UK Development – Q3 2023

Residential Development Land

savills

A relatively weak land market with pockets of resilience

Activity in the development land market has continued to be slow at a national level with continued falls in land values. There are fewer new sites coming to the market and varied levels of demand for sites, reflecting challenges in the wider housing market. However, greenfield development land values are holding up more than expected for optimum-sized, oven-ready sites due to their scarcity. And in some markets, such as the North, values are proving more resilient.

Fewer land sales

There have been fewer development land sales in the last quarter at a national level (-39% down on the same time last year according to Savills land deals) due to fewer new sites coming to the market. The ongoing scarcity of land supply is a major challenge and will mean activity is likely to remain slow in the short term. In England, -22% fewer homes were granted consent in the 12 months to June 2023 compared to the previous peak in planning consents in the 12 months to June 2021, according to the HBF. Nutrient and water neutrality are further obstacles blocking land supply, despite Government proposals to lift restrictions announced in September 2023. The shortage of sites being sold is resulting in values remaining more resilient in some markets despite the downward pressures.

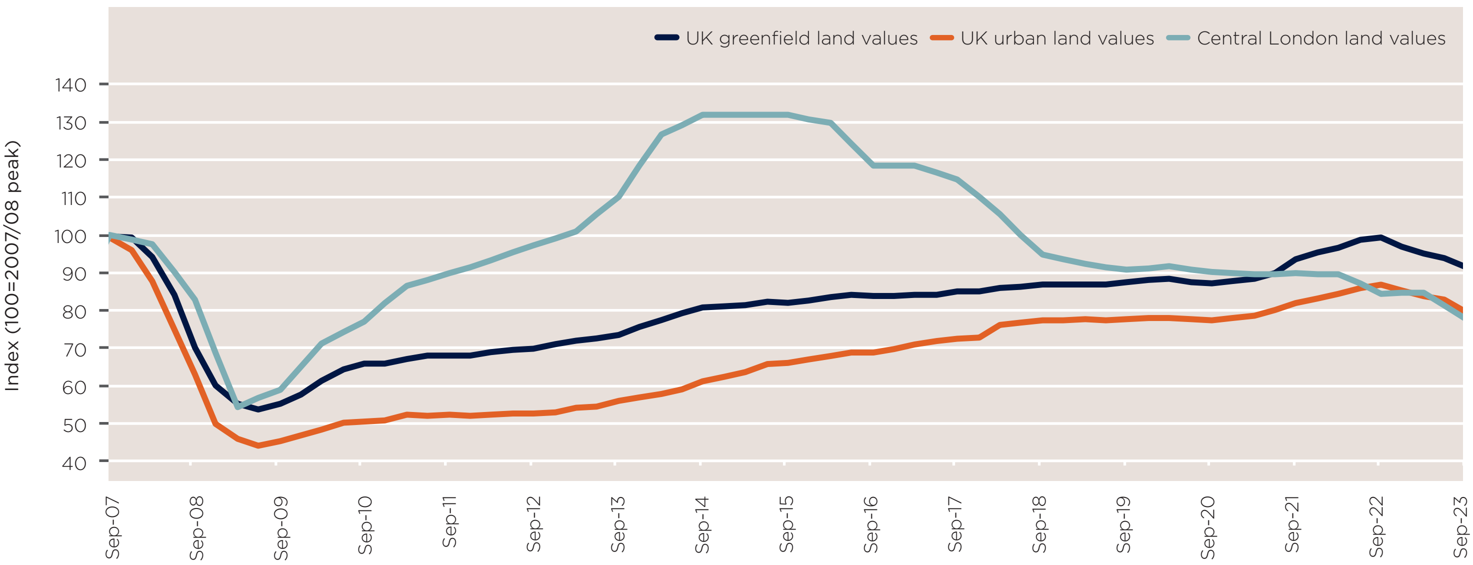
Pressure on land values

As a result of housing market pressures, sentiment in the land market is largely subdued. Buyers are cautious, selective and risk averse. A net balance of 7% of Savills development agents reported positive market sentiment for greenfield sites, down from 31% the previous quarter. There also remains a preference for deferred payment structures and conditionality on bids.

The downward pressures on land values persist due to a combination of weaker sales rates for new homes, falling house prices, elevated mortgage rates, high levels of inflation and rising build costs.

Build costs increased by 4.0% in the 12 months to Q3 2023 for the UK and are forecast to increase by 17.6% over the next five years to Q3 2028, according to BCIS. Heightened development costs are not being offset by house prices which have fallen by -5.3% at a national level in the 12 months to September 2023, according to Nationwide. Although on a monthly basis UK house prices saw no change in September, further price falls are expected in the coming months as buyer demand is falling more than supply, according to the September 2023 RICS sentiment survey.

Further softening in residential development land values



Source: Savills Research

Key stats

-8.0%
UK Greenfield Land
Annual change to September 2023

-8.7%
UK Urban Land
Annual change to September 2023

-39%
Fewer sites sold by Savills
Q3 2023 vs. Q3 2022

Source: Savills Research

Land values remain more robust for the best sites...

Assessing the change in development land values on a quarterly basis is challenging due to limited transactional evidence. However, based on the available evidence, residential land values have further softened at a national level over the last quarter, taking total annual falls in the 12 months to September 2023 to -8.0% for UK greenfield land and -8.7% for UK urban land.

Our UK development land index, reflecting straightforward serviced land parcels with planning (for the greenfield index) and well-located town centre redevelopment sites with planning (for the urban index), shows less of a fall in values than we might expect. Land values are holding up for optimum sites (typically the type our land index measures) more so than the wider market where there has been greater stress and downward pressure on values.

Sites attracting the highest demand are those oven-ready, deliverable, low-risk sites which are also typically the sites in the shortest supply. There were -25% fewer homes granted consent in the 12 months to June 2023 on sites between 100 – 250 units (typically the most popular site size) compared to the same period in the 12 months to June 2021 in England, according to Glenigan.

... and weaker for more challenging sites

In contrast, there is significantly reduced demand for more challenging sites which pose higher risks relating to constraints, conditions and costs. Sites in secondary and tertiary locations are considerably more difficult to sell as there is less confidence around future sales rates in these markets. As a result, there are greater falls in values for more challenging sites.

More resilience in the North

At a regional level there are distinct differences in values and activity. Northern greenfield and urban land values fell by -2.7% and -3.1% in the 12 months to September 2023. In comparison, the annual change in South East, greenfield and urban values was -9.4% and -12.2% respectively, as a result of heightened affordability pressures and a weaker sales market in this region.

The land market has been more resilient in the North where buyers are less affordability constrained and sales rates for new homes have been stronger than the national average in some cases. Alongside continued demand for land, the shortage of land opportunities in the North is also sustaining competition for sites.

House price performance in this region has also been relatively more stable. In the North West and North East, house prices fell by -3.5% and -2.2% in the 12 months to September 2023, more resilient than the national average of -5.3%, according to Nationwide.

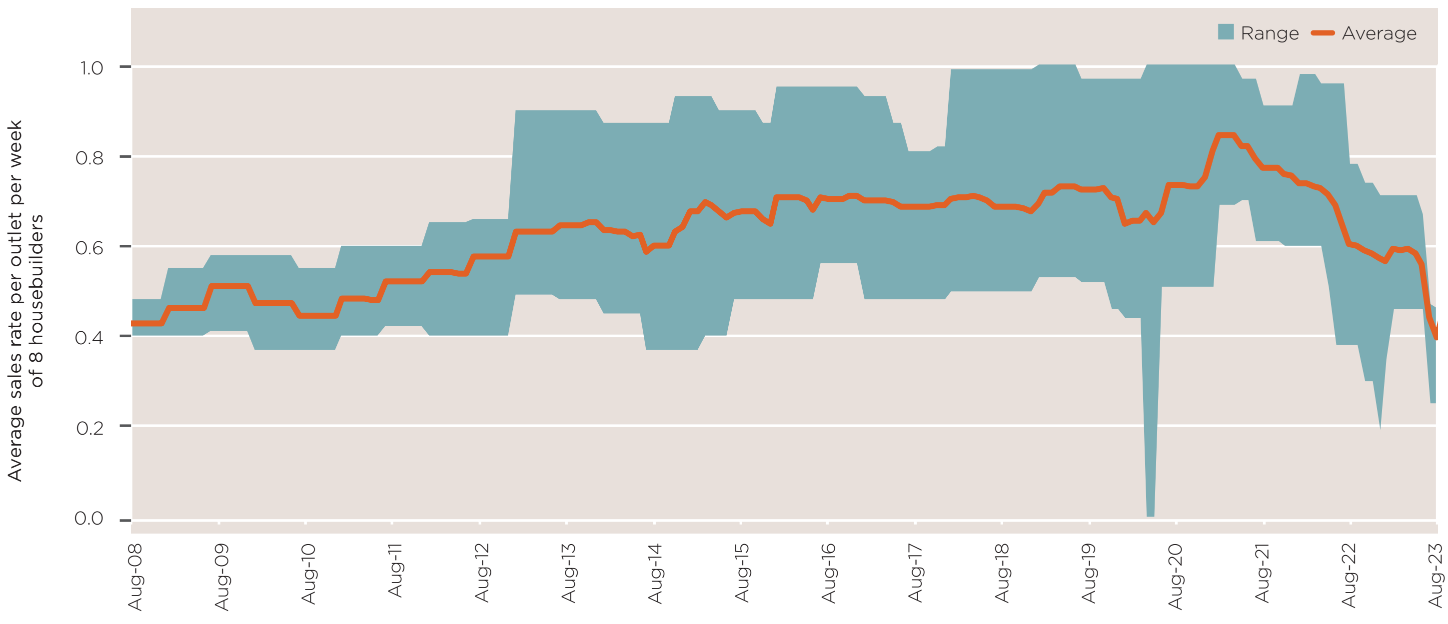
A varied buyer pool

Although the buyer pool for sites is on the whole thinner, activity is varied as parties adapt to changing market conditions. The major housebuilders remain cautious and are largely out of the land market, focused on building out their existing pipelines. However there are some volume housebuilders who are active, bidding competitively to secure land in some regional markets where their land bank is lower.

Sales rates on private homes have slowed over the last quarter, to 0.25 to 0.4 per outlet per week as reported by the major housebuilders, down from a peak of 0.8 in 2022. Bulk sales to Housing Associations and Build to Rent investors have become increasingly widespread and are supporting the new build market through underwriting risk on sites and diversifying large schemes. However, appropriate grant and lower land values are often needed to enable these deals to work.

Private housebuilders backed by private finance continue to be key players in the land market, seeking opportunities to realise their strong growth ambitions. SMEs and regional housebuilders are also still active, with some taking advantage of a less competitive land market and are bidding competitively to secure land and maintain their pipelines, with some looking beyond their local patch to acquire land.

Sales rates slow for new homes despite an increasing reliance on bulk sales



Source: Savills Research, housebuilder annual reports

Greater stress on London land values

The land market in London continues to face challenges and mounting downward pressures on values. As in the regional markets, there is limited transactional activity and reduced appetite for land in London including amongst the major housebuilders. This has been driven by the increasing cost of capital, ongoing build cost inflation, planning delays and slowing sales rates. Stricter building safety standards, such as secondary stair cores on taller buildings and maintained high levels of affordable housing are further adding to development costs and challenging viability on sites in London.

Central London residential land values fell by -8.1% in the 12 months to September 2023. The supply demand imbalance has mitigated against more widespread falls in land values. In Outer London, land values fell by -15.6% over the last year as the market in Outer London is more impacted by weaker sales rates, rising mortgage rates and the end of Help to Buy.

Although there is not yet widespread pressure on landowners to sell land, there is more evidence of distressed sales in London linked to contractor insolvencies and challenged viability on schemes in comparison to the previous six months. Cash-rich and privately financed players are increasingly seeking such opportunities. There also continues to be appetite for alternative residential uses, including student housing and co-living, with developers looking to capitalise on more liquid occupier markets and general undersupply in the land market.

In the London office market, land values have fallen more significantly. Central and Outer London office values fell by -16.3% and -22.4% in the six months to September 2023, driven by outward yield movement, rising costs of finance, a lack of labour and supply chain capacity and reduced appetite for development land, more so in secondary locations.

London land value growth

Residential | Office

Central London

	Six month change to Sept 2023	Annual change to Sept 2023
Residential	-8.4%	-8.1%
Office	-16.3%	-31.0%

Outer London

	Six month change to Sept 2023	Annual change to Sept 2023
Residential	-6.7%	-15.6%
Office	-22.4%	-40.0%

Source: Savills Research

Outlook

There will continue to be fewer sites sold in the short term due to fewer sites gaining consent and, in some cases, landowners of less popular sites waiting for the demand to return before selling.

Development land values will continue to face downward pressure in the short term given relatively weak sales rates for new homes and the rising costs associated with developing and building sites. In addition, land values may need to adjust where alternative tenures such as Build to Rent and affordable housing are being planned. There is significant need and demand for these tenures alongside market sale, but they often need to be at a discount to make the scheme viable.

However, due to the ongoing scarcity of land supply and the failure to resolve uncertainty in the planning system, the competition for sites is likely to remain concentrated on sites with capacity for 100-250 plots, oven-ready sites, and land values for these types of sites are therefore likely to fall less than we might otherwise expect.

Savills Residential Development Land Index Methodology

The Savills Residential Development Land Index is a valuation-based index which assesses land values for hypothetical sites trading on the open market as of the valuation date. The index valuation date is set at the 15th of each quarter month (March, June, September, December).

The basic assumptions for the index include:

- The site has outline planning permission for a typical density for the valuation location and housing development.
- There is a willing buyer and vendor.
- There are no special terms or additional costs pertaining to the piece of land.
- The purchaser is responsible for any S106 and CIL costs and for delivering the required affordable housing.

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

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