

Residential Development Land Index

Research, Q4 2022



-1.3%

ANNUAL CHANGE IN GREENFIELD DEVELOPMENT LAND VALUES

-9.2%

ANNUAL CHANGE IN URBAN BROWNFIELD DEVELOPMENT LAND VALUES

2.5%

ANNUAL CHANGE IN PRIME CENTRAL LONDON DEVELOPMENT LAND VALUES

A slowdown in the private sales market and higher financing costs in the wake of September's mini budget put downwards pressure on residential development land values in the final three months of 2022.

UK greenfield and urban brownfield values fell on average by 3.5% and 8.5% in Q4 2022, taking the annual change to -1.3% and -9.2% respectively. In prime central London an ongoing scarcity of sites for sale meant values bucked the national trend and were flat on a quarterly basis and up by 2.5% annually.

◆◆
Rapid increases in mortgage rates and inflationary pressures on household spending resulted in reduced demand and falling house prices.
 ◆◆

A drop in land values is reflective of several pressures now acting on the land market which cannot be ignored. The fallout from the mini-budget in September

had a significant impact on the housing market. Rapid increases in mortgage rates and inflationary pressures on household spending resulted in reduced demand and falling house prices. At the same time, build and financing costs remain elevated, and Help to Buy has ended.

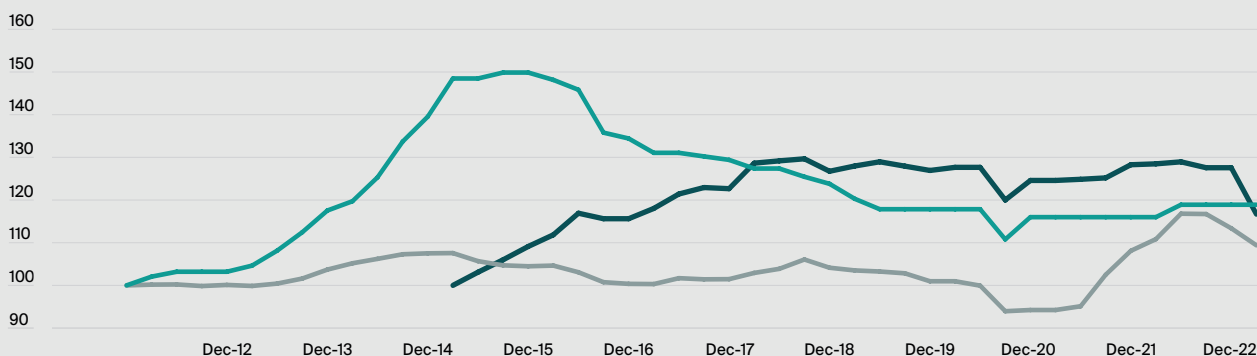
Annual house price growth for 2022 stood at 2.8%, according to Nationwide (down from 10.4% in 2021), while the average 5-year fixed rate mortgage currently sits between 4% and 5%, from 1.5% to 2.5% a year previous.

Reflecting this changed backdrop, 79% of respondents to our latest survey of volume and SME housebuilders across the UK said that site visits and reservations for new

Residential development land prices

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

■ Prime Central London ■ Urban Brownfield ■ English Greenfield



Source: Knight Frank Research

homes declined in the fourth quarter. Some 42% noted that cost of living pressures are having a “significant” impact on demand for new homes. Recent trading updates from the listed housebuilders all point to a notable slowdown in new home reservations in the final three months of last year.

Land availability remains limited

A lack of availability of land relative to demand should mitigate significant falls in land values, with nearly 85% of survey respondents saying land availability was either limited or very limited. However, a slowdown in the private sales market will undoubtedly put pressure on pricing in the near term.

The outlook for the economy and market has resulted in land buyers becoming more selective, which we expect will lead to a more tiered land market going forward. Allocated sites of between 100-250 units in core locations and which are offered subject to planning are in highest demand. That said, there is evidence that some land deals are taking longer to complete, or having payment terms amended.

Uncertainty surrounding the planning system following the Government’s announcement to scrap mandatory housing targets means this dynamic is unlikely to

change in the near term. Reports suggest that since the start of 2022, more than 20 councils have delayed or withdrawn draft local plans due to an expectation that housebuilding requirements would be watered down. Accordingly, some 85% of survey respondents agreed that the planning system was a “major barrier” to housing delivery.

Peak build costs?

Build costs are another concern, though they look to have peaked. The BCIS reported that tender prices rose 1.1% in the final quarter of 2022, and by 7.6% on an annual basis. While inflationary pressures driven by rising energy prices remain, there are indications that the supply of construction materials is stabilising. A drop in construction output means we expect contractors will become more competitive as the year progresses.

Sales supports

The challenging sales market has led more housebuilders to consider ways to de-risk sites including through diversifying product and tenures. Some 44% of survey respondents stated that sales to build to rent investors (of both apartments and houses) will play a greater role in the market this year.

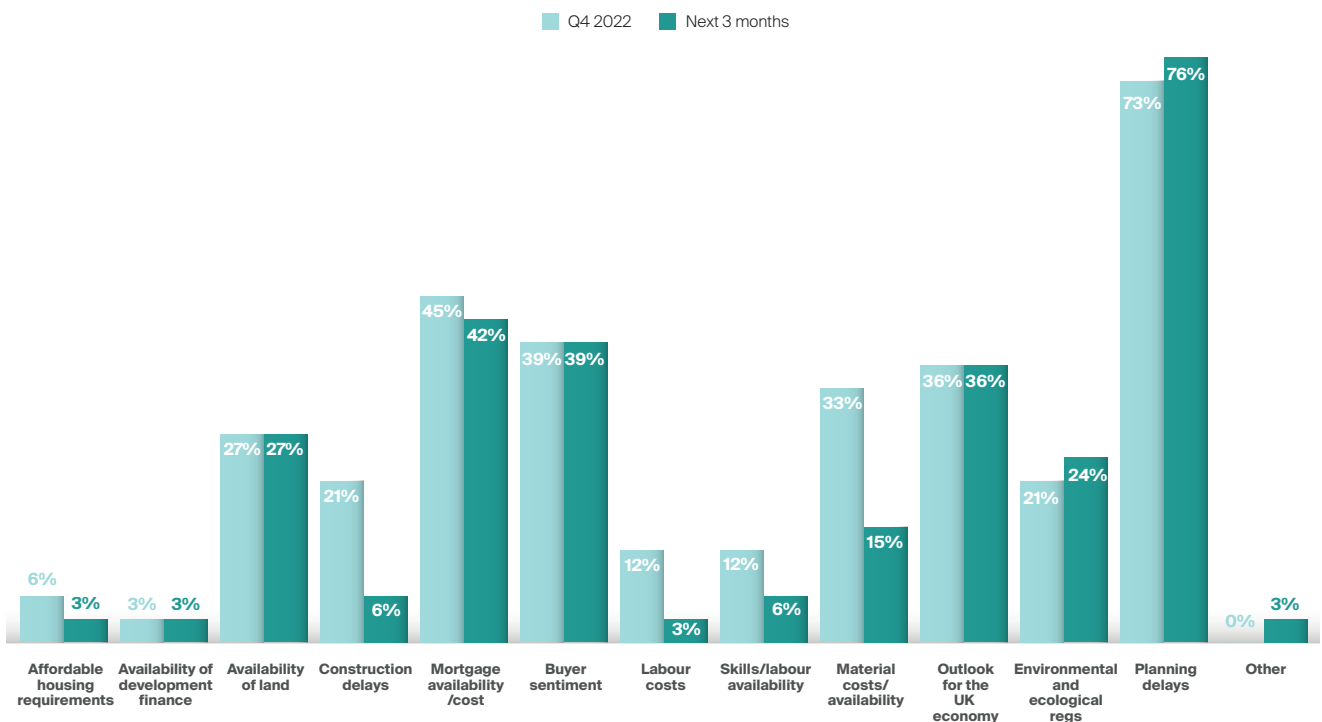
◆◆
44% of survey respondents stated that sales to build to rent investors (of both apartments and houses) will support the market this year.
 ◆◆

For private sales, 59% of respondents said they plan to offer more incentives to encourage buyers, while 22% and 31% think the First Homes and Deposit Unlock schemes will help boost sales respectively.

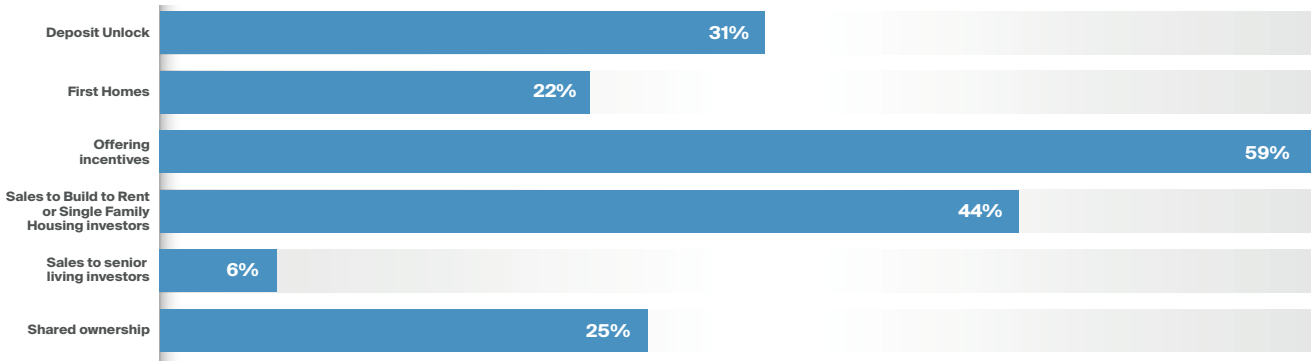
Outlook

A weaker private sales market will put further pressure on land values this year; 52% of our survey respondents said they expected land values to fall in Q1. Higher interest rates and financing costs will also add an element of caution to the market. That said, there remains a significant shortfall of supply of new housing relative to need for both the sales and rental markets which will underpin demand for sites in core locations.

What are the key challenges for the sector? % of respondents (choose up to three)

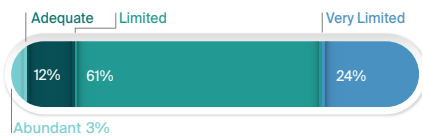


What do you think will help support sales volumes in 2023?



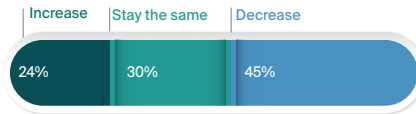
Land availability

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



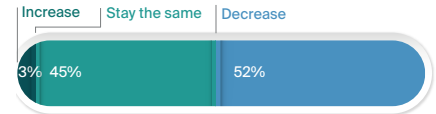
Start volumes

% of respondents that said start volumes would...



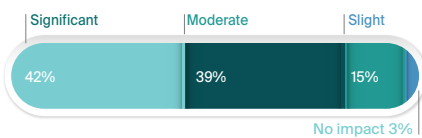
Land prices

% of respondents that thought land prices would...



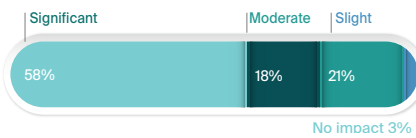
Buyer sentiment

Impact of cost of living crisis on buyer sentiment...



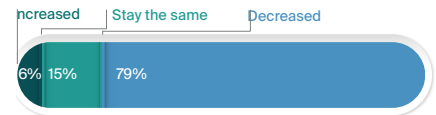
Build costs

What impact did build costs have in Q4...



Market activity

% of respondents for Q4 that said site visits and reservations...



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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. Every quarter Knight Frank surveys between 30-50 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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