Market in Minutes
UK Residential Development Land

January 2012

SUMMARY

Bright spots in a muted market

■ Nationally, land markets are stagnant, but there are distinct 'bright spots' as housebuilders target smaller, readily developable sites in buoyant local markets, pushing up values.

■ There is demand from the larger housebuilders for larger lot sizes in good locations, but supply is tight.

■ Government initiatives aim to improve the viability of more sites. Of particular relevance are proposals to allow renegotiation of section 106 requirements.

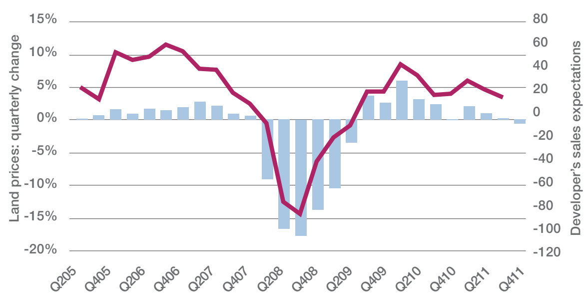
■ Mortgage Indemnity Guarantees aim to facilitate up to 33,000 new home purchases each year. This could have a positive impact on housebuilding volumes – and in turn fuel land activity.

■ The greatest threat to the land markets in the coming year will be the state of the economy more broadly, and is likely to result in no price growth.

■ The outlook for the 'right' land in strong local markets is rosier. While price growth is still likely to be limited, prospects for transactional activity are better.

GRAPH 1

Developer's sales expectation and quarterly land price growth



Graph source: Savills Research, HBF

Nationally, the rate of land value growth in 2011 was broadly flat, dipping into negative territory in the final quarter of 2011. Greenfield land values fell by -0.7% in Q4 2011, bringing annual growth to 2.5%. Urban land values saw comparable quarterly falls of -0.5%, with annual growth now at 1.3%.

As conditions in the economy worsen, confidence in the market is weakening. Developers are becoming increasingly cautious ahead of an anticipated dip in house prices, and are building in additional margin on the prices they are willing to pay for land to compensate. On the bright side, land transaction levels in stronger markets are significantly above their lows of 2009.

The Home Builders' Federation survey of developers' sales expectations of new homes shows net balance of just 15% of respondents expecting sales to increase in 2012. This correlates with a weakening in land values (Graph 1).

Localised bright spots

While price growth overall is stagnant, there are some distinct bright spots in the market, with viable, readily developable land in limited supply in many areas.

Broadly, the southern regions still outperform those in the north, but the full picture is more complex than a simple regional one. Housebuilders are targeting their activity, so demand is strong for consented land in high-value regional towns and cities across the whole country.

Housebuilders and developers are all chasing the same buoyant markets, so land prices in such areas are increasing. Aberdeen, for example, where oil industry activity is sustaining surplus household income and demand for new homes is a strong hotspot.

There is also appetite from some of the larger housebuilders for bigger lot sizes, as they look to secure a medium-term supply pipeline. The supply of good sites of this type however is limited. Under the current planning framework, there are significant constraints on new supply coming forward.

Government initiatives

The government has announced a host of new initiatives to stimulate housebuilding activity in England, with parallel initiatives in Scotland and Wales. The success of these initiatives will be important in helping to free up the land markets.

Of particular relevance are proposals to allow developers to require local authorities to reconsider section 106 agreements that were agreed in more prosperous markets. This goes to the heart of the constraints on viability that are preventing many larger sites from being developed.

Mortgage Indemnity Guarantees will open up assisted purchase of new-build property to all qualifying purchasers, not only first time buyers. The aim is to facilitate up to 33,000 new home purchases each year, which could have a positive impact on housebuilding volumes – and may fuel land activity.

For many of the very largest sites, which hold the greatest potential for housing delivery, the level of remediation required renders them unviable. In response, the £500 million Growing Places fund (to be allocated by the end of January 2012) aims to unlock sites within Local Enterprise Partnership areas where delivering infrastructure is a key barrier to new development.

This marks an opportunity for finance-restricted developers who need help in the funding of link roads and other key infrastructure required to unlock these sites. ■

OUTLOOK

The market in 2012

■ The greatest threat to the land markets this year is the weakening economic outlook. Oxford Economics forecasts UK GDP growth of just 0.4% in 2012. With higher unemployment and real income growth stagnant, the increased economic stress will be felt in the market.

■ Our own forecasts are that average UK house prices will fall by -2% in 2012 and remain low for the next five years. Housing transaction levels are also likely to remain low which will suppress developer confidence – and hence demand for some types of land. Activity will be healthiest in higher value towns and cities.

■ The challenge will be sustaining the supply of viable land, which is where new government initiatives may help, though it will take broader improvements in the economy and housing market before sustained value growth is seen.

■ Overall, we expect our land index to remain unchanged by the end of the year, reflecting small falls in some locations, and modest rises where competition sharpens pencils in the most lucrative markets.

Savills Research team

Please contact us for further information

Yolande Barnes
Director
020 7409 8899
ybarnes@savills.com

Paul Tostevin
Associate
020 7016 3883
ptostevin@savills.com

Savills plc
Savills is a leading global real estate service provider listed on the London Stock Exchange. The company established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows, and now has over 200 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.