Strong demand for land to deliver housing-led schemes in sought after areas is offsetting rising build costs.

Resilient housing demand and a scarcity of available land to build on is supporting land prices. But rising build costs are becoming an increasing challenge in some areas.

Greenfield land prices strengthened between July and September by 5.5%, a slightly softer pace of growth than the 8% jump in Q2, the highest quarterly rise on record. Annually, greenfield values rose 14.7%.

Average land prices in Prime Central London were flat on a quarterly and annual basis. Travel constraints are weighing on demand but tight supply continues to support prices.

Brownfield land prices rose 2.5% this quarter and were up 3% compared to a year ago. The return of office workers in urban centres is boosting demand, but agents report that some housebuilders are still cautious about building flats in towns and cities.

Land market activity has been driven by parties interested in all tenure types. Housing Associations and other registered providers are active, as is the Build to Rent sector.

As such, land availability has become a bigger concern this quarter, according to our third quarterly Residential Development Land Index Survey of more than 50 SME and volume housebuilders based in the UK. Nearly 80% of respondents said that land availability in England was either ‘limited’ or ‘very limited’ this quarter, up from 70% in Q2.

As a result, agents report that volume housebuilders are now looking at smaller sites to fill their pipelines. In some instances they have entered the market for sub-50-unit sites and are coming up against the SMEs. Planning delays are exacerbating the issue, with 25% of our survey respondents identifying delays as the most challenging factor for their business in Q3.

Rising prices offset build costs
Supply chain issues and material costs were identified as the number one factor weighing on housebuilder profits in our survey. In total, 61% of respondents said they were adding the most pressure to their bottom lines, ahead of land prices (22%) and rising labour costs (8%). Government data shows that material costs have surged in the past year, rising 23.5% on average in August compared to a year ago.

In many cases, housebuilders are able to manage the rise in build costs due to house price inflation in sought after areas. Our survey reflects this, with over half (54%) of respondents saying the current rate of house price inflation is helping offset build cost increases. Nationwide reported a slowdown in annual house price growth in October, but it remained elevated at 9.9%.

If build costs do not settle down ahead of cooling house price growth and expected rate hikes, this will have a knock-on effect on land prices.

### Residential development land prices

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<tr>
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<th>Prime Central London</th>
<th>Urban Brownfield</th>
<th>English Greenfield</th>
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<tbody>
<tr>
<td><strong>Residential development land prices</strong></td>
<td><strong>Index rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)</strong></td>
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<td><strong>Sep-2011</strong></td>
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Source: Knight Frank Research
Planning delays and land shortages top list of challenges for housebuilders

Concerns around limited land availability have grown this quarter compared to Q2 three months, followed by planning reforms and policy uncertainty and the price of land. Availability of land was identified as a bigger challenge this quarter, compared with Q2, with 21% of housebuilders saying it was a challenge compared to 16% the previous quarter. Development land with viable permissions is in short supply for a number of reasons. Knight Frank agents report that potential developments sites are getting held up in planning over environmental impact requirements. Delays are also being exacerbated in some cases where local authorities are under-resourced and/or holding out for policy compliant affordable housing.

What we’ll be watching in Q4:

Help to Buy alternatives

This quarter alternatives to Help to Buy gathered more momentum, with Deposit Unlock attracting the backing of Nationwide. The question is, will other rival lenders follow suit over the next few months? The scheme sees buyers pay just a 5% deposit for homes worth up to £330,000, with housebuilders paying the cost of insuring mortgages.

Interest rates

The Bank of England has signalled it is likely to bring forward interest rate hikes and that we could see as many as one increase this year, and three in 2022.

Gove’s planning review

The government’s contentious planning upheaval was stopped in its tracks this quarter, with Michael Gove replacing Robert Jenrick in a cabinet reshuffle in September. So, what will be the outcome of Gove’s review of the plans and how will he take planning forward?

How active was the new homes market this quarter, looking at site visits and reservations in Q3 compared to Q2?

Which five factors will have the greatest impact on housebuilding in Q4?

Despite market headwinds, land prices have been supported by a lack of available sites and a strong sales market. Overall, nearly 80% of respondents said land availability was ‘limited’ or ‘very limited’. Looking ahead, land availability is expected to have the greatest impact on the housebuilding sector over the next three months, followed by planning reforms and policy uncertainty and the price of land. Availability of land was identified as a bigger challenge this quarter, compared with Q2, with 21% of housebuilders saying it was a challenge compared to 16% the previous quarter. Development land with viable permissions is in short supply for a number of reasons. Knight Frank agents report that potential developments sites are getting held up in planning over environmental impact requirements. Delays are also being exacerbated in some cases where local authorities are under-resourced and/or holding out for policy compliant affordable housing.

What added the most pressure to your bottom line in Q3 2021?

Supply chain issues and rising material costs 63%
Land prices 49%
Rising labour costs 48%
Preparing to deliver zero carbon ready homes by 2025 47%
Other 44%
Cladding remedial work and associated reviews 44%

Which factors proved most challenging in Q3 2021?

Land availability 21%
Start volumes 17%
Land prices 16%
Planning delays and land shortages 15%
Policy uncertainty 14%
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