

MULTI-SPEED LAND MARKET

Prime central London development land prices dipped for the second quarter in tandem with values for greenfield land in England which fell for the fifth consecutive quarter. In contrast, land values in outer London boroughs and key regional cities continue to climb amid renewed economic vigour.

Key facts Q1 2016

Greenfield development land values fall 2.5% year-on-year

Prime central London land prices decline 1.8% on an annual basis

Urban development land prices continue to rise, climbing 15.4% since Q1 2015

After rising by 50% in the four years to September 2015, prime central London development land prices are starting to ease, falling by 2.7% over the last six months. This takes the annual decline to 2.5%, and leaves prices 46% higher than in September 2011.

This trend reflects the slowing pace of house price growth across prime central London, with values up 1% year on year on average. However this headline figure masks a highly localised market, themes which are examined further in the latest [Prime Central London residential index report](#), available at [Knight Frank's online research library](#).

Developers in London are increasingly looking in to Zone 2 – 6, seeking sites where developments will attract a wider pool of demand in terms of affordability.

Development costs are also having an impact on land values in prime central London, as they are across the market. In urban markets, construction costs are often the crux of development economics, determining whether a site is viable for development.

Despite this, urban brownfield land prices are rising strongly in value, although it must

be noted that they are rising from a low base. This reflects the renewed economic vigour of several of the country's key cities, and demand for housing especially at price points which meet buyer affordability criteria.

The rise in urban land values could be further underpinned by new legislations in the Housing and Planning Bill which gives sites on the brownfield register automatic permission for development. This will cut out a stage of the planning process, and improve the ability of developers to progress with residential schemes, however there is an expectation that it may take some time for the new system to take effect.

Outside the cities, greenfield development land prices dipped for the fifth consecutive quarter in Q1, taking the annual change to -2.5%. This quarter's data reflects a slightly different mix of sites than Q4 and so the data has been re-based to reflect this (see overleaf).

Housebuilders and developers have been pickier about buying sites in the last 18-24 months, having largely replenished their land pipeline. However 'oven-ready' sites with planning, especially in areas with transport links, can still attract a premium.



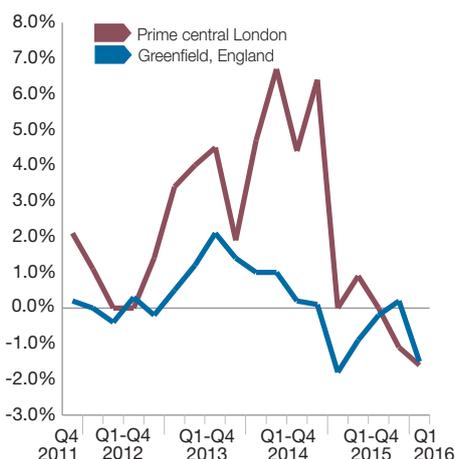
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"The recent changes in land prices reflect the trends in the residential market, with an easing of growth in prime central London alongside strengthening markets in some other key cities."

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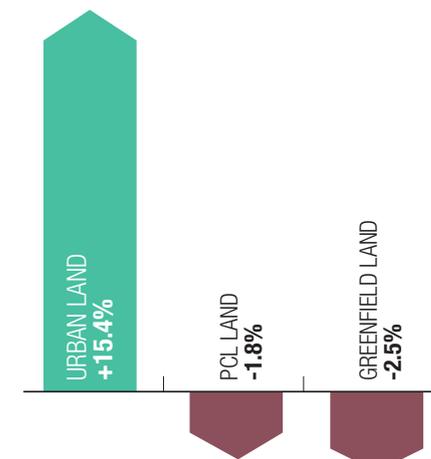
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FIGURE 1
Residential development land values, quarterly changes



Source: Knight Frank Research

FIGURE 2
Annual change in development land values, Q1 2016



Source: Knight Frank Research



England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
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%

*data re-based

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
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%

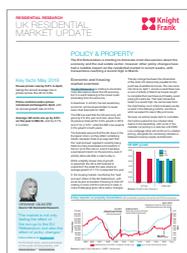
Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Mar-15	103.09			3.1%
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	118.99	15.4%	9.0%	6.4%

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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