

Residential Development Land Index

Research, Q2 2022



0.0%

GREENFIELD DEVELOPMENT LAND PRICES WERE UNCHANGED IN Q2, AND INCREASED 13.9% ON AN ANNUAL BASIS

-1.1%

URBAN BROWNFIELD LAND VALUES DECREASED BY 1.1% IN Q2, AND ROSE 1.9% YEAR ON YEAR

0.0%

PCL DEVELOPMENT LAND VALUES REMAINED UNCHANGED THIS QUARTER AND ARE UP 2.5% ON AN ANNUAL BASIS

Development land shortages across the country are supporting prices, but the market is expected to come under pressure later this year as house price inflation cools and build costs continue rising.

Average land prices in prime central London rose 2.5% on an annual basis, but were unchanged from Q1 2022. Last quarter, land values in PCL rose for the first time since autumn 2020, boosted by a stronger PCL sales market and an increase in international demand as covid-related travel restrictions continue to ease globally. Land values in the capital are being supported by a shortage of development opportunities coming forward and strengthening demand, with London residential developers facing competition from other land use classes such as offices, hotels and logistics.

Elsewhere, brownfield land prices were down -1.1% in Q2 but remain 1.9% higher compared to a year ago. There has been



There has been a slight uptick in demand for urban flatted schemes as commuters return to office working



a slight uptick in demand for urban flatted schemes as commuters return to office working. Our latest quarterly survey of housebuilders and developers reflects this, with 14% of respondents suggesting urban flats were seeing strong customer demand this quarter, compared to just 8% when we first launched the survey in Q1 2021.

Greenfield land prices were unchanged between April and June. Annually, greenfield values increased 13.9%. While demand has been exceptionally strong for housing-led greenfield sites, we expect this level of growth to cool off as the weakening UK economic outlook impacts housing demand. Over 90% of respondents to our

survey said the cost-of-living crisis was having some impact on buyer sentiment – including 7% saying it was having a ‘significant’ impact, 41% a ‘moderate’ impact and 44% a ‘slight’ impact.

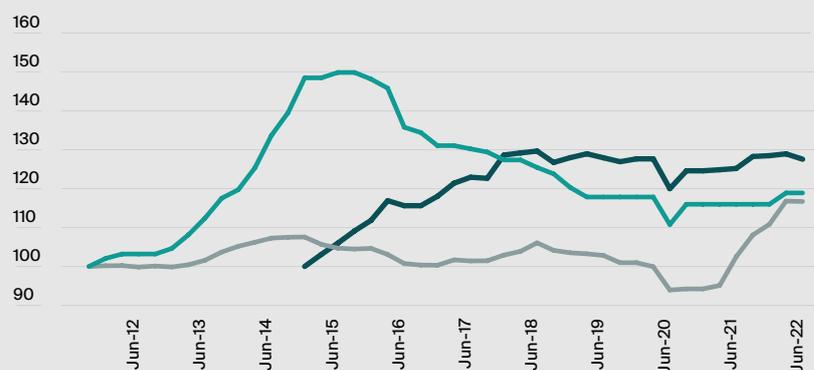
Land prices are set to come under pressure as house price growth slows, particularly if build costs continue to rise. This is a particular concern in urban areas where house price growth has been weaker and where developers of new build flats in cities are more reliant on the increasingly expensive debt market to fund new schemes.

Overall, the Build Cost Information Service (BCIS) General Building Cost Index

Residential development land prices

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

■ Prime Central London ■ Urban Brownfield ■ English Greenfield



Source: Knight Frank Research

is forecasting build costs to increase 11.4% in 2022 up from 6.9% in 2021, before easing to 2.8% in 2023.

Our survey of housebuilders found that build costs have had a 'significant' impact on 48% of respondents' businesses in Q2, up from 44% in Q1, with a third reporting a 'moderate' impact.

Looking ahead, 43% of respondents believe 'build cost inflation' and 'supply chain disruption' will continue to have the biggest impact on the sector in Q3, with a fifth citing planning delays as another key issue.

Land shortages and slowing delivery rates

New residential development is being constrained by a limited supply of land coming through the planning system. Nearly 90% of survey respondents said land availability was either limited or very limited, the highest proportion since the survey began.

Reflecting this shortage, developers and housebuilders are currently pursuing land at every planning stage. Overall, 74% of survey respondents said they were open to buying all types of land, including strategic land, with the remainder seeking land allocated in local plans (11%), land with outline planning consent (11%) or land with detailed planning consent only (4%).

Typically, there would be a higher premium for land that is already allocated in local plans or has secured planning consent. However, given the current land shortages, any development opportunity that becomes available is highly sought after and there is no obvious price differential between land at different planning stages.

In this environment, signs are already emerging that housing delivery rates could slow moving forward. Nearly 40% of our survey respondents said they expected new starts to fall in the third quarter.

New nutrient neutrality rules are also slowing down delivery in some parts of the

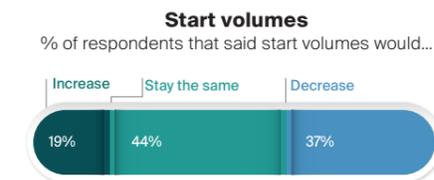
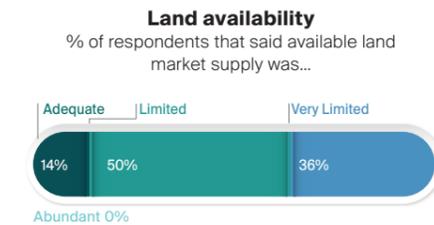
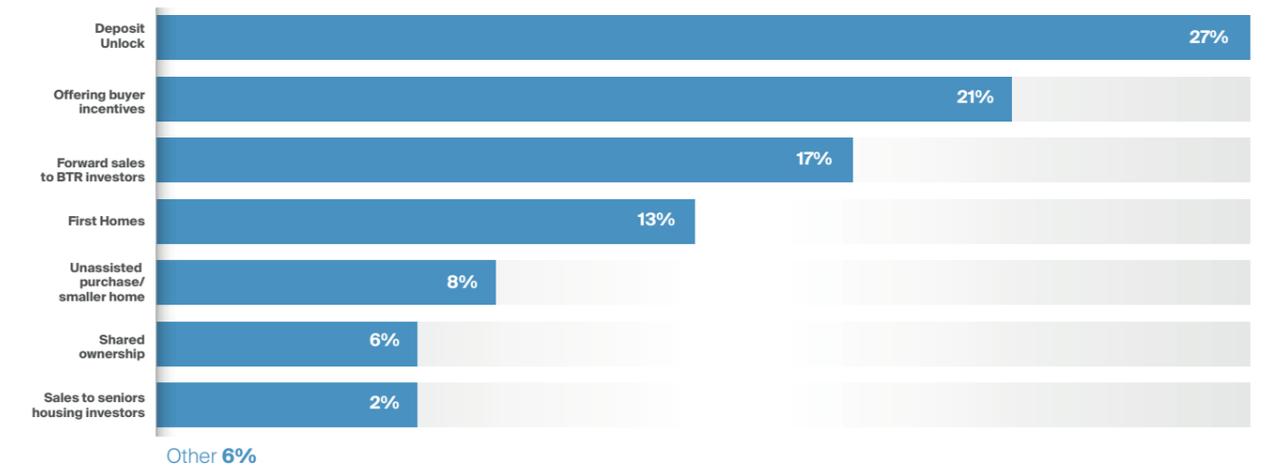
Housing delivery rates could slow moving forward

country. Survey respondents were asked about this for the first time this quarter and 9% said this was the most challenging factor for their business in Q2.

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 nutrient pollution to water, meaning a total of 74 councils are now affected.

Electrical supply capacity may also add to delays in some parts of England. Recently, the GLA told developers in three London boroughs they face a potential ban on new housing projects due to a shortage of capacity on the electricity grid.

What do you think will help boost sales when Help to Buy ends?



How much of an impact is the cost-of-living crisis having on buyer sentiment?

7% SIGNIFICANT

41% MODERATE

44% SLIGHT

7% NO IMPACT

What we're watching

Interest rates

The scope and pace of rising interest rates will be the key influence on the performance of the housing market over the coming year. UK interest rates rose further in mid-June as the Bank of England attempted to control the pace of soaring prices. Rates increased from 1% to 1.25%, the fifth consecutive rise, pushing them to the highest level in 13 years, but inflation is forecast to ease next year.

House prices

For now, housing market statistics continue to look positive in sharp contrast to other UK economic indicators. We have therefore revised up our UK house price forecast for 2022 to 8% from 5%, following our latest quarterly review. More detail is [here](#).

But signs of weakening housing demand are already emerging. Supply is beginning to fall as more sellers come forward in the belief that house prices may be peaking, while June's RICS UK Residential Survey pointed to a softening in demand. The new buyer enquiries measure moved further into negative territory with a net reading of -27% from respondents, down from -9% in May.

Elsewhere, our latest client survey found that the rising cost of borrowing is a concern to more than two-thirds of home buyers.

End of Help to Buy

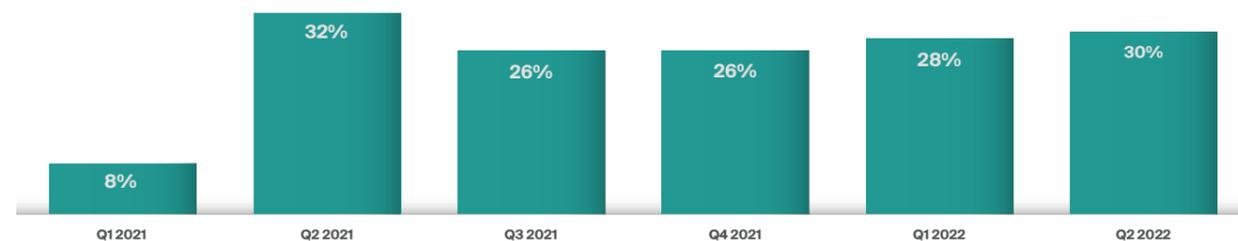
The looming end of the Help to Buy programme is also expected to weigh on the new build market. Since its inception in 2013, it has grown to support about 50,000

new build sales per year in England, easing to a little over 40,000 last year following the narrowing of the scheme to include only first time buyers in April 2021.

Several alternatives, including First Homes and Deposit Unlock have emerged to plug the gap in sales. Nearly 30% of survey respondents said that Deposit Unlock would help boost sales when Help to Buy ends in March next year, followed by offering incentives (21%) and sales to BTR (17%). Deposit Unlock, a new scheme devised in collaboration with lenders and the housebuilding industry, has an ambition to eventually support around 20,000 of new homes sales annually.

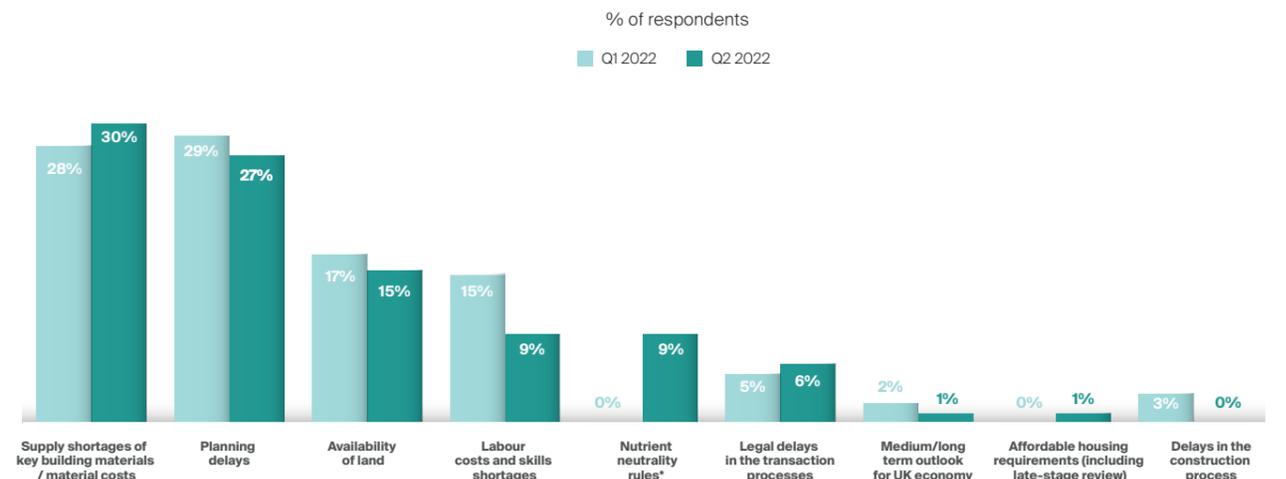
Which factors have proved most challenging for business this quarter?

% of survey respondents selecting "building material costs and shortages"



Source for all charts: Knight Frank Research

What are the key challenges for housebuilders and developers? (last three months)



*new question for Q2 2022

Recent Publications



UK Residential Property Market update July 2022



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. Knight Frank surveyed 50 SME and large housebuilders to gauge their sentiment and views on the market. The survey was conducted between 13th June to 4th July 2022.

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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