

## URBAN BROWNFIELD LAND OUTPERFORMS IN 2017

The value of urban brownfield land climbed 4.9% in Q4, amid strong rises in Birmingham. The average value of English greenfield land edged up by 1.4%, while land values in prime central London dipped by 2.1%.

### Key facts Q4 2017

Urban brownfield land values rose 9% in 2017, the highest rate of annual growth since Q3 2014

Greenfield land values climbed 1.4%, taking the annual change to +2.6%

Land values in prime central London declined 2.1% in Q4 after three flat quarters. The annual decline was also 2.1%

Urban brownfield land values rose by an average of 9% in 2017, the strongest annual growth since Q3 2014, amid robust employment growth in the UK's major cities.

Gains were particularly strong in the centre of Birmingham, with demand from residential developers mirroring commercial demand as a number of large office occupiers have recently decided to move from elsewhere in the city, or relocated from other cities. HMRC, for example, announced in September it had signed a 25-year lease in central Birmingham, where it will move 3,600 staff into a single location.

Average greenfield land values in England climbed 1.4% during the quarter, taking the annual rise to 2.6%. Competition among housebuilders is notably strong for large sites close to transport links and within reach of major employment centres. Demand for housing is being underpinned by ultra-low mortgage rates and the Government's Help to Buy Equity Loan.

New policy measures to be outlined in Spring are likely to generate much attention. Housing secretary Sajid Javid has said landowners can expect the government to use a more "muscular" approach in an attempt to speed up housing delivery that may include greater use of compulsory purchase orders, "use it or lose it" planning permissions and a new land tax.

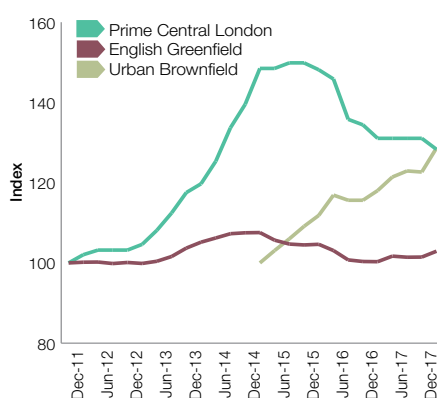
"There are complex issues governing how and when housebuilders deliver new homes to the market, and the availability of land with consent is just one of them," said Justin Gaze, Knight Frank's head of residential development. "Development is risky, and housebuilders need to anticipate market demand over several years. They must also manage the construction process in a market where skilled workers are in short supply."

Development land prices in prime central London dipped by 2.1% in the final three months of the year after remaining unchanged since January. This also took the annual decline to 2.1%, the most modest fall since March 2016. The headline number hides a patchwork of varying performance depending on perceived risk in specific areas. Declines in land prices in central locations appear to have levelled out, whereas some more fringe locations with large supply pipelines may still see some further, modest declines in 2018.

Land transactions remain low as developers seek higher rates of return due to perceived risks in planning and construction. However, volumes of land purchases are likely to increase as the year progresses, along with some modest recovery in pricing, and pockets of outperformance.

FIGURE 1

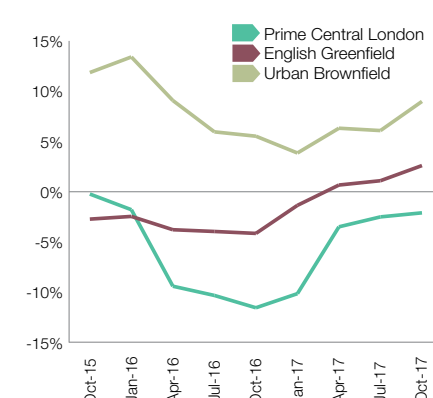
#### Residential development land prices



Source: Knight Frank Research

FIGURE 2

#### Annual change in average land values



Source: Knight Frank Research



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## RESIDENTIAL DEVELOPMENT LAND INDEX Q4 2017

### Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Dec-17	128.31	-2.1%	-2.1%	-2.1%

### England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Dec-17	102.92	2.6%	1.5%	1.4%

### Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Dec-15	111.85	11.9%	5.5%	2.5%
Mar-16	116.91	13.4%	7.1%	4.5%
Jun-16	115.62	9.1%	3.4%	-1.1%
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%
Dec-17	128.64	9.0%	4.6%	4.9%

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.

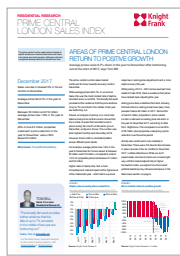
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