

RISING COSTS AND UNCERTAINTY CURB LAND VALUE GROWTH

Increasing build costs, patchy house price growth and increased economic uncertainty are, to different degrees, weighing on land values in urban brownfield, greenfield and Prime central London locations.

Key Facts Q4 2018

Average greenfield development land prices declined 0.6% in Q4, taking the annual growth to 0.6%.

Urban brownfield development land prices returned to growth, climbing 1.0% during the quarter. The annual change was -0.5%.

Prime central London development land values declined 2.8%, taking the annual decline to 5.6%.

Average greenfield development land prices declined 0.6% in Q4 2018, down from 2.6% growth in Q3, paring annual growth to 0.6%. Labour costs continue to edge up and the relatively weak pound has made imported building materials more costly for housebuilders.

Anecdotally, site visitor numbers remain robust, though customers are taking longer to commit to purchases, particularly in the south of England. In the resale market during the first nine months of this year, when compared with 2016, the average time taken from listing a home to sale agreed in the East of England, the South East and London climbed more than 30%, according to Rightmove data. By contrast, the time taken from listing to sale agreed over the same period declined by 5.6% in the East Midlands, 11.4% in the West Midlands and 9.9% in the North West.

These risks, alongside economic uncertainty over Britain's impending departure from the European Union, have prompted developers to increase their margins, which is suppressing growth in greenfield land values.

Urban brownfield land values declined by 0.5% during 2018, also for the reasons

outlined above. That's the first annual decline since Knight Frank began tracking Urban Brownfield land values in Q4 2015.

Values edged up 1.0% during the quarter, however, following a 2.3% decline in Q3, led by gains in Birmingham City Centre sites.

Birmingham remains undersupplied when it comes to housing, according to official data, though heightened activity in the land market during the past three years has meant a high quality pipeline is emerging. Developers are likely to be increasingly selective when purchasing land during the coming quarters.

In Prime central London, land values declined 2.8% in Q4, taking the annual decline to 5.6%. Values have dropped almost 20% since the peak of the market in Q3 2015, and with the weak sterling, some notable buyers have decided Prime central London land now represents good value.

Sites of all types are transacting, though volumes remain low. The central London land market is also susceptible to negative sentiment relating to Brexit and land owners are in many cases choosing to wait for more clarity before choosing to sell.



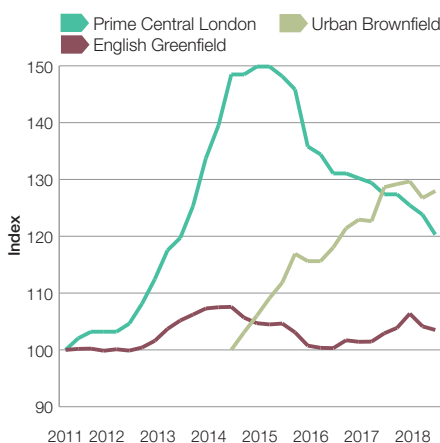
PATRICK GOWER
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"Labour costs continue to edge up and the relatively weak pound has made imported building materials more costly for housebuilders."

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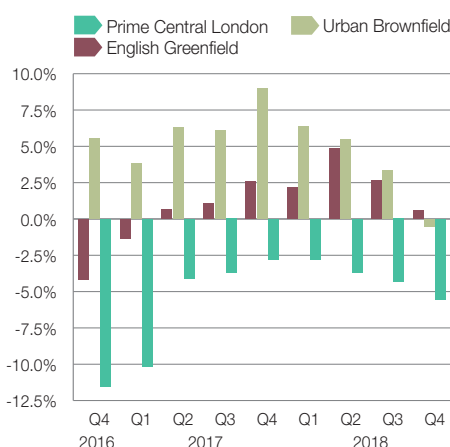
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FIGURE 1
Residential development land prices
Rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

FIGURE 2
Annual change in average land values



Source: Knight Frank Research

RESIDENTIAL DEVELOPMENT LAND INDEX Q4 2018

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Sep-17	131.06	-2.5%	0.0%	0.0%
Dec-17	128.31	-2.1%	-2.1%	-2.1%
Mar-18	128.31	-2.1%	-2.1%	0.0%
Jun-18	126.50	-3.5%	-1.4%	-1.4%
Sep-18	123.80	-4.3%	-2.8%	-1.3%
Dec-18	120.30	-5.6%	-4.1%	-2.8%

England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Sep-17	101.46	1.1%	-0.2%	0.0%
Dec-17	102.92	2.6%	1.5%	1.4%
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%	-2.1%
Dec-18	103.51	0.6%	-2.7%	-0.6%

Urban Brownfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Sep-17	122.66	6.1%	1.0%	-0.2%
Dec-17	128.64	9.0%	4.6%	4.9%
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%	-1.8%	-2.3%
Dec-18	127.97	-0.5%	-1.3%	1.0%

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

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