

-3.2%

AVERAGE GREENFIELD DEVELOPMENT LAND PRICES FELL 1% IN Q1, TAKING THE ANNUAL DECLINE TO -3.2%

-1.0%

URBAN BROWNFIELD LAND VALUES WERE UNCHANGED IN Q1, RESULTING IN AN ANNUAL FALL OF -1.0%

0.0%

PCL DEVELOPMENT LAND VALUES WERE UNCHANGED IN Q1, WHILE PRICES WERE FLAT ON AN ANNUAL BASIS



Residential Development Land Index

Research, Q1 2020

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Market emerges with confidence after Brexit uncertainty, but coronavirus presents new challenges

Land values in prime central London were unchanged between January and March, the fourth consecutive quarter that prices were static. On an annual basis prices were flat, ending a run of declines dating back to 2015, according to the Knight Frank Residential Development Land Index. The data in this release was largely collected before government guidelines on social distancing were implemented.

Greenfield land values fell 1% between January and March, taking the fall in values for the year to -3.2%. Urban brownfield land values, meanwhile, were flat during Q1, supported by strong demand for houses across regional cities, though values ended the year -1% lower.

Uncertainty surrounding Brexit was the key factor weighing on land prices over the past 12 months, but these concerns had eased at the start of the year following December's decisive general election result. Greater political certainty had led to stronger sentiment within the housebuilding sector and the wider market.

After a sustained period of static pricing, land prices could come under pressure as a result of the coronavirus pandemic.

Although house prices across the UK rose 3% in March on a yearly basis,

according to Nationwide, these figures do not reflect developments since the government's lockdown began on March 23.

Meanwhile, the closely watched IHS Markit/CIPS PMI construction survey reported a steep fall in commercial building work in March. However, the survey showed residential activity dropped at a more modest pace during the month.

In the medium term, though, the coronavirus pandemic will lead to a significant drop off in housebuilding activity which is likely to weigh on land prices. As a result, we expect land prices to fall in the second quarter, though with fewer land transactions also expected

to take place the scale of any corrections will be site specific.

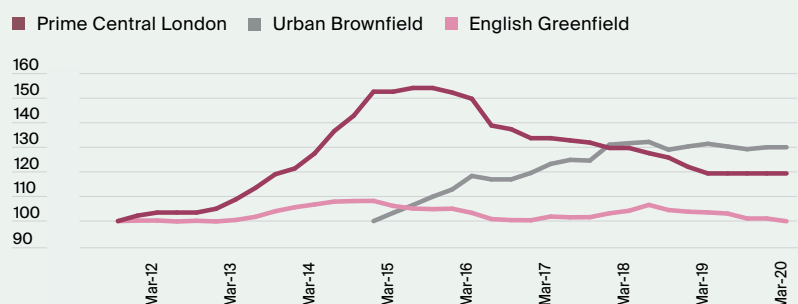
Lower demand, slower build out rates, a perception of heightened risk and a weaker jobs market could all contribute to lower pricing.

Housebuilders, many of whom scaled back their operations temporarily in the face of the coronavirus outbreak, are now looking re-start construction work on site in late April or early May.

However, housebuilders will be less productive as they observe social distancing rules, face delays in the delivery of construction materials and operate with a smaller workforce. This combined with an uncertain sales environment post the end of the lock

Fig 1. Residential development land prices

Index rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

PRIME CENTRAL LONDON DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
DEC-18	120.30	-5.6%	-4.1%	-2.8%
MAR-19	117.85	-7.5%	-4.8%	-2.0%
JUN-19	117.85	-6.1%	-2.0%	0.0%
SEP-19	117.85	-4.8%	0.0%	0.0%
DEC-19	117.85	-2.0%	0.0%	0.0%
MAR-20	117.85	0.0%	0.0%	0.0%

ENGLAND GREENFIELD DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
DEC-18	103.51	0.6%	-2.4%	-0.6%
MAR-19	103.25	-0.6%	-0.9%	-0.3%
JUN-19	102.83	-3.1%	-0.7%	-0.4%
SEP-19	100.97	-3.0%	-2.2%	-1.8%
DEC-19	100.97	-2.5%	-1.8%	0.0%
MAR-20	99.94	-3.2%	-1.0%	-1%

URBAN BROWNFIELD DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
DEC-18	127.97	-0.5%	-1.3%	1.0%
MAR-19	128.96	-0.2%	1.8%	0.8%
JUN-19	127.94	-1.3%	0.0%	-0.8%
SEP-19	126.93	0.2%	-1.6%	-0.8%
DEC-19	127.66	-0.2%	-0.2%	0.6%
MAR-20	127.66	-1.0%	0.6%	0.0%

DISCLAIMER

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.

down is likely to reduce their appetite for land.

On the other hand, given landowners are long term holders of property they may opt to sit tight. If there is limited land exposed to the market, this could support pricing to some extent.

Additionally, the government may well take steps to support the market and aid its recovery, with reports suggesting it might extend the Help to Buy scheme.

But coronavirus is not the only factor weighing on the market. Brexit remains a live issue. Despite the government publicly restating its pledge to finalise the UK's transition out of the EU by 31 December, the coronavirus crisis may well trigger a delay.

Residential construction costs are also expected to rise, fuelled by regulation changes, labour shortages and potential supply disruption.

However, these higher costs could be mitigated in the short term because of the knock-on effects of Covid-19 on the construction sector.

Construction activity is likely to be subdued in the immediate aftermath of coronavirus. As a result, labour and construction costs are likely to reduce as there is greater competition for work. This will likely offset the effects of growing build costs, which are expected to rise by 18.2% over the next five years, according to the BCIS.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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