Residential Development Land Index

Knight Frank

Q2 2026

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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Residential development land values continued to decline during Q2 as higher borrowing costs, elevated build costs and weaker sales rates weighed on scheme viability. Developers increasingly favour lower-risk sites and deferred payment structures that reduce upfront capital commitments.

52%

of survey respondents said land availability was limited or very limited during Q2

4.7%

Forecast rise in build costs in 2026, according to the BCIS

64%

of survey respondents identified planning delays as the biggest challenge for the market over the course of the quarter

Subdued activity

Residential development land values fell in Q2 as developers continued to grapple with weak sales rates, elevated build costs and persistent uncertainty around scheme viability.

Greenfield land values fell 5.5% during the quarter, taking the annual decline to 3%. Prime central London land values declined 1% over the quarter, leaving values 3% lower year-on-year. Urban brownfield land values fell 2.5% during the quarter, extending the annual decline to 5%.

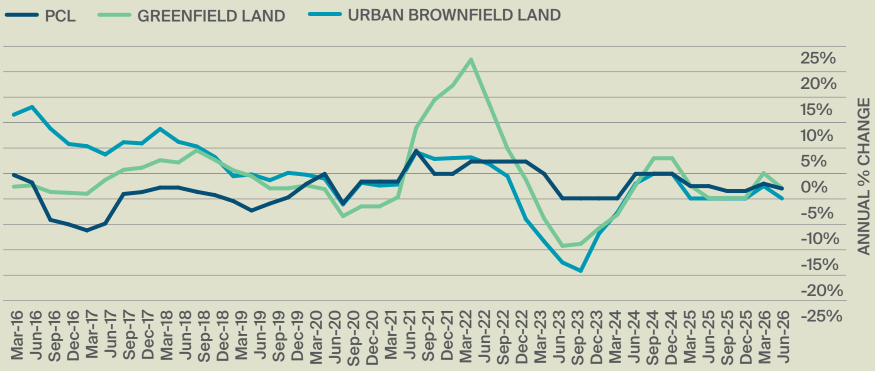
The economic outlook worsened through the second quarter as surging oil and gas prices pushed up inflation expectations. Gilt yields jumped as investors priced in a longer period of higher borrowing costs, which fed through to higher mortgage pricing, weighing on demand for housing. Leading fixed rates sat at around 4.5% at the end of the quarter, up from about 3.5% when the Middle East conflict began.

The stop-start nature of the conflict and the resulting volatility in borrowing cost expectations has made it harder for developers to underwrite projects with confidence – particularly larger developments where longer delivery timelines amplify risk. That said, successive inflation readings have come in below expectations, raising the prospect of lower mortgage rates during the third quarter.

Political uncertainty also created headwinds during Q2, though those have since diminished. Angela Rayner's appointment as Housing Secretary signals a degree of policy continuity, while the government has reaffirmed its commitment to deliver 1.5 million homes during this Parliament, keeping housing supply at the centre of its agenda.

Subdued land market as prices soften

Annual % change

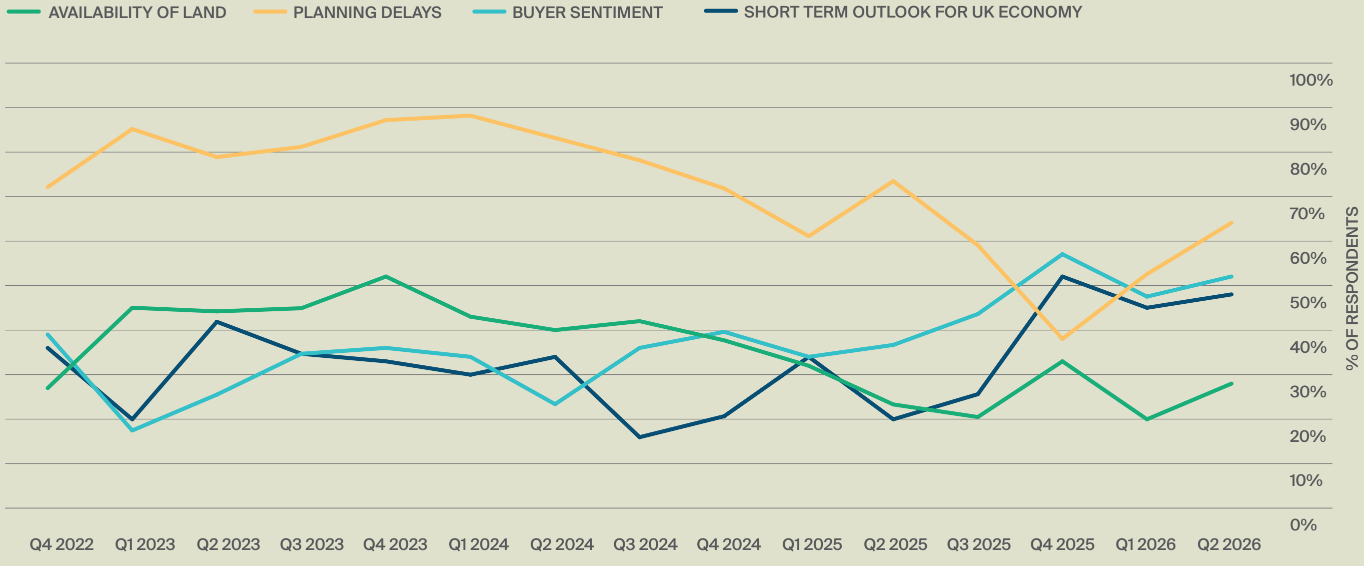


Source: Knight Frank Research

Underlying demand

All markets are facing viability pressures, though the underlying dynamics differ. Greenfield land values recorded the steepest quarterly decline but have proved more resilient than urban brownfield sites over the past year. Lower-density schemes are generally simpler to deliver, involve fewer technical constraints and benefit from more consistent underlying demand.

Which factors have proven most challenging for your business?
% of respondents



Source: Knight Frank Research

Many listed housebuilders retain an appetite for land, but weak sales rates and a focus on return on capital are making them increasingly selective. Sites requiring remediation, significant infrastructure investment or carrying legal uncertainties are attracting little interest. By contrast, fully consented, shovel-ready sites that can be brought forward quickly remain in demand, although they remain in short supply.

Urban brownfield sites continue to face the greatest viability pressures. High-rise apartment schemes remain difficult to justify financially, with weak off-plan sales rates, elevated build costs, affordable housing requirements and the risks presented by Gateway 2 combining to leave large areas of brownfield land commercially unviable.

In March, the Mayor of London revealed a series of emergency measures designed to improve the viability of housebuilding in the capital. While those measures included a series of sensible policy adjustments, such as the overhaul of the late-stage review process and cuts to affordable housing targets, a much more comprehensive overhaul would be required to tilt the balance of risks in favour of development. Tower Hamlets, Hackney and Lewisham have requested a judicial review of the measures, the councils announced in June, adding further uncertainty.

Developers in prime central London face many of the same viability challenges, but demand is also being held back by political uncertainty. Buyers in the capital's wealthiest boroughs are typically less sensitive to higher mortgage rates because many can purchase with cash. However, successive changes to the UK's tax regime have made the market less attractive to international buyers, while speculation that Prime Minister Andy Burnham could introduce new wealth taxes has reinforced the perception that the tax system remains subject to ongoing change.

Against that backdrop, deferred payment structures are becoming more common, allowing a greater share of the purchase price to be paid as homes are built and sold, reducing upfront capital commitments.

Planning delays

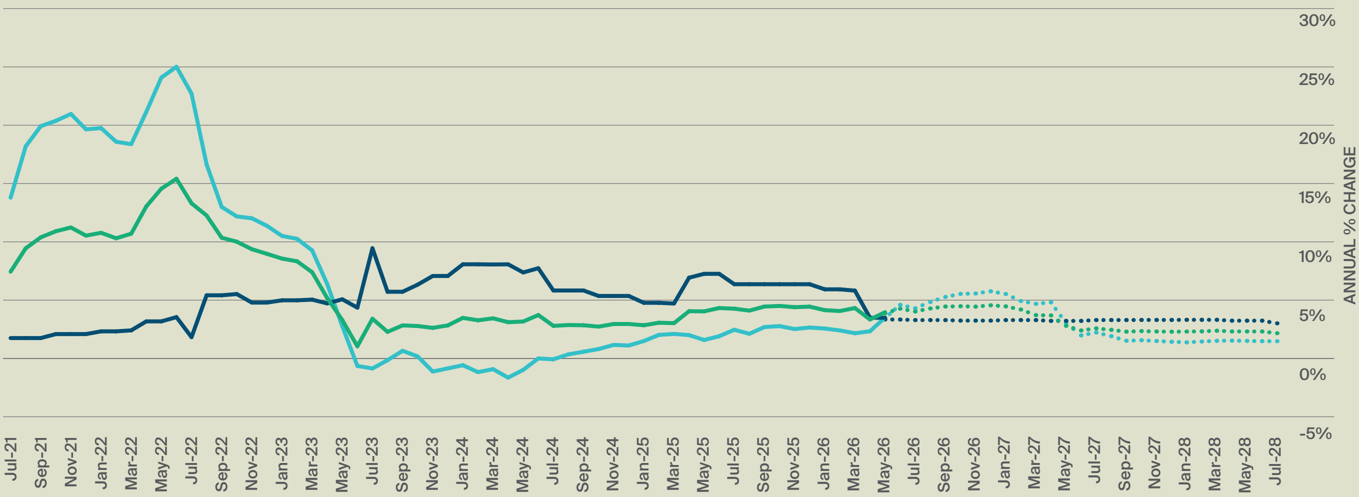
Our quarterly survey of more than 35 small and volume housebuilders points to further declines in housing delivery in the months ahead. Eight in ten developers reported weaker site visits and reservations during Q2, while almost six in ten expect reservation volumes in 2026 to fall short of last year's levels. As a result, a little under half expect start volumes to decline further in Q3, with the same proportion expecting no change. About 60% expect land values to fall further, while the remaining 40% expect the land market to trade flat.

Planning delays remained the most frequently cited challenge facing developers, identified by 64% of respondents, followed by buyer sentiment (52%) and the short-term outlook for the UK economy (48%). Buyer sentiment overtook planning as the biggest anticipated headwind during the third quarter, cited by 58%

Source: Knight Frank Research

Build cost inflation forecast to moderate

Annual % change (actual and forecast)



Source: Knight Frank Research, BCIS

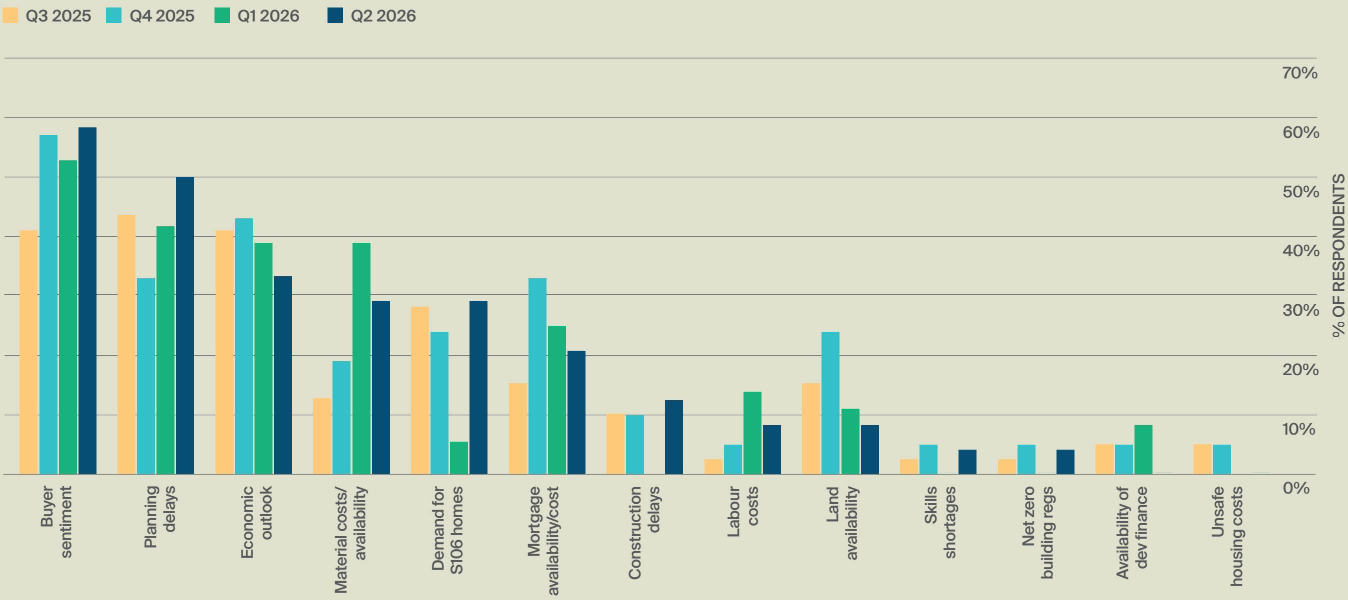
of respondents, while half continued to identify planning delays as a key constraint. A third chose the short-term outlook for the UK economy, though material costs and availability (29.2%) and the low level of active registered providers (RPs) for S106 affordable homes (29.2%) are rising up the agenda.

The delivery of Affordable Homes is likely to be overhauled in the months ahead. A major expansion of council housebuilding lies at the core of Burnham's policy platform, and he's called for better use of public land and more delivery via mayoral and combined authorities. This is likely to mean more support for local-authority-led delivery, an increased focus on social rented housing and a greater role for public sector delivery vehicles, all of which will need to sit alongside existing housebuilder and institutional investment models.

A meaningful recovery in development activity will require progress on several fronts. Lower borrowing costs and easing build cost inflation would improve viability, though both remain largely outside the government's control. More targeted intervention could help stimulate demand, whether through support for first-time buyers, incentives to encourage off-plan investment or further reforms to the UK's property tax regime to attract international capital. The market also needs a period of political and policy stability. Land values are likely to remain under pressure until developers can underwrite projects with greater confidence.

What will have the greatest impact on the housebuilding sector?

% of respondents (choose up to three)



Source: Knight Frank Research

MATERIAL WORLD

The conflict in the Middle East has pushed UK build costs higher via the rising costs of energy and shipping.

Input cost inflation rose at the fastest rate for nearly four years during May, according to S&P Global's UK Construction Purchasing Managers Index. The June survey registered another sharp increase – though not as steep as the previous month's reading – driven by higher raw material prices, wages and transportation bills. Around 53% of respondents to that survey reported a rise in costs, while only 1% signalled a reduction.

Only a fraction of UK building materials pass through the Strait of Hormuz, but steep increases in energy, freight and insurance costs are felt through supply chains globally. The price of fabricated structural steel in the UK climbed on average 13.1% during the year to May 2026, according to the latest available official figures. Gravel, sand, clays and kaolin rose 12.2%, while bituminous mixtures based on natural and artificial stone surged 11%.

As a result, build costs are forecast to rise 4.7% in 2026, up from 4.4% last year, according to the Building Cost Information Service (BCIS), before easing over the medium term.

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 between 30 and 60 SME and large housebuilders to gauge their sentiment and views on the market. The survey was conducted in late July 2026.

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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