

# Residential Development Land Index

Q4 2023

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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► UK land values held steady this quarter in the absence of material change with the market delaying activity to early 2024

UK greenfield and urban brownfield values were flat in the final quarter of the year. In prime central London, land prices also remained the same.

Land values were unchanged amid limited transactional activity, with deals expected to build in early 2024. The UK's economic backdrop has shifted, with inflation now coming under control and mortgage rates heading into more competitive territory with some five-year fixed deals falling below 4% this month. Markets are also expecting

multiple interest rate cuts later this year as lenders slash rates.

But for the three months ended December, the UK land market saw limited activity as sellers are holding out while buyers are still cautious. This stalemate should ease over the weeks ahead as housebuilders seek to replenish gaps in their land pipelines and as lower mortgage rates boost sales.

Currently, appetite is strongest for well-located greenfield housing

70%

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

40%

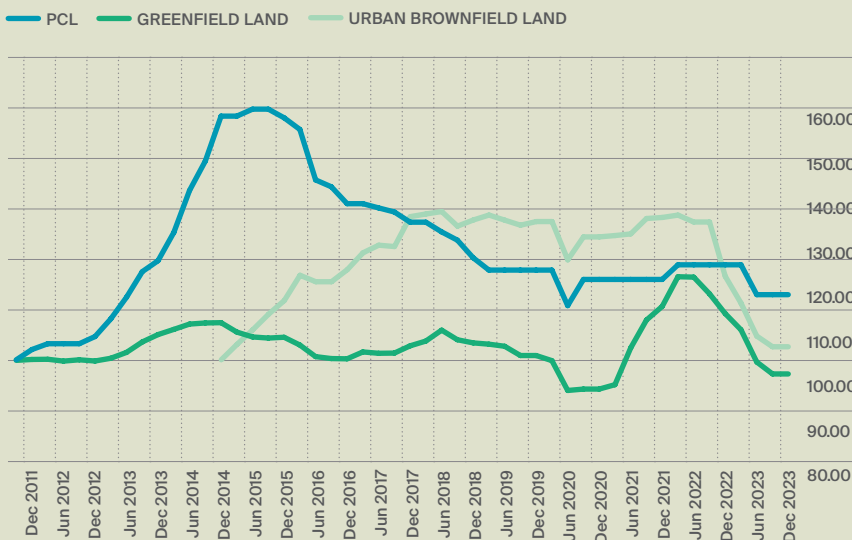
said offering incentives would be the biggest sales support in 2024

A third

said that nutrient neutrality had affected the progress of their housing schemes

## Residential development land prices

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



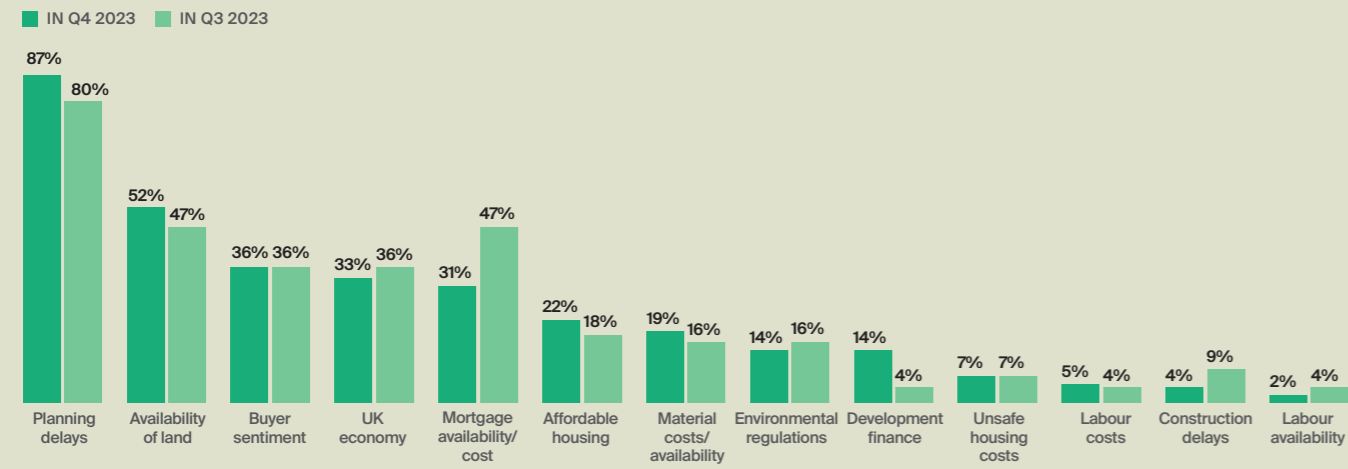
Source: Knight Frank Research

schemes, particularly those aimed at upsizers. Development viability is under more pressure in urban centres, with build costs, energy efficiency, affordable housing and dual staircase requirements squeezing land values.

Several housebuilders are yet to report sales rates for the second half of 2023, but our latest Q4 survey of 50 volume and SME housebuilders points to a moderate improvement in site visits and reservations. Overall, 40% said that these either increased or stayed about the same in the final quarter, compared to a fifth who said this in Q3. Other indicators have also improved. The majority of housebuilders (70%) said they thought that land prices would be stable in the first quarter of the year, unchanged from Q4 2023, with a fifth predicting a fall and 10% an increase. Previously, half had anticipated a fall in land values when surveyed in Q3.

### Which factors, if any, have proved most challenging for your business this quarter?

% of respondents (choose up to three)



Source: Knight Frank Research

While build costs are still rising, the rate of increase continues to decline, which is reducing pressure on margins to some extent. The BCIS is still forecasting that build cost hikes will level out over the next few years, falling below 3% by 2025.

For the time being though, the combined cost of materials and labour is viewed as a key challenge for at least a fifth of developers, our survey shows.

More critical issues include planning delays, which have worsened, according to our survey, with 90% of respondents flagging these as their biggest issue, up from 80% last quarter. Meanwhile, concerns over mortgage availability

and cost have fallen from 47% in the third quarter to a third of respondents in Q4.

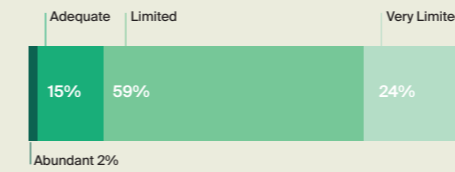
#### ELECTION LOOMS

News that Rishi Sunak has likely delayed calling a general election until the second half of the year should provide some stability for the land and new homes market. Once the election is called, housebuilders would welcome a Labour government from a land and development perspective. Our survey found that 70% of housebuilders thought Labour would enhance the market the most, with 30% supporting a Conservative agenda for the industry and 0% backing the Liberal Democrats. When asked what

they thought would most support sales this year, 40% said 'offering incentives' with 24% pointing to sales to build to rent or single-family housing investors and developers. In the 'other' category several housebuilders suggested that a revival of Help to Buy in some form would be key to boosting sales this year. Out of the pledges for the UK housing sector in the Autumn statement, just over 40% of housebuilders said that they thought the £3bn in additional funding for housing associations would have the most positive impact on the UK housing sector, followed by refunds for slow planning decisions and £110m in funding to deliver nutrient mitigated housing schemes. However,

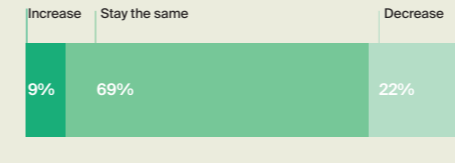
### Land availability

% of respondents that said land availability was...



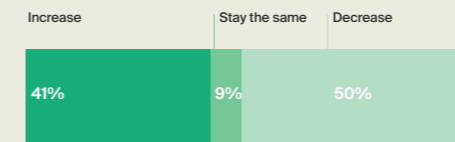
### Land prices

% of respondents that thought land prices would...



### Start volumes

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



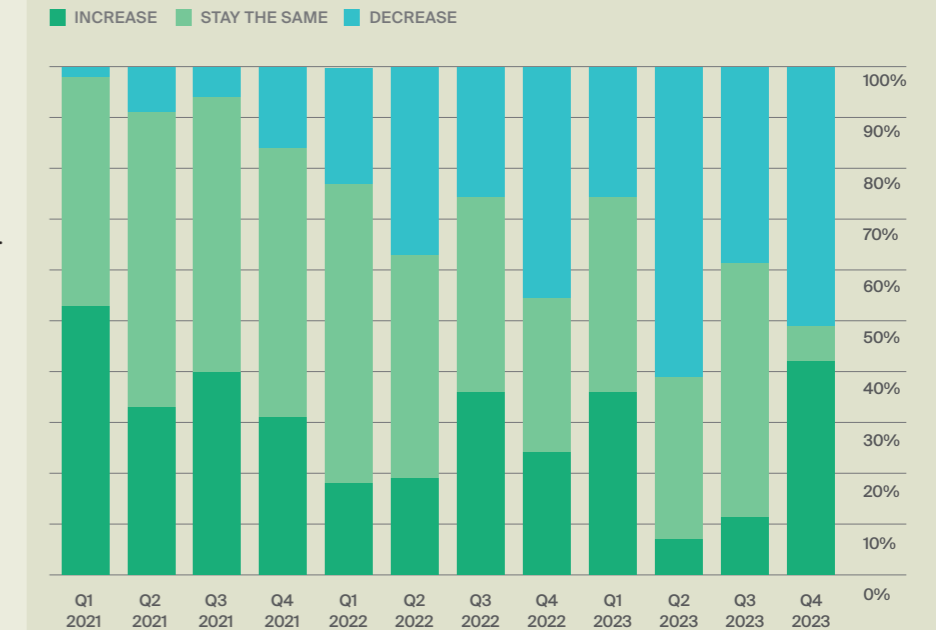
in the additional 'comments', several housebuilders questioned whether any of the policies launched in the Autumn statement for housing would materially impact, with some sceptical that they would be followed through.

#### NUTRIENT NEUTRALITY

The addition of nutrient neutrality rules – which require that new housing developments in certain areas do not add more contaminants

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

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



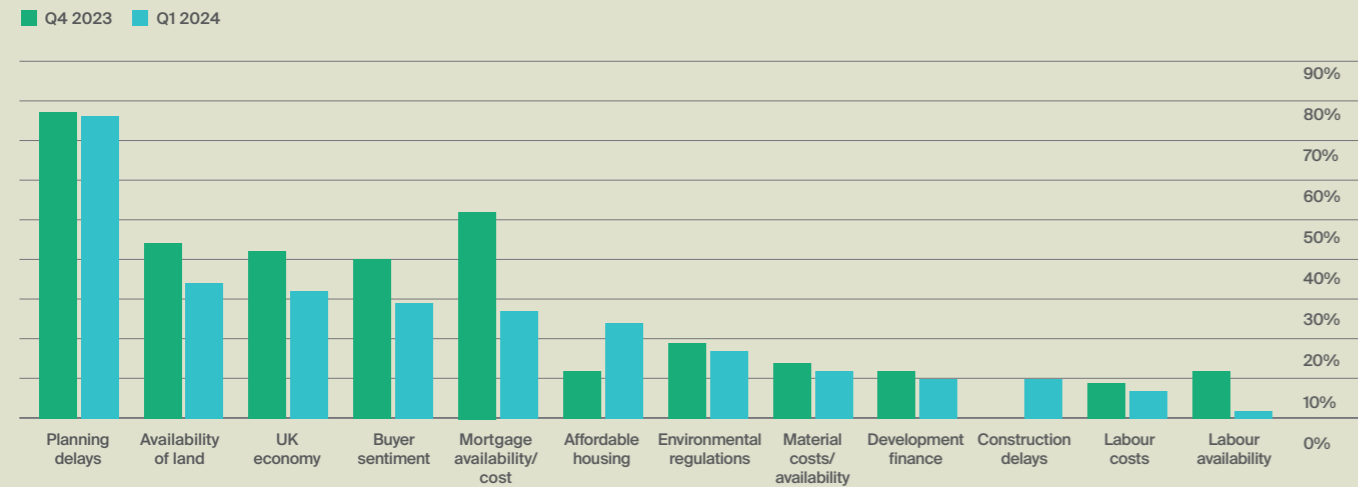
Source: Knight Frank Research

to rivers and streams – have weighed on an already constrained planning system. It is difficult to quantify exactly how many homes are held up, but completions – measured by the number of Energy Performance Certificates issued for new homes – are falling across the specific catchments, while new starts have plummeted in some of the local authorities affected. In our latest housebuilder survey, a third said that nutrient neutrality

had affected the progress of their housing schemes (in the region they operate in), with a few others noting that it had 'not yet' impacted but would soon affect some pipeline schemes. Of those with schemes delayed by pollution rules, a third of these have so far stalled at the pre-planning stage, a fifth are delayed at outline application and just over 10% are held back at discharge of planning conditions.

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

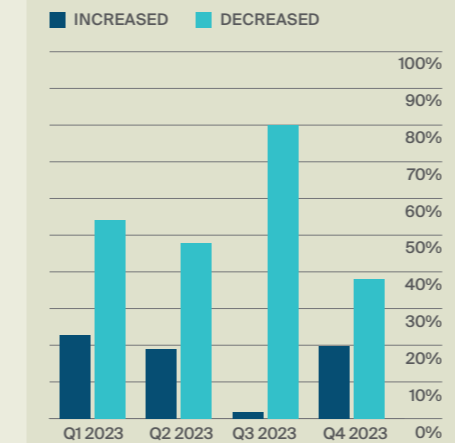
% of respondents (choose up to three)



Source: Knight Frank Research

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

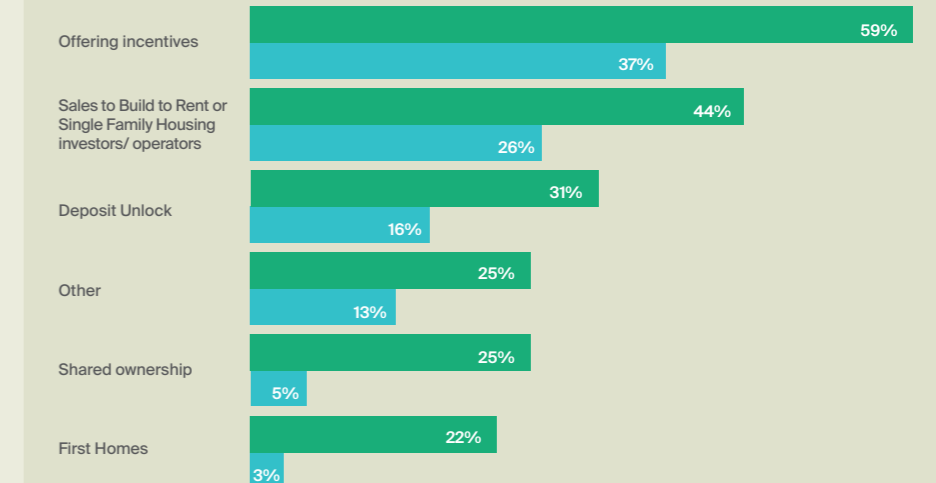
% of respondents



Source: Knight Frank Research

### What do you think will help support sales in 2024?

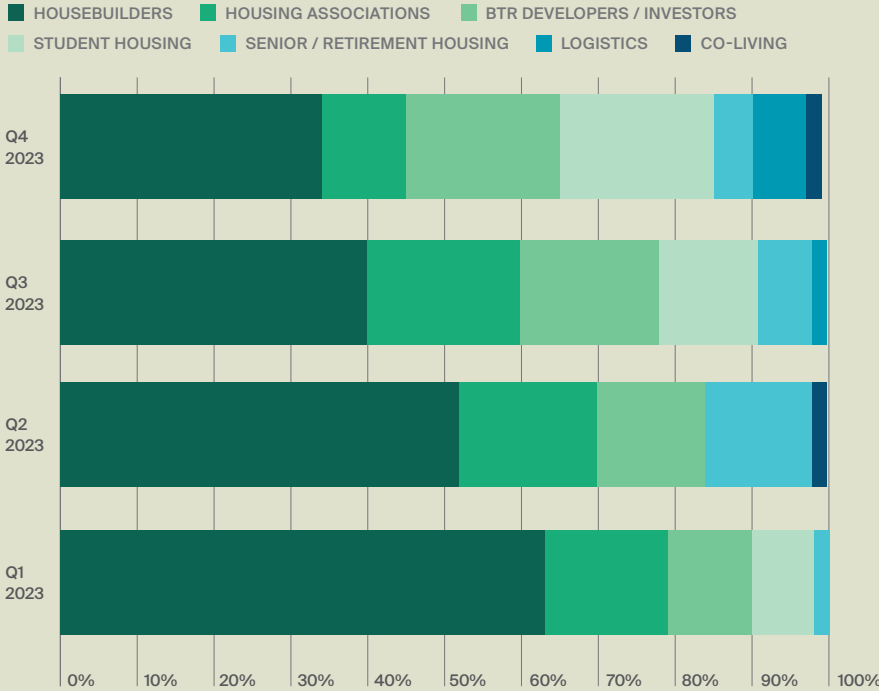
2023 (dark green), 2024 (light green)



Source: Knight Frank Research

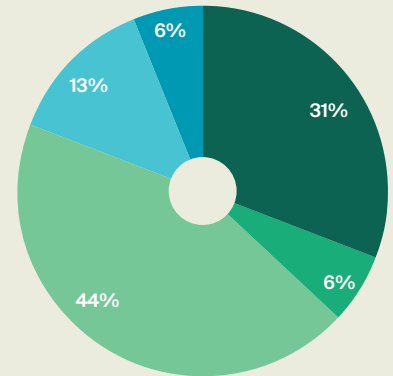
### Which group was most active in the land market in your region?

% of respondents

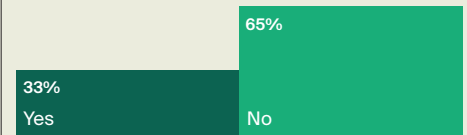


Source: Knight Frank Research

### How many of your housing units (in the region you operate in) are held up by nutrient neutrality?

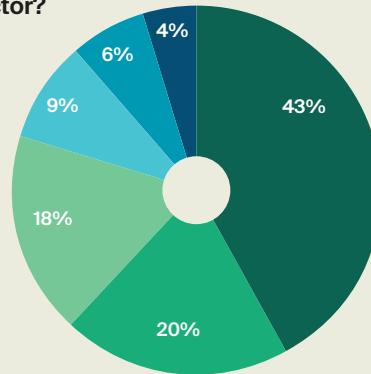


### Has nutrient neutrality affected the progress of your housing schemes in the region you operate in?



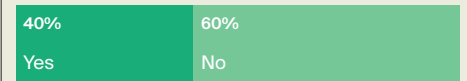
### Which of these Autumn statement pledges will have the most positive impact on the UK housing sector?

- £3bn in funding for housing associations
- £110m funding to deliver nutrient mitigated housing schemes
- Refunds for slow planning decisions
- £32m to unblock planning and develop new homes in Cambridge, London and Leeds
- £450m to top up the Local Authority Housing Fund
- New Permitted Development rights to convert a house into two flats

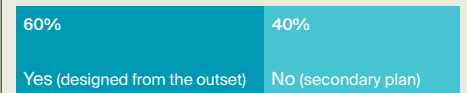


Source: Knight Frank Research

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



### If you have sold units into the private rental sector, did you prioritise incorporating relevant design elements from the outset, or was this more of a secondary plan?



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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