



Residential development land values stable in Q3

Knight Frank's unique residential development land index shows that development land values have made little headway this year. After a sharp 20% rise in values in prime central London last year, prices in the capital have stabilised. Outside London, land values across England and Wales have fluctuated only slightly, continuing a trend of flat pricing. Gráinne Gilmore examines the data:

Results for Q3 2012

The average value of residential land rose by 0.3% in England and Wales, partly reversing the 0.4% decline in Q2

Prime central London land prices remained unchanged in Q3, for the second consecutive quarter

Supply of residential development land is low, with planning issues a key factor

The stability in prices outside London continued between July and September, with the 0.3% rise taking place over the period mostly reversing the 0.4% decline in prices seen in Q2. The modest price growth seen in Q3 was largely driven by land values in the West Midlands and Wales where a lack of 'oven-ready' sites with planning consent in place has put upward pressure on prices.

The lack of available development land has been a theme in the market for several years now. The constraints in the new supply of land have been caused by a lack of clarity in the planning system which has resulted in a drop in the number of sites achieving planning consent.

Demand for residential land, given the shortage of housing across the UK, far outstrips supply. A greater clarity in the

planning regime, and a more streamlined system would not only release more land, but could potentially breathe life back into the funding environment with lenders more willing to lend on unconsented land given the greater certainty over the time it will take for the land to achieve planning consent.

However it is difficult to see that there will be any immediate change in the planning regime, as the National Planning Policy Framework continues to bed down at a local level, so expectations are for at least another year of flat prices outside London.

The delivery of new homes in England and Wales is also being affected further down the planning line, with appeals being carried out on many sites which achieved consent before the dramatic change in the funding environment wreaked by the financial crisis.

Figure 1
Growth in development land values

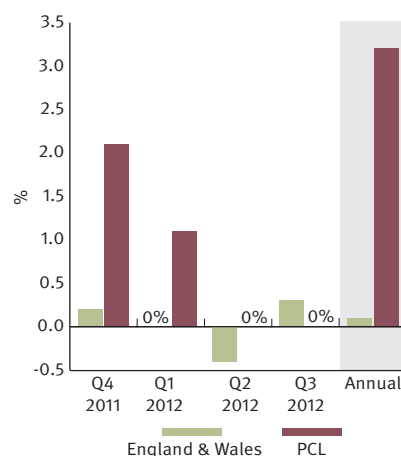


Figure 2
Housebuilding in England and Wales



"The lack of available development land across the UK has been a theme in the market for several years now."



Gráinne Gilmore, Head of UK Residential Research

Source: Knight Frank Residential Research

Source: CLG

RESIDENTIAL RESEARCH RESIDENTIAL DEVELOPMENT LAND INDEX

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The Government has made welcome steps to try and address the low number of houses being delivered, and its pledge to allow developers to proceed without affordable homes for schemes which are stalled should certainly help in theory. But there are concerns that it may not instantly deliver results as some of the “stalled” schemes may have more fundamental problems

than affordable home requirements in their development economics.

However developers are upbeat about the Government’s NewBuy mortgage scheme which has seen a rise in the take-up among buyers with a 5% deposit over the last month or so. Some 1,500 new homes have been purchased via the scheme since it was launched in March, giving a modest fillip to demand in the sector.

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