

BREXIT UNCERTAINTY WEIGHS ON RESIDENTIAL DEVELOPMENT LAND VALUES

Greenfield, urban brownfield and prime central London land prices declined during Q3 as Brexit weighed on the amount some developers were willing to pay for sites, while others opted to wait for more clarity over the U.K.'s future relationship with the European Union before making strategic investments in land.

Key Facts Q3 2018

Average greenfield development land prices declined by 2.1% in Q3, **taking the annual growth to 2.6%.**

Urban brownfield development land prices declined 2.3%, **taking the annual growth to 3.3%**

Prime central London development land prices dipped 1.3%, **taking the annual decline to 4.3%**

Greenfield development land values declined 2.1% during Q3, the first quarterly decline since Q2 2017, taking annual growth to 2.6%. During the past twelve months, the greenfield land market has been characterised by competitive bidding, particularly for smaller, 'oven-ready' sites in locations where there is clear demand, or where regeneration or transport upgrades are scheduled.

However, due to the increased economic uncertainty surrounding Britain's EU departure, which comes at a time of moderating house price growth and increasing build costs, housebuilders are becoming increasingly risk-conscious. They are responding to the increased development risk by allowing larger margins, which in turn are squeezing land values.

Average values in the urban brownfield land index declined 2.3%, moderating the annual growth to 3.3%. The breakdown of sites within the Knight Frank index

shows values in cities outside of London remained largely flat, while the value of some, higher density sites in London declined as government measures aimed at cooling demand from buy-to-let investors continues to be factored in.

In prime central London, land values dipped 1.3%, taking the annual change to -4.3%. The majority of central London developers are choosing to wait for greater economic certainty before purchasing land, however there have been notable exceptions in which investors have opted to buy while land values remain 17% below the 2015 peak, and sterling continues to trade at a discount relative to its value before the 2016 referendum.

Sentiment across the U.K. land market is likely to remain subdued until the economic implications of Brexit become clearer, at which point pent up demand may be released, underpinning land values over future quarters.



PATRICK GOWER
Associate, UK Residential Research

"Housebuilders are becoming increasingly risk-conscious as the date of Britain's EU departure draws nearer."

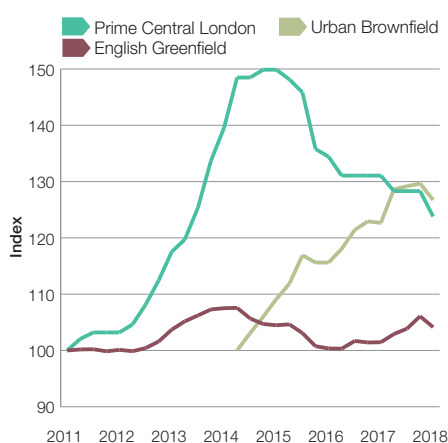
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FIGURE 1

Residential development land prices

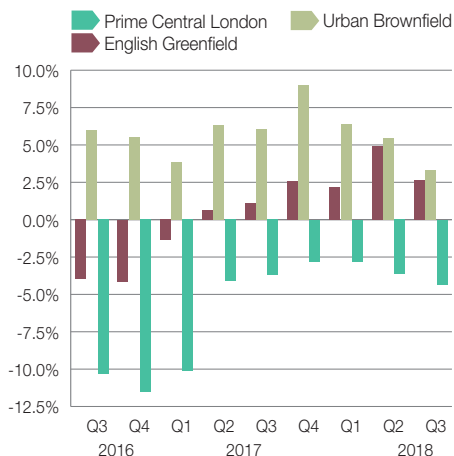
Rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

FIGURE 2

Annual change in average land values



Source: Knight Frank Research

RESIDENTIAL DEVELOPMENT LAND INDEX Q3 2018

Prime Central London Development Land Index

| Date | Index | 12-month % change | 6-month % change | 3-month % change |
|--------|--------|-------------------|------------------|------------------|
| Jun-17 | 131.06 | -3.5% | 0.0% | 0.0% |
| Sep-17 | 131.06 | -2.5% | 0.0% | 0.0% |
| Dec-17 | 128.31 | -2.1% | -2.1% | -2.1% |
| Mar-18 | 128.31 | -2.1% | -2.1% | 0.0% |
| Jun-18 | 126.50 | -3.5% | -1.4% | -1.4% |
| Sep-18 | 123.80 | -4.3% | -2.8% | -1.3% |

England Greenfield Development Land Index

| Date | Index | 12-month % change | 6-month % change | 3-month % change |
|--------|--------|-------------------|------------------|------------------|
| Jun-17 | 101.42 | 0.7% | 1.1% | -0.3% |
| Sep-17 | 101.46 | 1.1% | -0.2% | 0.0% |
| Dec-17 | 102.92 | 2.6% | 1.5% | 1.4% |
| Mar-18 | 103.88 | 2.2% | 2.4% | 0.9% |
| Jun-18 | 106.07 | 4.6% | 3.1% | 2.1% |
| Sep-18 | 104.14 | 2.6% | 0.3% | -2.1% |

Urban Brownfield Development Land Index

| Date | Index | 12-month % change | 6-month % change | 3-month % change |
|--------|--------|-------------------|------------------|------------------|
| Jun-17 | 122.93 | 6.3% | 4.1% | 1.2% |
| Sep-17 | 122.66 | 6.1% | 1.0% | -0.2% |
| Dec-17 | 128.64 | 9.0% | 4.6% | 4.9% |
| Mar-18 | 129.18 | 6.4% | 5.3% | 0.4% |
| Jun-18 | 129.66 | 5.5% | 0.8% | 0.4% |
| Sep-18 | 126.74 | 3.3% | -1.8% | -2.3% |

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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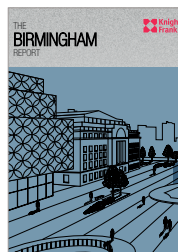
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If you're thinking of buying or selling, or would just like some property advice, please do get in touch.

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