



UK residential development land values edge down in Q2

Knight Frank's unique development land index signals that prices slipped slightly outside London in Q2, partly reversing the 1.3% rise seen last year. London prices remained unchanged for the second quarter in a row. Gráinne Gilmore examines the data

Results for Q2 2012

The average value of residential land slid by 0.4% in England and Wales between April and June 2012

Prime central London development land prices remained unchanged for the second consecutive quarter

Supply of residential development land is still constrained

UK:

The price of development land across the UK fell marginally between April and June, after no change in the first quarter of the year. This comes after a 1.3% rise in values last year. Land prices are broadly mirroring the movement of mainstream house prices in the UK, which have fallen by around 0.3% since the start of the year.

Given the lack of house price growth across the UK, there is little reason to expect further increases in land values in the short term.

On the other hand, the finite supply of development land, caused partly by the backlogs and uncertainty in the planning system, is to some extent putting a floor under land prices.

But there are concerns that the new Community Infrastructure Levy (CIL) which is currently being looked at across the UK could change this balance.

Any additional cost levied on housebuilders or developers is likely to have a negative effect on development land values as this is where such a cost would be recouped.

The CIL is being viewed as just such a cost. There is also disquiet that the levy has yet to be finally decided in many areas, creating uncertainty over what the charge might be.

The outlook is for no sharp price movements for UK development land in the near future, unless the extra cost of CIL tips the balance, or house prices take a sharp downward turn.

Prime central London:

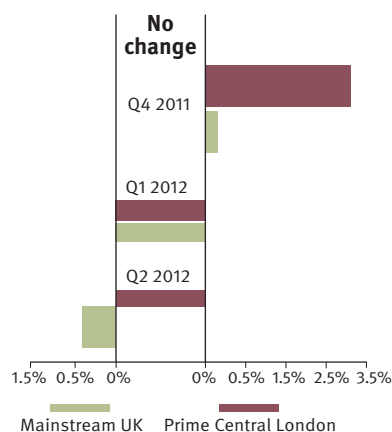
Development land values remained unchanged again in the second quarter, after jumping by 20.3% last year.

The trend in the market in the second quarter also remained much the same as in the first three months of the year, with good levels of demand for stock where developers and investors see opportunities for a realistic and deliverable margin.

While the market has an appetite for development risk, it will not speculate on planning risk. As a consequence, the unconditional trading market now has a sensible risk-reward arbitrage. We see this position remaining for the long term.

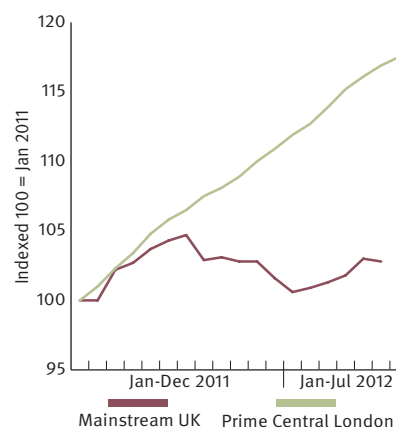
The funding environment remains tough and as a consequence the market is becoming increasingly dominated by balance sheet buyers and high-net-worth investor developers. Pure equity investors are finding the market a difficult environment to place capital into as their IRR expectations are suppressing their bidding competitiveness.

Figure 1
Quarterly change in land values



Source: Knight Frank Residential Research

Figure 2
How house prices compare
House price growth (indexed)



Source: Knight Frank Residential Research

“Given the lack of house price growth outside London, there is little reason to expect a rise in land values in the short term.”



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RESIDENTIAL RESEARCH RESIDENTIAL DEVELOPMENT LAND INDEX

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Notes to Editors

We have refined our methodology for our development land series and our new series is not directly comparable to previous residential development land data. Knight Frank LLP is the leading independent global property consultancy. Headquartered in London, Knight Frank and its New York-based global partner, Newmark Knight Frank, operate from 244 offices, in 43 countries, across six continents. More than 7,067 professionals handle in excess of US\$817 billion (£498 billion) annually, advising clients ranging from individual owners and buyers to major developers, investors and corporate tenants. For further information about the Company, please visit www.knightfrank.com.

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