MARKET IN MINUTES
Savills Research

Residential Development Land

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Some improvement in land market sentiment but highly varied

In the first quarter of 2024, there has been an improvement in sentiment in the residential development land market in comparison to the end of last year but downward pressures persist and there is a lot of variation by location and type of site. More players are tentatively back in the market, supported by some improvement in sales rates for new homes, a moderation in build cost inflation and greater stability in the wider housing market. This has led to an improvement in activity although appetite for land remains highly varied and sites being sold are taking longer to progress.

Green shoots of recovery

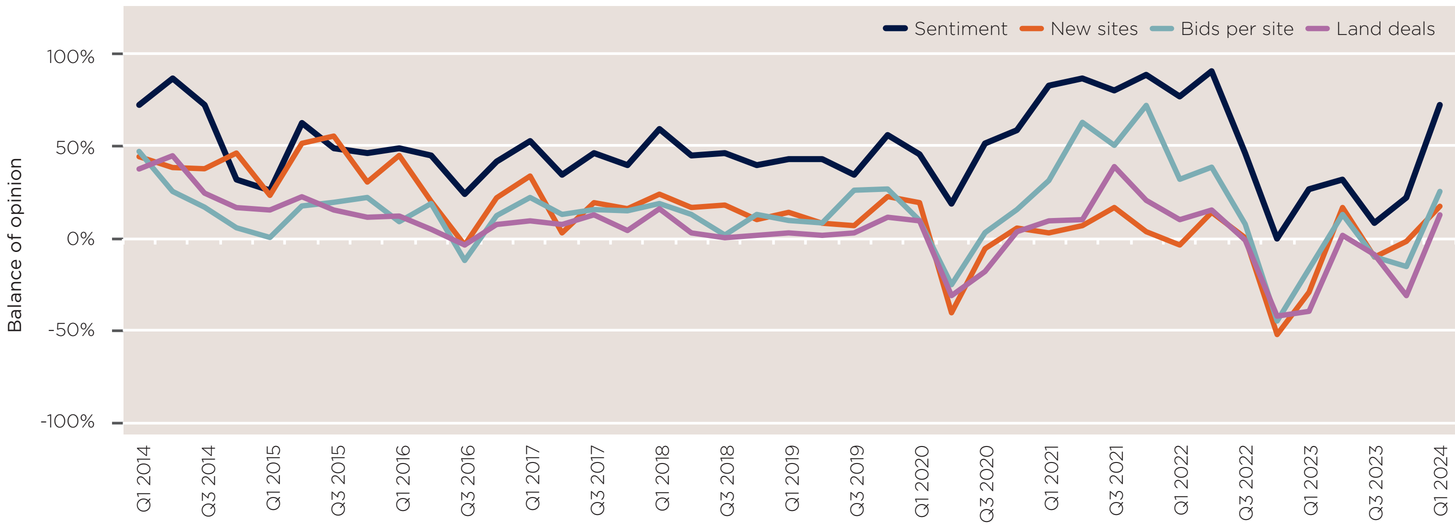
UK greenfield and urban land values remained relatively flat in Q1 2024, taking annual change to -4.8% and -6.5% respectively in the 12 months to Q1 2024. This reflects the greater positivity in the wider housing market and economy, supporting an uptick in demand alongside limited supply in the land market.

House prices grew by 1.6% in the 12 months to March 2024, according to Nationwide and improved mortgage conditions since the start of the year boosted activity with mortgage approvals in February reaching their highest level in 17 months. Alongside this, private new build sales rates for the housebuilders have also seen a modest uptick since the start of the year, reaching c.0.6 per outlet per week in March 2024. Build costs have continued to moderate as a result of falling demand and reduced construction output. Tender prices increased by 2.9% in the year to Q1 2024 compared to 8.6% in the previous year, according to BCIS.

More stability in sales rates has given players more confidence to return to the land market. A net balance of 73% of Savills development agents reported positive market sentiment in Q1 2024, significantly up from 21% the previous quarter. There has also been a slight uptick in the number of new sites launching onto the market, bids per site and the number of land deals happening as more parties look to re-enter the land market after a period of inactivity through 2023.

However, on the supply side, the chronic scarcity of land is continuing to significantly impact the land market, sustaining land values, particularly in the most undersupplied markets. In England, -32% fewer homes were granted planning consent in the 12 months to December 2023 in comparison to the previous peak in planning consents in June 2021, according to the HBF.

Activity levels increase in Q1 2024



Source: Savills Research

Key stats

-4.8%
UK Greenfield Land
Annual change to March 2024

-6.5%
UK Urban Land
Annual change to March 2024

-32%
Fewer planning consents in England
in Q4 2023 vs. 2021 peak

Source: Savills Research, HBF

Have we reached the bottom in London?

The London land market continues to experience downward pressure on values and limited transactional activity but there are some early signs of recovery.

Over the last five years to March 2024, we have seen a rebasing of London land values with Central London residential and Outer London residential land values -16.9% and -30.5% below their March 2019 levels.

In Central London, after a period of sustained value falls, the residential development land market has seen greater stability within the last six months (-1.1% falls in comparison to-8.4% in the previous six months to September 2023) with more positive sentiment amongst buyers and a slight uptick in activity levels.

The ongoing supply demand imbalance continues to maintain land values for the best sites. There has been a flight to quality, with oven ready sites with existing planning permission and good transport links in prime locations attracting much stronger levels of interest.

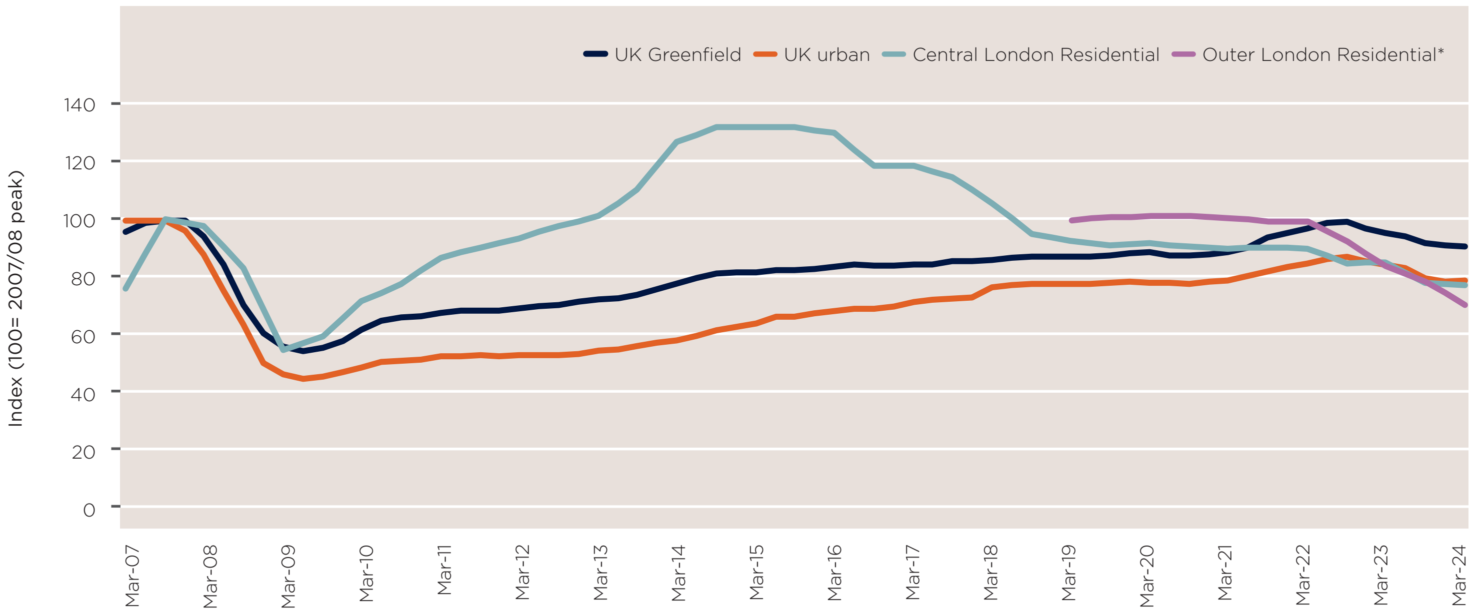
This also reflects the first signs of recovery in the sales market. In Prime Central London, values remained broadly flat at 0.1% in March 2024, representing the first positive quarterly price movement since mid-2022, according to the Savills Prime Central London house price index. Less reliance on mortgage debt and more significant value falls between 2015 and 2019 mean that this part of the market has generally remained more resilient in the wake of higher interest rates.

Outer London continues to face greater downward pressure on residential land values, with total annual falls of -16.6% in the 12 months to March 2024. The challenges of high mortgage rates, build cost inflation, stricter building safety standards, weaker new build sales rates and significant viability challenges on schemes are still constraining the land market in Outer London.

London office market

Land values in the London office market have also begun to show the first signs of recovery after a period of significant falls. Central London office values grew by 2.8% in the last six months, taking annual falls to -14%, supported by the acute shortage of high quality stock in prime locations and more positive rental growth projections. In contrast, greater downward pressures persist in Outer London, where office land values fell further by -9.2% over the last six months, taking annual falls to -29.5%.

Residential development land values



*Index 100= March 2019 for Outer London Residential land values

Source: Savills Research

Site and location specific demand for land

Demand for land continues to be location and site specific. Optimum sites in primary locations which guarantee scale and certainty of delivery are continuing to sell well and are holding their values. Given the continued challenges with the planning system, oven ready sites in secondary locations commutable to key cities also remain in high demand.

On the other hand, appetite for flat-led schemes in urban locations remains suppressed. In April, the Government published guidance confirming the requirement for an additional staircase for residential buildings over 18 metres tall equivalent to six storeys, presenting significant viability challenges for schemes over six storeys. Appetite for land is subdued and land values are coming under pressure for these types of schemes in peripheral secondary and tertiary locations.

In addition, a small number of sites are coming back to the market that are no longer viable to deliver based on original plans.

Ongoing resilience in the Northern land markets

By region, the land market in the North continues to outperform the national average, supported by steadier sales rates, stronger competition for sites and higher levels of house price growth. Northern greenfield and urban land values both increased on a quarterly basis, taking annual change to -1.8% and -1.6% respectively in the 12 months to Q1 2024. In Q1 2024, Northern regions saw the most house price growth including the North East (2.3%) and the North West (1.6%), exceeding the national average of 1.1%, according to Nationwide.

Patchy demand for land

Although, in general, there are more active players in the market and there has been an uptick in land bids received on sites, players are still selective and cautious in their land buying and commitment to land deals. There also remains a strong preference for deferred payments and conditional deals.

PLC housebuilders

The PLC housebuilders have been tentatively returning to the land market since the start of the year, looking to rebuild their land pipelines. However, there is significant variation in land buying amongst the housebuilders. This includes some of the major housebuilders with shorter land pipelines seeking opportunities to replenish land pipelines and those targeting significant outlet growth.

By contrast, a few of the major housebuilders have become increasingly active in seeking sites but are keen to preserve margin levels which is impacting their land bids and competitiveness. To focus on increasing outlets, there are examples of major housebuilders selling serviced land parcels on some of their large sites. This means they can de-risk sites, release capital and purchase smaller sites elsewhere.

Housing Associations

There continues to be significantly reduced appetite for Section 106 from traditional Housing Associations, of which many are constraining their development budgets to focus on improvements to existing stock. As a result, housebuilders are receiving fewer offers for Section 106 packages and in some instances, housebuilders are receiving no offers. However, For Profit Registered Providers seeking Section 106 opportunities remain active, looking to use the less competitive environment to allocate capital and develop relationships with housebuilders.

Whilst there are some Housing Associations who have paused all land buying activity for the short term, those who remain active have become more selective, prioritising land-led opportunities where they can deploy grant funding committed through the Strategic Partnerships programme and Section 106 packages with additionality (converting private stock to affordable with grant funding).

Partnerships

Partnerships have become more prevalent in recent quarters, in particular partnerships between housebuilders and Housing Associations seeking large sites. Following Vistry's recent pivot to a full partnerships model, they have also become more active and competitive, considering opportunities across different tenures.

Outlook

Looking ahead, the key question is whether this recent improvement in land market sentiment represents a more sustained recovery in the land market or whether this simply reflects a short term release of latent demand.

Demand for land will continue to recover if the housing market conditions remain stable and we start to see interest rate cuts over the course of this year, easing affordability pressures for buyers. If private sales rates continue to stabilise, reaching c.0.7 per outlet per week and we see an uptick in buyer demand in line with the spring selling season, we expect to see more activity from the major housebuilders which will support competition for land.

In the short term, despite the general election, we still expect a steady but limited stream of new sites coming onto the market. Ongoing uncertainty around planning policy in the lead up to the general election is likely to constrain the number of sites coming forward.

There are also concerns around future demand for land given the current volatility around the affordable housing Section 106 market. This has the potential to impact private sector completions and put downward pressure on land values as this will start to present viability challenges on development where previously assumed Section 106 values aren't being achieved.

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