RESEARCH

MARKET IN MINUTES

Residential Development Land

UK Development – Q2 2026

savills

KEY STATS

-3.3%
UK GREENFIELD
ANNUAL CHANGE

-6.6%
UK URBAN
ANNUAL CHANGE

-18.3
NET SENTIMENT BALANCE
SAVILLS AGENTS

-0.2%
UK HOUSE PRICES
QUARTERLY CHANGE

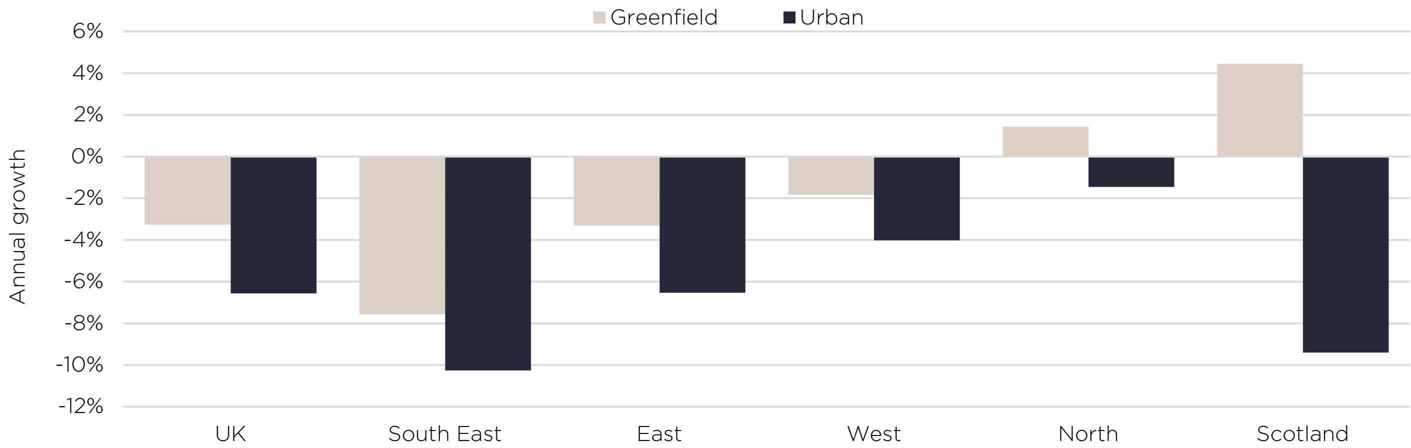
Caution rules the land market

The land market has moved slowly this quarter, continuing trends from the start of the year. At the start of 2026, the market was expecting steady base rate cuts, reducing the cost of debt, softening development costs, and increasing new build demand.

But the outbreak of conflict in the Middle East reduced the likelihood of any further cuts this year, and sentiment has remained flat among developers and buyers as a result. Greenfield land values decreased by -1.2% this quarter, bringing annual falls to -3.3%. The South East experienced the greatest value fall in the quarter of -2.2%, while the North and Scotland were the only two regions experiencing value growth, both at 0.3%. Greater viability challenges have resulted in urban land values continuing to fall at a faster rate than greenfield sites. Urban land values fell by -2.1% this quarter, bringing UK annual falls to -6.6%.

These averages disguise significant local variation. In secondary locations with little competition for sites, the decline in values has been even more pronounced.

BOTH GREENFIELD AND URBAN VALUES COME UNDER PRESSURE



Source: Savills Research

Weaker sales rates shift attitudes to risk

Hope for an improvement in sales rates or buyer demand this quarter has fallen away. Homebuyers have been impacted by both higher mortgage costs and reduced confidence in the housing market and wider economy. The most robust markets are those with greater affordability headroom, with lower prices and higher sales rates allowing for more steady activity in the North of England and Scotland.

However, there is a level of caution amongst developers across the whole country, with increased due diligence, deferred payment terms and conditional contracts increasingly being used by land buyers to offset the risks associated with planning and development. Previously a feature of bids for larger sites, deferred payment terms are now being factored into more bids across smaller site sizes than ever before, offering developers the potential to manage limited cashflow in weaker sales markets.

The desire to manage risk is also evident in the type of sites receiving most interest. Bids have remained relatively strong for 75-200 unit schemes, but there is diminished appetite across the country for larger sites as developers seek to reduce their exposure to sites with infrastructure requirements that will add length and complexity to the development process.

Viability as a growing barrier

Worsening development viability is driving caution amongst housebuilders, particularly in the least affordable markets. Costs of building a home have increased significantly over the last five years, with the HBF estimating this to be around £76,000 per home in England. Significant material and labour cost inflation combined with new and emerging regulatory costs have all contributed to this rise.

Growth in construction costs has outpaced house prices since 2021, but viability concerns have become more pronounced over the last quarter, as the impact of the conflict in the Middle East has become apparent. 93% of the respondents to the Q2 HBF SME Sentiment Survey said the Iran conflict has made their business outlook for the next 12 months worse than expected. The most significant demand-side constraints identified were development viability and cost and availability of materials.

In line with Savills' land agent sentiment survey, which has moved from +26 in Q1 2026 to -18 in Q2, the HBF survey showed that SME sentiment has worsened in all regions, although the North of England and Wales were more resilient than the less affordable regions in the South and East of England. 49% of respondents to the HBF survey expected to purchase less land over the next three months as a result of current market conditions. This points to a continuation of, in most cases, a lower numbers of bids for sites coming to market. The drop in sentiment has been most pronounced in developers delivering fewer than 75 homes per year. With less control over their supply chains, these housebuilders are most exposed to increases in material costs, and have also seen sales rates fall to below 0.3 sales per outlet per week, according to Savills analysis of NHBC site data.

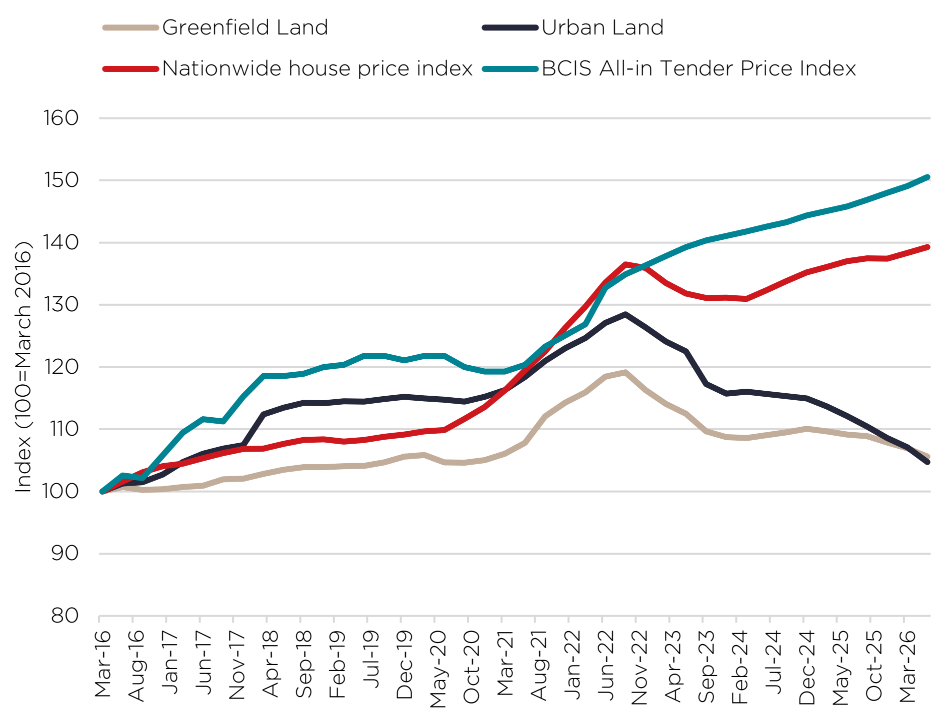
Encouragingly, BCIS is forecasting that the rate of build cost inflation will fall from the current level of 3.2% per year to around 2.0% by the end of 2026. But this will need to be matched by a period of steady house price growth to improve viability.

> The drop in sentiment has been most pronounced in housebuilders delivering fewer than 75 homes per year.

Viability challenges remain most acute on brownfield land. Increased costs and longer approval waiting times for high-rise buildings under changes from the Building Safety Regulator have significantly reduced developers' interest in these types of sites. Diminishing appetite for flats amongst buyers has put further pressure on the delivery of new homes in city centre locations. As a result, brownfield values now sit an average of -17% lower than the 2022 peak, with the most significant adjustments in Scotland and the South East of England. These markets have been particularly hindered by the lack of appetite for multifamily build to rent development.

In London, buyer demand has been limited and the quality of bids for sites remains low. The length of time needed to deliver a scheme is a key concern, and deals that are subject to planning or permitted development opportunities are slightly more attractive as they allow developers to keep development finance costs low. Although timescales for gateways approvals have come down, they still add measurable additional costs to developments, and schemes with buildings below 18 metres in height are preferred as a result.

BUILD COST INCREASES HAVE OUTSTRIPPED HOUSE PRICE GROWTH OVER THE LAST DECADE



Source: Savills Research, Nationwide, BCIS

Return of the RPs

An element of counter-cyclical resilience in the land market is beginning to emerge as registered providers (RPs) return to land buying in England. The launch of the Social and Affordable Homes Programme (SAHP) has offered the largest boost to grant-funded affordable housing investment in a generation and has introduced a renewed level of confidence among RPs. The programme prioritises sites that can deliver by 2029, which has resulted in competitive bids from RPs for oven-ready sites in primary locations. Partnerships are proving increasingly popular, with RP involvement helping with return on capital from an early stage.

Despite this, appetite for Section 106 stock remains relatively limited, with RPs unable to deploy grant funding to acquire these homes outside of London. There is also an underlying mismatch in expectations between builders and S106 buyers. RPs are increasingly trying to future-proof their stock, by aligning with the Future Homes Standard early and targeting higher EPC ratings. This adds pressure to overall scheme viability however, making it challenging for developers to build stock that meets RP specifications.

Policy remains central to land supply

While demand is muted, the number of sites coming to market over the last year has also been a barrier to higher levels of activity, particularly in the North. But the effects of the 2024 NPPF changes in England are slowly becoming evident, with much of the South and the Midlands reporting an increase in sites coming to market. We are also continuing to see a positive shift in approach through the appeal system, suggesting the flow of consented land should increase in the medium to long term in England.

The same cannot be said for Scotland and Wales, both of which are faced with a notable lack of greenfield sites being brought forward. Without ambitious mandatory housing targets or the requirement to demonstrate a five-year housing land supply, greenfield land supply remains constrained. In Scotland, where demand has remained stronger than elsewhere in the UK, this has meant bids are still competitive for the few greenfield sites that are coming to market.

Strategic land remains in demand across the country. Despite operating under three different planning systems, England, Scotland and Wales are all going through a busy period for local plan making. This is providing a good window of opportunity for promoters and developers to secure allocations in emerging plans. With less exposure to current market challenges, strategic sites are being prioritised over immediate land across much of the country. However, with a change in Prime Minister on the horizon, more caution is beginning to emerge until it is clear whether a change in leadership will also prompt a change in policy direction.

Outlook

Looking ahead, market sentiment and new build sales demand will continue to drive the depth of demand for land. This quarter, hope for a continuation of the decrease in interest rates throughout the year was lost, as inflation picked up again due to the US-Iran conflict leading to a muted market.

There are some positive signs on the horizon. Despite continued uncertainty over the long term resolution of the US-Iran conflict, oil prices have fallen by 25% from the May peak, improving the outlook for UK inflation. This should provide the foundation for an easing in the cost of debt towards the end of the year. This would help to drive a much-needed improvement in mortgage affordability, which in turn would improve sentiment amongst buyers. The cost of development finance would also improve, which would increase appetite for land across PLC and SME developers. At the same time, build cost growth is forecast to moderate which, if accompanied by stronger house price growth, would resolve some of the current viability challenges.

Developers are also meeting the challenges in the market with increased innovation in deal structures, with joint ventures becoming more common. The role of the National Housing Bank to support delivery is also becoming clearer, having underpinned major transactions in Manchester and Cambridge in the last quarter.

However, UK political stability will also be key. The recent resignation of the prime minister means the UK is now faced with a period of political uncertainty. Andy Burnham is currently viewed as the leading contender for prime minister, and his support for development as Mayor of Manchester, particularly the pragmatic approach to S106 requirements, should offer housebuilders some confidence. Nonetheless, it will take some time for the economic direction of the new prime minister to become clear, meaning new home buyers are likely to remain cautious into the autumn.

> “UK political stability is key to the strength of the development land market

KEY TAKEAWAYS

01

The market is characterised by caution. Activity in the land market has been slow, with deferred payment options becoming increasingly sought after by housebuilders to mitigate risk.

02

Appetite for urban land remains low across the country. Viability challenges continue to significantly weigh on margins of developments on urban land.

03

RPs are back in the market. The launch of the SAHP has given RPs the confidence necessary to begin focusing on acquiring new stock and deploying grant funding to do so.

Savills Research

We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors of the UK property market. To view copies of our previous publications, go to www.savills.co.uk/insight-and-opinion/

Emily Williams
Director
Residential Research
emily.williams@savills.com

Hamish Simmie
Associate Director
Residential Research
hsimmie@savills.com

Liliane Azzoppard
Analyst
Residential Research
liliane.azzoppard@savills.com

Patrick Eve
Head of Regional Development
peve@savills.com