

# Land Values - a Perspective

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# Background

- Michael Lawley
  - Valuation
  - Development land
- Personal views
  - Not RICS's
- RICS advisory – not lobbying
- Perspective on development process
  - Why cost control is important
  - Why land values are important

# Scope re Land Values



- Private Housing Market
- Values rather than cost – market facing
  - Land values, Selling prices
- Development Appraisal Elements
- Land Value Elements
- Selling Prices and Purchaser Preferences
- Wales Position
- Conclusions

# Some Common Perceptions re Land Values



- Land Values – very high
- Will stay high
- Together with house builders profits – bottomless pit for funding extra costs
- Windfall profit for owners

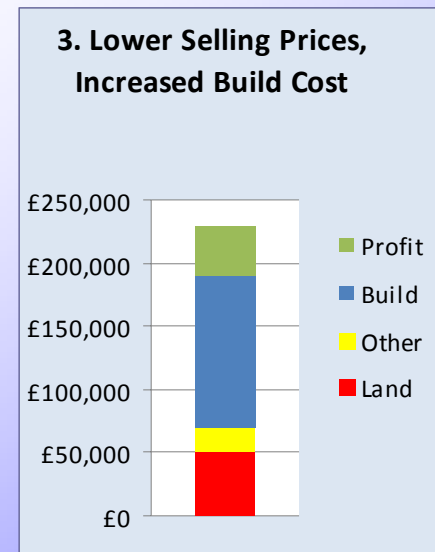
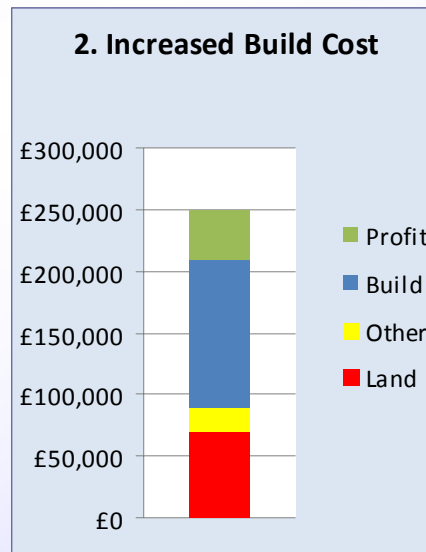
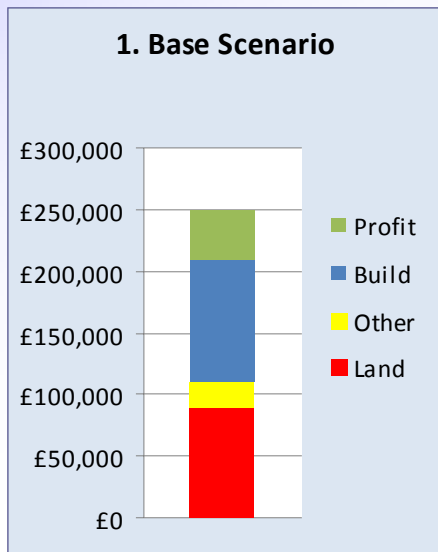
# Development Appraisal Elements



- Basic equation
  - Receipts - Outgoings = Profit
- Receipts
  - Selling Prices - market and product
  - Sales Volumes
- Outgoings
  - Build Cost - materials, labour, profit
  - Other - finance, professional costs, etc
  - Land value – residual amount, directly affected by other elements
- Profit
  - Target level
  - Risk buffer, overhead cover, shareholder return

# Residual Development Appraisal Scenarios

	1. Base		2. Increased Build Cost		3. Lower Selling Prices, Increased Build Costs
<b>Selling Price</b>	£250,000		£250,000		£230,000
<b>Build Cost</b>	£100,000		£120,000		£120,000
<b>Other</b>	£20,000		£20,000		£20,000
<b>Profit</b>	£40,000		£40,000		£40,000
<b>Land</b>	£90,000		£70,000		£50,000



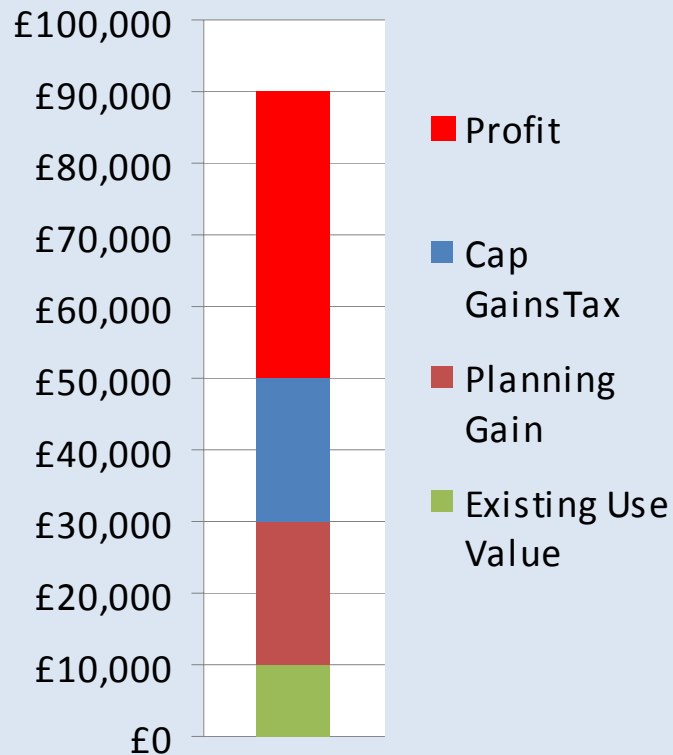
# Land Overview



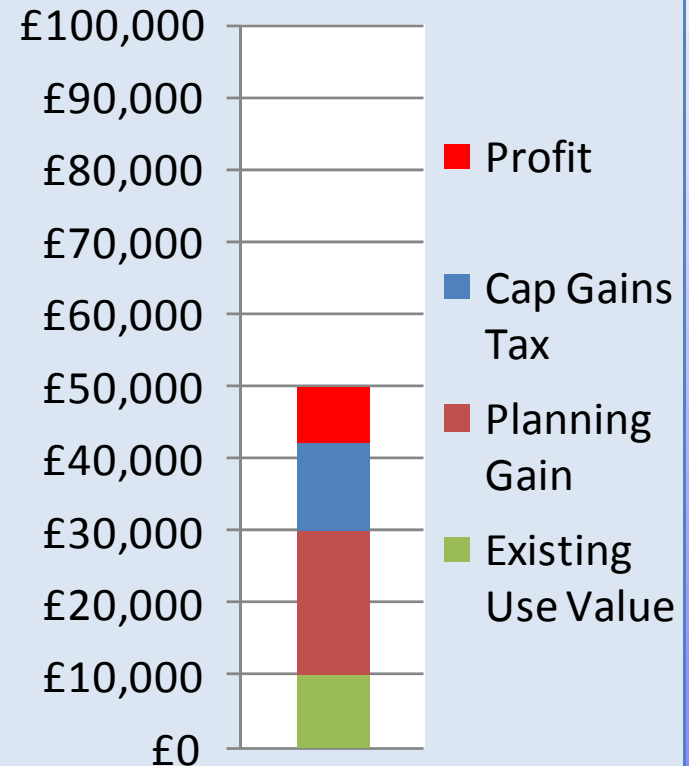
- Owners - maximise but also to realise
- Land - dynamic market commodity
  - affected heavily by house prices, planning gain etc
- Historic attempts to regulate have failed
  - CPO, betterment levy, community land/DLT
- Owners gross receipts netted down by stealth
  - CGT, planning gain, community infrastructure levy
- Existing use has a value threshold
  - Greenfield lower threshold than brownfield
- House builders have to compete for land
  - Buying low selling high and vice versa

# Land Value Elements in Differing Residual Scenarios

## £90,000 land value



## £50,000 land value



# Selling Prices

- Market demand driven
  - > Pop growth, salaries, employment, competition and .....
- Product driven
  - > Tailored to market needs
  - > Purchaser preferences
- Major area of risk for developer
- Movement in pricing is critical factor
- Direct link with land values

# House Purchaser Behaviour



- Generally cautious – major purchase
- Sceptical about change if untested
  - > Timber frame, under floor heating, mono pitch roof, “architect designed houses”
- Will they pay more or less for innovation
- Need to see and understand the proven benefits
- Environment related issues - knowledge not encouraging
  - > HIP's, EPC's,

# Product Perception



# Wales Position



- Building Regulations now devolved – with strings
- Does it benefit Wales to be ahead of UK in seeking zero carbon position ?
- Downsides
  - > Developer pull back ?
  - > Technology base limited and still developing – more cost
  - > Marginal markets made worse – no motive to release land - Valleys, rural Wales
- Upsides ?
- Why start in Wales – not South East England

# Conclusions

1. Land values -volatile, price and cost sensitive
2. Not a bottomless pit to absorb cost
3. Costs need to be minimised if development process not to stall in marginal markets
4. Land value has fixed elements e.g. tax, EUV, planning gain – needs some profit element for owner to sell
5. Brownfield land value carries more cost than greenfield – e.g. EUV and contamination
6. Build cost increases may need cost offset - planning gain ?
7. Should Wales be on a level playing field with rest of UK ?
8. More focus on demand side – market perception / achievable selling prices
9. Selling job by government and building industry on benefits of higher spec houses
10. More carrot less stick !