

CONSTRAINED SUPPLY UNDERPINS LAND VALUES

A lack of sites for sale stemmed or halted declines in average land prices across markets in England during the second quarter as developers who scaled back investing in land in the months following the EU referendum sought to replenish their supply of sites.

Key Facts Q2 2019

Average greenfield development land prices declined 0.4% during Q2, **taking the annual decline to -3.1%**

Urban Brownfield land values declined 0.8% during the quarter, **taking the annual decline to -1.3%**

Prime Central London development land values were unchanged during Q2, **moderating the annual decline to -6.1%**

Values in Prime Central London, which have declined 21% since the peak in Q3 2015, remained flat in Q2 amid a dearth of sites for sale. Vendors in many cases are choosing to wait for political clarity before marketing sites as developers seek to plan beyond the current political upheaval by investing in land.

“We may have seen values dip further if it hadn’t been for the current lack of supply of well-priced, suitable land across all markets,” said Justin Gaze, head of residential development land at Knight Frank.

Average Greenfield land values declined 0.4% during the quarter, taking the annual decline to -3.1%.

Though uncertainty and moderating house price growth continue to weigh on values, housebuilders have seen encouraging sales activity in recent months and are increasingly competing for well-priced sites in optimal locations after pulling back from buying land in the months following the 2016 vote to leave the EU.

Sales of new homes have been particularly resilient where properties are eligible for the Help to Buy Equity Loan scheme, which accounted for more than 50,000 sales across England during 2018, according to official figures. The government will introduce

regional prices caps and restrict the loans to first time buyers from 2021, and intend to end the scheme in 2023.

Uncertainty over whether there will be a replacement for the program, whether public or private sector led, is creeping into sentiment in the land market, and is likely to become a dominant issue in the coming quarters.

Urban Brownfield land values dipped 0.8% in Q2, taking the annual decline to -1.3%. Values were largely flat across regional cities, and declined moderately in zones 3 to 6 in London, where the planning environment continues to be challenging and sentiment among home purchasers is most susceptible to Brexit.

However, some sentiment surveys point to a possible pick-up in sales volumes and house prices in the months ahead.

Estate agents reported a modest rise in appetite from potential purchasers to acquire property in June, according to the RICS UK Residential Market Survey. Meanwhile the IHS Markit House Price Sentiment Index, a measure of homeowner sentiment, also ticked up. The survey, where a net balance of higher than 50 indicates that homeowners expect house prices to rise in future, reached +60 in July.



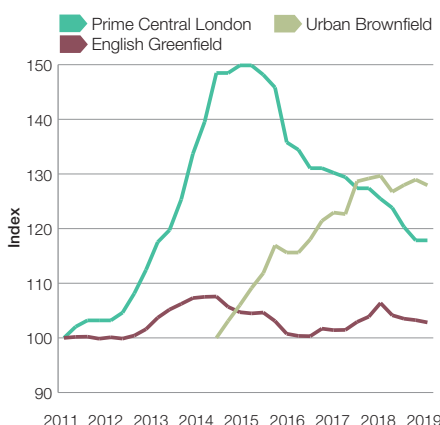
PATRICK GOWER
Associate, UK Residential Research

“Housebuilders are increasingly competing for well-priced sites in optimal locations after pulling back from buying land in the months following the 2016 vote to leave the EU.”

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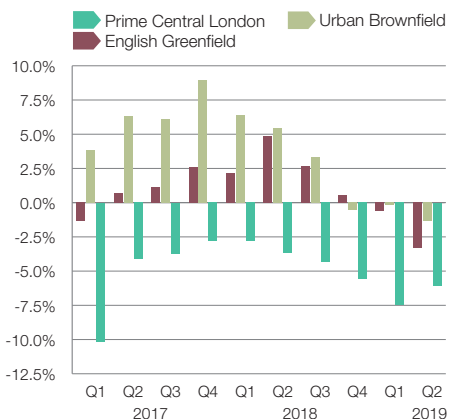
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FIGURE 1
Residential development land prices
Rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

FIGURE 2
Annual change in average land values



Source: Knight Frank Research

RESIDENTIAL DEVELOPMENT LAND INDEX Q2 2019

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Mar-18	127.38	-2.8%	-1.6%	0.0%
Jun-18	125.45	-3.7%	-1.5%	-1.5%
Sep-18	123.80	-4.3%	-2.8%	-1.3%
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%

England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Mar-18	103.88	2.2%	2.4%	0.9%
Jun-18	106.07	4.6%	3.1%	2.1%
Sep-18	104.14	2.6%	0.3%	-1.8%
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%

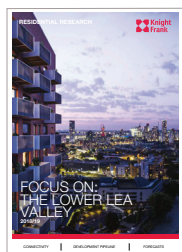
Urban Brownfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Mar-18	129.18	6.4%	5.3%	0.4%
Jun-18	129.66	5.5%	0.8%	0.4%
Sep-18	126.74	3.3%	-1.9%	-2.3%
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%

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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Contact us

If you're thinking of buying or selling, or would just like some property advice, please do get in touch.

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