Residential Development Land Index

Q3 2023

The Knight Frank Residential Development Land Index is designed to give a snapshot of broad trends in the development land market

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UK land values saw a more modest decline this quarter as the Bank held interest rates and build costs plateaued, with finance costs starting to ease

UK greenfield and urban brownfield values fell on average by 2.4% and 2% respectively in Q3 2023. In prime central London, land prices were flat this quarter.

Land values are stabilising in most areas of the country. Overall market sentiment was given a boost by the Bank of England holding interest rates steady in September at 5.25%, as well as a surprise drop in inflation which slowed to 6.7% in the 12 months to August – down from 6.8% in July. This is reflected by a fall in the 5-year swap rate, used to price fixed-term mortgages, which over the quarter fell from 5.4% at the start of July to 4.7% by the end of September. Despite inflation remaining flat from a year earlier in September, markets are not expecting another interest rate hike in November.

Average urban brownfield land values across England have now fallen by 20% since the most recent peak of the market in the first quarter of 2022 up to Q3 this year, with greenfield values down 17% during this period. This quarter we have seen price falls start to moderate in nearly all areas. Greenfield sites in the North West of England and urban brownfield schemes in Manchester and Leeds have started to come under a bit more pressure having been more resilient last quarter due to greater affordability driving more sales. Looking ahead, there is a split in our survey of over 50 volume and SME housebuilders as to the future direction of land prices. Overall, 48% said they expect land values will fall in the fourth quarter compared to Q3, with another 48% predicting they will stay flat.

By region, there is most demand currently for greenfield housing schemes in the South East which are attracting buyers with larger deposits. Similarly, the higher prevalence of cash buyers in Prime Central London

80%

of housebuilders said planning delays were their biggest challenge in the third quarter

63%

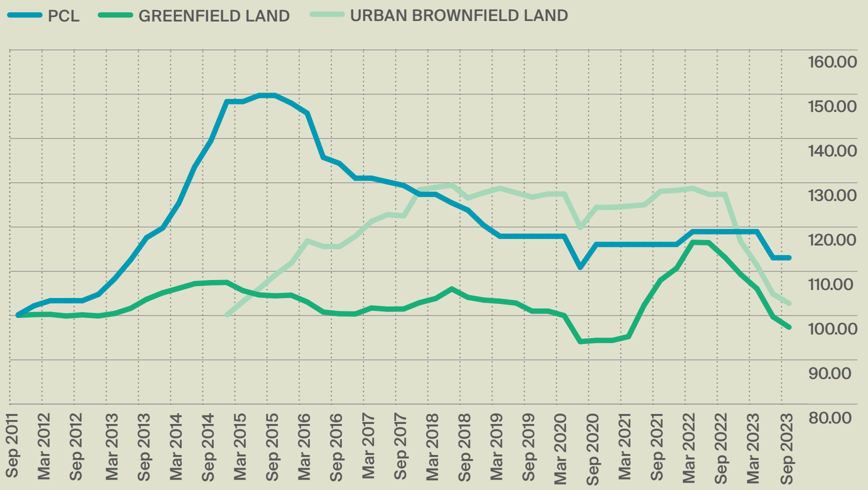
said they would consider submitting a planning application for a site that was not allocated in a local plan

40%

said they expected start volumes would fall over the next three months (October-December)

Residential development land prices

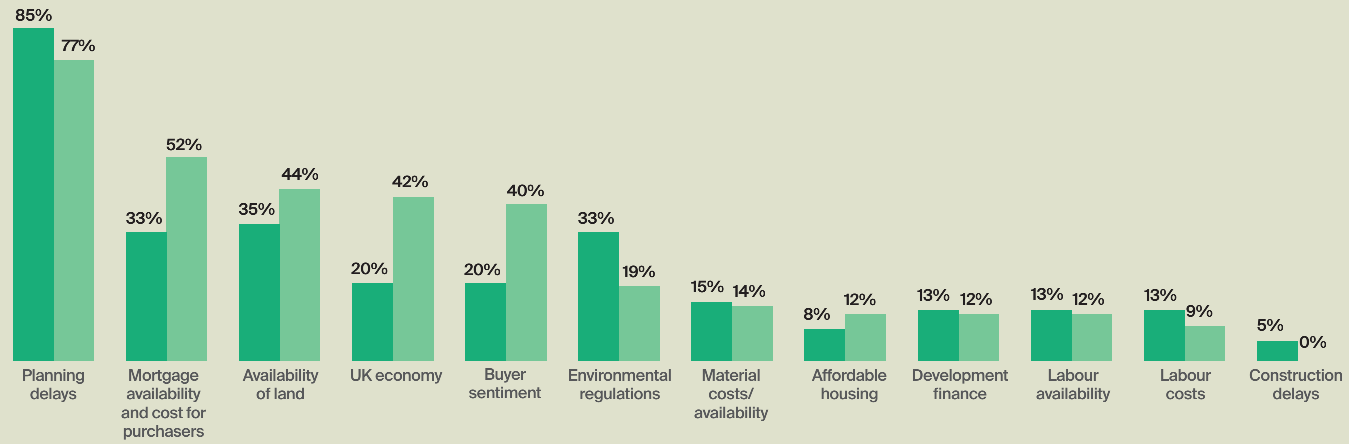
Index rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

What will have the greatest impact on the housebuilding sector?

% of respondents (choose up to three)



Source: Knight Frank Research

is supporting new home sales in this market. Given strong demand for student beds and a lack of supply, there has been a rise in planning applications to change the use of some land sites from C3 (Dwelling House) to C4 (HMO) for student accommodation in well-located sites in key university cities. Urban flatted schemes are experiencing lower demand given a decline in first-time buyers in the absence of Help to Buy and elevated mortgage costs. The number of first-time buyers in the UK has fallen by more than a fifth in recent months: there were 22% fewer first-time buyers between January and August compared with the same period last year, according to the mortgage lender Halifax.

Housebuilder average sales rates were 0.60 in the first half of 2023, up from 0.49 in H2 2022 but below the long run average of 0.70 sales per outlet per week. In recent weeks, sales rates have dipped further, with several housebuilders reporting rates under 0.50. Volume housebuilders are able to control build out rates for housing schemes, meaning they are currently building to cater for demand.

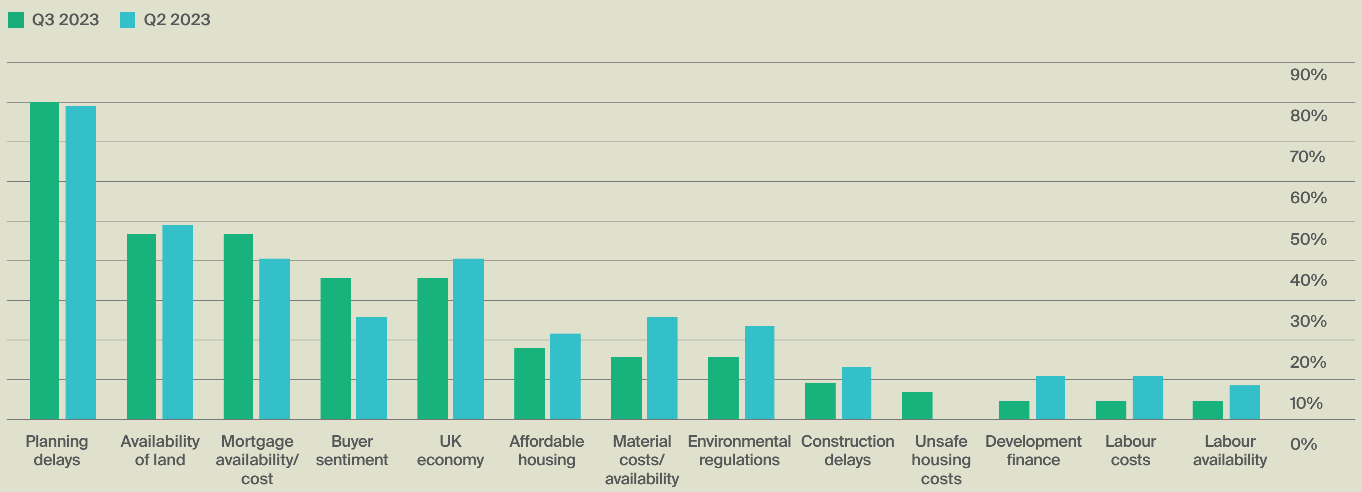
Deals are still happening, however. There is evidence from Knight Frank's new homes teams in London of well-located and well-priced sites selling both domestically and overseas. Housebuilders are also introducing incentives to boost sales. Our survey found that nearly 60% of respondents were offering non-cash items to incentivise buyers such as carpets or white goods, with over 40% offering contributions to legal fees or stamp duty and nearly a quarter offering deposit contributions.

In terms of competition for land, 40% of survey respondents said that housebuilders were the most active group in the region they operate in, followed by housing associations and build-to-rent developers and investors (at a joint 20% each), student housing (12%) and senior and retirement housing (7%).

Encouragingly for new developments, build costs are levelling out which is supporting viability and reducing pressure on margins. The

Which factors have proved most challenging for your business this quarter?

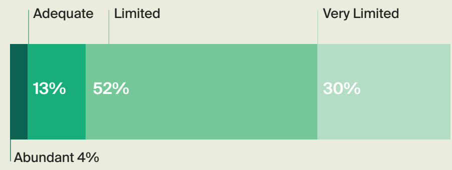
% of respondents (choose up to three)



Source: Knight Frank Research

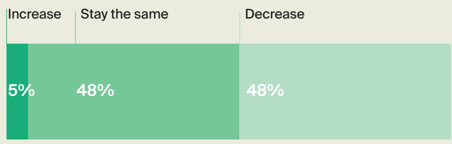
Land availability

% of respondents that said land availability was...



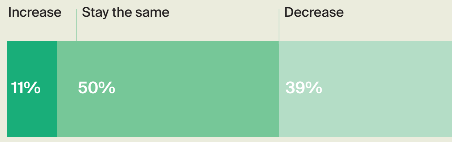
Land prices

% of respondents that thought land prices would...



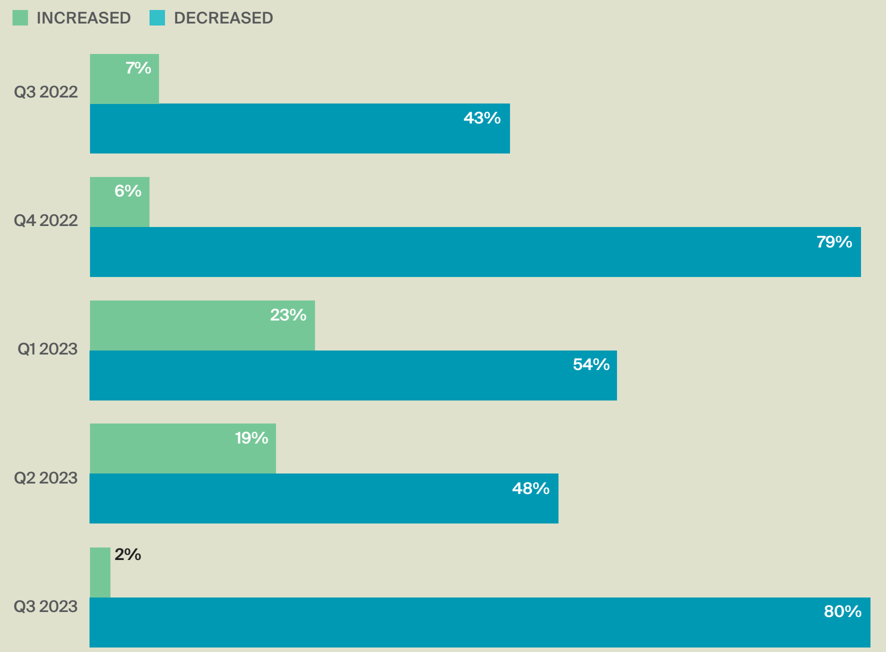
Start volumes

Thinking about the next three months do you expect start volumes to...



How active was the new homes market, looking at site visits and reservations?

% of respondents



Source: Knight Frank Research

BCIS is forecasting that build costs will increase by a more manageable 3.9% this year, down from 11.6% in 2022. Labour costs are predicted to outpace materials costs as the cost-of-living crisis continues to exert upwards pressure on wages. The BCIS forecasts labour costs will increase 5.8% this year, with materials increasing 2.8%. In our latest survey, over half of respondents said there had been no change on quarter to either build or labour costs, with just over a quarter noting an increase.

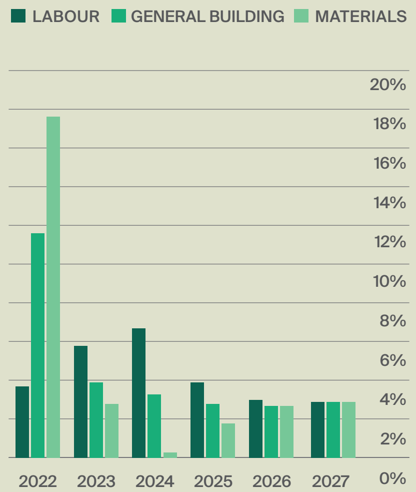
PLANNING RISK

Planning delays remained a concern, as ever, for developers this quarter, with 80% of survey respondents highlighting this as a challenging factor for their business. However, respondents were more divided in their approach towards planning applications. Overall, 63% said they would consider submitting a planning application if a site was not allocated in a Local Plan, with 37% stating that they would not. There is a stronger tendency for volume builders (building 500 plus units a year) towards non-allocated sites, with 70% of these minded to submit these planning applications.

When it comes to negotiating a subject to planning purchase, housebuilders' key considerations are firstly the performance of a local

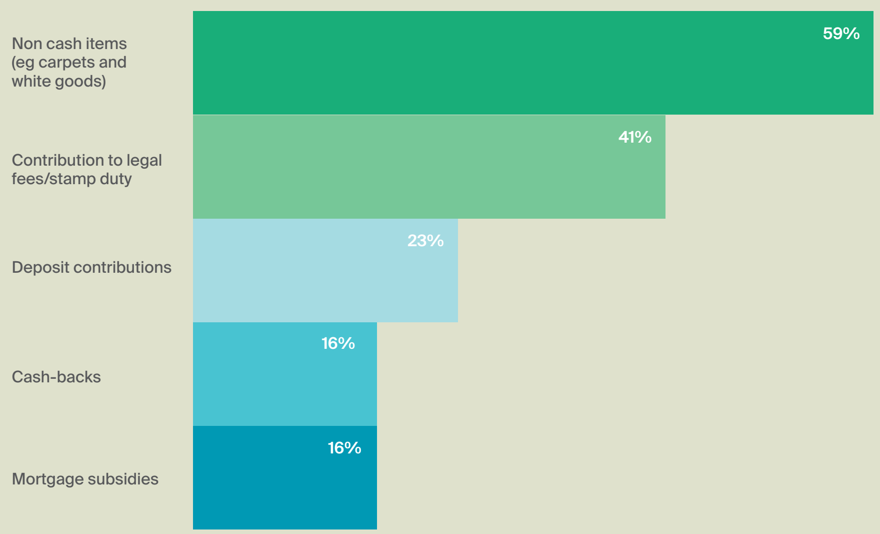
Build costs slowing

BCIS forecasts



Source: BCIS, Knight Frank Research

What type of incentives are you offering buyers?

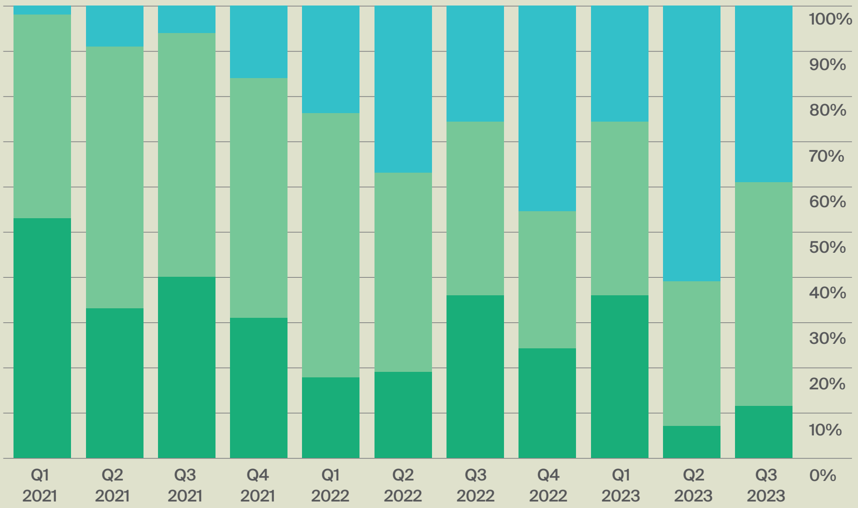


Source: Knight Frank Research

What will happen to start volumes over the next three months?

% of volume and SME housebuilders that thought start volumes would...

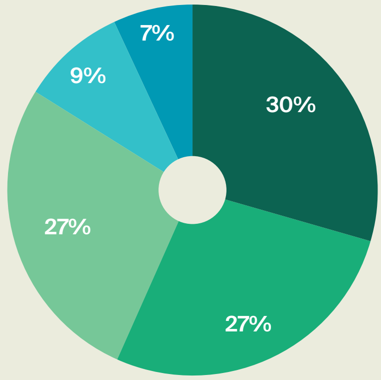
INCREASE · STAY THE SAME · DECREASE



Source: Knight Frank Research

What are your key considerations for a subject to planning purchase?

- Performance of a local authority (e.g. Speed of planning)
- Potential unit number
- Whether the site is allocated in a Local Plan
- CIL & S106 requirements
- Brownfield vs greenfield challenges



Source: Knight Frank Research

authority (such as how quickly it processes planning applications), with 30% of respondents selecting this, followed jointly at 26% by whether the site is allocated in a Local Plan and the site's potential unit number.

SHIFT TO SINGLE-FAMILY HOUSING

Housebuilders are weighing up selling chunks of properties within their developments to single-family housing investors. This could potentially be a win-win for the Single Family Housing market and for housebuilders; helping investors grow portfolios and providing an exit route for developers as the market slows. This quarter, housebuilder Redrow was the latest to line up a range of single-family sites across the country for sale. The 200-home portfolio includes sites across Preston, Halewood, Nantwich, Derby, Nottingham and Cambridge. This move from Redrow comes after Barratt agreed in June to sell 604 homes for rent to Citra Living, with MJ Gleeson selling a 288-home portfolio this summer to investor Carlyle Group and single-family housing investment manager Gatehouse.

Single-family rental attracted nearly 40% of all investment in the wider build-to-rent market in H1 2023 – Knight Frank data shows – up from just 6% between 2020-2022. Reflecting this shift: 90% of all investment into build-to-rent was absorbed by the UK regions in the first half of the year, compared to a much more even split with London in previous years.

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. Every quarter Knight Frank surveys around 50 SME and large housebuilders to gauge their sentiment and views on the market. The survey was conducted between 21st September - 28th September 2023.

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

Residential Research
Anna Ward
Associate
+44 20 3861 6991
anna.ward@knightfrank.com

Residential Development
Justin Gaze
Partner
+44 20 7861 5407
justin.gaze@knightfrank.com

Knight Frank