

Residential Development Land

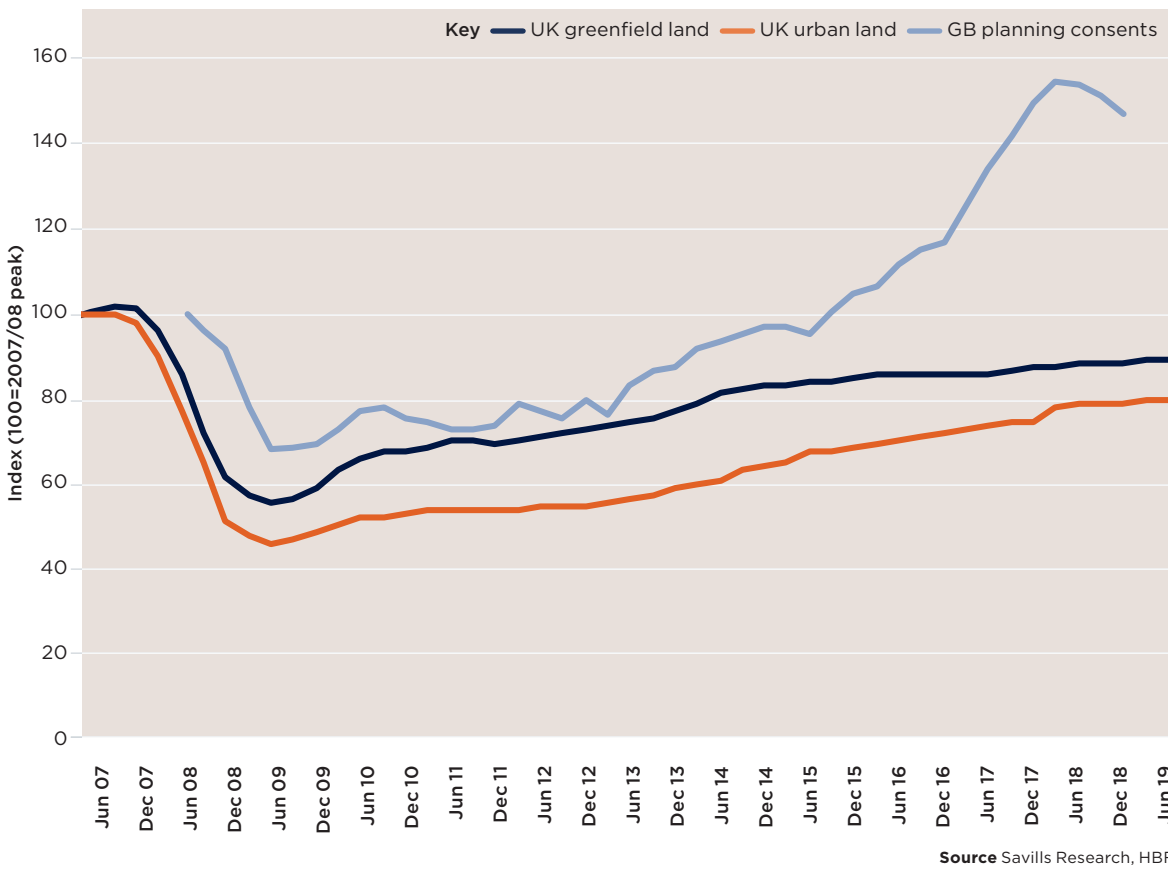


Land values remain stable in Q2

Land values remained stable during the second quarter of 2019 as housebuilders maintain discipline and manage risk in their land acquisition. UK greenfield and urban values changed by 0.0% and -0.1% this quarter, taking annual growth to 0.8% and 0.6% respectively. In contrast to the rest of the UK, land values in Scotland and the East have grown in Q2 with

strong competition for well-located, smaller sites of c.100 units on the edge of urban areas in relatively affordable locations. A shortage of land opportunities in Scottish cities is driving growth there. Strong rates of sale for new homes in the East Midlands are driving demand for land with good transport links in more affordable locations such as Peterborough.

Flat land values There has been little movement in land values as housebuilders take a more disciplined approach to buying



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CAREFUL SITE SELECTION

UK greenfield and urban values have changed by 0.0% and -0.1% this quarter as housebuilders are managing risk through careful site selection and acquisition structures.



HA APPETITE TO DEVELOP

According to the *Inside Housing* top 50 biggest builders survey, the top 50 developing housing associations built 38,137 homes in 2018/19, an 8% increase from 2017/18. They plan to increase delivery by a further 11% in 2019/20.



MMC MOMENTUM

Investment into the development of modern methods of construction (MMC) is increasing. Government and providers have a growing appetite to use new technology and offsite manufacturing to make a significant difference to the way that housing is delivered.

“Consistent with this risk mitigation, uncomplicated, smaller sites in attractive locations are still commanding strong interest”

A MORE DISCIPLINED APPROACH

Housebuilders are maintaining margin discipline when land buying, managing risk through careful site selection and acquisition structures. Alongside these themes, Kier has started to dispose of land in order to reduce debt and raise cash, and Persimmon has focused on pursuing selective investment in new land opportunities. Consistent with this

risk mitigation, uncomplicated, smaller sites in attractive locations are still commanding strong interest. This risk managing is a response to increasing uncertainty over the political and economic impact of Brexit, the effect of the forthcoming restrictions to Help to Buy and the cyclical nature of the housing market. There are signs that this is feeding into a wider slowdown in housebuilding. MHCLG figures

on new build starts and completions for Q1 2019 reveal 36,630 total starts in England, 9% down compared with Q1 2018. Private new build starts are down 11% during the same period.

Uptick in HA development

Housing associations (HAs) are becoming a more important player in the land market, with the potential to significantly contribute to delivery on their own or through JVs and partnerships. According to the *Inside Housing* top 50 biggest builders survey, delivery numbers are up. The top 50 developing HAs built 38,137 homes in 2018/19, an 8% increase from 2017/18. They plan to increase delivery by a further 11% in 2019/20 to 42,278 completions.

Current HA delivery is largely reliant on Section 106. Despite intentions to move towards land-led development, according to the NHF supply survey in 2018-19, 54% of affordable housing completions

were delivered through Section 106. Delivery of low cost home ownership (shared ownership) increased the most, growing by 21% in 2018/19 as HAs move away from market sale towards other tenures to cross subsidise. For example, one-third of L&Q's overall delivery total is low cost home ownership, while Torus delivered 46% of its units through shared ownership.

Despite current optimism, HA appetite to develop is impacted by the uncertainty of future government sector support amid recent political instability. HAs also remain constrained by land, with 78% citing land as the biggest development constraint in our *Savills Housing Sector Survey 2019*.



ATTRACTIVE ALTERNATIVE SOURCES OF DELIVERY?

Housebuilders are looking to alternative sources of delivery such as build to rent in order to diversify. Telford Homes has been the most prominent mover into the build to rent sector.

As of Q2 2019, there are 32,223 completed build to rent units and a further 110,776 under construction or in planning, according to the British Property Federation.



A NEW ERA OF COUNCIL HOUSEBUILDING

Local authorities have ambitions to develop at scale following the removal of the HRA debt cap, and therefore may become more active in the land market. According to *Savills Housing Sector Survey 2019*, 70% of local authority respondents aim to increase delivery, including 25% that plan a big increase. It is 100 years since the Addison Act paved the way for council housebuilding.



CAUTIOUS OPTIMISM FROM HOME BUYERS

Indicators of sentiment show more stability in buyer interest. There were equal numbers of respondents reporting an increase and decrease in net reservations of new homes according to the May HBF survey. The same is true for new buyer enquiries in the latest RICS UK Residential Market survey for May, having been negative for the previous nine months.

FROM THE BUILDING SITE TO OFFSITE

Investment into the development of modern methods of construction (MMC) is increasing as building using MMC and innovations in construction technologies gathers momentum.

According to the *Inside Housing* survey, the top 50 developing HAs delivered 5,389 homes using MMC in 2018/19, an increase of 15% from last year.

Ilke Homes and Places for People announced

a £100 million modular deal in which Places for People will source 750 modular homes from Ilke's Yorkshire factory. Barratt has acquired a British timber manufacturer and aspires to use MMC in 20% of homes by 2020. L&Q has revealed plans to use MMC in every new build unit by 2025. Japanese housebuilder Sekisui House has teamed up with Homes England and Urban Splash in a £90 million partnership.

New opportunities through collaboration

More partnerships and joint ventures are emerging between government bodies, the private sector and housing associations. Partnerships offer a solution to protect against emerging risks in the market, through sharing resources, finance and land within the sector. Working collaboratively can spread risk, unlock land opportunities and enable the delivery of larger sites. Many of the announced partnerships are built on existing relationships.

Partnerships are already widespread within the sector, but we are seeing increased appetite for collaboration. Housebuilders are pairing up with housing associations to buy larger sites. For example, Countryside and Midland Heart has announced a joint venture to build 1,000 new homes in the

Midlands in the next three years. Crest Nicholson has partnered with Sovereign to deliver 920 homes on the Harry Stoke development in Bristol.

Councils are also forming partnerships in order to allow their land to be built out. Bristol City Council and L&G are working together to deliver 500 units in Bristol city centre.

For housing associations, the government strategic partnerships programme has accelerated delivery, allowing the delivery of a greater diversity of tenures due to the flexibility of grant under the scheme. In July, the government extended the scheme, providing existing strategic partners with the option to bid for £1 billion of extra funding between March 2024 and March 2029.

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