

DEVELOPMENT LAND PRICES SLOW AGAIN IN Q3

Average greenfield development land prices across England continued to slip back in Q3 amid a slightly less active appetite for sites among developers and increased cost of development. In prime central London, land price growth eased for the third consecutive quarter, underlining the market's return to more normal conditions. Gráinne Gilmore examines the latest market trends.

Key facts Q3 2015

Greenfield development land prices in England slipped by 0.2% in Q3, **taking the annual change in prices to -2.8%**

Greenfield land prices are **down 3% since the start of the year**

Development land prices in prime central London were unchanged in Q3, **taking the annual rate of growth to 7.4%**

Average greenfield development land prices across England dipped by 0.2% between July and September. This takes the cumulative price drop since the start of the year to 3%, enough to reverse the gains seen in land prices during 2014.

The slip in land values reflects a wider slowing in house price growth across the UK from the peak seen late last year. However there are also other key factors at play, not least a more moderate demand for development sites among larger housebuilders who have spent several years replenishing their pipeline supply of land. As a result, sites which do not 'tick all the boxes' are attracting less attention.

Developers are also facing higher build costs and a shortage of labour, but there are signs that the shortage of materials which has been pushing up prices is easing. The new RICS construction survey, published this week, shows a drop in the number of developers saying that a shortage of materials was a factor limiting building levels

(figure 2). The labour shortage is still a key concern however.

In addition, developers are also having to factor in reduced revenues from Registered Providers on the affordable element of schemes after the Chancellor's announcement in the last Budget that social rents would be cut in the coming years.

On a short-term basis, the fast-paced policy environment, especially around affordable housing, is causing a degree of 'limbo' in the market as developers look for more detail on the Government's Starter Home initiative. Although policymakers have pledged to deliver 200,000 of these homes by 2020, the detail of how the scheme will work is still vague.

In the prime central London market, price growth in land prices continued to ease, reflecting the slowing growth seen in the sales market. Average prime property values in central London are up 1.3% year on year, compared to 7.4% annual growth in September last year.



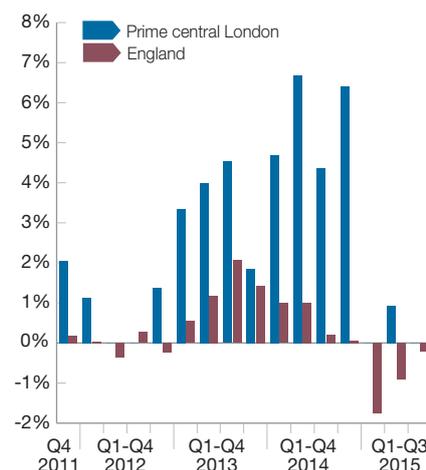
GRÁINNE GILMORE
Head of UK Residential Research

"The fast-paced policy environment is causing a degree of short-term 'limbo' in the market as developers wait for more details on Government plans."

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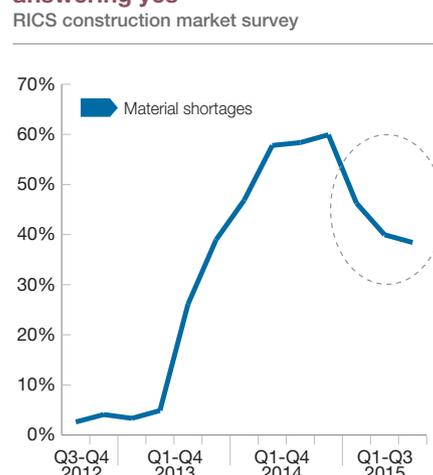
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FIGURE 1
Quarterly change in average land values



Source: Knight Frank Research

FIGURE 2
Factors affecting development... proportion of respondents answering yes



Source: Knight Frank Research

RESIDENTIAL DEVELOPMENT LAND INDEX Q3 2015

England and Wales Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
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%
Sep-15	104.48	-2.8%	-1.1%	-0.2%

Prime Central London Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
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%
Sep-15	149.87	7.4%	0.9%	0.0%

Source: Knight Frank Research

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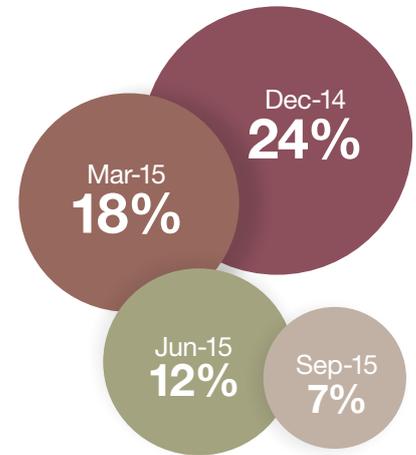


UK Housebuilding Report - 2015

Knight Frank Research Reports are available at KnightFrank.com/Research

FIGURE 3

Annual change in prime central London development land values



Source: Knight Frank Research

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