

## Residential development land values climb in Q3

**Knight Frank's residential development land index for Q3 2013 shows that greenfield land values rose by 2.7% between July and the end of September. Gráinne Gilmore examines the latest market trends.**

### Key facts – Q3 2013

The average value of residential development land in England and Wales **rose by 2.7% on the quarter**

Average land values **are up 4.3% on the year**

**Development land values in prime central London rose by 4.5% in Q3**, taking the annual increase to 13.9%

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Residential development land values posted another quarter of convincing growth across **England and Wales (excluding London)** between July and September, with the average price of greenfield development land rising by 2.7%, following a 1.2% rise in Q2. This takes the annual rate of growth to 4.3%, up from 1.8% in Q2. Back in Q4 last year, prices were down 0.3% on the year.

The rise in land values reflects the increase in house prices being seen around the country as well as rising sales rates experienced by housebuilders. In fact housebuilders have seen reservation rates climb after the introduction of the Help to Buy Equity Loan. There have been around 15,000 new home reservations using the scheme since its introduction in April, and the map below shows a slight concentration in the South of England, outside London.

This step up in demand coincides with a key phase of the National Planning Policy Framework (NPPF) when many local authorities are still trying to identify sites which will deliver adequate levels of housing to meet demand over the next five years. As a result, housebuilders have been very active in the market, in a bid to help plug the supply gaps. This is reflected in a 30% jump in planning applications for private dwellings over the summer.

The increased take-up rate for new homes means that housebuilders and developers are holding land for shorter periods of time – thereby cutting the cost of capital. This allows more room for land prices to rise.

There is also an increased appetite among housebuilders for strategic land, rather than just the "oven-ready" sites that were most popular in the years after the financial crisis. Whilst it is recognised that strategic sites hold greater risk in terms of planning certainty, the potential returns are much higher. Return on capital employed is now a key driver, which should allay any fears that "land-banking" may become a feature in the market.

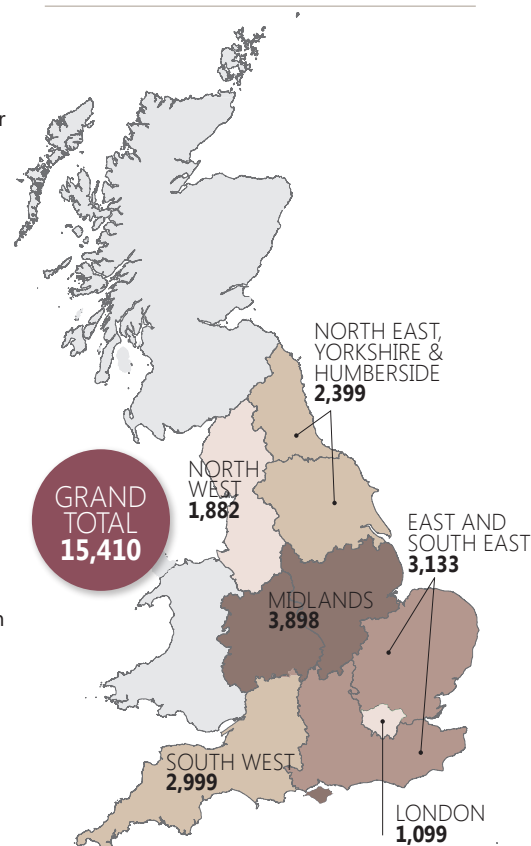
There is strong interest in sites in and around regional cities where supply has dwindled in recent years.

Development land values in **prime central London** climbed by 4.5% in Q3, following a 4% increase in Q2. This comes after modest rises in the second half of 2012, and indicates that land prices are starting to more fully reflect the rise in property values in the central London market.

The increase in values is a function of high levels of national and international demand for a relatively limited number of available sites. Indeed, it is interesting that increasing numbers of housebuilders who have traditionally focused on the regions, are now making forays into the London market. They are facing stiff competition from those already in the market, as well as new international entrants, such as mainland Chinese developers.

### Help to Buy

Equity loan reservations by region



Source: DCLG



**GRÁINNE GILMORE**  
Head of UK Residential Research

*"There is an increased appetite for strategic land, rather than just the "oven-ready" sites popular in recent years."*

Follow Gráinne at [@ggilmoref](#)

*"The step up in demand coincides with a key phase of the NPPF when many local authorities are trying to identify sites which will meet housing supply for the next five years."*

**RESIDENTIAL RESEARCH****Gráinne Gilmore**

Head of UK Residential Research

+44 20 7861 5102

grainne.gilmore@knightfrank.com

**PRESS OFFICE****Rosie Cade**

+44 20 7861 1068

rosie.cade@knightfrank.com

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**Prime Central London Residential Development Land Index**

Date	Res dev land index	12-month % change	6-month % change	3-month % change
Sep-11	100.0			
Dec-11	102.1			2.1%
Mar-12	103.2		3.2%	1.1%
Jun-12	103.2		1.1%	0.0%
Sep-12	103.2	3.2%	0.0%	0.0%
Dec-12	104.6	2.5%	1.4%	1.4%
Mar-13	108.1	4.8%	4.8%	3.4%
Jun-13	112.5	9.0%	7.5%	4.0%
Sep-13	117.5	13.9%	8.7%	4.5%

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
Sep-11	100.0			
Dec-11	100.2			0.2%
Mar-12	100.2		0.2%	0.0%
Jun-12	99.9		-0.3%	-0.4%
Sep-12	100.1	0.1%	-0.1%	0.3%
Dec-12	99.9	-0.3%	0.0%	-0.2%
Mar-13	100.4	0.2%	0.3%	0.5%
Jun-13	101.6	1.8%	1.7%	1.2%
Sep-13	104.3	4.3%	4.0%	2.7%

Source: Knight Frank Residential Research

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