

Residential development land values in England and Wales up 7.3% in year to March 2014

Knight Frank's residential development land index shows a 0.8% growth in greenfield development land values in the first three months of 2014, taking the annual rise to 7.3%. Meanwhile, land prices in prime central London continue to rise strongly. Gráinne Gilmore examines the latest market trends.

Key facts – Q1 2014

Residential development land prices in England and Wales **rose by 0.8% in Q1 2014**

Greenfield land values have climbed 7.3% in the year to March 2014

Prime central London land values rose by 4.7% between January and the end of March, and are up 15.9% on the year

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Development land values in England and Wales rose for the fifth consecutive quarter in Q1, but the pace of growth was slower than that seen in the three preceding quarters, at 0.8% compared to a 2.4% increase between October and December last year. The direction of travel is still upwards however, with the annual rate of growth rising from 7.1% in 2013 to 7.3% in the 12 months to the end of March.

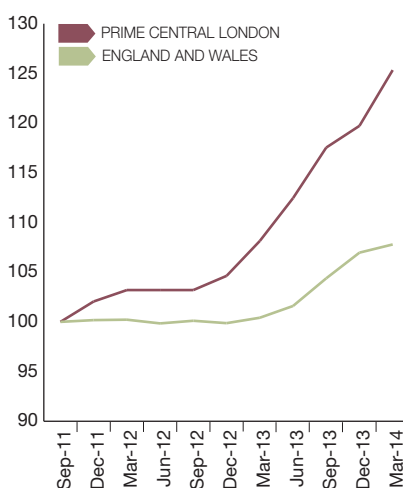
Land prices are rising as the housing markets in many parts of the UK are gaining momentum for the first time since the financial crisis. House prices and transactions have both picked up over the last year in many areas. Sentiment among households has also risen strongly as consumers have become more confident that the UK has truly emerged from recession. The latest [Knight Frank/Markit House Price Sentiment Index](#) shows that households in every region of the UK felt that the value of their home rose in March.

Transaction levels in February this year were nearly 32% higher than in February last year, and at levels not seen since 2007.

The structural undersupply of homes in the UK is well documented. But demand was constrained in the years following the financial crisis because of a lack of mortgage finance. This problem has been addressed through Funding for Lending, and since March last year, via the Help to Buy Equity Loan.

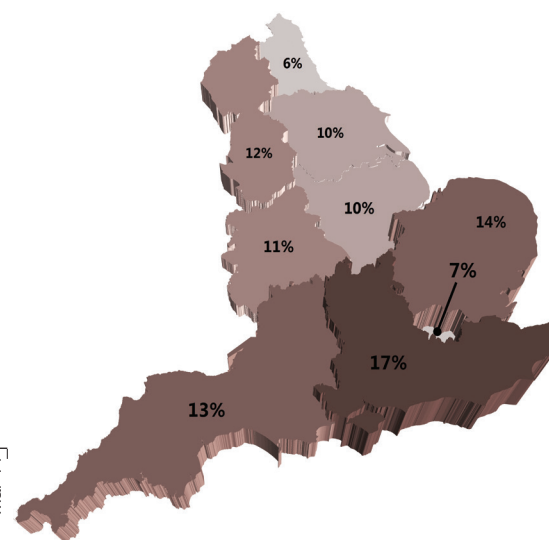
Help to Buy broadened the scope for buyers to climb onto the property ladder, as well encouraging a step up in development activity. So far it has helped more than 16,000 buyers purchase a new home – the regional take-up of the loan is shown in figure 2. The Chancellor's announcement last month that this scheme would be boosted by £6 billion and extended by 4 years to run to 2020 was broadly welcomed in the industry, as it will allow developers to commit to larger-scale projects which take longer to build out.

FIGURE 1
Growth in development land prices
Indexed September 2011



Source: Knight Frank Residential Research

FIGURE 2
Take-up of Help to Buy Equity Loan in England Regional breakdown (to Jan 2014)



Source: HCA



GRÁINNE GILMORE
Head of UK Residential Research

"As demand for development land increases, supply remains constrained, particularly "oven-ready" sites with planning permission, and this is partly underpinning the current price growth."

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RESIDENTIAL DEVELOPMENT LAND INDEX

Yet as the demand for land increases, supply remains constrained, particularly “oven-ready” sites with planning permission. This has helped underpin prices. Additionally, the more buoyant market has cut average sales times, thereby reducing the cost of capital on schemes and allowing more room for land price growth. But at the same time, developers are also grappling with rising costs. The latest Government figures show that private housing construction costs rose by 2.5% in the final quarter of last year alone, and by 5.3% in the year as a whole, outpacing the rise in costs in every other part of the construction sector except private commercial development.

Rising labour expenses are feeding into these increased costs, as is a chronic shortage of materials which is forcing some housebuilders to import concrete blocks and slates from Europe.

Development land prices in prime central London rose strongly in the first three months of the year, climbing by 4.7% and bouncing back from the relatively modest 1.9% increase in the final quarter of last year. The 15.9% annual rise in land prices is rooted in a scarcity of prime sites in prime central London coupled with robust house price growth in the market, which has added a cumulative 30% to the value of an average property over the last three years.

England and Wales Residential Development Land Index

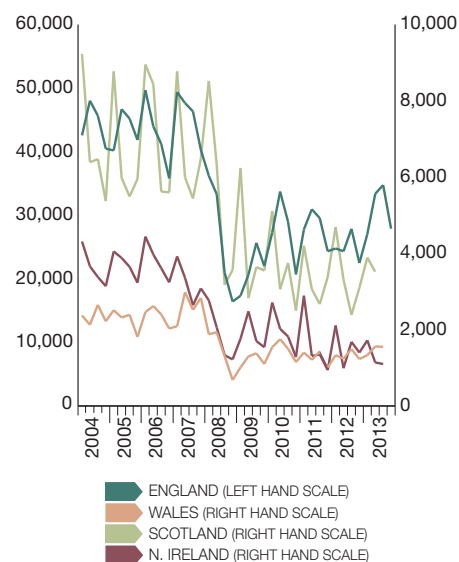
Date	Res dev land index	12-month % change	6-month % change	3-month % change
Sep-11	100.00			
Dec-11	100.18			0.2%
Mar-12	100.22		0.2%	0.0%
Jun-12	99.85		-0.3%	-0.4%
Sep-12	100.11	0.1%	-0.1%	0.3%
Dec-12	99.87	-0.3%	0.0%	-0.2%
Mar-13	100.42	0.2%	0.3%	0.5%
Jun-13	101.60	1.8%	1.7%	1.2%
Sep-13	104.38	4.3%	4.0%	2.7%
Dec-13	106.97	7.1%	5.3%	2.5%
Mar-14	107.79	7.3%	3.3%	0.8%

Prime Central London Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
Sep-11	100.00			
Dec-11	102.05			2.1%
Mar-12	103.20		3.2%	1.1%
Jun-12	103.20		1.1%	0.0%
Sep-12	103.20	3.2%	0.0%	0.0%
Dec-12	104.63	2.5%	1.4%	1.4%
Mar-13	108.14	4.8%	4.8%	3.4%
Jun-13	112.45	9.0%	7.5%	4.0%
Sep-13	117.54	13.9%	8.7%	4.5%
Dec-13	119.72	14.4%	6.5%	1.9%
Mar-14	125.33	15.9%	6.6%	4.7%

Source: Knight Frank Residential Research

FIGURE 3
UK housing starts
2004 - 2013



Source: Knight Frank Residential Research



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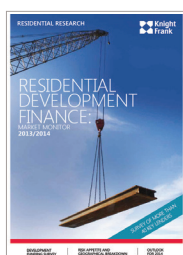
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