

Residential Development Land Index

Research, Q1 2022



5%

GREENFIELD DEVELOPMENT LAND ROSE 5% IN Q1, AND INCREASED 22.8% ON AN ANNUAL BASIS

0.4%

URBAN BROWNFIELD LAND VALUES INCREASED 0.4% IN Q1, AND ROSE 3.3% ON YEAR

2.5%

PCL DEVELOPMENT LAND VALUES ROSE 2.5% THIS QUARTER AND 2.5% ON AN ANNUAL BASIS

Renewed interest in PCL land led to the first quarterly price rise since autumn 2020, with developers competing for a shrinking pool of supply. Demand remains strongest for housing-led greenfield sites outside London in areas where house price inflation continues to offset build costs.

Average land prices in Prime Central London were up 2.5% on a quarterly and annual basis. It is the first-time prices in central London have risen since Q3 2020. Previously, prices remained flat on a quarterly basis amid subdued demand for central London sales in the absence of an international market. A relaxing of travel restrictions, a stronger PCL sales market and limited availability of land, particularly for larger development sites, have contributed to this quarter's increase.

◆◆
40% of respondents thought that 'build cost inflation' and 'supply chain disruption' would have the biggest impact on the housebuilding sector in Q2
◆◆

Elsewhere, brownfield land prices rose 0.4% in Q1 and were up 3.3% compared to a year ago. Greenfield land prices strengthened between January and March by 5%. Annually, greenfield values rose 22.8%.

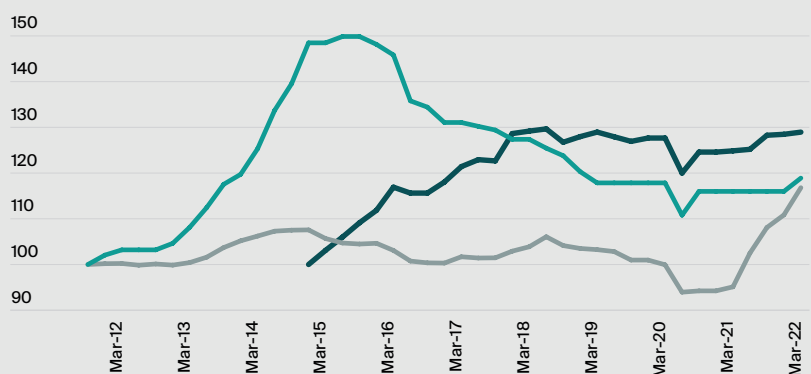
Increased construction costs and supply chain disruption are key issues around the country but particularly in areas where house price growth has been less strong, such as in London. Our quarterly survey of housebuilders found that build costs had had a 'significant' impact on 44% of respondents' businesses in Q1, with nearly half reporting a 'moderate' impact.

Looking ahead, 40% of respondents believe 'build cost inflation' and 'supply chain disruption' will continue to have the biggest impact on the sector in Q2, with over a quarter citing planning delays as another key issue. New building regulations coming into effect from 15 June mandate that all new homes cut their emissions by 30%, and include new requirements to prevent the risk of domestic overheating, adding to existing build cost pressures. Other supply side challenges include a new environmental ruling on nutrient neutrality, impacting delivery in areas including Norfolk, Hampshire, Devon and the northeast. In March Natural England issued

Residential development land prices

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

■ Prime Central London ■ Urban Brownfield ■ English Greenfield



Source: Knight Frank Research

guidance instructing local authorities to consider the impact of nutrient neutrality before granting planning permission, causing residential development delays.

Higher mortgage rates and a cost-of-living squeeze mean we expect UK house price growth to slow later this year. Our survey found that 62% think the rising prices of goods and services is weighing on buyer sentiment the most.

For now, a lack of availability of land is currently supporting land pricing. In total, 85% of respondents said that land availability was either 'limited' or 'very limited', up from 70% in Q4 2021. Against this backdrop, the majority expect land prices to either rise (47%) or stay the same (44%) next quarter.

Logistics competition and bulk deals

An increase in competition from logistics players is also exacerbating the

land supply issue. It means that residential developers are being outbid on several sites, even those with planning permission in place for housing. Overall, our survey found that over half (56%) of respondents are seeing more competition for land from other use classes such as logistics. In contrast, securing development capital is far less of a concern. In total, 88% of respondents said they had not found it more difficult to secure capital to fund residential development than before the start of the pandemic.

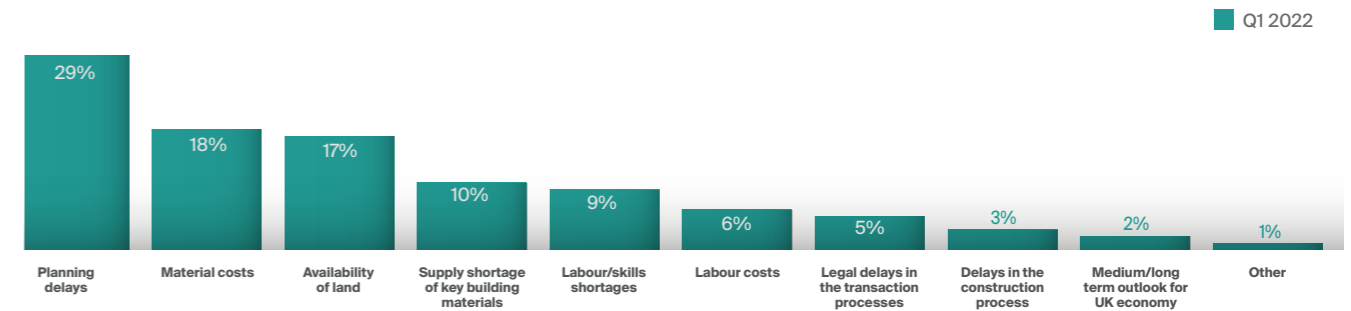
An increasing number of housebuilders are also looking to do bulk deals with build-to-rent operators to help de-risk their schemes. This is most apparent in London where developers sold 6,070 new homes during the first quarter, the most in any quarter since 2018, according to Molior London. In total, BTR accounted for 41% of sales in Q1, up from 38% in Q4. The sector continues to grow amid a strong demand

◆◆ Knight Frank saw a 55% increase in land transactions in the 2021-22 financial year compared to the previous year ◆◆

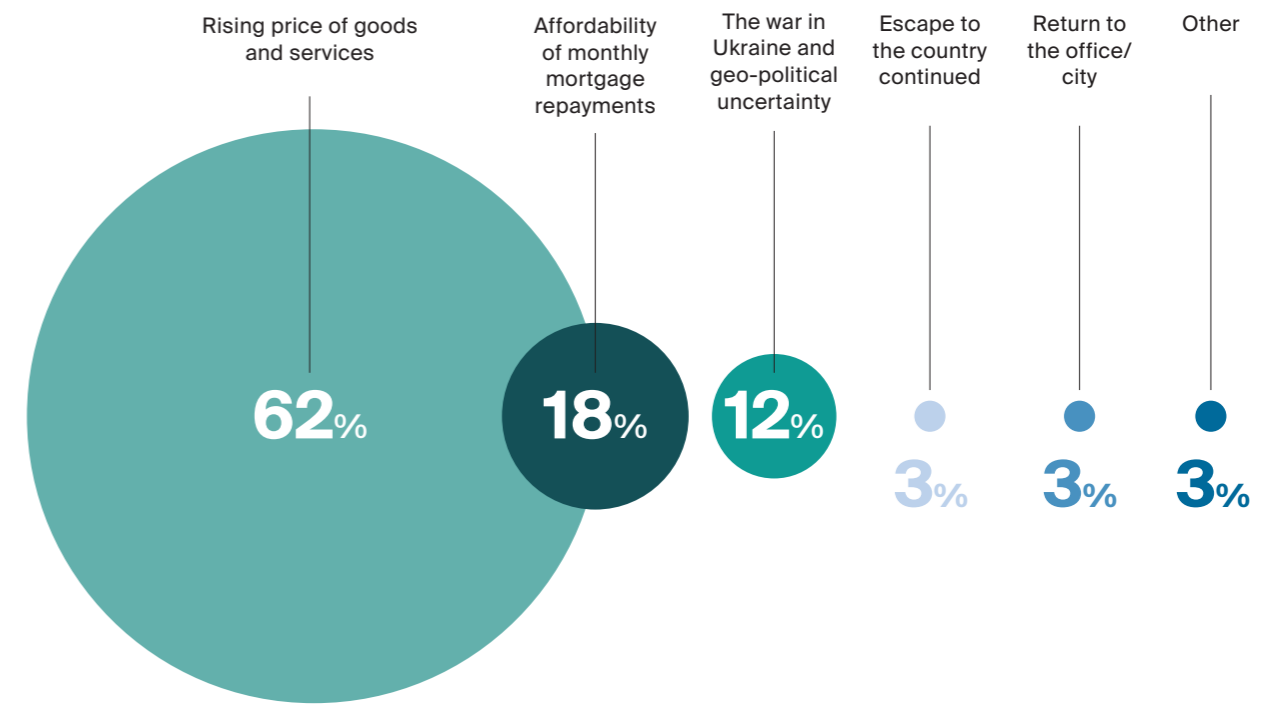
for rented housing and a scarcity of new supply. Institutional investment volumes into UK Build to Rent topped £4.3 billion in 2021, Knight Frank data shows, up 19% on 2020. Help to Buy took the second largest share of sales in Q1 at 29%, up from 19% in the previous quarter.

The strong sales market over the past 12 months has led to a surge in land transactions up to the end of Q1 this year. Knight Frank saw a 55% increase in land transactions in the 2021-22 financial year compared to the previous year, with strong demand across the whole market.

Which factors proved most challenging in Q1 2022?



What factor would you say is currently impacting buyer sentiment the most?



What we're watching

Will Gove cut Section 106 agreements?

A new levy on developers to give more power to local authorities could replace 106 agreements. Michael Gove, the secretary of state for levelling up, first aired plans to scrap the rules that force developers to build a certain proportion of affordable homes on their schemes in summer 2020. If the plans are approved by the cabinet, a formal consultation on the proposals could be launched within weeks.

Levelling Up and Regeneration Bill

One of a wide-ranging set of bills that Boris Johnson intends to push through Parliament over the next year to reset his premiership. The bill will contain measures such as 'local design codes' to allow residents to decide what sort of new buildings should be allowed in their area.

Final year of H2B

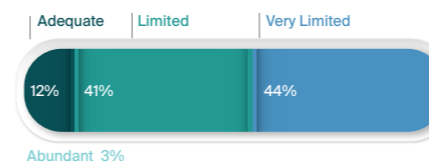
A clamour to purchase the remaining available Help to Buy units is supporting the market. How will plans for alternatives progress next quarter? So far, Deposit Unlock, the industry-led alternative to Help to Buy, has 17 housebuilders and two lenders signed up, one of which is Nationwide.

Nutrient neutrality

The government's plan to expand the number of locations where 'nutrient neutrality' rules could be used to block planning consents could impact the delivery of new homes. In March, the government extended by 42 the number of authorities that are unable to give planning permission where a development is likely to add to nutrient pollution to water, meaning a total of 74 councils are now affected.

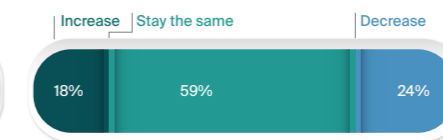
Land availability

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



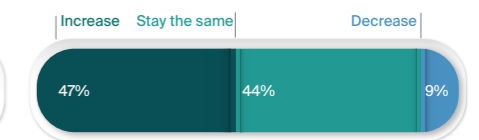
Start volumes

% of respondents that said start volumes would...

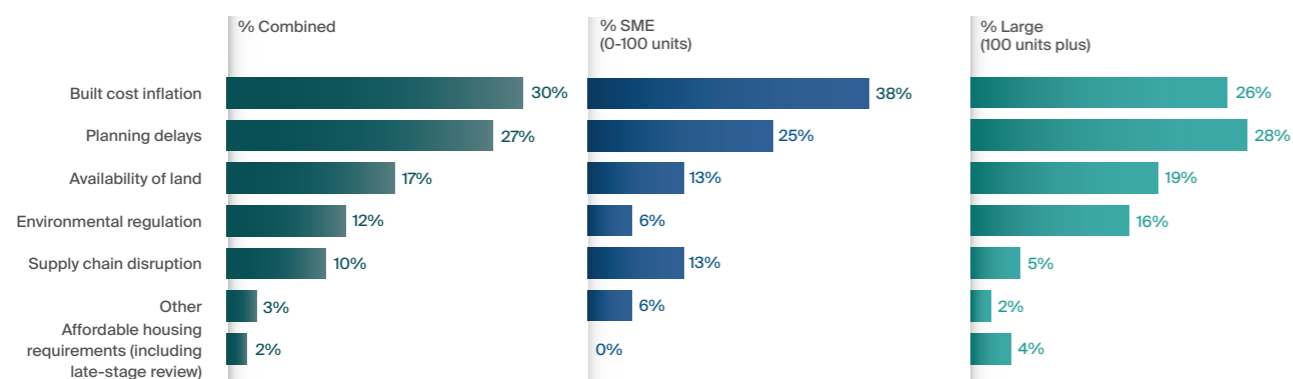


Land prices

% of respondents that thought land prices would...



What do you think will have the greatest impact on the housebuilding sector in Q2?

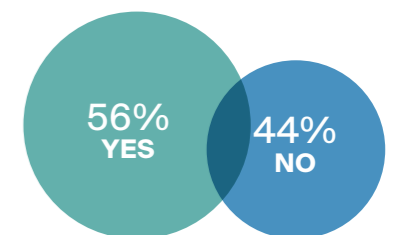


Source for all charts: Knight Frank Research

What impact did the rise in build costs have on your business in Q1 2022?



Are you seeing more competition from other land use classes such as logistics?



Recent Publications



London Offices Spotlight
Q3 2021



London Office Market
Report Q3 2021

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 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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