Residential Development Land Index

Research, Q3 2022

-2.9%
GREENFIELD DEVELOPMENT LAND FELL -2.9% IN Q2, AND INCREASED 4.9% ON AN ANNUAL BASIS

0.0%
URBAN BROWNFIELD LAND VALUES WERE UNCHANGED THIS QUARTER BUT FELL -0.5% YEAR ON YEAR

0.0%
PCL DEVELOPMENT LAND VALUES WERE UNCHANGED THIS QUARTER AND 2.5% ON AN ANNUAL BASIS

Rising costs put downward pressure on land prices and activity.

Land prices in central London remained unchanged in Q3 2022, following two quarters of growth. Annually values rose by 2.5%. As in previous quarters, annual price growth has been supported by a combination of land shortages and continued demand for land from a wide variety of uses.

A slowdown in the third quarter was also seen in both urban brownfield and greenfield pricing. Urban brownfield land values were unchanged from Q2, but down -0.5% year-on-year. Greenfield land, however, was down 2.9% from Q2, but remains 4.9% higher year-on-year.

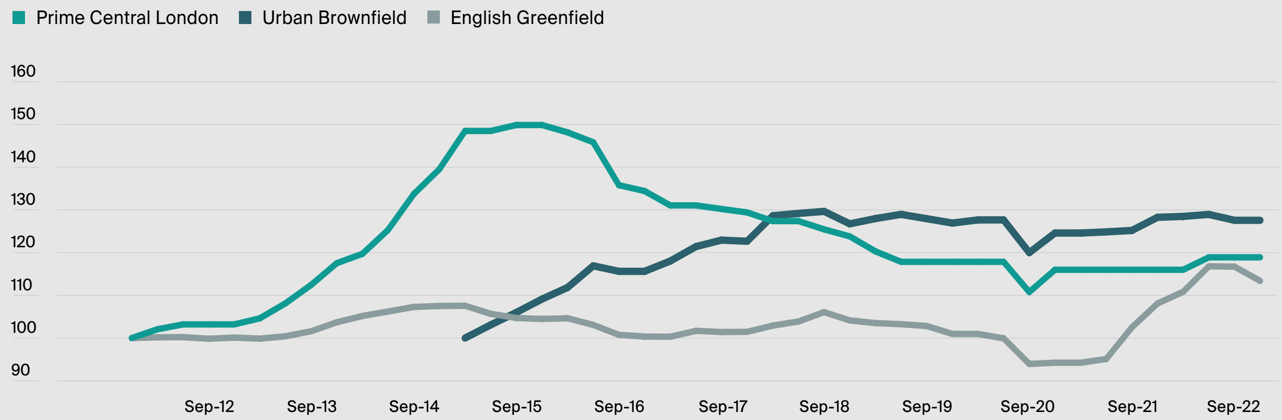
All respondents to our latest survey identified the cost-of-living crisis as having an impact on buyer sentiment

The mixed results in development land index roughly reflects those in our latest survey of housebuilders. Some 62% of respondents felt that going forward land prices would stay the same, while 23% felt they would fall.

More subdued pricing in both urban brownfield and greenfield values reflects concerns over future customer demand caused by the weakening economic outlook. As a corollary to this, developers are increasing their margin, which has a direct impact on land values. All respondents to our latest survey identified the cost-of-living crisis as having an impact on buyer sentiment. 69% of respondents suggested it had a moderate impact, and 8% a significant impact.

The end of the Help to Buy scheme, and issues accessing development finance

Residential development land prices
Index rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

for smaller housebuilders have also weighed on market sentiment this quarter. Homebuilders have reported slowing sales rates in Q3, caused in part by the rising cost of living and both the availability and cost of mortgage borrowing. As sale rates slow and decline, this should put downward pressure on the prices of both greenfield and urban brownfield development land.

The increasing cost and more limited availability of debt is of particular concern to both SME and urban developers whose schemes are generally more reliant on debt.

Build costs set to ease?

Increasing costs remain a significant challenge to the development market and will continue to be so in Q4. Some 42% of survey respondents stated that the supply chain, material and labour costs and availability was a challenge in Q3, and 19% identified the cost of borrowing.

Looking forward, while material and labour costs remain the dominant challenges (identified by 34% of respondents), 20% of respondents see the wider economy and consumer confidence as a principal concern in Q4, particularly if house prices come under pressure.

The concern around build costs is borne out by the BCIS Build Cost Index. In Q3 2022, build costs grew on average 12.5% year-on-year, compared with 14.7% in Q2. Build costs are forecast to remain above 10% for the remainder of 2022, before dropping below 10% in 2023 and levelling out at 3.9% from Q2 2023. Material costs remain the greatest contributor to build cost growth year-on-year.

Pressures throughout the pipeline

The responses to our survey of developers and homebuilders reveals concern at the prospects at each stage of the new homes development pipeline.

As in earlier surveys, land availability was identified a major challenge to development, with 77% of survey respondents stated that land availability was either limited or very limited. While this is down from the Q2 survey, 46% of responses stated supply was very limited – the highest proportion since our survey began.

Given the scarcity of land, any development opportunity that becomes available in the right location is highly sought after. Illustrating this, 62% of our survey respondents suggested that they would consider land with any planning status, including strategic land.

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At the end of the pipeline, 46% of respondents suggested that start volumes would decrease in Q4 – the highest proportion of responses on record. With Help to Buy having ended, 54% of respondents stated that going forward they would offer more incentives to encourage buyers, while 23% think the First Homes and Deposit Unlock schemes will help boost sales.

While increased costs of borrowing may contribute to short-term uncertainty in the market, it may contribute to more building and transaction activity in the longer term, as lower prices and higher borrowing rates encourage landowners to sell and develop land.

What we're watching

Rising Interest Rates

A sharp rise in interest rates is often viewed as a negative for consumer confidence and spending, and the Bank of England's latest hike that left the base rate at 2.25% is no different. In the short term, interest rates are predicated to reach c. 4% by the end of the year. While this may contribute to a short-term period of pain, this will be followed by longer-term stability and rebasing, which will in term lead to opportunity. One such opportunity may be the releasing of development. To that end, rising interest rates may contribute to lower land values, and a more buoyant development land market. Click here to read more on interest rates and it's implications for the land market.

Investment zones, planning and levelling up

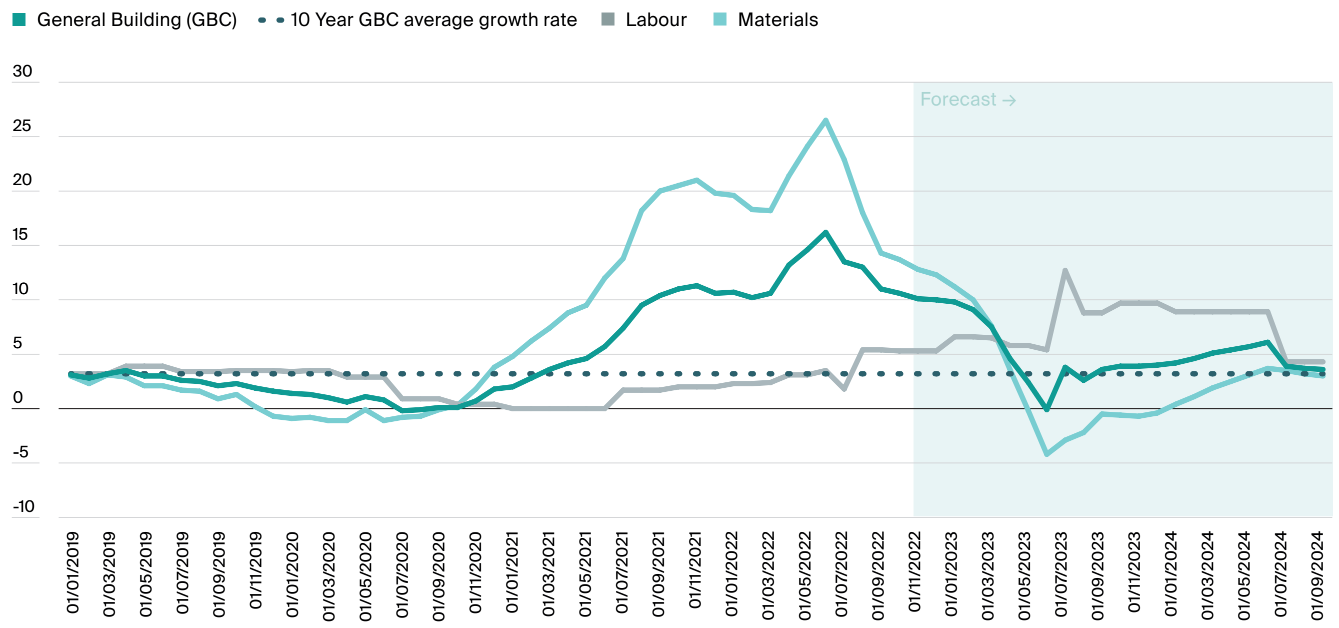
Presented in the Truss-Kwarteng "mini-budget" on 23 September, the government hopes to "turbocharge" housing and business development through low taxes and looser planning rules. The plan included significant incentives for investment including tax, business rates and National insurance relief as well as a relaxed planning and environmental constraints. So far, 77 zones have been identified across 35 local authorities. The investment zones are hoped to invigorate regional growth. Whether the investment zones survive the forthcoming Sunak-Hunt Autumn Statement remains to be seen. The return of Michael Gove to the DLUHC does suggest that levelling up and the wider housing supply, regeneration and net zero remains a high priority for the new administration.

End of Help to Buy

The Help to Buy programme ended on 31 October. Since its inception in 2013, it has grown to support about 50,000 new build sales per year in England, easing to a little over 40,000 last year following the narrowing of the scheme to include only first-time buyers in April 2021. Several alternatives, including First Homes and Deposit Unlock have emerged to plug the gap in sales. Some 46% of respondents in the latest survey identified Deposit Unlock and First Homes as programmes to boost sales, in addition to offering incentives. Deposit Unlock, a new scheme devised in collaboration with lenders and the housebuilding industry, has an ambition to eventually support around 20,000 new homes sales annually.

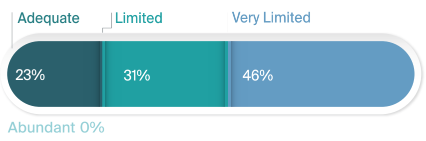
BCIS construction cost indices

Change year-on-year, September 2019 - September 2024 (forecast)



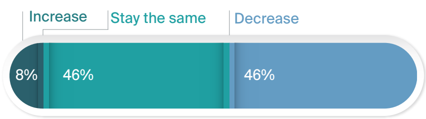
Land availability

% of respondents that said available land market supply was...



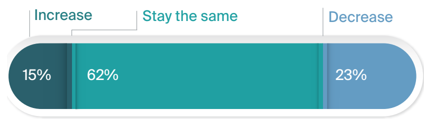
Start volumes

% of respondents that said start volumes would...



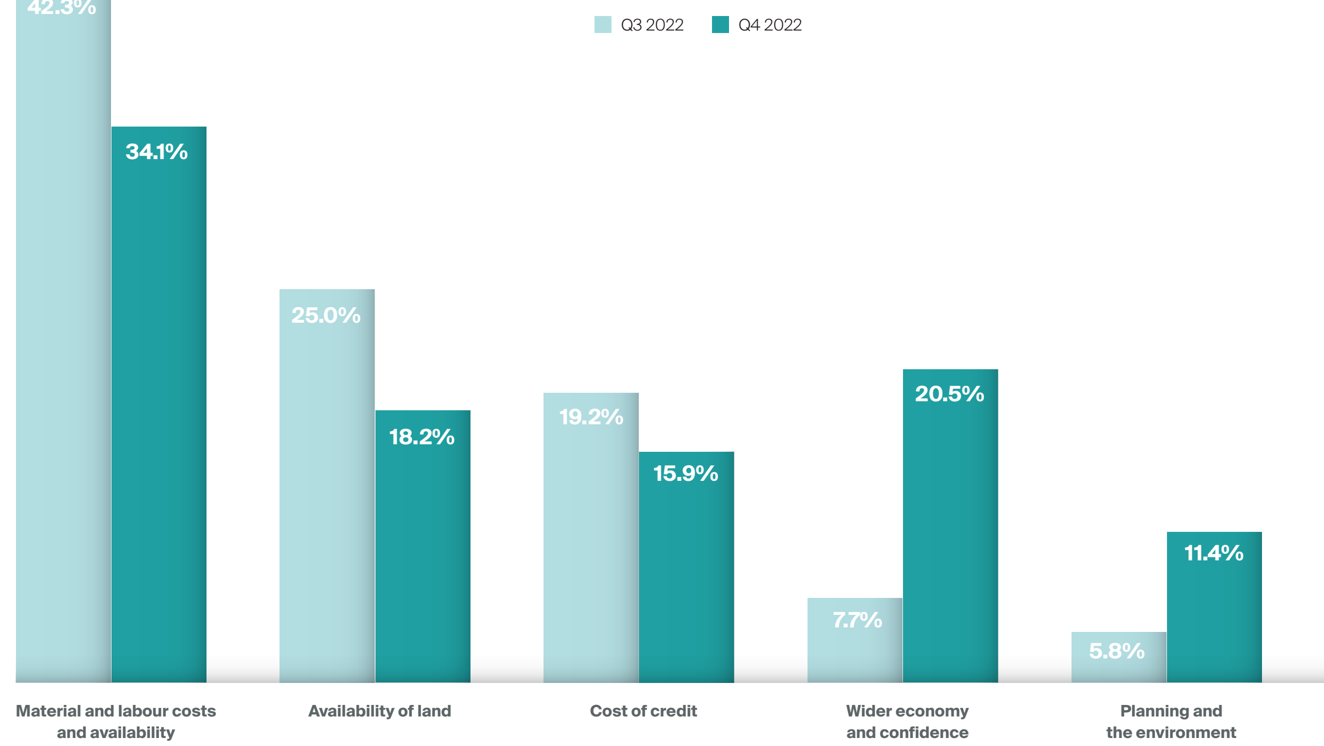
Land prices

% of respondents that thought land prices would...



What are the key challenges for housebuilders and developers? (last three months)

% of respondents



Recent Publications

UK Residential Property Market update July 2022

UK Housing Market Forecast April 2022

DISCLAIMER

The Knight Frank Residential Development Land Index is designed to give a snapshot of broad trends in the development land market, and should be only be used as such. It is derived from valuations of a basket of more than 70 residential development sites around the country. Knight Frank surveyed 50 SME and large housebuilders to gauge their sentiment and views on the market. The survey was conducted between 10th-24th January.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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