

## DEVELOPMENT LAND VALUES DIP IN Q2

The average value of greenfield development land declined again in Q2 as demand eased, however the market remains regionalised. In prime central London, a normalising of market conditions has led to a slowing in price growth. Gráinne Gilmore examines the latest market trends.

### Key facts Q2 2015

Average greenfield development land prices **fell by 0.9% in Q2**

Prices are now **2.4% lower on an annual basis**, the steepest decline since index began in 2012

Development land prices in prime central London are **up by 0.9% in Q2**, and **up 12.1%** on an annual basis

The average price of greenfield land dipped by just under 1% between April and June, a more moderate decline than the 1.8% slip in Q1. However, this took the annual change in prices to -2.4% compared to -0.5% in Q1. Prices are now 2.7% lower than at the beginning of the year (figure 2) and have returned to levels last seen in Autumn 2013.

Prices reflect the fact that housebuilders have had access to relatively higher levels of consented land in the last few years because of the National Planning Policy Framework – which has allowed them to top up their supply of land.

As a result, housebuilders and developers are more selective about the sites they are now choosing to buy.

While there are also signs that build cost inflation, which has risen sharply over the last 18 months, is now levelling off, developers are still having to factor these higher costs into their offers. In addition, housebuilders are generally maintaining their margins, and this is weighing on land prices.

The market remains localised however, with some areas around the home counties seeing a shortage of supply of consented greenfield land due to the planning system, and a resulting premium for the sites that do come on the market. The vagaries of securing planning permission in such areas has effectively stopped the market for unconsented land.

In central London there is still good demand for development land, although buyers are applying more detailed criteria before making offers, with a bigger consideration being paid to build cost inflation.

The sales market has returned to more normal conditions, along with absorption rates, and this is being reflected in a slowing in the growth of development land prices. However there is still strong competition in areas which are considered to have real opportunity for growth, these include areas in outer London, and particularly for sites where completed units can be delivered for less than £1,000 psf.



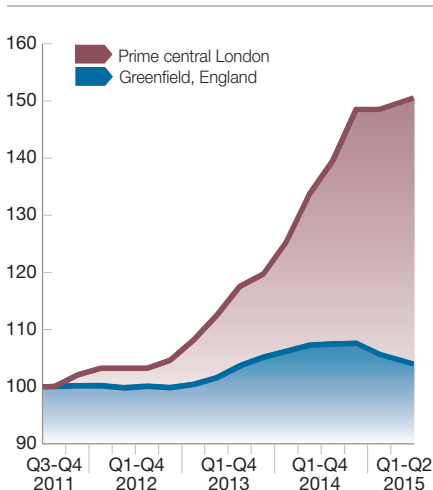
**GRÁINNE GILMORE**  
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“Buyers are having to factor in higher build costs while maintaining their margins, and this is weighing on land prices.”

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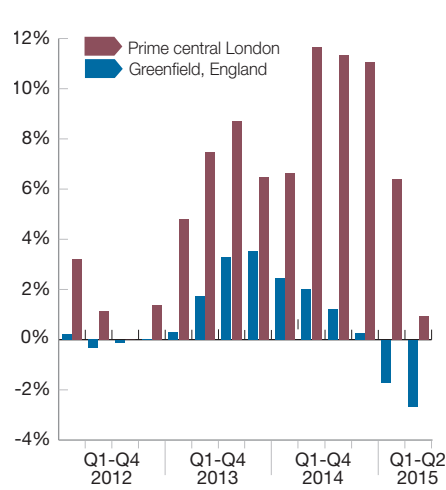
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FIGURE 1  
**How land prices have grown**  
indexed, 100=September 2011



Source: Knight Frank Residential Research

FIGURE 2  
**Six-monthly rates of growth**



Source: Knight Frank Residential Research



England and Wales Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
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	103.70	3.6%	3.3%	2.1%
Dec-13	105.18	5.3%	3.5%	1.4%
Mar-14	106.22	5.8%	2.4%	1.0%
Jun-14	107.29	5.6%	2.0%	1.0%
Sep-14	107.51	3.7%	1.2%	0.2%
Dec-14	107.57	2.3%	0.3%	0.1%
Mar-15	105.68	-0.5%	-1.7%	-1.8%
Jun-15	104.70	-2.4%	-2.7%	-0.9%

Prime Central London Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
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%
Jun-14	133.70	18.9%	11.7%	6.7%
Sep-14	139.54	18.7%	11.3%	4.4%
Dec-14	148.48	24.0%	11.1%	6.4%
Mar-15	148.48	18.5%	6.4%	0.0%
Jun-15	149.87	12.1%	0.9%	0.9%

Source: Knight Frank Residential Research

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