

DEVELOPMENT LAND PRICES DIP IN Q2

Pricing for residential development land slipped between April and the end of June. While this quarterly reduction extended annual declines in pricing for prime central London and greenfield development land, urban brownfield land is still recording strong annual growth.

Key facts Q2 2016

English Greenfield development land prices slip by 2.3% in Q2, **taking the annual decline to 3.8%**

Prime Central London development land prices **fall 9.4% on the year, to levels seen in summer of 2014**

Regional Urban land prices dip 1.1% in Q2, **but are still up 9.1% compared to Q2 2015**

Greenfield development land prices declined by 2.3% between April and the end of June taking the annual fall to 3.8%.

In prime central London, average residential development land prices fell for the third consecutive quarter, dropping by 6.9%. Average values are down 9.4% on an annual basis, but this follows several years of very strong growth, so the index has returned to 2014 levels.

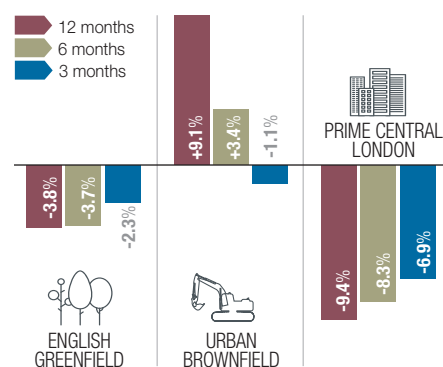
Developers reported that activity continued in the run-up to the EU Referendum vote, with house purchase rates remaining steady, especially in the regional markets. The fundamentals of the market, characterised by an imbalance between supply and demand and ultra-low mortgage rates, remain unchanged.

However, some housebuilders and developers are increasing their margins and hurdle rates on greenfield and prime central London land deals. This is in order to allow for increased uncertainty over the future economic landscape as the UK negotiates its way to a new position within the Europe. This is feeding into land prices.

In terms of greenfield sites, smaller plots for around 150-200 units close to urban areas and transport links are still the most in demand, with higher levels of competition for such opportunities.

FIGURE 1

Changes in residential development land prices % change



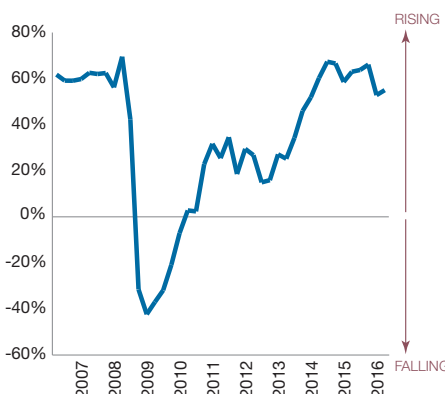
Source: Knight Frank Research

Construction costs, which have risen notably over the last two years, as shown in figure 1, are also a factor in land prices, especially in the central London market. Here the cost of construction is altering the viability of some sites and in some cases this has led to a trimming of land costs.

Urban land values are up by more than 9%. There is still strong demand for city centre sites in key regional locations, and in outer London boroughs, although the dynamics of each market are closely aligned with the demand and supply fundamentals at play in the local area.

FIGURE 2

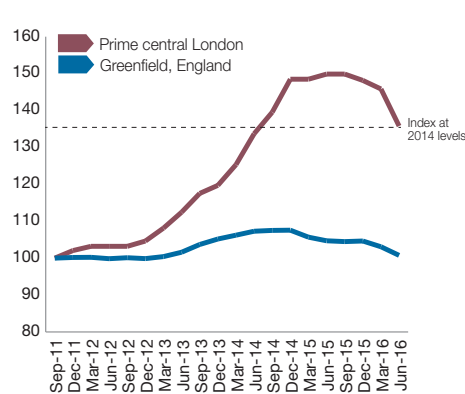
Construction input costs Net balance



Source: Knight Frank Research / RICS

FIGURE 3

Development land indices 2011-2016



Source: Knight Frank Research



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“The fundamentals of the market, characterised by an imbalance between supply and demand and ultra-low mortgage rates, remain unchanged.”

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England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Jun-14	107.29	5.6%	2.0%	1.0%
Sep-14	107.51	3.7%	1.2%	0.2%
Dec-14	107.57	2.3%	0.3%	0.1%
Mar-15	105.68	-0.5%	-1.7%	-1.8%
Jun-15	104.70	-2.4%	-2.7%	-0.9%
Sep-15	104.48	-2.8%	-1.1%	-0.2%
Dec-15	104.64	-2.7%	-0.1%	0.2%
Mar-16	103.08	-2.5%	-1.3%	-1.5%
Jun-16	100.75	-3.8%	-3.7%	-2.3%

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Jun-14	133.70	18.9%	11.7%	6.7%
Sep-14	139.54	18.7%	11.3%	4.4%
Dec-14	148.48	24.0%	11.1%	6.4%
Mar-15	148.48	18.5%	6.4%	0.0%
Jun-15	149.87	12.1%	0.9%	0.9%
Sep-15	149.87	7.4%	0.9%	0.0%
Dec-15	148.15	-0.2%	-1.1%	-1.1%
Mar-16	145.83	-1.8%	-2.7%	-1.6%
Jun-16	135.79	-9.4%	-8.3%	-6.9%

Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Jun-15	106.00		6.0%	2.8%
Sep-15	109.12		5.9%	2.9%
Dec-15	111.85	11.9%	5.5%	2.5%
Mar-16	116.91	13.4%	7.1%	4.5%
Jun-16	115.62	9.1%	3.4%	-1.1%

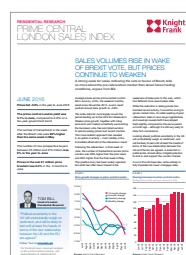
Source: Knight Frank Research

The Knight Frank Residential Development Land Index is designed purely 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.

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