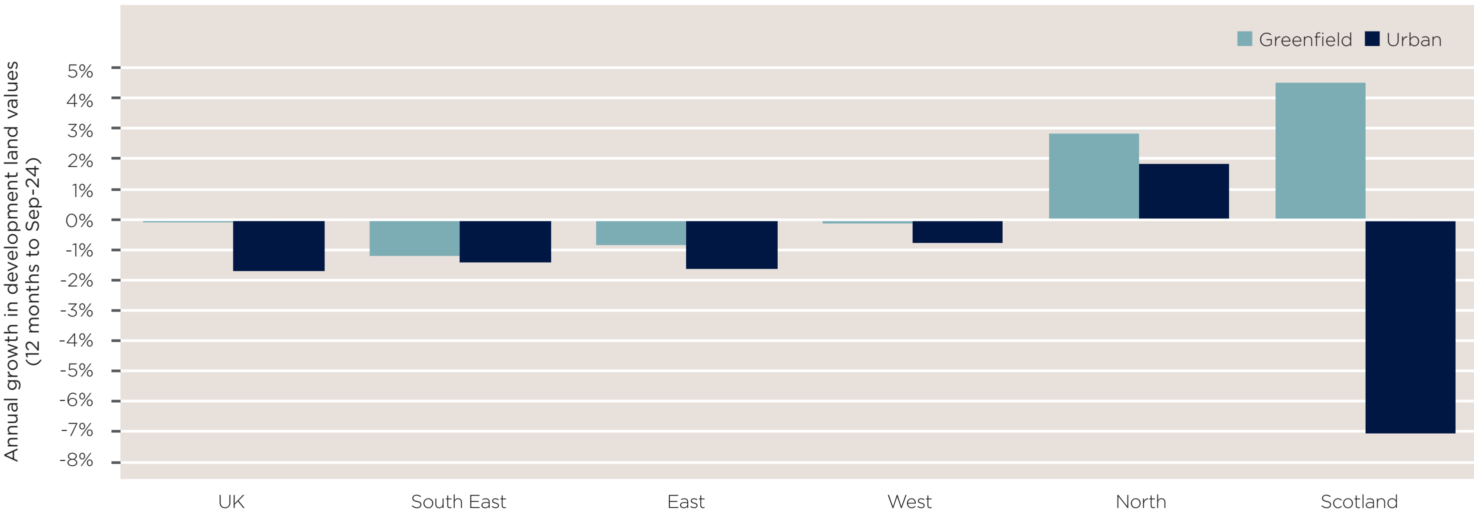
In contrast, the market for urban sites is very challenging. UK urban values fell slightly by -0.3% in Q3 2024, taking total annual falls to -1.7%. In parts of Scotland and the South West, there is virtually no market for high density flat-led schemes. Inflated build costs, the higher risk profile of sites, alongside increasing costs of debt have made these schemes unviable. There is a significantly reduced pool of buyers, with the exception of student housing where currently, urban values are exceeding those for private sale and Build to Rent.

Scotland greenfield land values outperform the rest of the country

The land markets in Scotland have outperformed the rest of the country over the last year driven by a severe shortage of supply related to Scotland's National Planning Framework (NPF4). Scottish greenfield land values increased by 4.5% in the 12 months to September 2024, considerably exceeding the -0.1% annual change in UK greenfield values.

Scotland's planning policy environment has created significant planning bottlenecks and delays, hugely constraining available land supply in Scotland, as reported in Market in Minutes: Scotland Residential Development Land Market. This has created strong competition for sites, with the major housebuilders reducing margins and looking beyond their core patches in order to secure sites. The current behaviour in the Scottish greenfield land market has strong parallels to market conditions in the English land market back in 2022.

Resilience in the North and Scotland for greenfield values



Source: Savills Research

Ongoing planning delays are a major challenge

Although there is optimism surrounding future national planning policy changes and greater appetite to submit planning applications, land supply remains heavily constrained.

In England, -31% fewer homes were granted planning consent in the 12 months to June 2024, compared to the previous peak in planning consents in 2021, according to the HBF. The lack of consented sites is still creating significant competition for land, particularly for optimum sites in primary locations.

Mixed appetite for land

The PLCs are back

The major housebuilders are now active in most markets, demonstrating stronger appetite to buy land. Many PLC housebuilders are seeking to build up their pipelines, supported by steadier private sales rates coupled with a reduction in land buying over the last year. PLC housebuilders bought on average c.80% fewer plots in 2023 than in 2022, according to trading statements. The recent completions of mergers and acquisitions in the sector have provided the major housebuilders with more certainty, enabling them to focus on their future growth strategies.

A preference for partnerships

Partnerships are still prevalent in the land market. Partnerships developers including Vistry Partnerships continue to be very active and competitive. Although location specific, there are examples of partnerships outbidding private developers for large sites, particularly in secondary and tertiary locations where there are weaker private sale markets.

The continued absence of Housing Associations

Housing Associations remain largely absent from the land market caused by a lack of financial capacity across the sector. In most markets, there are very low levels of offers for Section 106 packages and only a handful of providers seeking sites with additionality. Those who remain active are typically local and regional providers with existing local stock or Homes England strategic partners with gaps in their programme.

> Best in class sites continue to attract the strongest competition in London, particularly oven ready sites in well-connected boroughs

The bottom of the land market in London?

London residential land market

The London land market has been dynamic over the last six months. Whilst the same downward pressures persist (including viability, building standards and market strength), there has been a notable improvement in market sentiment and an increase in enquiries for development opportunities.

Sentiment has shifted in response to key events over the period, with initially increased enthusiasm around the election, which has since dampened in anticipation of the tax changes expected in the Autumn budget. As in the regional markets, this appetite hasn't yet translated into an increase in land deals.

Following a period of a significant downward adjustment in land values, there has been no change in London residential land values over the last six months. The chronic shortage of supply is maintaining land values in London. Total annual change in Central London and Outer London residential land values reached -1.1% and -10.5% respectively in the 12 months to September 2024.

The mounting pressures facing developers are still very much evident, illustrated by the larger annual falls in Outer London where the squeeze on viability for residential schemes is most keenly felt. In some boroughs, there are examples of sites remaining in their existing use due to being unviable for residential development. There has also been greater evidence of receivership sales this year, partly due to some borrowers defaulting on finance arrangements and some lenders seeking to reconcile their loan books in anticipation of improving economic conditions. As a result, best in class sites continue to attract the strongest competition, particularly oven ready sites in well-connected boroughs.

London office land market

London office land values have also remained flat over the last six months, taking annual change to 2.8% and -9.2% for Central and Outer London respectively in the 12 months to September 2024. However, as with the residential land market, conditions are difficult – the cost of development finance remains comparatively high, yields have not strengthened and apart from offices in core central locations, rental growth is limited.

Opportunistic strategic land buying

Appetite for strategic land is heightened. In the wake of the anticipated changes to the NPPF, strategic land buying behaviour has shifted, with many parties opportunistically looking to secure a position on grey belt sites. Others are looking to target local authorities should the NPPF be adopted with higher housing requirements, as well as sites where planning prospects were considered to be more long term than before.

Outlook

The factors exerting downward pressure on land values have eased. The cost of debt has stabilised, annual build cost inflation has slowed, housing market conditions are more stable (albeit without demand side support), and the market is adjusting to additional requirements such as biodiversity net gain.

Future demand for development land will be determined by the strength of the new build sales market alongside the potential for builders to deliver alternative tenures. A steady recovery in sales rates for new homes will maintain competition for sites.

So at what point do we reach a reasonable equilibrium between the supply of land coming through the planning pipeline and demand from developers for new sites?

In the short term, the ongoing shortage of supply will continue to support development land values. Albeit the market for Section 106 homes also remains highly limited with the potential to disrupt future housing supply.

Longer term, considering the new Government's planning reform, if implemented, this should result in a greater supply of land. But given planning consents in the year to Q2 2024 are still -28% below 2017-19 levels according to the HBF, increasing supply in the short term is unlikely to have a significant impact on development land values yet.

Savills team

Please contact us for further information

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

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

Katie Collins
Analyst
Residential Research
07815 032 111
katie.r.collins@savills.com

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

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