

# Residential Development Land Index

Research, Q4 2021



**3%**

GREENFIELD DEVELOPMENT LAND ROSE 3% IN Q4, AND INCREASED 17.6% ON AN ANNUAL BASIS

**0.2%**

URBAN BROWNFIELD LAND VALUES INCREASED 0.2% IN Q4, AND ROSE 3.1% ON YEAR

**0%**

PCL DEVELOPMENT LAND VALUES WERE UNCHANGED THIS QUARTER AND WERE FLAT ON AN ANNUAL BASIS

*Land prices held steady in the fourth quarter as house price inflation continued to offset a rise in build costs. However, house price growth is expected to moderate this year and mortgage rates are set to rise, putting more pressure on the housing market.*

Average land prices in Prime Central London were flat on a quarterly and annual basis.

Brownfield land prices rose 0.2% in Q4 and were up 3.1% compared to a year ago.

Greenfield land prices strengthened between October and December by 3%, climbing down from a 5% rise in Q3 and an 8% jump in Q2. Annually, greenfield values rose 17.6%.

Land market activity in the final quarter was focused on housing schemes in outer London and in well-located commuter markets outside the capital where house price growth has been stronger.

In London, agents report that developers have been increasingly selling more units to the Built to Rent sector, both single and multi-family operators. According to data compiled by Molior London, BTR accounted for 38% of sales in Q4.

Travel constraints continue to weigh on demand in the capital, but some

developers are looking at opportunities to reposition commercial assets in Zone 1 and Zone 2 into residential use.

However, land availability remains a key concern, according to our fourth quarterly Residential Development Land Index Survey of 50 SME and volume housebuilders. In total, over 70% of respondents said that land availability was either 'limited' or 'very limited'.

In London, agents report that an influx of new land instructions for sale had been expected in January, but this has now been delayed until February as sellers wait for the impact of omicron to fade. Meanwhile, some previously London-focused developers are

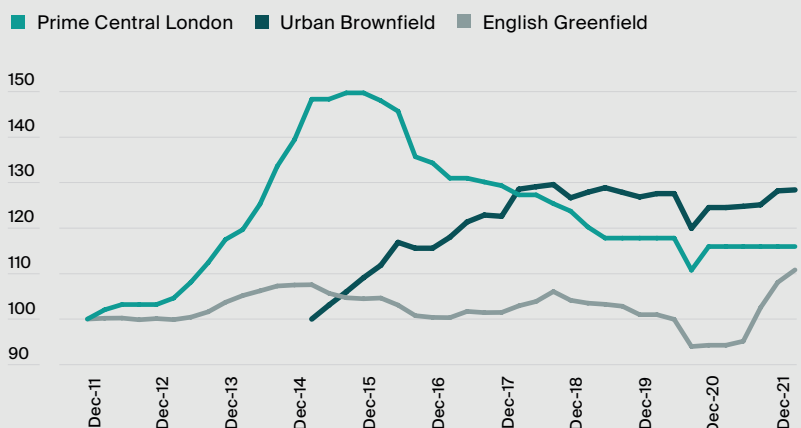
now competing more intensely outside the capital to secure housing sites to build out their pipelines, and in some cases are lowering margins to secure these sites.

Across England, housebuilders face various issues in securing land to deliver housing. Overall, 25% of our survey respondents cited planning delays as the most challenging factor for their business in Q4, followed by availability of land (15%) and supply shortages of key building materials (13%).

Rising borrowing costs are also a concern, with interest rates on the rise, after the UK inflation rate soared to a 30-year high in December.

## Residential development land prices

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



Source: Knight Frank Research

But respondents were divided over whether land prices would increase or not in the first quarter of 2022. A slight majority (48%) said they thought land prices would 'increase' this quarter, nearly matched by the 46% who said they thought land prices would 'decrease'. Notably, it is the first time views over the direction of land prices have been this polarised since we launched the survey in Q1 2021.

### Supply chains and build costs keep pressure up

Supply chain issues and rising material costs continue to challenge housebuilders, with over half (56%) of respondents saying this was the number one factor adding pressure to their bottom line in Q4 2021.

The Building Cost Information Service (BCIS) reported build costs increased

20% in 2021 and nearly half of survey respondents said this had a 'significant' impact on their business last year. A quarter said they think build costs will 'increase significantly' in 2022 compared to 2021, while 67% are expecting a 'slight increase'. This suggests that while the market is expecting a price increase this year, most expect the high rate of build cost inflation to cool.

The BCIS is forecasting that build costs will increase annually in January 2022 by 10.2% compared to January 2021 before easing off slightly.

It expects material prices will rise 18.7% in January year-on-year, while labour costs are forecast to increase 2.5% over this time period.

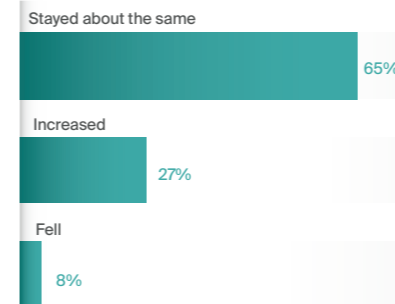
Our survey reflects the particular concern over material costs, with 65% saying that 'increased cost of materials' is driving the overall increase in build

## Nearly half of housebuilders said build costs had a 'significant' impact on their business in 2021

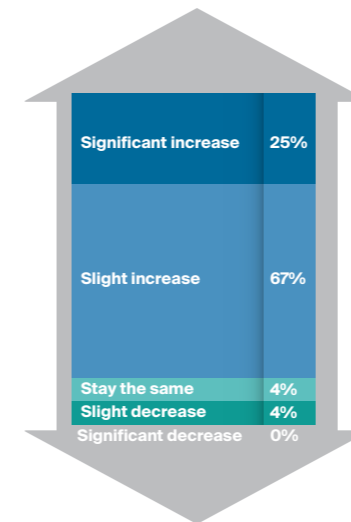
costs, compared to 8% pointing to 'labour challenges'.

Labour shortages in the UK worsened in the final quarter of 2021, with job vacancies hitting a record high of 1.247 million, more than double their level a year before, the Office for National Statistics said. Construction job vacancies stood at 42,000, slightly down from the peak in Q3 of 48,000 but just over 60% higher than Q4 2019, before the impact of the pandemic and the UK's exit from the European Union.

### How active was the new homes market this quarter, looking at site visits and reservations in Q4 compared to Q3



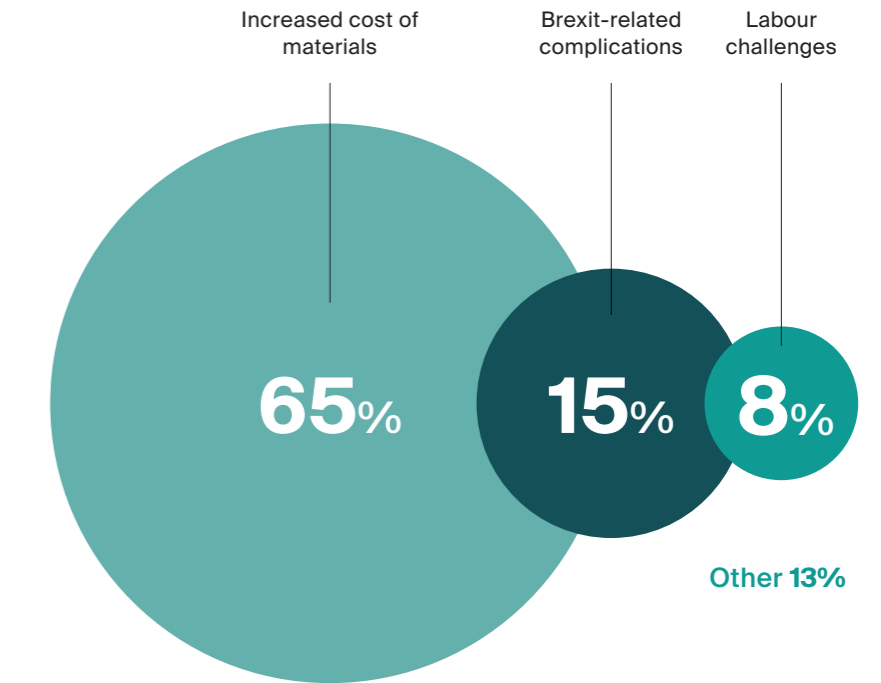
### What do you think will happen to build costs in 2022 compared to 2021?



### What impact did rising build costs have on your business in 2021?



### Which factor would you say is driving the increase in build costs?



## What we'll be watching in Q1 2022

### New build supply

While housing delivery rates have been fairly resilient during the pandemic, the next three months will be a key test for the market as it emerges from the crisis. The big question is, how long will it take to return to pre-pandemic levels of over 240,000 homes? Currently, the housebuilding sector faces numerous challenges on the supply side from rising build costs to the end of Help to Buy and further interest rate hikes.

### Gove's levelling up white paper

The long-awaited paper is expected to be published this quarter, following delays caused by the omicron variant. It is likely to signpost some elements of the Planning Bill such as changes to the method of assessing

housing need that will prioritise development in the Midlands and North, and may also call time on former chancellor Philip Hammond's 80:20 rule. This method sees 80% of housing grant funding directed at areas of 'highest affordability pressure', defined using the ratio of median house prices to median workplace-based household income figures.

### Pandemic exit pains

What is the longevity of post-pandemic exit pains and what knock-on effect will these have on land prices? We've seen a sharp rise in inflation and the Bank of England is expected to hike interest rates in early February. This should have a cooling effect on house prices, making build cost pressures more acute in areas of more muted house price growth

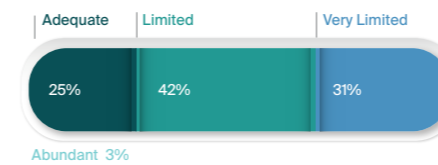
### Which five factors will have the greatest impact on the housebuilding sector this quarter?

- 1 Planning reforms and policy uncertainty
- 2 Supply chain delays
- 3 Availability of land
- 4 Price of land
- 5 Labour/skills shortages

Source: Knight Frank Q4 2021 Land Index housebuilder survey

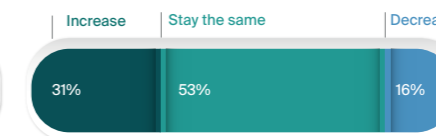
### Land availability

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



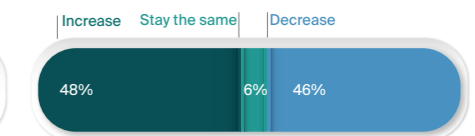
### Start volumes

% of respondents that said start volumes would...

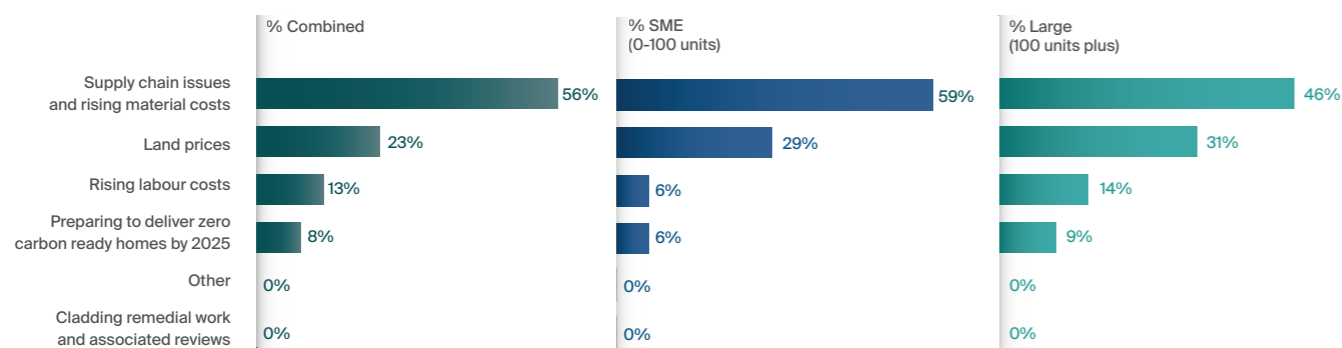


### Land prices

% of respondents that thought land prices would...

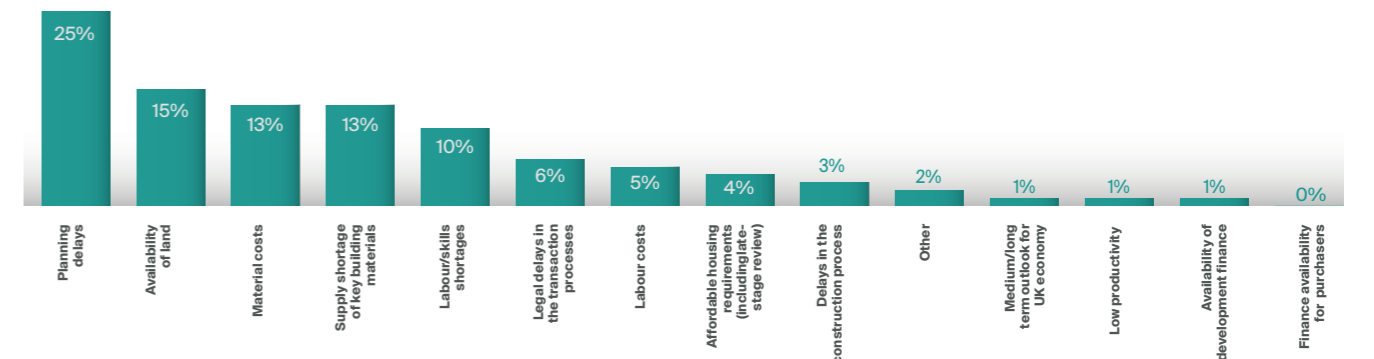


### What added the most pressure to your bottom line in Q4 2021?



Source for all charts: Knight Frank Research

### Which factors proved most challenging in Q4 2021



## 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 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 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.**

#### Residential Development



**Justin Gaze**

Head of Residential Development Land  
+44 20 7861 5407  
justin.gaze@knightfrank.com

#### Residential Research



**Anna Ward**

Senior Research Analyst  
+44 20 3861 6991  
anna.ward@knightfrank.com

**Knight Frank Research  
Reports are available at  
[knightfrank.com/research](https://knightfrank.com/research)**

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs. © Knight Frank LLP 2022. Terms of use: This report is published for general information only and not to be relied upon in any way. All information is for personal use only and should not be used in any part for commercial third party use. By continuing to access the report, it is recognised that a licence is granted only to use the reports and all content therein in this way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without prior written approval from Knight Frank LLP. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.

