UK Development – Q4 2023

Residential Development Land

Further falls in land values but more cautious optimism for 2024

In the last quarter of 2023, residential development land values fell further on a national level, with fewer sites sold and less bids received on sites marketed. UK greenfield and urban land values fell by -0.8% and -1.3% in Q4 2023, taking total annual falls to -6.5% and -8.4% respectively. When compared against the previous peak in the land market in Q3 2022, UK greenfield and urban land values have fallen by -8.7% and -9.9% respectively.

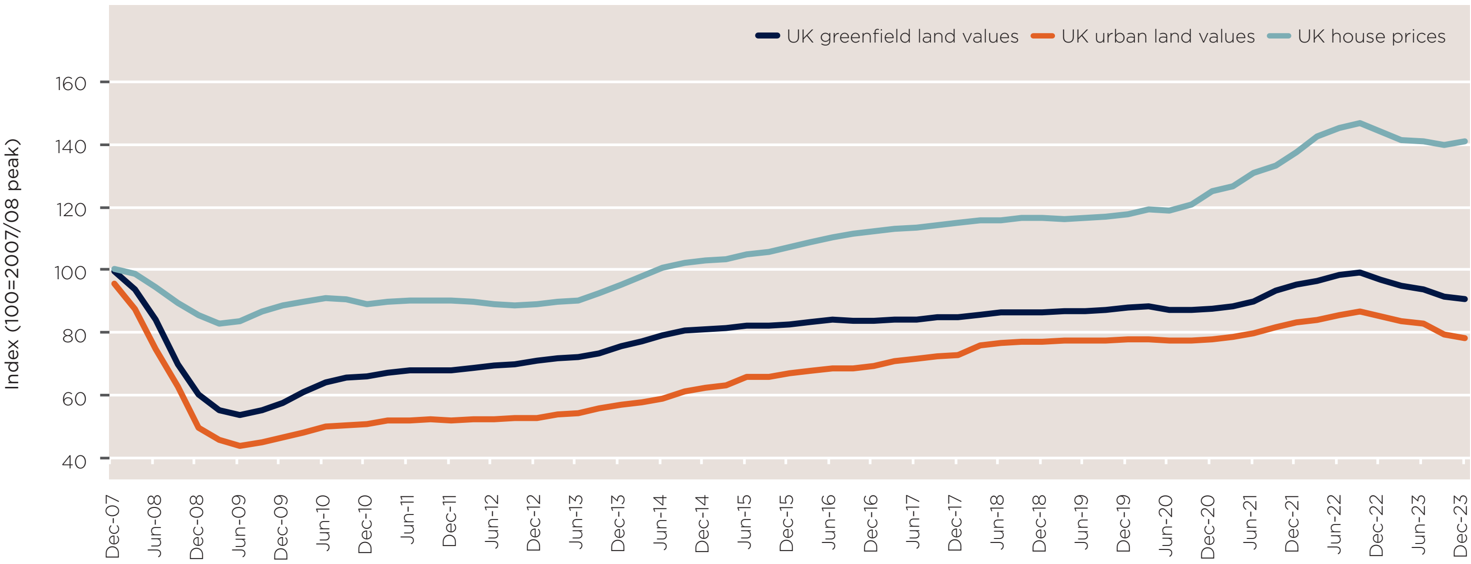
This is reflective of the subdued new build sales market. Private new build sales rates for the housebuilders are currently closer to 0.5 per outlet per week than the 0.7 typical of 2016-2022, according to listed housebuilder trading statements. Many developers are more cost conscious at the moment in order to remain as profitable as they can in weaker sales market conditions, which is resulting in less land buying and/or more conservative bid prices.

Significant variation

Some locations and sites, however, buck this trend. In locations with an acute shortage of sites, where builders need to fill gaps in their pipelines, there continues to be reasonably strong competition for sites and land values are more resilient. Optimum sized sites between 100-200 units, in primary locations where there are few other opportunities remain in demand. And land values in the North and East Midlands in general remain robust due to a more resilient housing market, shortage of sites and stronger competition. Northern greenfield land values are -2.9% lower than in Q3 2022 (with house price growth of -1% in the period). By comparison in the South East, land values are -9.7% below Q3 2022 due to greater falls in house prices (-5%) and buyers are more affordability constrained.

Apartment schemes in town centres have seen less demand than house-led greenfield sites due to the associated higher risks and additional build costs to deliver these schemes. This has led to greater falls in urban land values. In London, there have been more distressed sites coming to the market due to lack of viability as a result of changes to building regulations, affordable policy and weaker sales market conditions.

UK greenfield land values are down by -8.7% from their 2022 peak



Source: Savills Research, Nationwide

Key stats

-6.5%
UK Greenfield Land
Annual change to December 2023

-8.4%
UK Urban Land
Annual change to December 2023

-28%
Fewer planning consents in England
In Q3 2023 vs. 2021 peak

Source: Savills Research

Fewer sites to sell, and sites taking longer to sell

Despite some weakness in the development land market, the ongoing scarcity of land supply is supporting competition for consented and serviced sites in undersupplied markets. In England, -28% fewer homes were granted planning consent in the 12 months to September 2023, compared to the previous peak in planning consents in 2021, according to the HBF.

The fewer sites consented have also led to c.30% fewer land sales at a national level in 2023 compared to 2022 according to Savills. Sites being sold are also taking longer to progress due to additional caution and due diligence.

The buyer pool has become thinner, with some parties pulling back from the market and reassessing deals. A net balance of 16% Savills development agents reported a decrease in the number of bids per site in Q4 2023, up from 10% in Q3 2023.

Alongside a reduction in the level of bids per site, there has been evidence of chips in land values on deals over the last quarter from prices agreed earlier in the year and a few examples of land deals falling through. However, where parties are looking to fill supply gaps in local markets, bidding remains competitive.

A thinner buyer pool

There remains mixed appetite for land amongst different players, with some parties out of the market and taking stock of market conditions whilst others look to acquire land in a less competitive land market.

PLC housebuilders

The PLC housebuilders continue to maintain a selective approach to land buying. Private sales rates increased slightly in Q4 2023 and we expect them to remain more resilient given the recent lowering of mortgage rates. However, without the return of Help to Buy or an equivalent scheme, private sales rates are unlikely to return to 2016-2022 levels of c.0.7 per outlet per week. Therefore, some housebuilders are switching some units to alternative tenures to enhance the pace of delivery on sites.

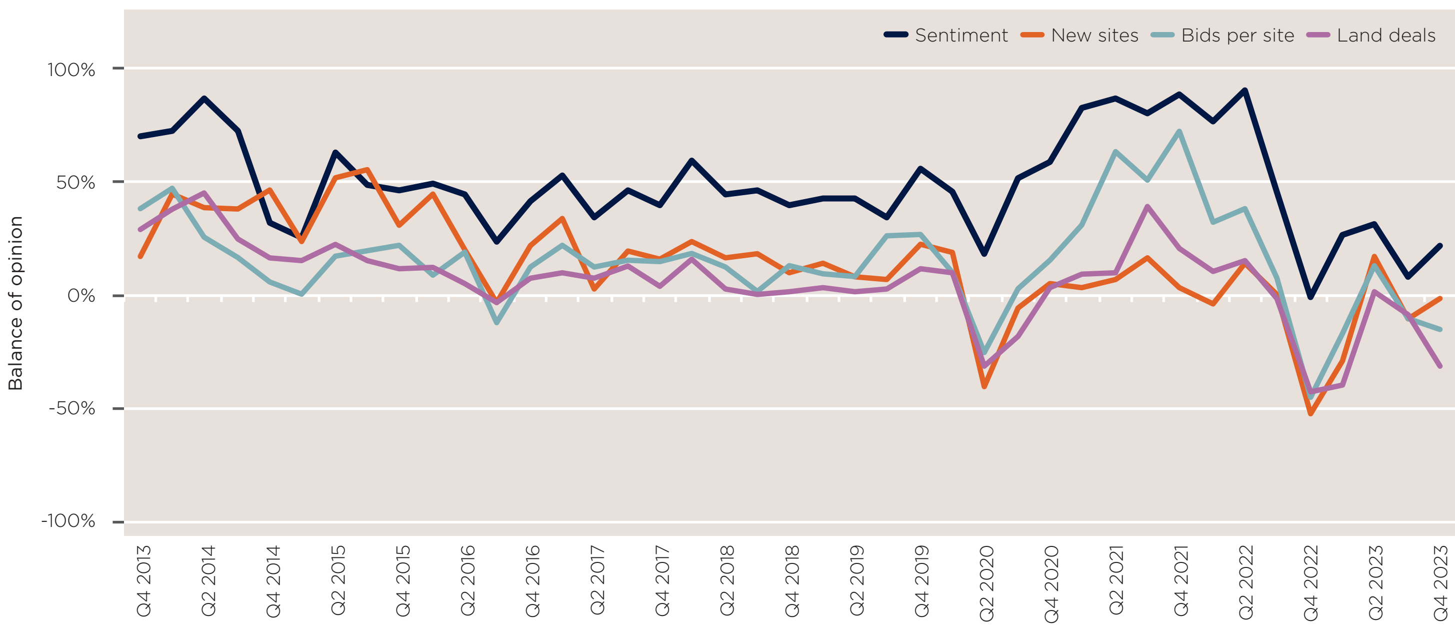
Housing associations

There is less demand for Section 106 from many traditional housing associations who are prioritising land-led development and existing stock. Housing associations face mounting pressures from rising costs of borrowing, build cost inflation and the need to divert investment towards remediating existing stock. Total sector expenditure on repairs and maintenance of existing stock in September 2023 was 19% higher than the previous year according to the Regulator's quarterly risk survey. This means that housebuilders will need to explore alternative approaches to deliver Section 106, which could include: advertising to a broader pool of Registered Providers or investors, aggregating packages of Section 106 units or including private units as part of packages enabling housing associations to use grant. Alternatively, some housebuilders are looking to set up their own Registered Providers and seek capital investment to acquire the Section 106 on land they own.

Private housebuilders

Large private housebuilders with access to private finance (or are cash-rich) are still active in the land market, looking to deliver volume by considering multi-tenure schemes, capitalising on a less competitive land market and securing opportunities before the PLC housebuilders return to the land market.

Modest uptick in land market sentiment in Q4 2023



Source: Savills Research, housebuilder annual reports

Build costs start to moderate

Over the last year, the rate of build cost inflation has eased, driven by a slowdown in construction demand and a fall in material costs. Build costs increased by 3.5% in the 12 months to Q4 2023, in comparison to 9% in the previous year, according to BCIS, however some builders have even reported falls in costs in Q4. Further easing in build costs is anticipated with BCIS forecasting a 2.1% increase in the 12 months to Q4 2024. However, there are additional development costs for parties to manage which include building safety requirements (secondary staircases) and environmental standards such as the Future Homes Standard set to be implemented in 2025 and Biodiversity Net Gain which is due to come into force in February 2024.

Strong appetite for strategic land

Given the shortage of immediate land supply, there continues to be heightened levels of interest in strategic land and longer term opportunities with lower upfront expenditure as players look to mitigate risk and secure a strong longer term pipeline. Although the challenging planning environment is causing players to consider prospective opportunities and length of terms more closely. Facing a constrained supply of immediate land and an uncertain planning environment in the short to medium term, many of the major housebuilders are focusing on delivering completions sourced from their strategic land pipelines.

Outlook

It's challenging to predict where the development land market is heading given the ever-shifting variables in the housing market.

The recent falls in mortgage rates and greater stability in the housing market have resulted in sentiment in the land market starting to improve slightly, therefore we expect demand for land to increase in 2024 if housing market conditions and sales conditions continue to improve. UK house price growth remained flat in December, taking 2023 annual house price falls to just -1.8% according to Nationwide. We have already started to see a slight uptick in land buyer sentiment with a net balance of 21% of Savills development agents reporting positive market sentiment for greenfield sites in Q4 2023, up from 7% in Q3 2023.

In the short term, we expect some more new sites to launch onto the market in the first half of 2024 due to more positive market conditions. However, the supply of land is likely to remain constrained in the short to medium term due to the continued slowdown in the number of sites granted consent. Continued uncertainty around planning policy, including the removal of five year housing land supply requirements for local authorities with recently adopted Local Plans (announced in the revisions to the NPPF in December 2023) will add further pressure on supply.

Levels of competition in the land market will likely remain muted until the major housebuilders become more active. With considerable variation in the size of the major housebuilders' land pipelines, we expect some housebuilders to increase their activity in the land market earlier than others in order to replenish land pipelines which will boost competition for sites.

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.

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