

-6.7%

GREENFIELD DEVELOPMENT LAND PRICES ROSE 0.3% IN Q3, BUT FELL 6.7% ON AN ANNUAL BASIS

-1.8%

URBAN BROWNFIELD LAND VALUES INCREASED 3.8% IN Q3, BUT DIPPED 1.8% ON YEAR

-1.6%

PCL DEVELOPMENT LAND VALUE ROSE 4.7% THIS QUARTER, BUT PRICES FELL 1.6% COMPARED TO 2019



Residential Development Land Index

Research, Q3 2020

Land market values recovered across the board this quarter, boosted by strong house price growth and increased demand. However, several buyers and sellers remain on the side-lines as they await greater clarity on stamp duty changes and trade talks.

Average land values in prime central London rose 4.7% between July and September, meaning the residential development index has returned to levels seen in the first quarter of the year.

The increase reflects a marked recovery in the capital's housing market since the UK emerged from its first national lockdown, which contributed to a drop in central London land values earlier this year.

In May, the government relaxed its rules on house moves and viewings after more than seven weeks of restrictions. Since then, lifestyle shifts triggered by Covid-19 and government interventions have boosted demand as well as house prices in both new homes and resale markets.

Demand for homes outside of the capital has also returned and, accordingly, urban brownfield land values rose 3.8% between July and September, while greenfield values remained stable, ticking up 0.3% on the quarter. Regionally, agents pointed to strong demand for greenfield housing sites in the South East, notably in the home counties, such as Berkshire and Hampshire, but transactional values in the North East softened amid a lack of competition from national housebuilders. Across the UK, agents

reported brownfield values were held back by a dip in demand for apartment-led schemes in town centres. On an annual basis, greenfield values fell 6.7% while brownfield values eased downwards by 1.8%.

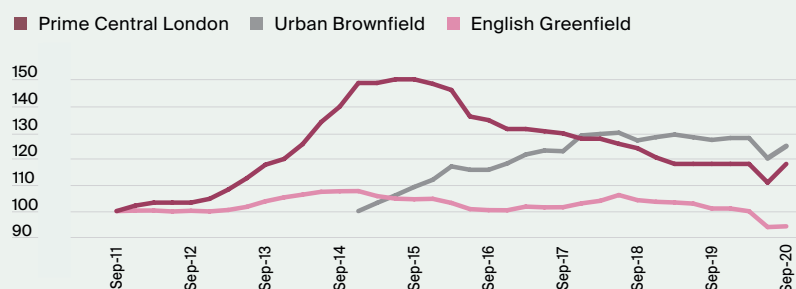
Strong interest in residential property is leading to an uptick in land deals, with housebuilders returning to the market to replenish their sales pipelines after many withdrew in Q2. Some have publicly confirmed resilient sales levels and completion rates despite the pandemic, noting a sustained period of demand during the summer as the market recovered from the lockdown. Private London developers and well-funded, opportunistic buyers are also active in the market.

Prices continue to be supported by a lack of supply in the market, with few sites coming forward due to the current uncertain economic climate and a shortage of allocated sites due to delays in the adoption of Local Plans. While the majority of developers and housebuilders have re-entered the market, they remain selective and focused on higher profit margins to reflect the increased uncertainty. Most are looking to maintain their balance sheets and preserve cash. For this reason more land deals are being agreed on a conditional basis or with deferred land payments.

But there are few signs of discounting in the market or distress, with competition for some sites and robust demand for new homes supporting values. At the

Fig 1. Residential development land prices

Index rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

same time, with the UK now having moved into a second lockdown, there is a renewed focus on supply chains, with some housebuilders noting delays, particularly for bricks, blocks, roof tiles as well as increasing issues with kitchens and appliances. Some have raised concerns around meeting the Help to Buy deadline. Home builders will have until 28 February 2021 to complete new homes under the scheme. They also cite slow mortgage valuation surveys due to a backlog after the first lockdown, and longer conveyancing processes.

There are also new opportunities emerging to repurpose commercial real estate such as shopping centres and retail warehousing parks. Demand is also strong for senior living residential sites, due to the imbalance between the growth rate of the UK's ageing population and the supply of appropriate housing stock.

At the same time, some market participants are taking a more cautious stance, deferring land deals until there's more clarity over the UK's economic position going into 2021 and stamp duty land tax changes. On the latter point, it is not yet certain whether the government will consider extending the stamp duty holiday in England and Northern Ireland – which lifted the lifted the threshold at which people start paying stamp duty from £125,000 to £500,000. It kicked in from 8 July and currently runs until 31 March.

Despite these headwinds, housebuilding and commercial construction projects are likely to remain a core part of rebuilding the UK economy, which in turn will support UK land values. These are areas the government is expected to continue to support going forward as the UK heads into a historic fourth quarter, set to be characterised by the result of the US election, a second UK national lockdown, developments around a Covid-19 vaccine, and of course, Brexit.

PRIME CENTRAL LONDON DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
JUN-19	117.85	-6.1%	-2.0%	0.0%
SEP-19	117.85	-4.8%	0.0%	0.0%
DEC-19	117.85	-2.0%	0.0%	0.0%
MAR-20	117.85	0.0%	0.0%	0.0%
JUN-20	110.78	-6.0%	-6.0%	-6.0%
SEP-20	115.99	-1.6%	-1.6%	4.7%

ENGLAND GREENFIELD DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
JUN-19	102.83	-3.1%	-0.7%	-0.4%
SEP-19	100.97	-3.0%	-2.2%	-1.8%
DEC-19	100.97	-2.5%	-1.8%	0.0%
MAR-20	99.94	-3.2%	-1.0%	-1%
JUN-20	93.95	-8.6%	-7.0%	-6.0%
SEP-20	94.23	-6.7%	-5.7%	0.3%

URBAN BROWNFIELD DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
JUN-19	127.94	-1.3%	0.0%	-0.8%
SEP-19	126.93	0.2%	-1.6%	-0.8%
DEC-19	127.66	-0.2%	-0.2%	0.6%
MAR-20	127.66	-1.0%	0.6%	0.0%
JUN-20	120.00	-6.2%	-6.0%	-6.0%
SEP-20	124.59	-1.8%	-2.4%	3.8%

DISCLAIMER

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.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.



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