

Residential Development Land Index

Q3 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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► England greenfield land values up as builders call for more support ahead of the Budget

Average England greenfield land values rose 3% on the quarter and annually amid greater competition for sites. However, brownfield and Prime Central London prices stayed flat due to thin activity, with some market participants taking a 'wait and see' approach ahead of the UK's Autumn Budget.

That said, there are cases of sellers seeking to dispose of sites quickly before the Budget amid concerns around increases to Capital Gains Tax.

A combination of easing mortgage rates and better consumer sentiment has encouraged more land buyers back to

the market, with housebuilders seeking greenfield sites to replenish pipelines. Bids are going in for smaller schemes of 50 units through to 900 units plus. There is appetite for both consented sites as well as more medium-term planning opportunities.

On top of more immediate greenfield sites, there is also growing interest in strategic land. Developers are taking a longer-term view considering the fact the National Planning Policy Framework is set to loosen up restrictions on greenbelt development. The net result could be the planning

85%

said the sector does not have the capacity to deliver more than one million homes over the next five years

61%

think reinstating mandatory housing targets has been the government's most effective move so far to boost development

52%

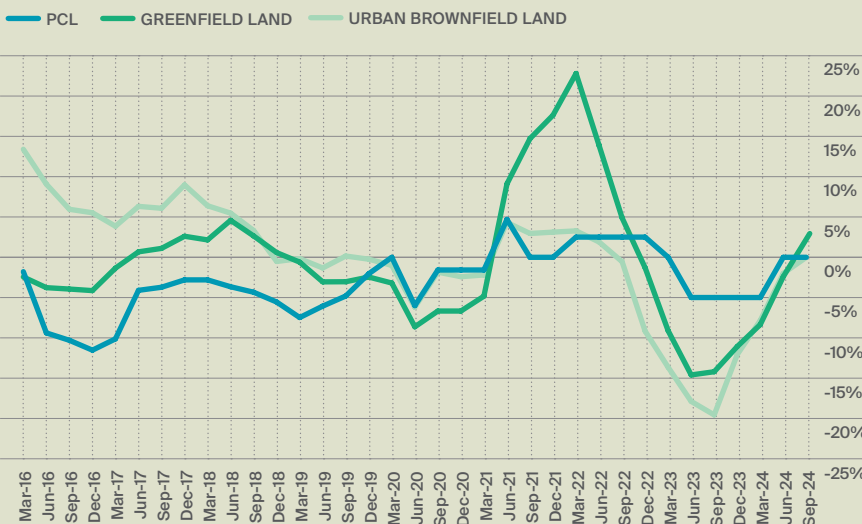
said a lack of planning authority resourcing was the key factor deterring them from progressing applications

window shortening. Sites that may have taken five years to get allocated in local plans, could now see this timeline shrink to just a couple of years. Furthermore, the loosening of permitted development restrictions has led to an uptick in applications to convert commercial premises into housing. The most recent government data shows that 395 PD applications were received in the third quarter of 2024, a three year high. This marks the highest level reached since the rush before the space cap was introduced in August 2021 which resulted in 688 applications before the window closed in Q3 of that year.

However, although almost 2,000 homes have been proposed in the capital alone since the size cap to convert commercial spaces into homes was lifted in March 2024, this represents just a fraction of London's identified housing need for 80,000 homes per year.

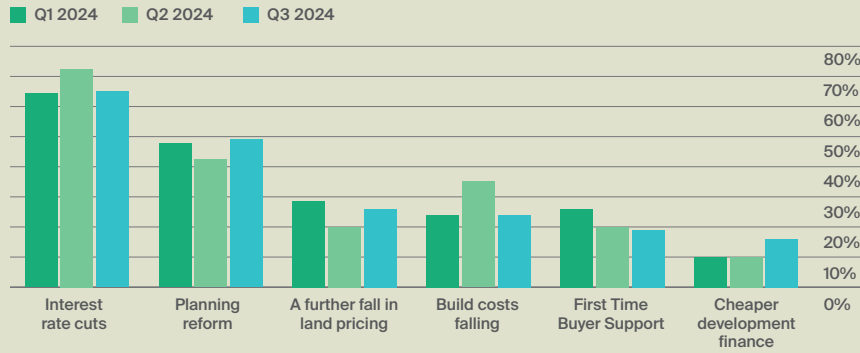
Residential development land prices

Annual % change



Source: Knight Frank Research

Which of the following would most increase your appetite for land and new development? % of respondents



Source: Knight Frank Research

In contrast to active demand for greenfield sites, brownfield schemes in urban centres are proving more challenging. Site sales are limited due to viability issues.

The exception is in PCL, where values are holding for good quality sites, with interest in medium to long term opportunities. However, there is some hesitancy in the PCL sales market ahead of news on non-dom taxation reform, expected in the Budget.

HOUSING TARGETS

Our latest survey of over 50 volume and SME housebuilders points to a significant disparity between the perceived capacity of the housebuilding sector and the demand for new homes in England over the next five years.

However, lower mortgage rates are expected to boost new homes sales and in turn, support development. Notably, construction companies raised output

at the fastest pace in more than two years in September, with residential property building increasing rapidly in a boost to the government’s ambition to lift housing supply.

Overall, 85% of respondents believe the sector can deliver 1 million (200,000 homes per year) or fewer homes over the next five years and none believe it can achieve 1.5 million. This pessimism is further underlined by the 40% who believe the sector’s capacity is even lower, at less than 1 million homes over five years.

The S&P Global construction purchasing managers’ index for September climbed to 57.2 from 53.6 in August, well above the 50-point mark that separates growth and contraction. Output was boosted by an upturn in residential housing, amid stronger demand in the property market with further interest rate cuts on the horizon.

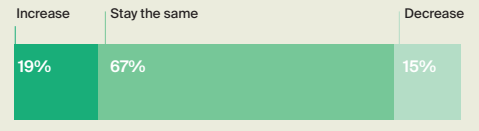
Land availability

% of respondents that said land availability was...



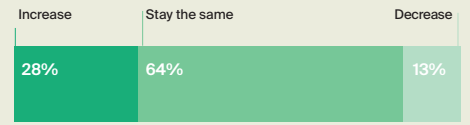
Land prices

% of respondents that thought land prices would...



Start volumes

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



Source: Knight Frank Research

BOOST FOR NEW HOME SALES

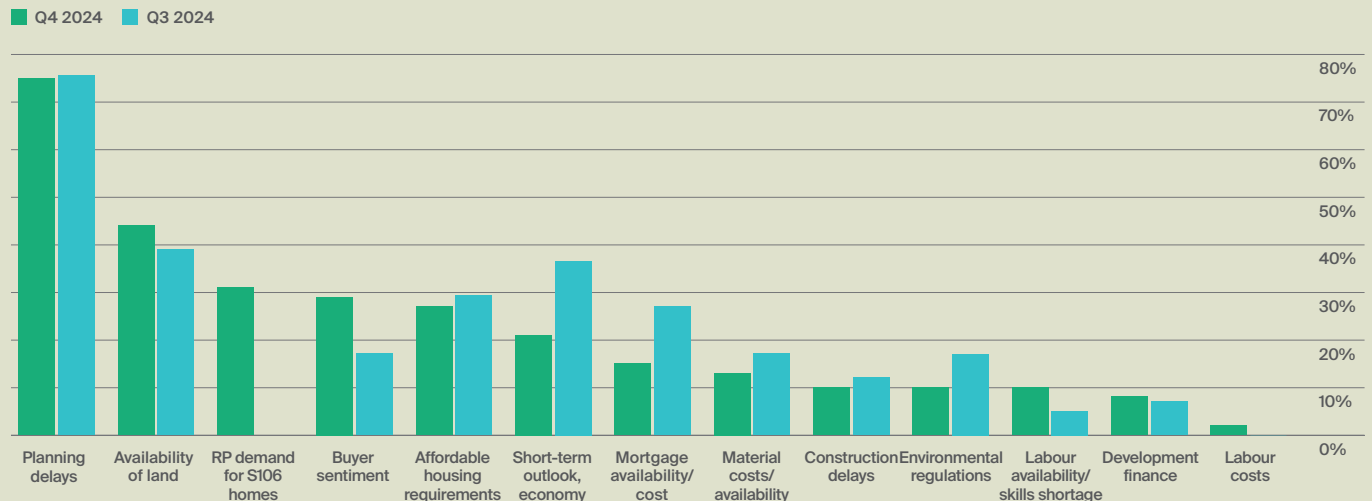
A strong majority of survey respondents (85%) believe that lower mortgage costs will boost new home sales towards the end of 2024 and into early 2025. Falling mortgage costs were also identified as the most helpful factor supporting sales so far in 2024.

GOVERNMENT SOLUTIONS?

The industry is looking to the government for solutions, with increased funding for planning departments (58%), a revamped First Time Buyer support programme (56%), more incentives/tax breaks to build and

What will have the greatest impact on the housebuilding sector?

% of respondents (choose up to three)



Source: Knight Frank Research

a stamp duty cut (both on 49%) being the most frequently cited wishlist items for the Autumn Budget. Interestingly, the sources reveal a perception that the government's most effective move so far has been reinstating mandatory housing targets (rated as most or second most effective by over 60%), followed by plans to increase resourcing for planning departments (50%) and making it easier to build on greenbelt land (40%).

Areas that were seen as less effective included strengthening the presumption in favour of development (32% ranked this as first or second priority), reviving projects that have been held up at the local authority planning level via the New Homes Accelerator (9%), overhauling the standard method to calculate housing need (9%) and building new towns, urban extensions and garden villages (0%), but it is worth noting here that the impact of some of these measures may not yet have been felt by the market.

However, there is a clear desire for more radical and swift action. When asked what they would like to see in the Planning & Infrastructure Bill, which is expected to be introduced into parliament at some point in the parliamentary year, one respondent called for a plan that is "fully implementable in their first term to revolutionise planning" and a warning that without immediate action, it will be "just the same rhetoric with no real change, just tinkering". Specific suggestions for improvement include ring-fenced application fees,

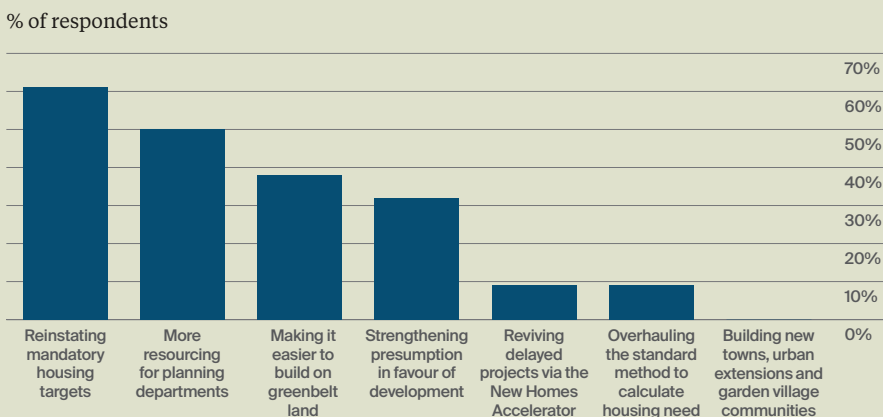
consequences for delays in application decision-making timescales, and even using AI to deliver the planning process.

PLANNING ISSUES

Planning constraints are viewed as the prevailing major obstacle. Respondents ranked planning authority resourcing (52%), uncertain timescales for planning decisions, and S106 affordable housing obligations/viability (both on 43%)

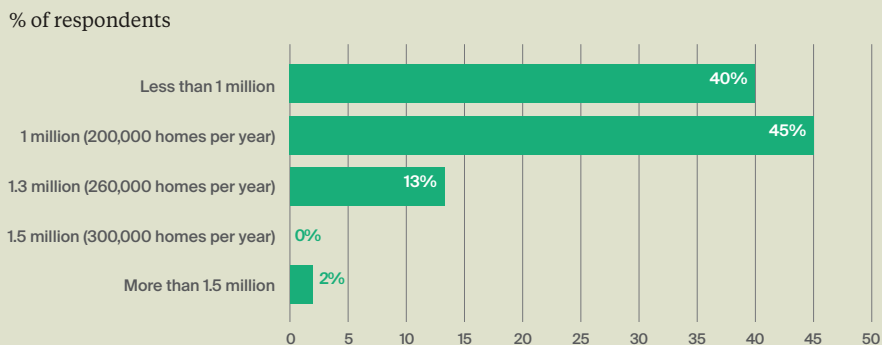
as the most significant obstacles to progressing planning applications. This is echoed in the responses regarding the most challenging factors for businesses in the sector, with planning delays overwhelmingly identified as the most challenging (78%). This concern persists when looking ahead to the next quarter, with planning delays again topping the list of anticipated challenges (75%).

The government has set out various plans to increase housebuilding since July. Which have been most effective?



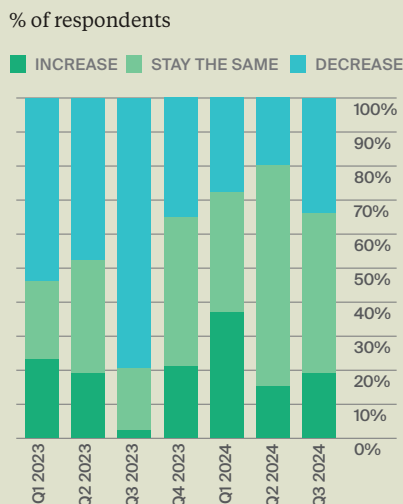
Source: Knight Frank Research

How many homes do you think the housebuilding sector has the capacity to deliver in England over the next five years?



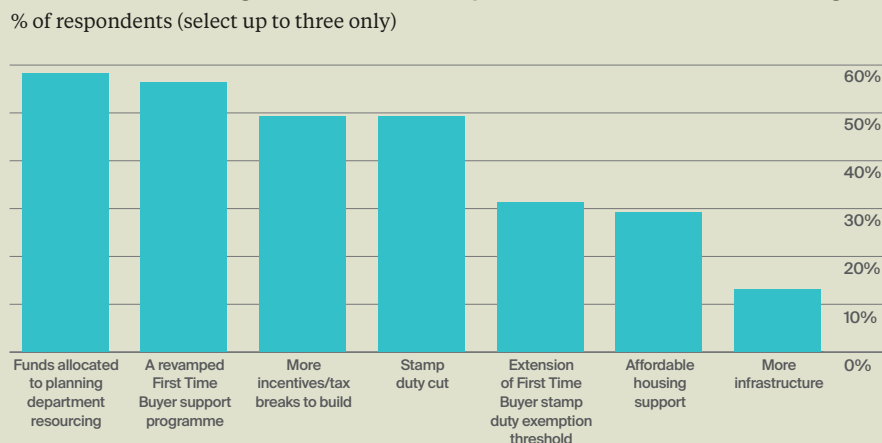
Source: Knight Frank Research

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



Source: Knight Frank Research

Which of the following would make it onto your wishlist for the Autumn Budget?

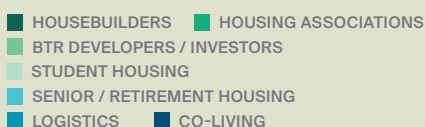


Source: Knight Frank Research

Our survey respondents have called for a faster planning process with hard and fast rules surrounding timelines, reasonable S106 and affordable housing requirements, and a greater emphasis on large dense schemes. Some respondents advocate for reduced involvement of planning committees, and the introduction of zoning rights to remove the “highly discretionary nature of the UK planning system”.

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

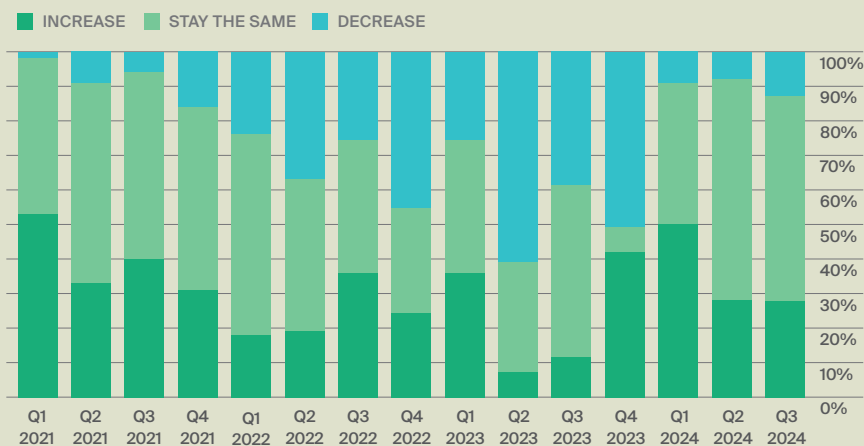
% of respondents



Source: Knight Frank Research

What will happen to start volumes over the next three months?

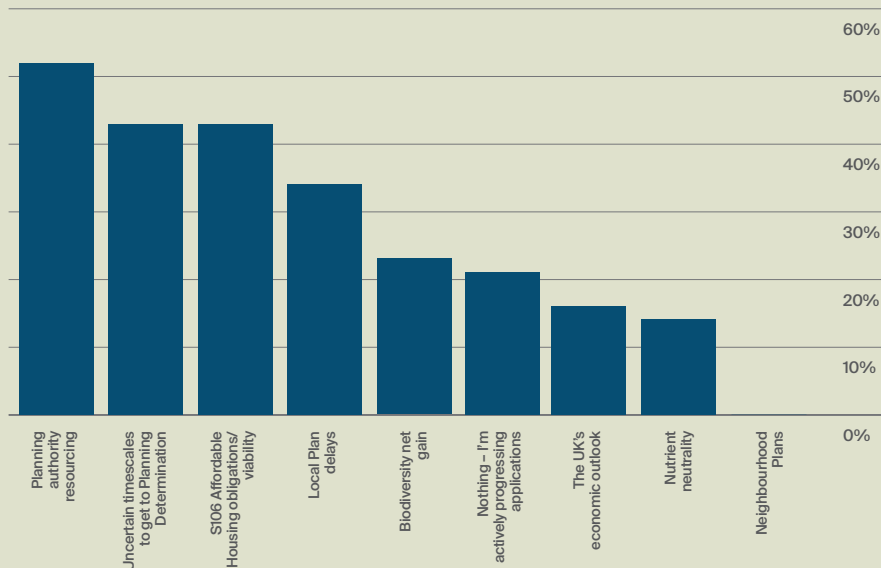
% of volume and SME housebuilders that thought start volumes would...



Source: Knight Frank Research

What's deterring you from progressing Planning Applications?

% of respondents (select up to three only)



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 September 15th - October 7th 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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