

DEVELOPMENT LAND VALUES REMAIN STEADY IN Q3

The average value of English greenfield development land was unchanged in Q3, as was the value of prime central London development land. Urban brownfield site values slipped slightly over the quarter, but on an annual basis are still outperforming.

Key facts Q3 2017

Greenfield land prices were unchanged in Q3, taking the annual rise in prices to 1.1%, **the biggest rise in more than two years**

There was no change in average prime central London land prices in Q3, **with a 2.5% annual decline, the most modest fall in prices since Q3 2015**

Urban brownfield sites slipped on average by 0.2%, **taking the annual change in values to 6.1%**

English greenfield land values were up 1.1% year-on-year in Q3, the second consecutive quarter they have been in positive territory after two years' of modest declines in pricing. There is now a steadier supply of greenfield development land in many parts of the market. This is likely to keep pricing level overall in the coming year, although there is still potential for outperformance in some areas where sites are oven-ready and have access to good infrastructure.

In urban areas, the continued price growth in the **urban brownfield land index** reflects continued demand in these markets (which can also be seen in the growth in house prices). While this sustained demand will likely continue to underpin pricing, average land values remained broadly flat in Q3, suggesting that pricing in some urban markets may have found its equilibrium.

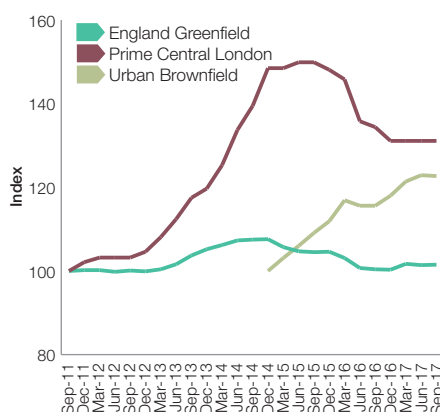
In **prime central London**, the decline in development land values shows continued signs of abating, with values down just 2.5% on the year, compared to a 10.3% decline seen in Q3 last year.

In general, the prime central London land market is showing signs of stabilising after a period of deflation and this trend is expected to continue over the next 12 months. Ian Marris, Joint Head of Residential Development, said: "The liquidity in the land market is low as sentiment is nervous however for the brave there is value to be found. Deals are price sensitive and risk needs to be appropriately analysed and understood."

There are challenges for developers trying to secure debt and equity funding, and development economics must also account for the fact that there is, so far, little sign of any significant softening in construction costs. The weaker pound is boosting import prices, while the lack of resource in the labour market is also a key consideration for developers currently active in the market.

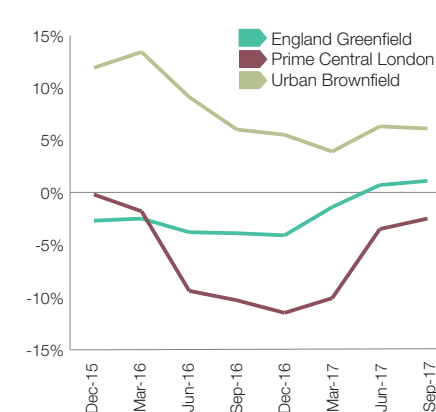
"This is a market for the experienced who know and understand how to extract value in uncertain times. That said, we believe there is opportunity for investors who will be building out into a market, which, over the next few years, looks to be extremely limited in respect of new supply," Mr Marris added.

FIGURE 1
Residential development land prices



Source: Knight Frank Research

FIGURE 2
Annual change in average land values



Source: Knight Frank Research



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RESIDENTIAL DEVELOPMENT LAND INDEX Q3 2017



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Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Sep-16	134.42	-10.3%	-7.8%	-1.0%
Dec-16	131.06	-11.5%	-3.5%	-2.5%
Mar-17	131.06	-10.1%	-2.5%	0.0%
Jun-17	131.06	-3.5%	0.0%	0.0%
Sep-17	131.06	-2.5%	0.0%	0.0%

England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Sep-16	100.36	-3.9%	-2.6%	-0.4%
Dec-16	100.31	-4.1%	-0.4%	0.0%
Mar-17	101.69	-1.4%	1.3%	1.4%
Jun-17	101.42	0.7%	1.1%	-0.3%
Sep-17	101.46	1.1%	-0.2%	0.0%

Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Sep-16	115.62	6.0%	-1.1%	0.0%
Dec-16	118.03	5.5%	2.1%	2.1%
Mar-17	121.41	3.9%	5.0%	2.9%
Jun-17	122.93	6.3%	4.1%	1.2%
Sep-17	122.66	6.1%	1.0%	-0.2%

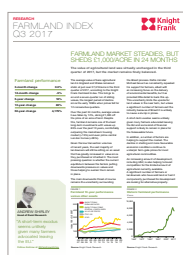
Source: Knight Frank Research

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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