

GREENFIELD LAND PRICES RISE 2.3% IN 2014

The growth in land values moderated across England and Wales in the final quarter of 2014, reflecting the movement in the wider housing market. However residential development land values in prime central London continued their strong growth, ending the year up 24%. Gráinne Gilmore examines the latest market trends.

Key facts Q4 2014

Average greenfield residential development land prices **up 2.3% in 2014, after a 5.3% rise in 2013**

Prices rose by 0.1% in Q4, the most modest growth since Q4 2012

Land values in prime central London climbed by 6.4% in Q4 2014, **taking the annual rise to 24%**

Land prices in prime central London up 48% since September 2011

Greenfield residential development land values remained broadly static in the final quarter of 2014, rising by just 0.1%.

This took the annual rate of growth to 2.3%, well under the 7.2% rate of growth seen in house prices. However it is likely land price growth will remain subdued over the coming year as rising costs press on margins.

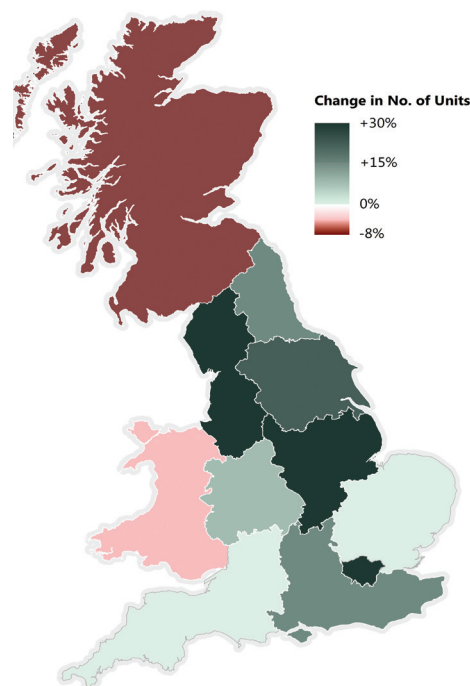
Activity in the land market has certainly picked up over the last 12-18 months – this is reflected in 17% rise in private units under construction across the UK in December 2014 compared to December 2013. There has been an increase in activity in most regions, as shown in figure 2. The demand for new housing is also robust across most parts of the country, with the take-up of the Government’s Help to Buy Equity Loan scheme rising to 38,052 in the 20 months to November 2014, with some 83% of these being first-time buyers.

The supply of land has also risen, with the activities of land promoters helping boost the pipeline of oven-ready sites. This, in

turn, has started to weigh on pricing as while there is still sturdy competition for good sites, it is less fierce.

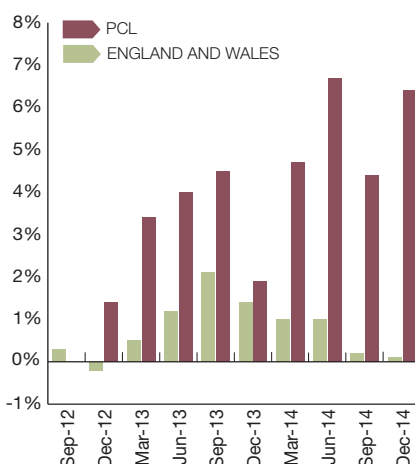
Another factor weighing on greenfield land prices is the increasing cost of labour and materials. The industry is still gearing up after the recession, and recruitment of new tradesmen is proving problematic in many areas. It is no coincidence that the cost of building in the UK has risen up the international rankings. It is now the 8th most expensive country in which to build, from 43 countries surveyed, according to Arcadis, the design consultancy firm – although the relative strength of sterling to the Euro this year has also played a part in this calculation.

FIGURE 2
Change in number of residential units on site (under construction)
December 2014 v December 2013



Source: Knight Frank Residential Research, Glenigan

FIGURE 1
Development land values
Quarterly changes, Sep 2012 - Dec 2014



Source: Knight Frank Residential Research



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“Price growth for residential development sites is likely to be more subdued over the coming year as rising construction costs press on margins.”

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RESIDENTIAL DEVELOPMENT LAND INDEX Q4 2014

In prime central London however, the trend is very different. Average residential development land values rose by 24% in 2014. This is up from a modest 2.5% increase in 2012. This takes the cumulative increase in land values since September 2011 to 48% – although this is still lagging the 72% increase in residential property

prices seen since the trough in the market after the financial crisis.

Rising land prices have helped push the cost of building in central London to the top of the international rankings with the planning system and complicated construction needs also boosting the expense of construction.

There has been much competition for land in prime central London, with ‘oven-ready’ sites particularly sought-after. International demand has also been strong in this market, with some very high prices being recorded during the course of the year – which has pushed up the index. It is likely that 2015 will be a more benign year for price growth as more developers start to factor in construction cost inflation that they now face.

England and Wales Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
Mar-12	100.22		0.2%	0.0%
Jun-12	99.85		-0.3%	-0.4%
Sep-12	100.11	0.1%	-0.1%	0.3%
Dec-12	99.87	-0.3%	0.0%	-0.2%
Mar-13	100.42	0.2%	0.3%	0.5%
Jun-13	101.60	1.8%	1.7%	1.2%
Sep-13	103.70	3.6%	3.3%	2.1%
Dec-13	105.18	5.3%	3.5%	1.4%
Mar-14	106.22	5.8%	2.4%	1.0%
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%

Prime Central London Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
Mar-12	103.20		3.2%	1.1%
Jun-12	103.20		1.1%	0.0%
Sep-12	103.20	3.2%	0.0%	0.0%
Dec-12	104.63	2.5%	1.4%	1.4%
Mar-13	108.14	4.8%	4.8%	3.4%
Jun-13	112.45	9.0%	7.5%	4.0%
Sep-13	117.54	13.9%	8.7%	4.5%
Dec-13	119.72	14.4%	6.5%	1.9%
Mar-14	125.33	15.9%	6.6%	4.7%
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%

Source: Knight Frank Residential Research

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