

# Residential Development Land Index

Research, Q1 2021

**-4.8%**

GREENFIELD DEVELOPMENT LAND ROSE 0.9% IN Q1, BUT FELL 4.8% ON AN ANNUAL BASIS

**-2.2%**

URBAN BROWNFIELD LAND VALUES INCREASED 0.2% IN Q1, BUT DIPPED 2.2% ON YEAR

**-1.6%**

PCL DEVELOPMENT LAND VALUES REMAINED FLAT BOTH THIS QUARTER BUT FELL 1.6% ON YEAR

## *Housebuilders compete for land as UK economy emerges better from the coronavirus crisis than expected*

Confidence and momentum is returning to the land market amid stronger forecasts for the UK economy and extended government support measures. But a lack of available land and Covid-driven issues remain a challenge, as reflected by our quarterly Residential Development Land Index Survey of nearly 50 SME and volume housebuilders.

Land prices were broadly flat across the board, but if the economic market recovery is sustained, and particularly if supply levels remain low, we anticipate an uptick in land values next quarter. This sentiment is reinforced by our survey with 55% of respondents expecting an increase in land values and only 7% expecting a decrease.

For now, average land prices in Prime Central London were unchanged on an annual basis. Whilst a small number of new opportunities have been offered, there remains a lack of supply overall in the market with some sellers remaining on the side-lines due to ongoing international travel restrictions.

Urban brownfield and greenfield land values moved up slightly between January and March by 0.2% and 0.9%, respectively. However, on an annual basis values are 2.2% and 4.8% lower respectively.

In London and across the South East, agents report that some housebuilders

are reducing profit margins to compete for land. Well-located sites close to transport links and amenities are in strong demand from the build-to-rent and build-to-sell markets.

Knight Frank agents report an uptick of activity with more sites coming to market than in the previous quarter, but far from sufficient to satisfy demand. This is supported by our survey results with only 3% of large housebuilders and 0% of small housebuilders saying available supply was abundant.

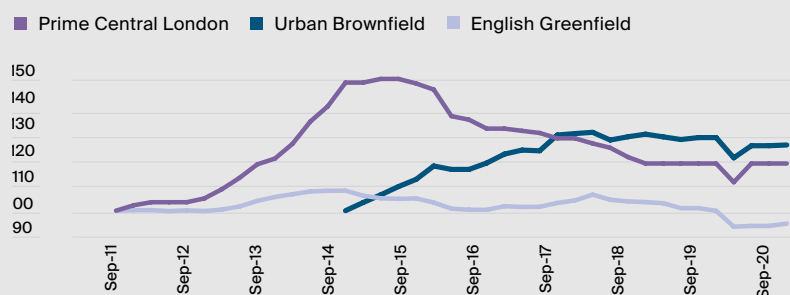
This ongoing lack of supply theme is also a reflection of planning delays, agents report, which is limiting land being allocated in Local Plans across England. As the government has instructed councils to prepare to revert to in-person planning meetings from May 7, following months of virtual committees, this is also likely to exacerbate delays in the short term. Planning delays and a lack of available

land were identified as the two most challenging factors for housebuilders in Q1, our survey confirmed. The next most pressing issues were all Covid-related, from legal delays in the transaction process to the medium to long term outlook for the UK economy and supply shortages of key building materials.

Despite the immediate challenges, the latest economic snapshot indicates the UK could stage a faster recovery this year than previously expected. Rising housing demand, a stronger jobs market and a perception of lower risk has encouraged more activity in the land market. Land market activity was also given a boost this quarter by the extension of the Stamp Duty Holiday to the end of June and subsequent tapering until the end of September. The reassessment of housing needs triggered by the first lockdown a year ago continues to encourage housebuilders to buy land to meet new demand.

### Residential development land prices

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

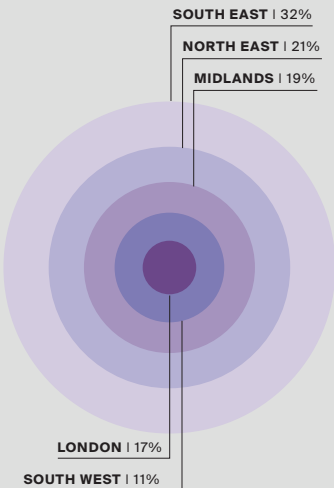


Source: Knight Frank Research

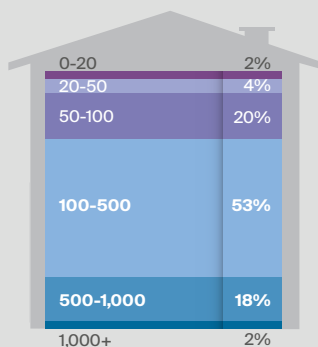
# HOUSEBUILDER OPINION SNAPSHOT

Our survey of nearly 50 volume and SME housebuilders across England looks at the most pressing issues for the sector

## Where do respondents come from?



## What size sites are they looking for?



When asked about the most pressing issues for the industry over the next three months, 21% selected ‘availability of land’, 18% said ‘planning reforms and policy uncertainty’ and 15% selected ‘supply chain delays’.

Splitting the group by size, for 19% of volume housebuilders, changes to the Help to Buy scheme will be another key area of focus for Q2, along with availability of land and planning reforms and policy uncertainty.

It is also clear that SMEs are feeling supply chain issues far more acutely than the larger housebuilders, as well as labour and skills shortages, and achieving Net Zero carbon targets.

The planning environment has been particularly challenging lately as the government seeks to fundamentally change the system. The past 12 months have seen several announcements come out relating to Permitted Development Rights. In the summer, the government introduced a new E use class allowing the conversion of all vacant commercial buildings into residential without needing a planning application. The new PD class will come into effect 1 August. But since

last summer, the government has introduced a number of changes, notably two key conditions that the premises must have a floorspace of no more than 1,500 sqm and have been vacant for at least three months.

## What we'll be watching in Q2:

### End of Help to Buy

Buyers were able to use the original scheme to purchase homes worth up to £600,000. From 1 April, this price limit will be replaced by a system of less generous regional price caps.

### The tax agenda

We expect more land sellers will come forward later in the year as potential tax increases are on landowners’ radars.

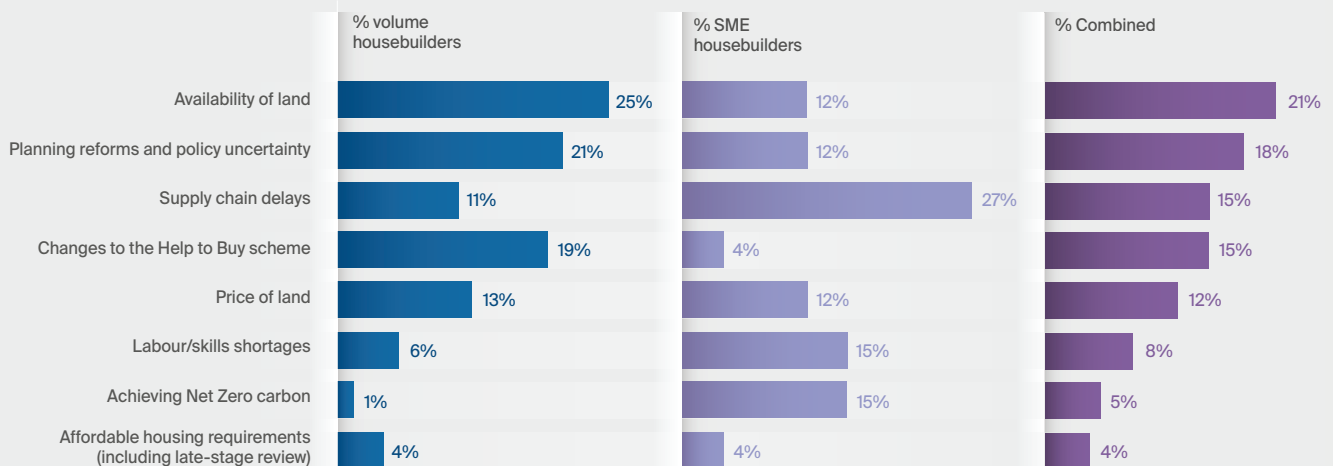
### Travel recovery

The speed with which commercial air travel recovers.

### In-person planning

The impact of councils reverting to in-person planning meetings from May 7.

## Looking to the future, what do you think will have the greatest impact on the housebuilding sector in Q2?



# Over half of housebuilders have concerns about land supply

*Land supply shortages and planning delays top the list of barriers to delivery currently faced by UK housebuilders*

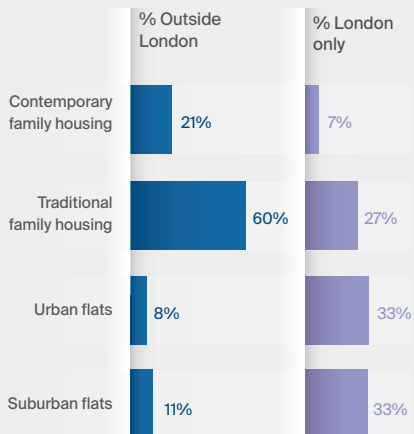
In Q1, a third of all respondents pointed to 'planning delays' being a challenging factor, 21% selected 'availability of land', while just 7% said the medium to long term outlook for the UK economy had been an issue.

Over 50% of those surveyed by Knight Frank said that residential land supply was 'limited', while only 2% of respondents felt land was 'abundant'.

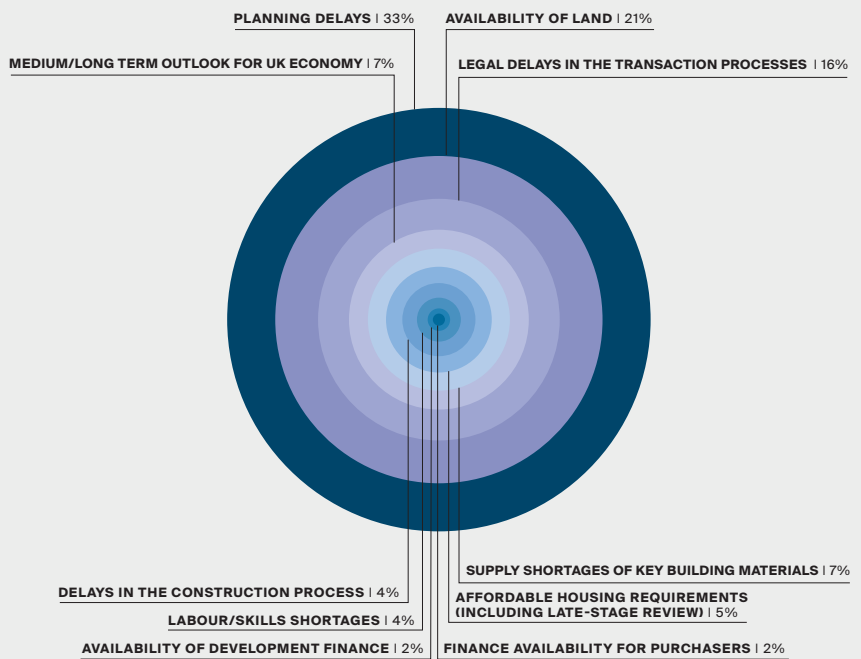
Land supply shortages are leading to an expectation that prices will rise. When asked about land values, 55% of Knight Frank's survey respondents

said that they thought prices would increase in Q2, with 38% saying they would stay the same and only 7% anticipating a decrease.

## Which type of schemes are seeing strong customer demand?

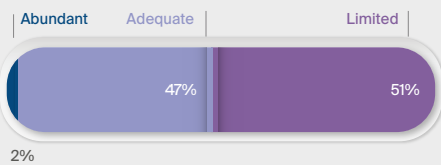


## Which factors proved most challenging for the sector in Q1?



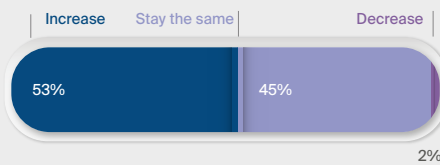
## Land availability

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



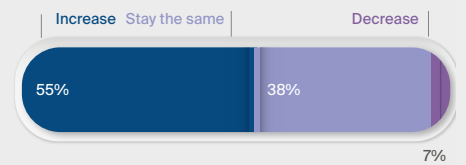
## Start volumes

% of respondents that said start volumes would...



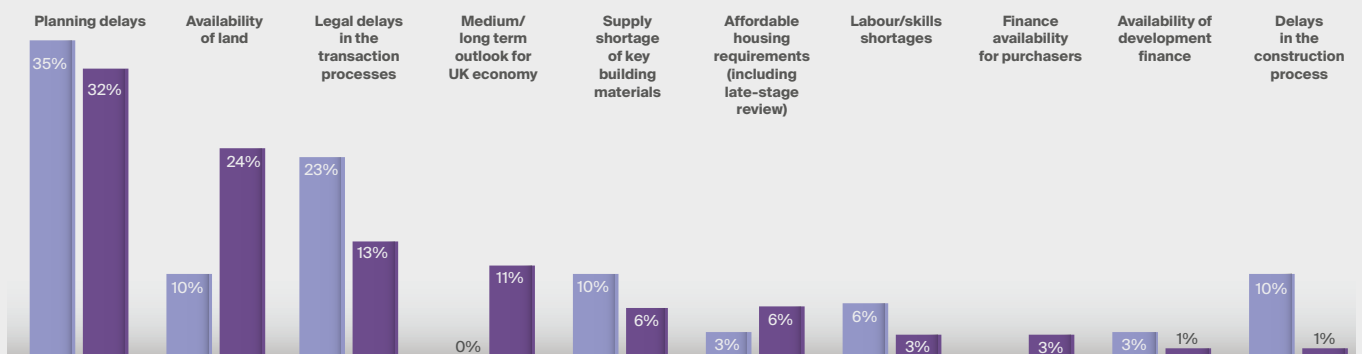
## Land prices

% of respondents that thought land prices would...



## Which factors proved most challenging for the sector in Q1?

■ % small housebuilders ■ % large housebuilders



## Recent Publications



London Offices Spotlight  
Q3 2020



London Residential H2 2020

### 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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