UK Development – Q2 2023

# Residential Development Land

savills

## A price sensitive land market

The development land market remains price sensitive with fewer land sales than last year reflecting the wider challenges in the housing market. Over the last quarter, there has been more activity than in Q1 in some areas albeit the land buyers that are active remain selective and supply remains constrained.

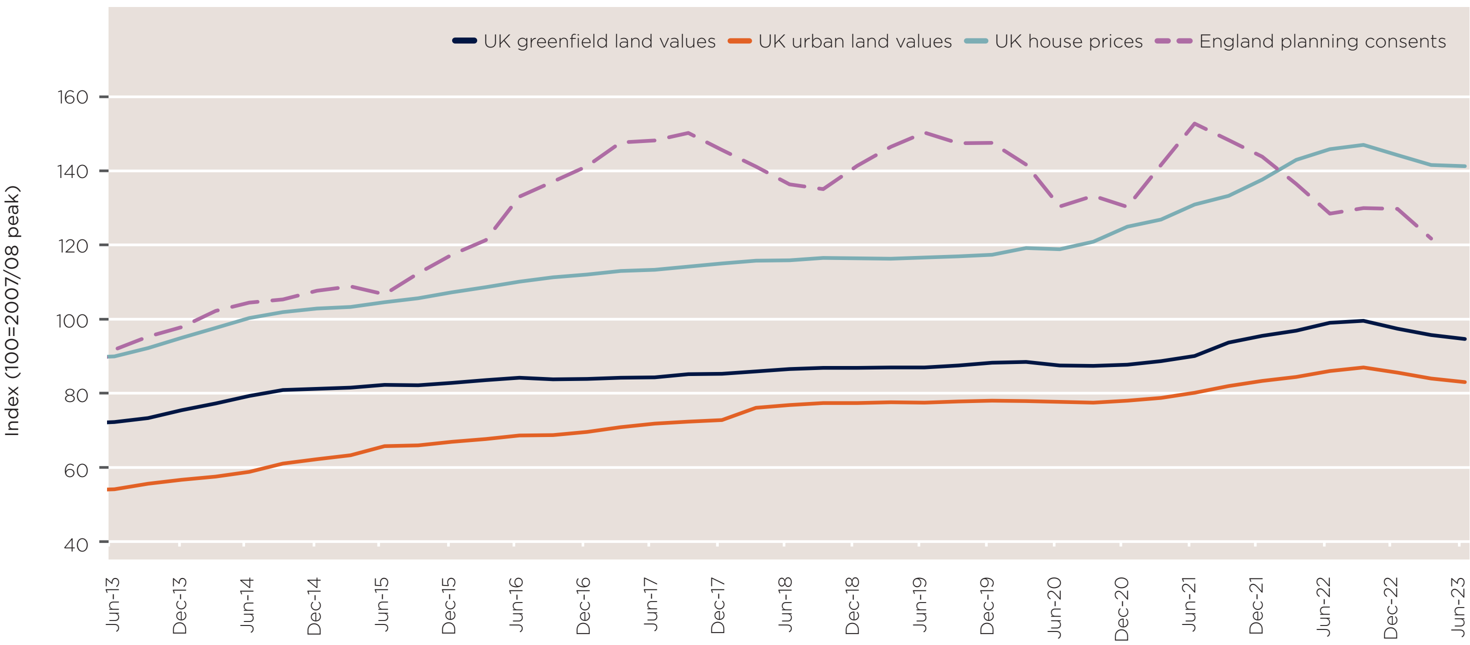
Assessing the change in development land values on a quarterly basis at the moment is difficult due to limited transactional evidence (Savills sold half the number of sites in Q2 2023 compared to the same period in 2022). However, based on the evidence and valuations we do have, we find that land values have continued to soften at a national level over the last quarter.

UK greenfield and urban land values fell by -1.1% and -1.3% in three months to the 15th June 2023, taking total annual falls to -4.4% and -3.6% respectively.

There are mounting downward pressures on land values with stubbornly high levels of inflation, rising mortgage rates, falling house prices, ongoing build cost inflation, and more modest new build sales rates. Bulk sales to Housing Associations and Single Family Housing investors are also increasingly common. However, these downward pressures aren't yet being significantly reflected in the prices paid for land across a wide spectrum of sites. Despite wider caution in the market, the ongoing lack of land supply is resulting in reasonable competition and maintaining land values in some markets including the East Midlands which has proven particularly resilient. However, other less desirable markets and sites have seen a reduction in values.

Planning remains a key challenge. In England, 11% fewer homes were granted consent in the year to Q1 2023 compared to the same period in 2022, according to the HBF. The shortage of land supply is compounded by challenges such as nutrient neutrality and grid capacity, further constraining the land supply coming forward in the affected markets and heightening competition for straightforward, deliverable sites.

**Development land values soften**




**Source:** Savills Research, Nationwide, HBF

## Key stats

-4.4%
**UK Greenfield Land**
Annual change to June 2023

-3.6%
**UK Urban Land**
Annual change to June 2023

-53%
**Sites sold by Savills**
Q2 2023 vs. Q2 2022

**Source:** Savills Research

# Activity picking up slowly

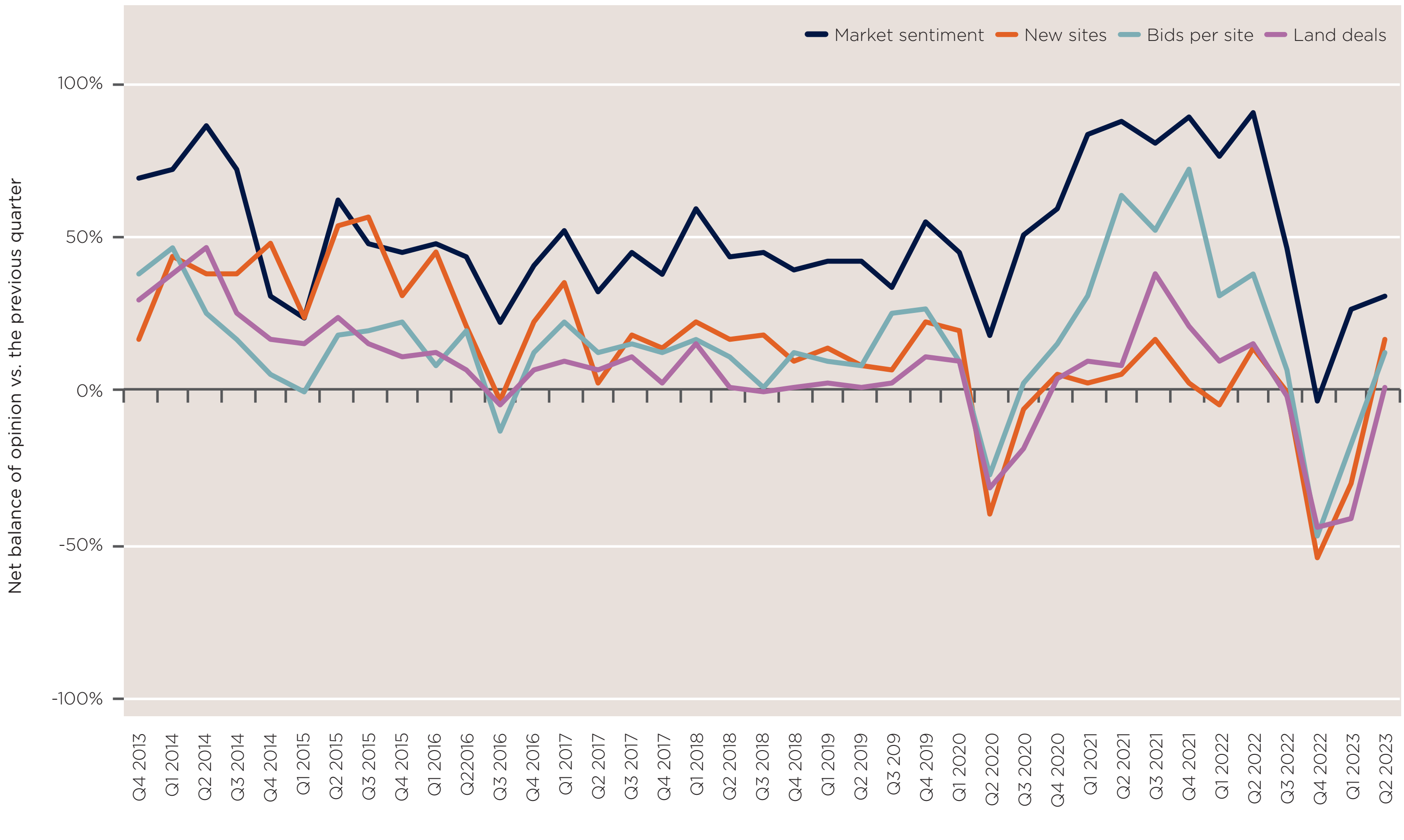
Activity has slowly started to return to the land market over the last quarter. Although sentiment is largely subdued, there are early signs of positivity. A net balance of 37% of Savills development agents reported more positive market sentiment, up from 23% in March 2023.

More sites have been launched on the market this quarter after land owners held back their sites in the aftermath of the minibudget and the Easter holiday period. A net balance of 17% of Savills development agents reported new sites being bought to the market in June, up from -54% and -30% in December and March respectively.

The number of bids has also improved both in quantum and quality signalling a return to a steadier land market with a modest handful of bidders, equivalent to pre Covid-19 market conditions. A net balance of 13% of Savills development agents reported an increase in the number of bids per site in Q2 2023, up from -18% in Q1 2023. However the buyer pool is thinner and buyers have become much more cost conscious with a greater preference for deferred payments and conditionality on bids.

With the number of bids per site reaching a more stable equilibrium and the quality of bids improving for the best sites, there is no evidence yet of distress or widespread forced sales despite multiple parties seeking such opportunities.

**More positive sentiment in the greenfield land market**




**Source:** Savills Research

# Variation site by site

There hasn't been any notable regional variation in activity levels over the last quarter but more so on a site by site basis. Appetite for land remains resilient and values are holding up for sites in primary locations in established residential markets that will support a strong sales rate, particularly for sites of 50-150 units. On the other hand, sites in secondary and tertiary locations are less appealing and as a result in some cases are more likely to see reductions in land values.

In London, land values face greater strain from higher build costs, new building safety requirements, viability challenges and rising contractor insolvencies. Sites with capacity for alternative tenures such as Build to Rent, co-living and student housing, allowing players to manage risk, are attracting the greatest interest from parties.

# A mixed bag

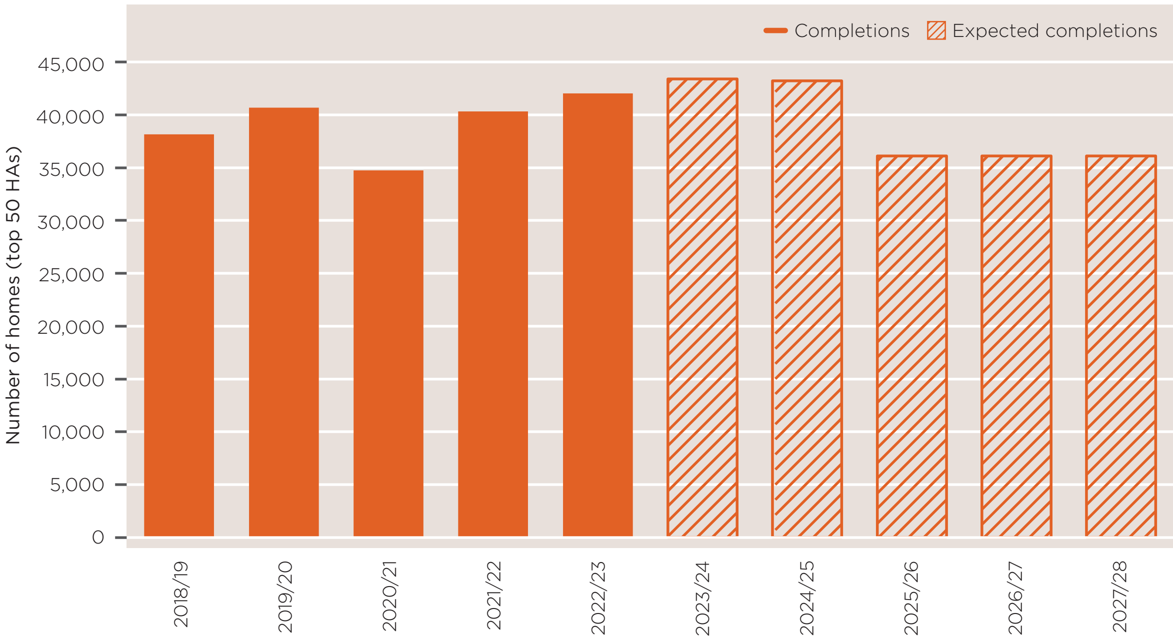
Although some of the major housebuilders are cautiously returning to the land market, many are still largely out of the market and are working through their existing land pipelines. As a result, this has provided opportunities for other players to take advantage of a less competitive land market than last summer and acquire land.

So who is active? Private housebuilders supported by private equity are key parties seeking land in order to gain market share and achieve strong growth ambitions. And many SMEs continue to be active, driven largely by pressures on planning and the need to keep buying land, squeezing margins to remain competitive.

Additionally, Housing Associations (HAs) are also active in many regional markets supported by grant funding despite pressures to divert spending to existing stock improvements. Many HAs are increasingly growing in expertise and ability to generate successful offers to deliver new sites. The top 50 developing HAs completed 42,000 homes in 2022/23, marking a 4% increase on the previous year. They plan to build a further 195,000 homes over the next five years, according to Inside Housing. 46% of this pipeline is yet to be secured and therefore they will need more land to deliver their ambitions. Although some HAs have announced plans to scale back development programmes, many providers will need to continue to secure land to fulfil their pipelines.

Additionally, there were a record number of transactions for Single Family Housing (Build to Rent) in the first half of the year, as the sector continues to rapidly expand and housebuilders are benefitting from de-risking a proportion of their future sales through partnering with institutional investors in the space. Single Family Housing deals made up more than a third of total Build To Rent investment in the first half of the year, up from 7% in 2022.

**54% of five year pipeline secured by the top 50 developing Housing Associations**




**Source:** Inside Housing

# Outlook

Weaker prospects for the housing market, as inflation and interest rates are expected to remain elevated for longer, will continue to impact buyer demand and confidence. Therefore, significant economic uncertainty, housing market pressures and the additional costs required to deliver sites will put pressure on land values.

Over the last couple of weeks, increasing concern around rising inflation and mortgage rates has tempered sentiment in the land market slightly compared to the Savills development agent survey reflecting sentiment as of 15th June.

In the short term, if the supply of land remains constrained then the land market is likely to continue operating in its current form, broadly maintaining values for straightforward deliverable sites as they are relatively few and far between. But in weaker markets with greater land supply, there are likely to be more significant falls in land values. There may also be pressure on values for more challenging sites where landowners are forced to sell. Levels of competition are likely to be steady as the major housebuilders cautiously return to the land market to selectively replenish their landbanks alongside sustained demand from alternative parties.

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