

# Residential Development Land Index

Q1 2024

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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► Land values were flat in England and Prime Central London in the first quarter of the year as while more UK housebuilders are looking to replenish pipelines, there is still not much land changing hands

England greenfield and brownfield land prices held steady in the first quarter of the year. In Prime Central London, prices also remained the same. But sentiment has shifted, with sales rates, reservations and start volumes all ticking up, while the prospect of the first interest rate cut in over four years should entice more housebuilders to buy land.

While deals are underway, for the most-part there is still not much land changing hands. However, there has

been a notable increase in new sites coming to market, so transactions should build later this year. Sentiment has also improved given the downwards trajectory of UK inflation, even if services inflation is proving sticky, combined with lower mortgage rates this year, and, crucially, the prospect of at least one interest rate cut in 2024.

Over 60% of respondents to our latest survey of 50 volume and SME housebuilders and developers across

80%

of housebuilders think that Labour would enhance the land and development market the most

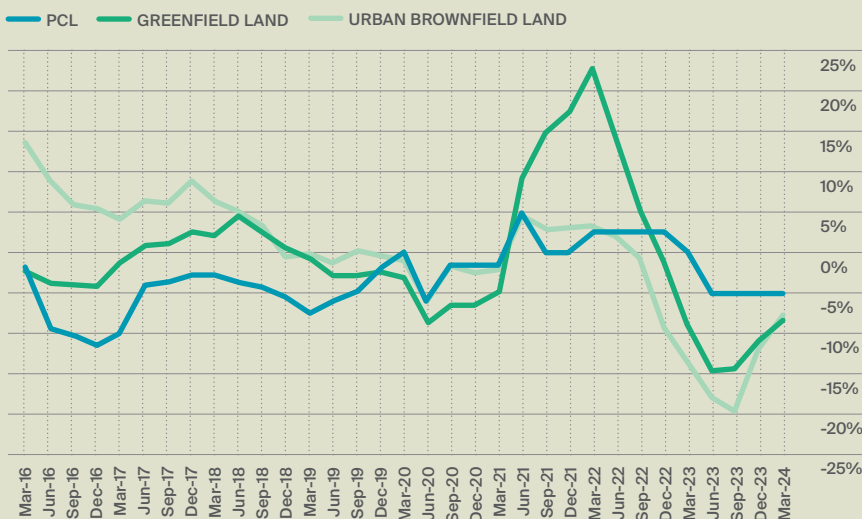
64%

said interest rate cuts would boost their appetite for land and new development, ahead of planning reform

A third

said that a lack of power capacity in the National grid has delayed their housing schemes

**Residential development land prices**  
Annual % change



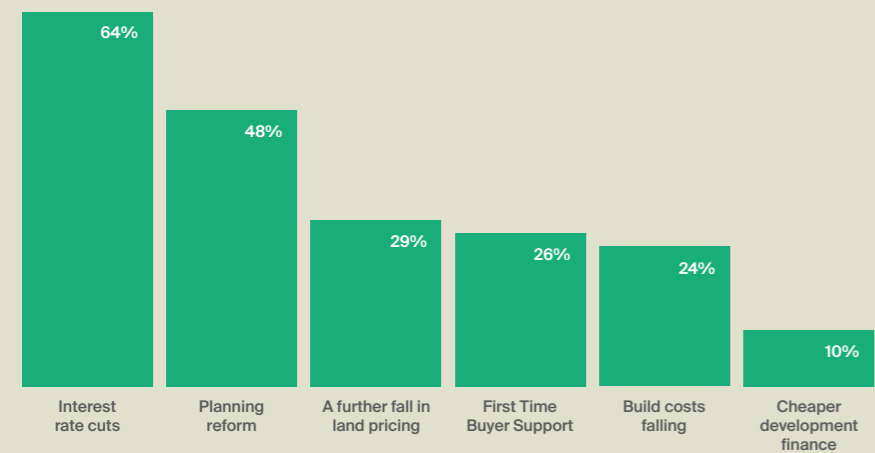
Source: Knight Frank Research

England said that an interest rate cut is top of their wishlists. When asked what would increase their appetite for land and new development the most, this ranked more highly than either planning reform (48%), a further fall in land pricing (29%) and more first-time buyer support (26%).

Although land transactions are slow, there are some emerging office-to-residential opportunities across England, following the recent amendment to Permitted Development which allows for the conversion of commercial buildings of any size into new homes without going through the full planning process. However, it is uncertain how long this opportunity will last given a number of councils are consulting on Article 4 Directions to limit the amount of conversions, according to a React News analysis.

### What would most increase your appetite for land and new development?

% of respondents



Source: Knight Frank Research

Activity this quarter was focused either on PCL, although land availability remains constrained, or greenfield housing schemes.

Viability issues in some areas persist, given build and finance costs remain elevated, even though build cost hikes have slowed substantially. Build costs grew 0.7% in the year to February, according to the Build Cost Information Service's private housing construction price index. Previously, in 2022, the same index saw annual price jumps of over 15%.

A third of our survey respondents also said a lack of power capacity in the National Grid has affected the progress of housing schemes in the region they operate in. Around 15,000 of their new

homes are currently held up by a lack of grid connections. To put this in context, our poll of 50 housebuilders together build 70,000 homes each year. In further comments, some respondents reported difficulties with utility firms delivering connections in a timely manner which they said is causing them problems with plot handovers and costing thousands of pounds in temporary connections or portable generators.

#### INDICATORS TURN MORE POSITIVE

That being said, housebuilder sales rates for early 2024 have improved, while key indicators in our survey have also turned more positive. On average housebuilder site sales per week have ticked up to 0.62, up from 0.56 in H1

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

% of respondents



Source: Knight Frank Research

2023 and from a low of 0.47 in H2 2022 following the mini-Budget in September. This is reflected by our survey results: nearly 40% said site visits and reservations had increased – which is the strongest reading since we first asked this question in late 2022.

Housebuilders were also seen more active in local land markets, with nearly half of respondents saying they were the most active group in their regions. Previously, respondents noted that they had retreated from land buying since Q2 2023 through to Q4 2023. At the same time, a higher proportion of respondents said they have sold or plan to sell units into the build-to-rent sector (50% compared to 40% last quarter).

### Land availability

% of respondents that said land availability was...



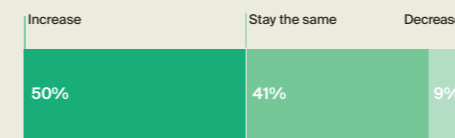
### Land prices

% of respondents that thought land prices would...



### Start volumes

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



New development is also expected to pick up, with half of respondents saying that start volumes will increase next quarter, the strongest reading since the survey began in early 2021. Land prices are also expected to stay stable in Q2, according to 65% of respondents, but as noted earlier, nearly a third indicated that a further fall in pricing would boost their appetite to buy land.

Land is also becoming more plentiful. While availability is still limited, the survey points to a notable loosening. In total, a quarter said that land supply is now adequate, the strongest reading since we started the survey, with the remaining 75% saying land supply is either limited or very limited.

### SUPPORT FOR LABOUR GOVERNMENT GROWS

A focus on interest rates comes as housebuilder support for a change in government rises. Overall, 80% said they thought that a Labour government would enhance the land and development market the most, up from 70% last quarter.

More broadly, affordable housing requirements and biodiversity net gain regulation were highlighted as key challenges this quarter, along with long-standing concerns over planning

### Biodiversity costs

In total, 80% of respondents said that they needed to buy up to 50 biodiversity units off-site. Quoted costs for units off-site are currently in the region of £20-30,000, meaning that 50 units cost between one and one and a half million pounds. Some respondents require more than this, with 10% looking to buy 51-150 and 5% require over 150 units. Demand for units off-site is much greater in London, where there is less land for on-site biodiversity creation, plus a shortage of supply of sites that could offer BNG units given the lack of rural areas.

Since 12 February, developers must deliver at least 10% biodiversity net gain, with BNG required for small sites from 2 April this year. If they cannot deliver 10% BNG on site by enhancing and restoring biodiversity within the red line boundary of a development site, they can either make off-site

biodiversity gains on their own land outside the development site or buy off-site units on the market.

If they cannot achieve on-site or off-site BNG, they must buy more expensive statutory biodiversity credits from the government, which will use the revenue to invest in habitat creation in England. Overall, 10% of respondents said they needed to take this last-resort measure.

As well as increasing costs for developers, the additional requirements are adding pressure to local authority planning departments. Research commissioned by the Rural Housing Network found in February that 83% of 40 rural local authorities surveyed cited new requirements (including biodiversity net gain and nutrient neutrality) as contributing to high levels of stress. Policy uncertainty and change were contributing factors.

delays, availability of land, buyer sentiment and the short-term outlook for the economy.

A third of respondents said that affordable housing requirements would have the greatest impact on the housebuilding sector over the next quarter, the highest reading since the survey began.

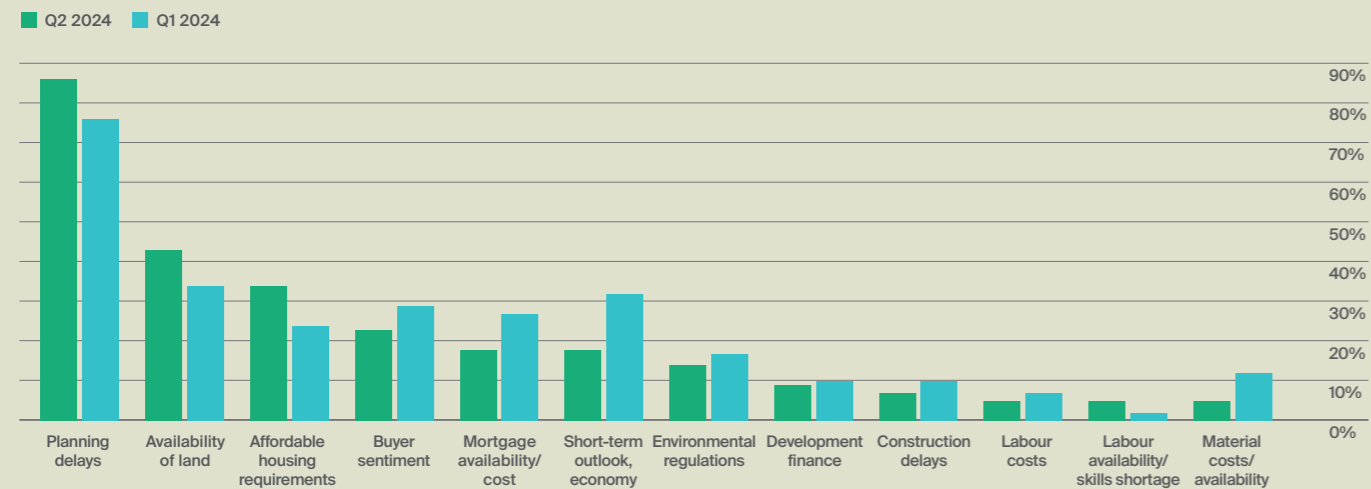
Housing associations have also notably retreated from land-buying, with circa 10% of respondents saying this group was the most active in the

local land market for the past two quarters, down from around 20% for Q1-Q3 last year.

In further comments on this matter, some respondents highlighted that they were experiencing significant problems with finding any registered provider who is interested in purchasing Section 106 Affordable Housing units, creating issues in some instances in complying with the terms of these agreements which is making the delivery of consented schemes difficult.

### What will have the greatest impact on the housebuilding sector

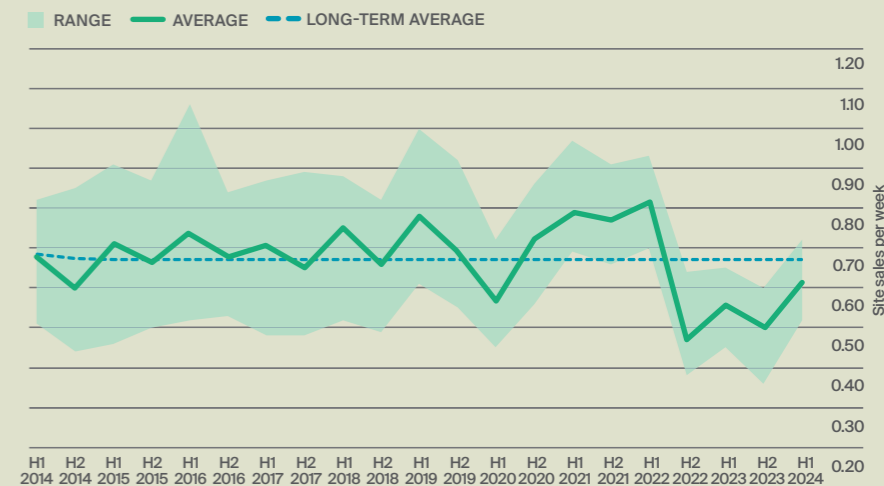
% of respondents (choose up to three)



Source: Knight Frank Research

### Site sales per week

Major UK housebuilders

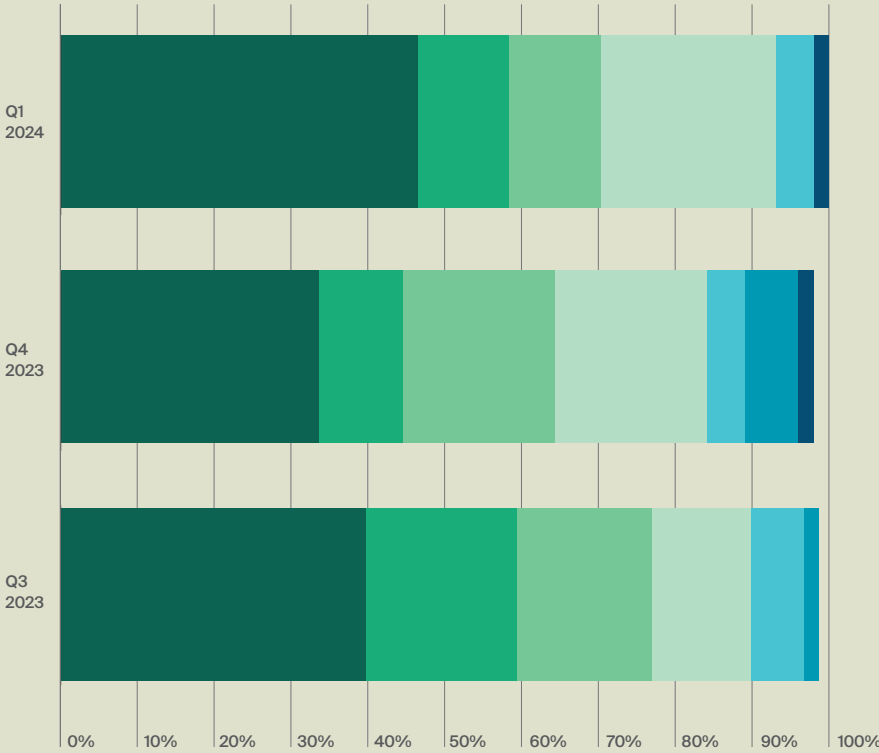


Source: Knight Frank Research

### Which group was most active in the land market in your region?

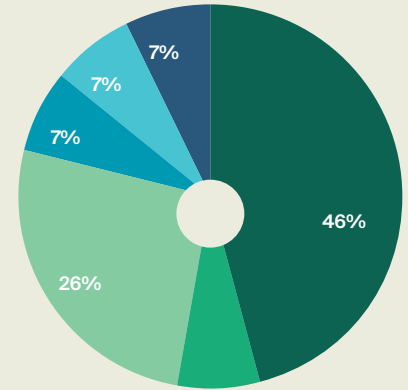
% of respondents

HOUSEBUILDERS   HOUSING ASSOCIATIONS   BTR DEVELOPERS / INVESTORS  
STUDENT HOUSING   SENIOR / RETIREMENT HOUSING   LOGISTICS   CO-LIVING



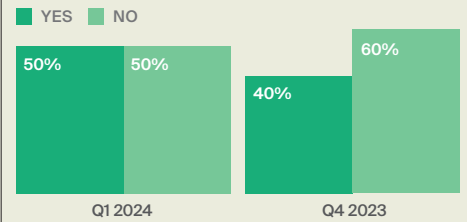
Source: Knight Frank Research

### How many of your housing units (in the region you operate in) are held up by a lack of grid connections?



0-50   500-1,000  
50-100   1,000-5,000  
100-500   5,000+

### Have you sold (or do you intend to sell) units to build-to-rent or single-family housing investors/operators?



Source: Knight Frank Research

### 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 December 20 2023 - January 15th 2024.

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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