

## POST-EU REFERENDUM EASING IN DEVELOPMENT LAND PRICES

Residential development land prices slipped again in Q3 2016 for English greenfield sites and those in prime residential London, while prices were unchanged for urban brownfield sites.

### Key facts Q3 2016

Residential development land values for English greenfield land dipped by 0.4% in Q3, **taking the annual decline to 3.9%**

Prime central London site values **are down 10.3% year-on-year**

Urban brownfield land values remain unchanged in Q3, **and are up 6% on an annual basis**

**Greenfield development land** prices declined by 0.4% in Q3, meaning they have fallen by 2.6% between April and the end of September, and by 3.9% over 12 months.

In **prime central London**, land prices are down by 10.3% on the year, and are now at around the same levels as June 2014.

The declines seen in both of these markets reflect the increased hurdle rates being put in place by developers and housebuilders in the face of the uncertainty around Brexit, and the potential resulting impact on the UK economy.

In some cases where developers depend on a range of funding, increased demands from lenders are resulting in further squeezes on margins for land prices.

In central London, the change in economic climate, coupled with changes to policy around purchases taxes, is leading to developers moving their attention from larger schemes in the centre to those further out. This, in time, could start to weigh on unit numbers being delivered into the market.

A recent survey by Lloyds Bank highlighted the uncertainty around Brexit, with more than a third of housebuilders identifying the

process of leaving the EU as the biggest challenge faced by the industry.

However, housebuilders overall remain optimistic about the outlook for the sector, non-withstanding longer-term issues around skills and planning.

The current dynamics of the land market, especially across the English market for greenfield land, was highlighted by Persimmon, the UK's third-largest housebuilder by turnover, which recently announced it was easing the rate at which it was acquiring land in the face of current macro political and economic uncertainty around Brexit.

The market is not homogenous however. Land agents report that there is still substantial demand for smaller sites which are well-located, especially to those close to cities or towns showing a level of economic outperformance.

**Urban residential development land** prices remained unchanged in Q3, but prices are still up 6% year-on-year, mirroring the outperformance of housing markets in urban centres, including the mid and outer zones of London, where average capital values mean there is a wide pool of demand which is not being matched by supply.



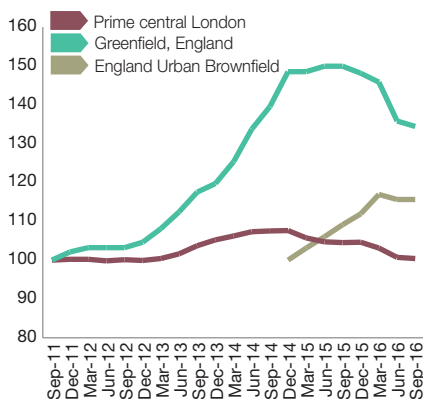
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Head of UK Residential Research

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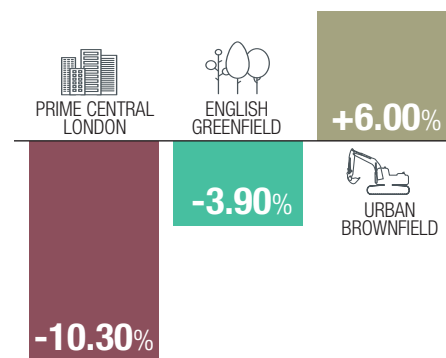
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FIGURE 1  
**Development land indices 2011-2016**



Source: Knight Frank Research

FIGURE 2  
**Changes in residential development land prices % change**



Source: Knight Frank Research



England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
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%

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Sep-14	139.5	18.7%	11.3%	4.4%
Dec-14	148.5	24.0%	11.1%	6.4%
Mar-15	148.5	18.5%	6.4%	0.0%
Jun-15	149.9	12.1%	0.9%	0.9%
Sep-15	149.9	7.4%	0.9%	0.0%
Dec-15	148.1	-0.2%	-1.1%	-1.1%
Mar-16	145.8	-1.8%	-2.7%	-1.6%
Jun-16	135.8	-9.4%	-8.3%	-6.9%
Sep-16	134.4	-10.3%	-7.8%	-1.0%

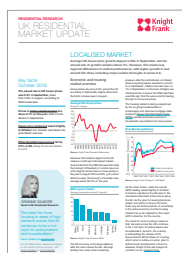
Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Sep-15	109.12		5.9%	2.9%
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%

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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