

Residential Development Land Index

Q4 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 land values flat amid economic challenges and cautious developer activity, with little expectation of significant movement in the near term.

Average values of greenfield and brownfield land in England were unchanged over the final three months of 2024 due to a combination of economic, market and policy factors. Average prices in Prime Central London (PCL) were also stable on the quarter.

Demand in the land market remains strongest for greenfield sites, with increasing interest in strategic land as planning restrictions ease. For instance, the new National Planning Policy Framework (NPPF) has more than doubled the housing target for Bath and North East Somerset, highlighting the potential for similar changes elsewhere.

Urban brownfield projects are facing greater challenges, with site sales constrained by viability concerns. In

PCL, values for high-quality sites are holding steady, attracting interest from developers looking to capitalise on medium to long-term opportunities.

Since the publication of the NPPF in December, optimism in the land market has grown due to planning reforms that bring back mandatory housing targets, ease greenbelt restrictions, and drive economic growth through infrastructure development. Ramping up housebuilding is key to the UK's growth plan, evidenced by Rachel Reeves' recent promise to fast-track commuter hub housing projects. The government also plans to set up a Nature Restoration Fund to improve the environment while accelerating the construction of homes. This could help free up stalled housing

80%

said they can't find any registered providers (RPs) willing to buy S106 affordable homes or the choice of available RPs is 'limited'

40%

said the housebuilding sector only has the capacity to deliver 200,000 homes in England this year

a third

said the sector could deliver 150,000 homes over the next 12 months

sites affected by water and nutrient issues. Several housebuilders have already noted a more positive planning environment and greater ease of securing planning approvals.

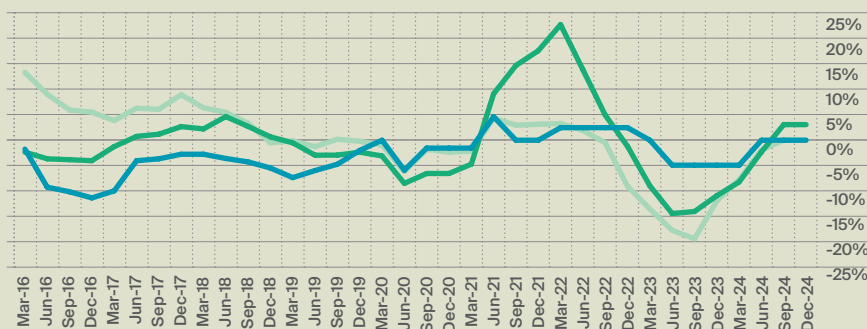
However, the market is waiting for clearer policy direction and concerns linger over insufficient planning department resourcing and a lack of first-time buyer support, especially as stamp duty costs rise this April.

On the positive side, inflation is coming down, the Bank of England cut interest rates for the third time in February in just over six months, leaving the base rate at 4.5%. Looking ahead, further rate cuts are expected throughout 2025 as the Bank of England contends with signs of a stagnating economy. However, the cost of finance and new home sales remain significant pressures, with builders increasingly turning to bulk deals. A weaker private sales market has

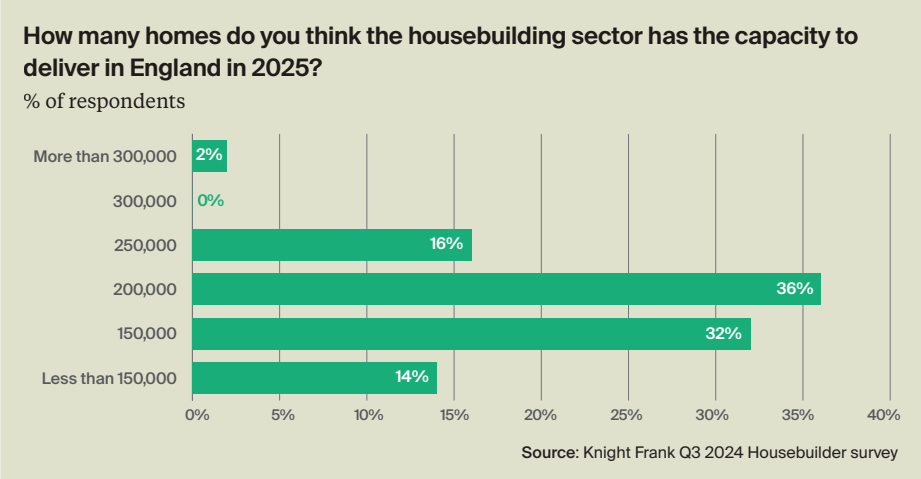
Residential development land prices

Annual % change

— PCL — GREENFIELD LAND — URBAN BROWNFIELD LAND



Source: Knight Frank Research



prompted some housebuilders to sell units to institutional investors but as interest rates fall back, the sales market will strengthen. Despite the uncertainty around borrowing costs, financial markets expect about two rate cuts in 2025, which would support demand.

According to our quarterly sentiment survey of over 50 volume and SME housebuilders, 65% of respondents expect land pricing to remain flat in the first quarter of 2025, with 15% predicting a fall and 20% expecting an increase – similar to the previous quarter. While a third of respondents indicated that a fall in land pricing would increase their appetite for land, over 60% are focused on the impacts of interest rate cuts and the sales market.

MORE POSITIVE PLANNING ENVIRONMENT

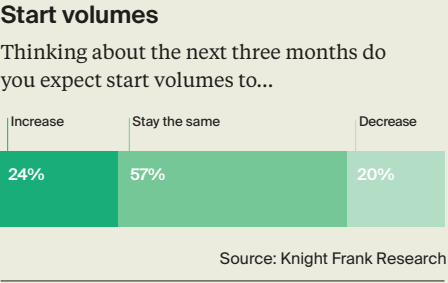
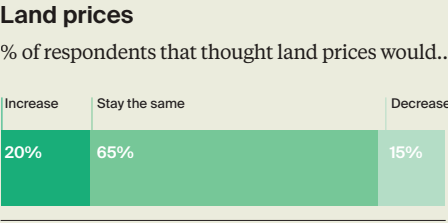
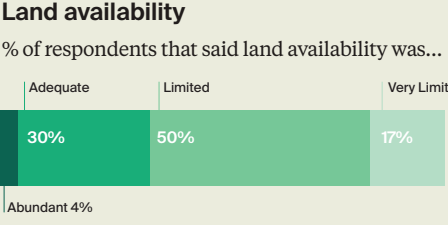
Changes in local targets and potential greenbelt releases are creating new opportunities in certain regions.

Many local authorities are revisiting and re-evaluating potential sites, with several draft allocations being withdrawn and reconsidered. This reflects a need to identify more land to meet housing targets. Numerous local plans are outdated, and during the gap before new plans are finalised, some developers are focused on submitting fresh planning applications.

Planning risk continues to be an issue though, with demand greatest for sites with outline planning as a minimum. Planning authorities are under heavy workloads, further complicating the process for developers.

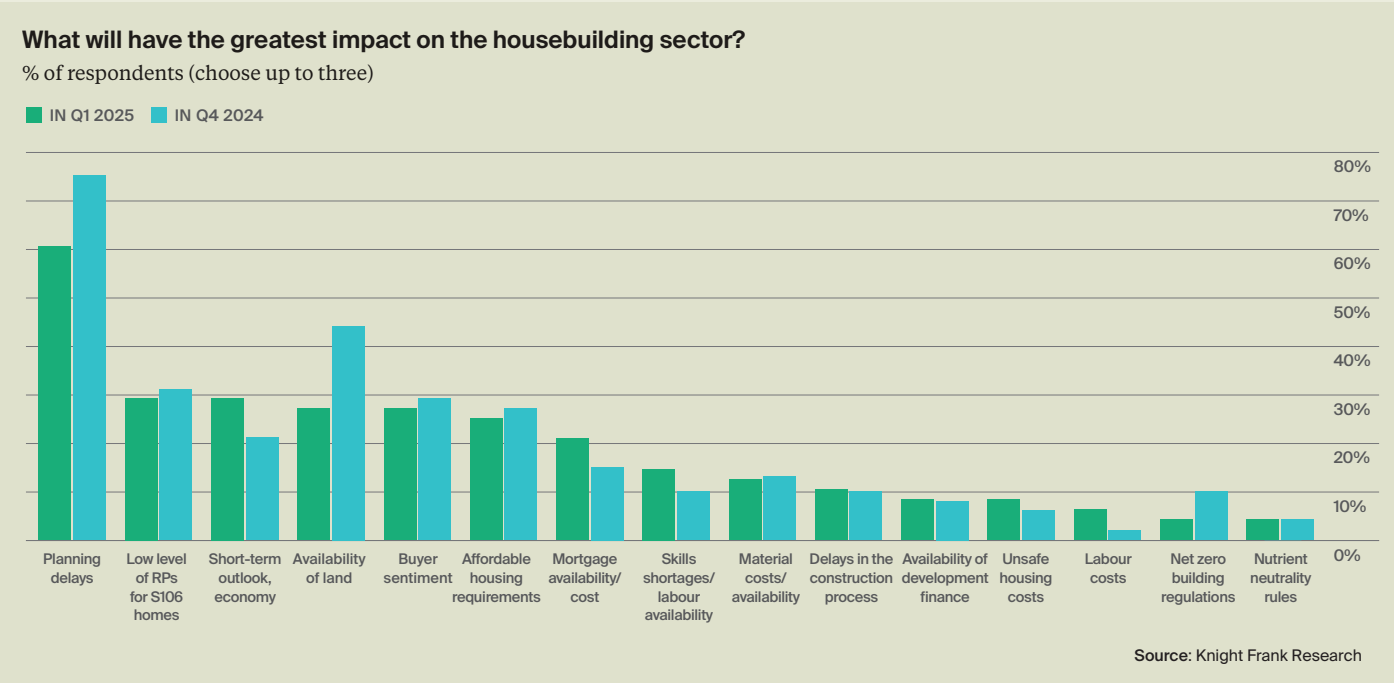
However, some housebuilders have noted the current government’s approach has already had a positive impact on the planning system, supporting a proactive approach to unblocking housing delivery.

Our latest survey reflects this shift. The proportion of respondents noting planning delays as the biggest pressure



on their business fell to 70% last quarter, down from 80%. While still high (and the biggest pressure overall), this is the lowest it has been in over three years. Similarly, when asked which factors would have the greatest impact on the housebuilding sector this quarter, 60% said planning delays, the lowest level in four years.

That said, the survey continues to point to a major disparity between the perceived capacity of the housebuilding sector and the demand for new homes in England. No housebuilders think the government will hit its 300,000 annual housing target this year, albeit one outlier said it could exceed the 300,000.



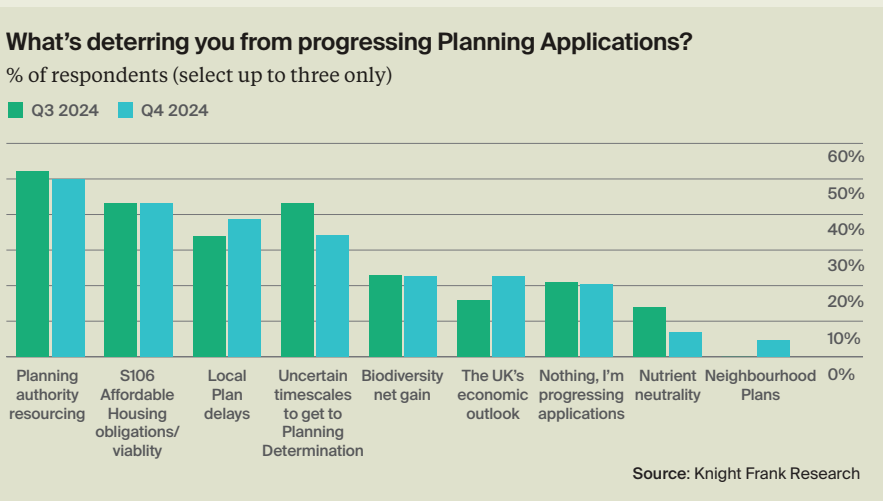
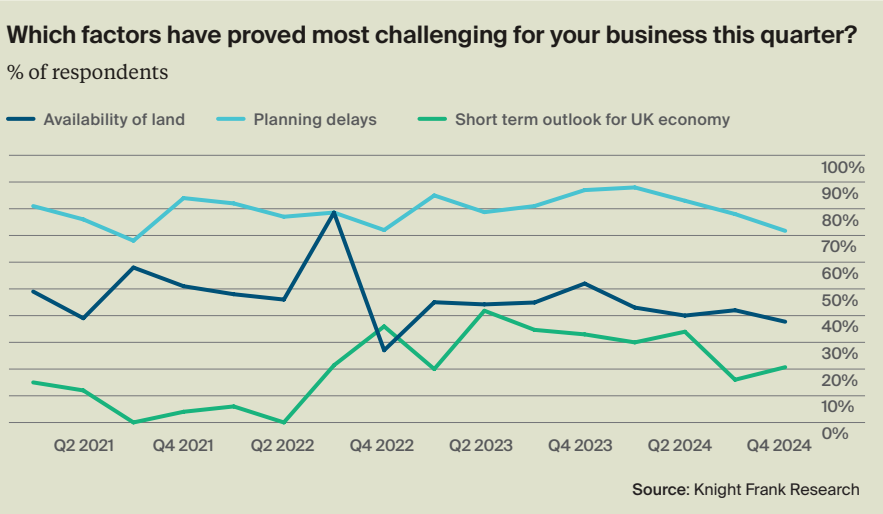
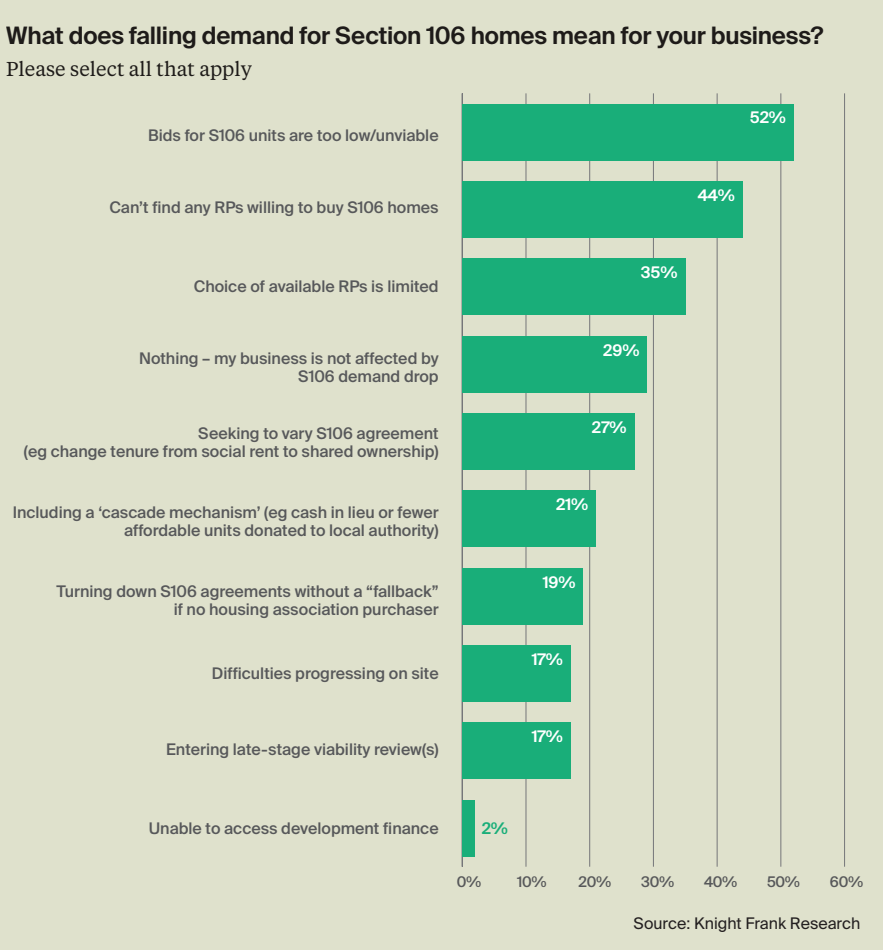
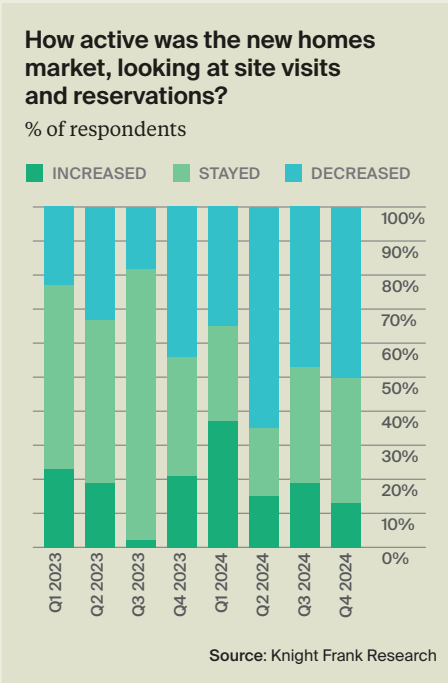
Overall, just under 40% of respondents believe the sector can deliver 200,000 homes in 2025, followed by a third predicting 150,000 homes. A smaller minority (14%) anticipate less than 150,000 will be delivered, with 16% expecting 250,000.

FALLING DEMAND FOR S106 HOMES
A major challenge in increasing housing supply is driving more affordable housing development. Housing associations (HAs) have pulled back from bidding on Section 106 homes in many areas, reducing affordable housing availability and causing delays to for-sale projects.

Our survey reflects this. Nearly a third of respondents said that a low level of active buyers for S106 affordable homes would, jointly with the short-term outlook for the UK economy, have the greatest impact on the housebuilding sector this quarter.

Housing associations are nearing borrowing limits and cannot raise equity as non-profits. Rising costs from decarbonization and fire safety, with the NHF estimating £10 billion for repairs alone, have forced many to scale back development. Unlike past downturns, they are unlikely to sustain housing supply in the coming years.

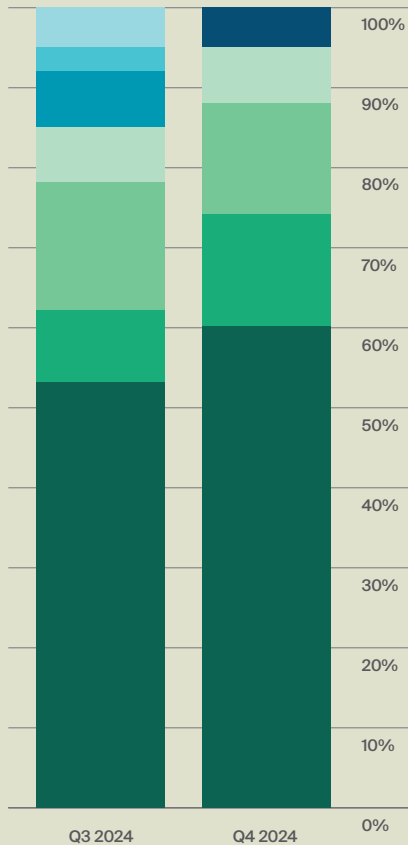
In total, more than 40% of survey respondents said they could not find any Registered Providers (RPs) willing to buy S106 homes, with over 35% saying the choice of available RPs was “limited”. More than a quarter are seeking to modify agreements, changing tenure from social rent to shared ownership.



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

% of respondents

HOUSEBUILDERS
BTR DEVELOPERS / INVESTORS
STUDENT HOUSING
HOUSING ASSOCIATIONS
COMMERCIAL REAL ESTATE
CO-LIVING
LOGISTICS
SENIOR / RETIREMENT HOUSING

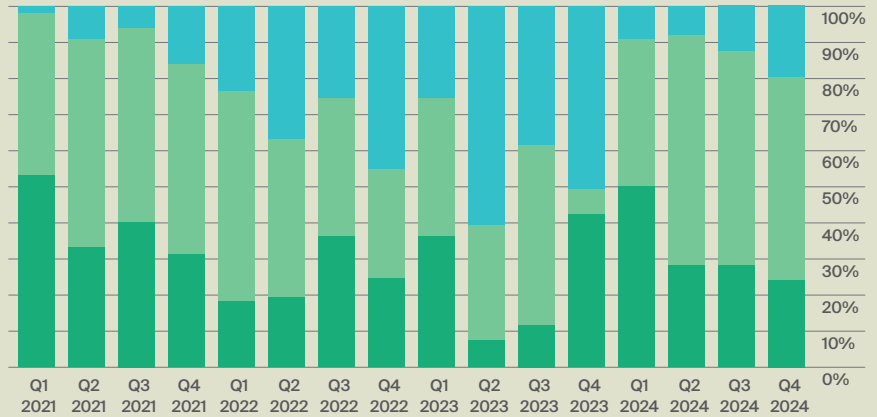


Source: Knight Frank Research

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

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

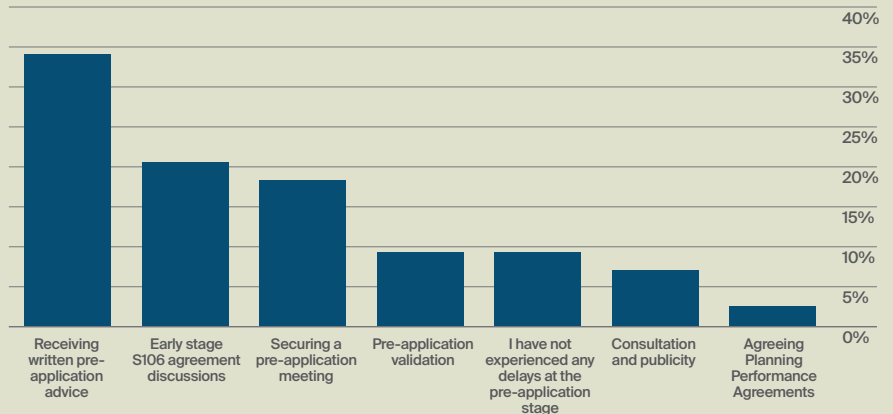
INCREASE STAY THE SAME DECREASE



Source: Knight Frank Research

At what stage of the pre-application planning process are you experiencing the longest delays?

Respondents could select one 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 December 15 2024 – January 12 2025.

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 Research
Anna Ward
Associate
+44 20 3861 6991
anna.ward@knightfrank.com



Residential Development
Charlie Hart
Partner
+44 20 7718 5222
charlie.hart@knightfrank.com