

Residential Development Land



Limited transactional activity during lockdown

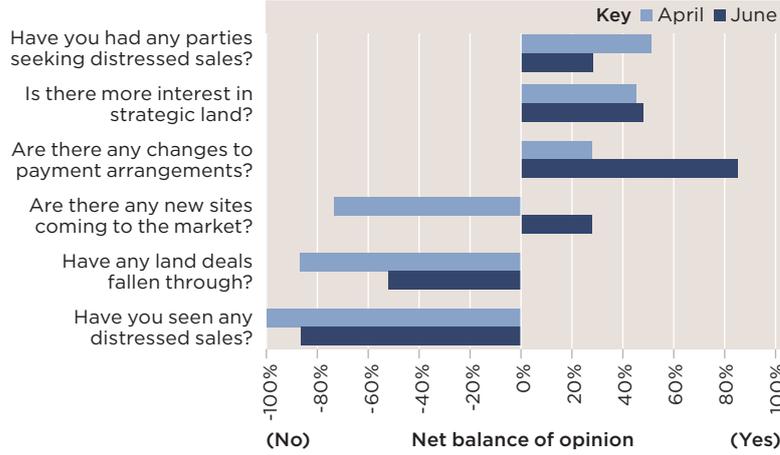
The Covid-19 lockdown has slowed transactions of development land significantly. However, as lockdown measures begin to ease and land teams return to work from furlough, there are signs of an increase in activity. Confidence has been gained as sales rates bounced back strongly with the easing of restrictions on the housing market. But, there is a risk that this is partly pent-up demand and that sales rates will fall back as unemployment is predicted to rise in the autumn.

Throughout lockdown, fewer new sites have been brought to the market than normal, land deals have typically continued to progress, but at slower rates, and bid deadlines have been extended. However, in our recent survey of Savills development teams, a net balance of 29% reported that there were new sites coming onto the market, a significant change from

-75% net balance in April. Many new sites are being soft marketed to test the appetite from the market and some have been launched now to avoid

competition with other sites later in the year. There is some regional variation with parts of the West continuing to see land traded regularly.

More new sites are coming to the market



Source Savills survey of development land agents

Focal points
Development news and analysis in brief



FEWER TRANSACTIONS BUT SIGNS OF AN INCREASE IN ACTIVITY

Transactional activity has slowed significantly, but there are signs of an increase in activity and more new sites coming onto the market as lockdown measures start to lift.

Emphasis on changes to payment structures

Land values have remained relatively robust but payment terms are commonly being lengthened.

There is less transactional evidence for land values this quarter. However, the evidence indicates that over the last quarter, land values have remained stable, with UK greenfield and urban land values falling slightly by 1.1% and 0.2% at a national level, reflecting the uncertainty in the housing market resulting from Covid-19.

While for many regions land values remain at previous levels, in the West and South East regions greenfield land values have fallen by -1.6% and -1.8% respectively where price reductions have been accepted on the land deals completed this quarter in these regions.

Demand for distressed sales and opportunistic enquiries for price reductions persists. A net balance of 29% of agents reported appetite for distressed sales in June compared to -88% reporting evidence of such sales as many landowners are not in a distressed position.

While values have been relatively robust, there is greater emphasis on payment terms as a net balance of 88% of agents reported changes to payment arrangements in June, up from 29% in April. Across all regions, we have seen a focus on stretching out the phasing of deferred payments commonly over an additional 12 months. Build licences look more attractive to land buyers due to the lower upfront cost reducing cash expenditure.



PARTIES LOOKING TO LENGTHEN PAYMENT TERMS

While land values have remained relatively stable at a national level, there is a greater focus on renegotiating and extending payment terms and structures.

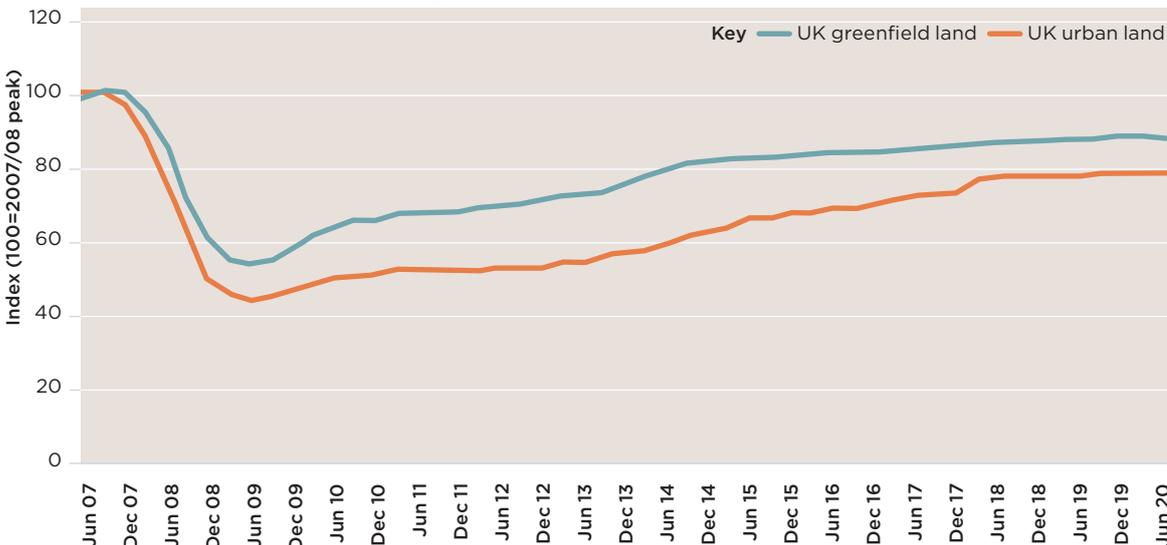


ROBUST APPETITE FOR STRATEGIC LAND

Demand for strategic land and longer-term opportunities requiring less upfront expenditure has continued without interruption throughout lockdown.

Source Savills Research

Land values remain relatively stable



Source Savills Research

A mixed approach towards land buying

Regional developers, housing associations and the major housebuilders all continue to be active in the land market but are all adopting a mixed approach.

Some housing associations have been competitively bidding for land, supported by grant, while others direct funding towards the improvement of existing stock. Despite many housebuilders being constrained

by lack of staff resource throughout lockdown, appetite for the right type of site hasn't waned and many now have greater workforce to look at new land opportunities.

Some PLC housebuilders are taking a more cautious view on the land market, focusing on their committed pipelines, whereas there are a few that are actively raising money

for new land buying. In June, Taylor Wimpey announced a raise of £500 million of capital to finance land acquisitions. This funding has been earmarked for land investment, with the housebuilder actively seeking short-term opportunities in the land market.

UK land value growth Q2 2020



UK greenfield
 Quarterly growth -1.1%
 Annual growth 0.5%



UK urban
 Quarterly growth -0.2%
 Annual growth 0.3%

Note Figures to June 2020 Source Savills Research

As construction sites reopened in England and Wales, housebuilders have faced disruption to supply chains and limited availability of some materials

BROAD APPEAL OF SMALLER SITES

Smaller sites of fewer than 150 units appeal to a range of players in the market as parties seek to minimise risk and spread their geographic coverage. With many players returning to the land market as lockdown measures are lifted, those smaller, easily deliverable sites in prime locations are desirable without large infrastructure costs.

STRATEGIC LAND REMAINS RESILIENT

There continues to be strong appetite and demand for strategic land and longer-term land opportunities requiring less upfront expenditure; a net balance of 50% of agents reported greater interest in strategic land in June, similar to April.

Housebuilders face supply chain disruption

As construction sites reopened in England and Wales, ahead of Scotland, housebuilders have faced disruption to supply chains and limited availability of some materials. There have been a number of shortages of supplies such as plaster and plasterboard, which led to price increases of 300-400% in June.

Build UK's survey reported that the construction workforce is anticipated to fall by 9.9% in September, with the biggest anticipated fall to be in materials and supplies jobs at 14.8%.

These supply chain constraints will persist if the construction workforce continues to reduce throughout the year.

In Scotland, with construction workers only returning to sites in mid-June and with manufacturing not open until the end of June, there is likely to be a mismatch between construction and materials availability.

In Wales, where a similar proportion of sites to England have reopened, but physical viewings have only just begun, 32% of suppliers are expecting

to have significant financial difficulties this year due to Covid-19, according to Build UK and Constructionline. This is slightly higher than suppliers in England (29%) and below suppliers in Scotland (42%).

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