

-6.7%

GREENFIELD DEVELOPMENT LAND PRICES WERE FLAT IN Q4, BUT FELL 6.7% ON AN ANNUAL BASIS

-2.4%

URBAN BROWNFIELD LAND VALUES WERE FLAT IN Q4, BUT DIPPED 2.4% ON YEAR

-1.6%

PCL DEVELOPMENT LAND VALUES REMAINED FLAT THIS QUARTER BUT FELL 1.6% COMPARED TO 2019



Residential Development Land Index

Research, Q4 2020

Land market values were flat across the board this quarter. Despite some challenging headwinds, there is a weight of capital looking for opportunities to buy land and open more sites.

Overall, a shortage of land supply and strong new homes sales rates underpinned development land values in 2020, despite the unprecedented challenges caused by Covid-19 and the narrowly averted no-deal Brexit scenario in the final months of the year.

In prime central London, average residential development land prices ended the year flat on a quarterly basis. There is a lack of availability of land in the PCL market, with a number of vendors opting to hold off bringing forward new opportunities in light of current restrictions, particularly with regards to overseas travel.

Urban brownfield and greenfield land values were also unchanged between October and December. However, on an annual basis both fell by 2.4% and 6.7% respectively.

In the home counties, agents report a high volume of land transactions, with Covid-19 leading to an increase in demand for quality housing with extra bedrooms and good train links. In contrast, lower demand for brownfield flatted schemes is putting downwards pressure on land values in some urban centres. However, in London, a lack of available housing sites is driving new demand for flatted sites, including smaller schemes of 50 plus units. Elsewhere, in the North East, the land market is tight with a lack of public

funding in some cases causing landowners to withdraw sites for sale.

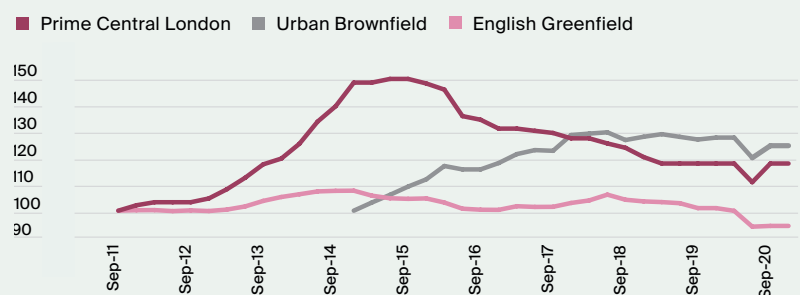
The pandemic has also further limited new housing supply across the country through disruptions to the planning system which have worsened already existing delays in delivering local plans and applications. As a result, there is a lack of land coming forward for development. New Housing Delivery Test figures show that 55 local planning authorities delivered less than 75% of their housing requirement in the three years to March 2020, with most located in the South East, East of England, and London. Some councils are also delaying work on their local plans due to the government's white paper proposals for radical changes to the system. Earlier this month, the government's chief planner said the government plans to bring forward

a planning bill before the end of 2021, but it will be two years before the new system comes into place.

Despite these challenges, several housebuilders have reported record sales activity since the seven-week shut down of the housing market last spring, when a number of construction sites were closed, with some starting the New Year with strong order books. Notably, Barratt said its order book is already more than 90% forward sold for this financial year. It has an order book of 13,588 homes, up 14% year on year. With their sales outlets still open during the third national lockdown, housebuilders will now be looking to finish as many units as possible during the stamp duty holiday and while former owner occupiers can still benefit from the Help to Buy scheme. Some pressure has

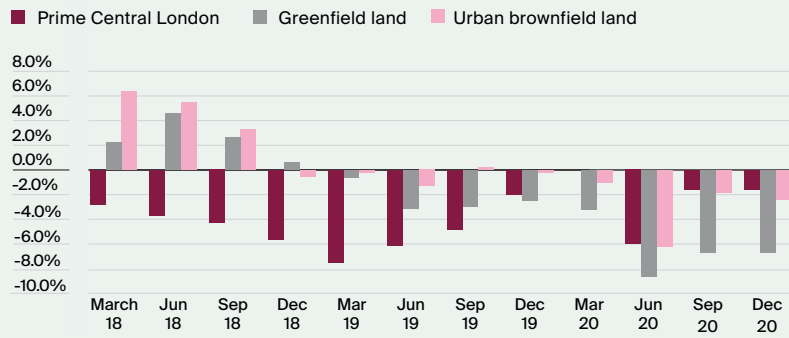
Fig 1. Residential development land prices

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



Source: Knight Frank Research

Fig 2. Annual change in land values



Source: Knight Frank Research

been alleviated though as the practical completion date for the existing H2B scheme has been extended by a month to 31 March.

However, several constraints on construction are in some cases affecting builders' ability to complete. Those constraints include both managing the challenge of working on site while maintaining a Covid-safe environment, shortages of materials such as roof tiles disrupting supply chains, and slower conveyancing processes.

Landowners also need to think about potential upcoming tax changes as the

government is looking at securing more revenue from capital gains tax. This is encouraging some to sell land before the end of the 2020-2021 financial year, but any tax rise is also likely to cause many landowners to hold onto land longer term.

Looking ahead, all eyes will be on the direction of the UK economy and what happens after the end of the stamp duty holiday and closure of the Help to Buy scheme. But given the speed of the UK's vaccine rollout, we anticipate potential for more land transactions going into spring 2021, with the top end of the market bouncing back the strongest.

Government sets out targets for 'zero-carbon-ready' homes

This month, the government published its response to its Future Homes Standard consultation, with new homes expected to achieve a 31% reduction in carbon emissions from 2021.

From 2025, the government does not want any new home to be built with fossil fuel heating, such as a natural gas boiler. New homes will have to be future-proofed so that no further retrofit work will be needed to enable them to become zero-carbon. Existing homes will also be subject to higher standards. A full technical specification for the Future Homes Standard will be consulted on in 2023, with the necessary legislation introduced in 2024, ahead of implementation in 2025.

New building regulations to meet environmental targets will put pressure on margins. While the initial capital costs will be picked up by developers, these costs could eventually be passed to landowners.

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.

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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