Industrial Land Values

Research 2022

Knight Frank

C O N T E N T S

1 0   K E Y   P O I N T S

1 Land values rise

Land values have risen 60% in the year to Q1 2022 and 163% over the past three years.

2 Rental income drives land value

Our model demonstrates that expected rental income is the key determinant of land values across the UK. However, capital growth expectations have risen in importance, due to accelerating growth in capital values and upward revisions to forecasts.

3 Rising capital values important in driving growth

58% of the *growth* in land values (Q1 2019 to Q1 2022) is due to rising rental income and rental growth assumptions, with 42% being driven by capital growth and upward revisions to the forecast.

4 Forecasts revised up

There has been strong rental growth and capital growth in the last three years. There has also been a strong upward revision for the outlook. In Q1 2019, expectations for rental growth were c.1.9% per annum and expectations for capital growth were c.1.6% (over the five-year horizon). The latest (Q1 2022) forecasts, show expectations for rental growth at c.5% and 5.6% per annum capital growth expected (2022-2026).

5 Largest rises found in London

In absolute terms, the strongest growth has been recorded in the Boroughs of London, particularly Inner London. The strongest absolute growth in land values was in the London Boroughs of Kensington & Chelsea, Tower Hamlets, Westminster, Camden and Ealing.

6 Capital growth more important in London

Unlike other markets across the UK, capital growth tended to be a much stronger driver of land value growth in the London market. That is, strong competition in the investment market, and robust upward revisions to the forecast have been a key driver of returns and thus land values in London.

7 Viability threshold crossed

Markets that have moved from negative to positive land values (over the past three years) include Mansfield, Newark & Sherwood, Corby, Wellingborough, and Salford. Indicating they have become viable development locations.

8 Prime markets

The highest prime land values were in Park Royal, West London, with £22.7 million per acre, followed by Greenford, Ealing with £20.8 million per acre, then Bow, Tower Hamlets with £19.8 million per acre.

The highest land values in the prime markets outside of the London and South East region were in Birmingham, with £2.6 million per acre, followed by Manchester with £2.2 million per acre, then Northampton with £2.0 million per acre.

9 Top picks for future land value growth

Growth in land values across London is expected to outpace that across other regions of the UK. The top picks for forecast land value growth are the London Boroughs of Newham and Tower Hamlets, with 40% growth expected over the next three years.

10 Quantifying the downside risks

An outward movement in yields or a downward revision to rental or capital growth expectations would negatively impact land values. Our approach to modelling land values enables us to quantify these impacts by changing the assumptions. For example, a 50bps softening of prime yields in Tower Hamlets would reduce prime land values by 10%.

If rental growth expectations were revised down 20%, this would impact forecast land value growth. In Newham the growth forecast would be revised down to 37%, from 40% (based on the Q1 2022 forecasts).

EXECUTIVE SUMMARY

Prices paid for industrial land have grown significantly over the past few years. We seek the reasons why, aim to quantify the increase, and establish the trajectory of future growth.

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By establishing a fixed set of inputs and assumptions, we aimed to develop a land values model and thus gain greater understanding of the variation in land values and quantify the movement over time. Using this method has helped us develop a greater understanding of the assumptions that buyers are making when underwriting land purchases.

Industrial land transactions are relatively scarce and there is also a lack of transparency around pricing, and a lack of homogeny, with great variations from site to site. It is therefore difficult to compare pricing from one site to another, or to establish spatial or temporal trends and understand variations in pricing.

The model has produced a set of standardised industrial land values across the UK for the last few years, as well as a set of projected land values. This has enabled us to quantify the growth in land values across all geographies of the UK and better understand the drivers of this growth. Using this approach has

also helped provide insight into future land values.

We consider how investor-developer partnerships and lengthening hold periods are helping to drive growth in land values. Expectations for growth in rents and capital values have seen strong upward revisions in the past year and this has

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Our model demonstrates that average industrial land values have risen 163% over the past three years, with 60% growth recorded over the past year (to Q1 2022).

Constraints in terms of available land and floorspace have driven strong rental and capital growth in London and the South East. This in turn, is fuelling upward pressure on land values.

We expect continued growth in land values, particularly in markets where population pressures and competing land uses are restricting the options available for industrial development. The London boroughs of Newham and Tower Hamlets are some of the top locations for future land value growth.

However, the prospect of softening yields or downward revisions to growth forecasts do pose some downside risks. We seek to quantify what impact these factors may have on future land values.

INTRODUCTION

Industrial land values have risen sharply over the past couple of years. Understanding the reasons for this requires us to gain a greater understanding of the valuation methods and the assumptions being used to underwrite these purchases.

The value of land is determined by various factors of different weighting including a locations attractiveness, the degree of planning regulation with regards to land use, and site-specific factors such as the size of the plot, height restrictions, size restrictions, whether there is planning consent in place, and whether demolition, remedial or infrastructure work required.

The less restrictive planning and zoning restrictions are, the higher the land value because industrial uses must compete with other asset classes. This can inflate the prices paid, particularly in urban locations. There are numerous micro locational factors that cannot be accounted for at the resolution of our analysis, these include factors such

as the proximity to major transport hubs, road frontage, and specific tax treatments/benefits associated with

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However, the development process takes time, and the strong rates of capital growth make establishing a future Gross Development Value (GDV) difficult. This is further complicated by the fact that, often, profit is not taken once the development reaches completion.

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some locations. These may include Freeport tax sites, enterprise zones, or airside at an airport.

Build costs have risen too, which, on a residual basis, should suppress land values, or at least dampen growth. The basic residual valuation method of establishing land value is derived from the value of the completed development (net) minus the development costs, including the developer's profit. However, the development process takes time, and the strong rates of capital growth make establishing a future Gross Development Value (GDV) difficult. This is further complicated by the fact that, often, profit is not taken once the development reaches completion.

INVESTOR-DEVELOPER PARTNERSHIPS

THE MODEL

Assumptions, parameters and application of the model

The partnership structure means, that expectations for growth in rents and capital values - beyond the development horizon - are being considered for land purchases.

Traditionally a developer would seek to build an asset and sell on to an investor, either on or before completion, taking their profit. However, a lack of investment stock and a desire to maximise returns has meant that investors are seeking to invest earlier, and secure an asset before development, through partnering with a developer. These developer–investor partnerships mean that assets are not traded on after completion.

This partnership structure gives the investor more say in what is built and thus they may look to future-proof their investment and the asset. The length of time investors are holding assets has also lengthened. Longer hold periods change the approach to valuation and enable higher values to be underwritten.

The partnership structure means, that expectations for growth in rents and capital values – beyond the development horizon – are being considered when making land purchases. Investors are not seeking to crystallise returns over the construction/development horizon but rather, over the whole term of the

investment. The longer time horizon and the income stream that the asset will generate, coupled with rental growth and capital growth, can support a higher price for land purchases, compared with a one-off profit take.

Determining a methodology for establishing land value

The length of time between initial land purchase and asset disposal makes the basic residual method less suitable. Instead, a cash flow model may be a better approach as we can make assumptions around timings and account for additional investor income and returns as factors influencing land values.

Capital growth (of industrial warehouse assets) and rising rents have been driving up investor returns. Annual total returns for industrial assets have exceeded 40%, and these strong rates of growth have raised expectations for future growth. Forecast rental growth and expectations are key factors in investment decisions and these need to be factored into the model if we are to understand the rapid growth in land pricing.

Using an evidence-based, comparable approach can be used as a supplementary method. However, industrial land transactions are relatively scarce and there is also a lack of transparency around pricing. Rental prices on the other hand are better tracked, with more frequent observations and greater standardisation.

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Through modelling industrial land values, we aim to better understand the impact of rental growth, capital growth, and expectations for future growth.

Our industrial land values model is based on various assumptions, around the size of development, site density, build programme, lease terms, incentives and investment hold period. Although these factors could vary from market to market, from site to site, from investor to investor, and occupier to occupier, in order to make like for like comparisons across markets it is necessary to simplify these underlying assumptions.

Key Assumptions:

- Warehouse of 20,000 sq m + (for build cost purposes)
- Site density of 40% outside of Greater London and 53% within Greater London
- Rent-free period of 12-months
- Five-year open market rent review
- Investment hold period of 10-years
- A fixed term allowing for transaction, planning and build programme
- Development profit of 20%.

Build costs are sourced from BCIS and are adjusted for location and quarter. Market rents and capital values are used with rental and capital growth projections based on forecasts sourced from RealFor.

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The model can produce negative land values, where development is not feasible given the other parameters.

The model does not make adjustments for differing market conditions or changes over time. Different/changing market conditions can impact void periods and incentives. In locations or periods of low vacancy, lower rent-free periods may be offered. Conversely, a market with excess supply may feature longer void periods and higher incentives.

The model uses market rents and capital values which will be influenced by the mix and quality of standing stock in that market and will not necessarily be reflective of rents and capital values commensurate with a newly built facility of a certain size or investment standard specification.

Application of the model

Using this approach, land values were calculated for 377 local authorities or areas across the UK. Results were calculated for the last four years (Q1 2019, Q1 2020, Q1 2021 and for Q1 2022) and a three year forecast was also calculated using the same methodology and locations.

Following the initial set of results, the inputs for the model were adjusted to reflect prime rents and yields for a limited number of locations. We also used the model to consider what impact a movement in logistics or industrial yields may have on land values.

Parameters of the model: Micro locational factors cannot be accounted for, there are also planning-related factors such as height, size and use restrictions that may vary from local authority to local authority and within local authorities. It cannot account for unique constructions/ development – such as non-standard building construction, multi-storey or mixed-use schemes. It also cannot account for different building grades, accreditation levels or sustainability standards. The model only considers industrial and logistics land use and not the value of competing land uses.

RESULTS OF THE MODEL

*What has driven the growth in industrial land values?*

Land values were calculated for four observations, from Q1 2019 to Q1 2022 for 377 local authorities or areas across the UK. The model demonstrates that while capital growth forecasts have seen stronger upward revision, the upward revisions to rental growth forecasts are having a greater impact on expected returns and are thus driving up the underlying value of the land.

Taking an average across the 377 locations, we have found that underlying land values

have risen 60% over the year to Q1 2022 and have more than doubled (+163%) over the last three years (to Q1 2022). Between Q1 2020 and Q1 2022, land values have almost trebled (+196%), with weaker forecasts underpinning the assumptions in Q1 2020.

In Q1 2019, anticipated rental income was the key determinant of expected returns and thus land value, while expectations for capital growth were much less of a factor. Expected rental income accounts

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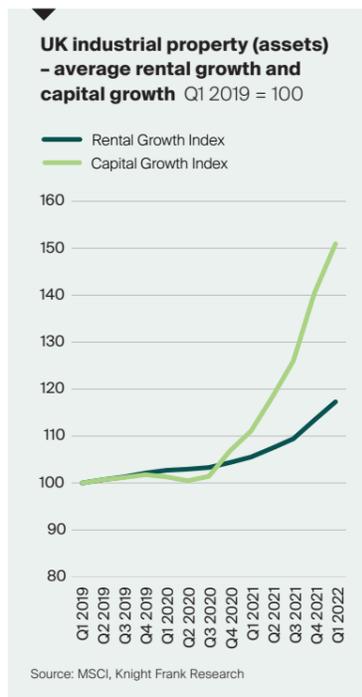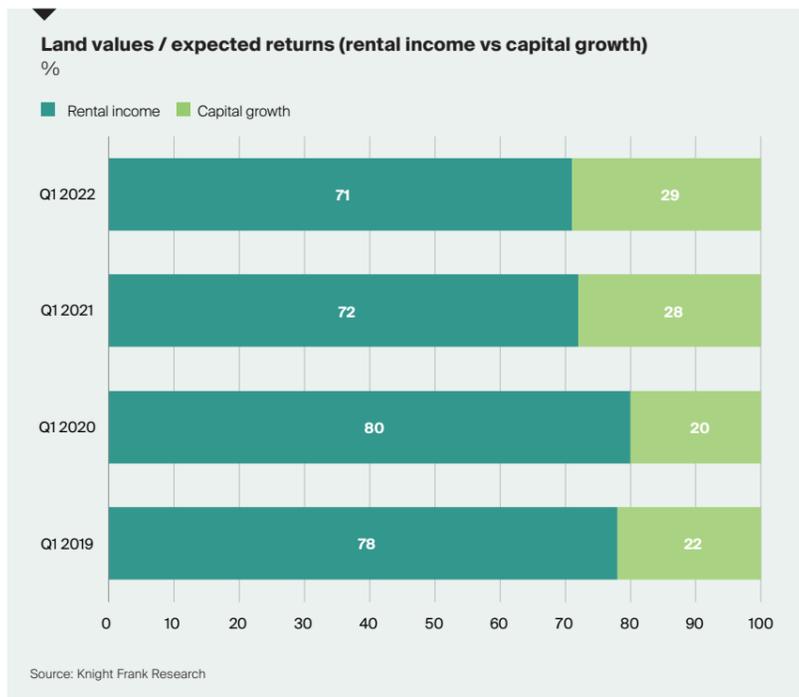
for 78% of expected returns (and thus land value), while anticipated capital growth accounts for 22%.

Though anticipated rental income remains key, the balance has shifted. Upward revisions to the forecast for capital growth has led to higher expected returns and exit values, and thus investors/developers are willing to pay more for land. In Q1 2022, rental income had reduced in importance as a factor driving land values and expected returns, with 71% of returns expected to come from rental income and 29% from capital growth.

According to our model, 58% of the growth in land values (Q1 2019 to Q1 2022) is due to rising rental income and rental growth
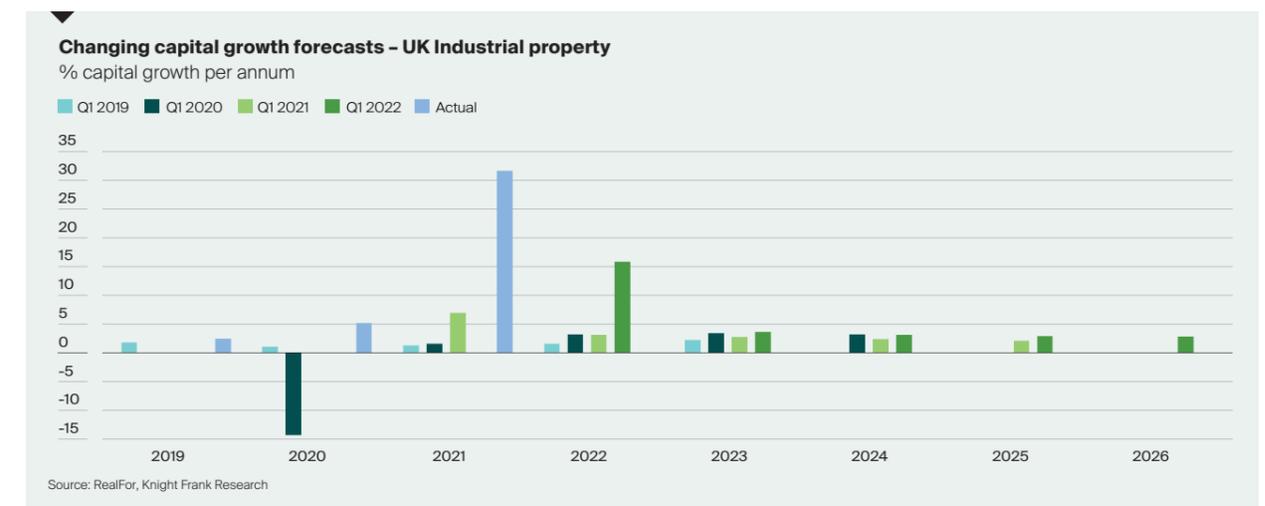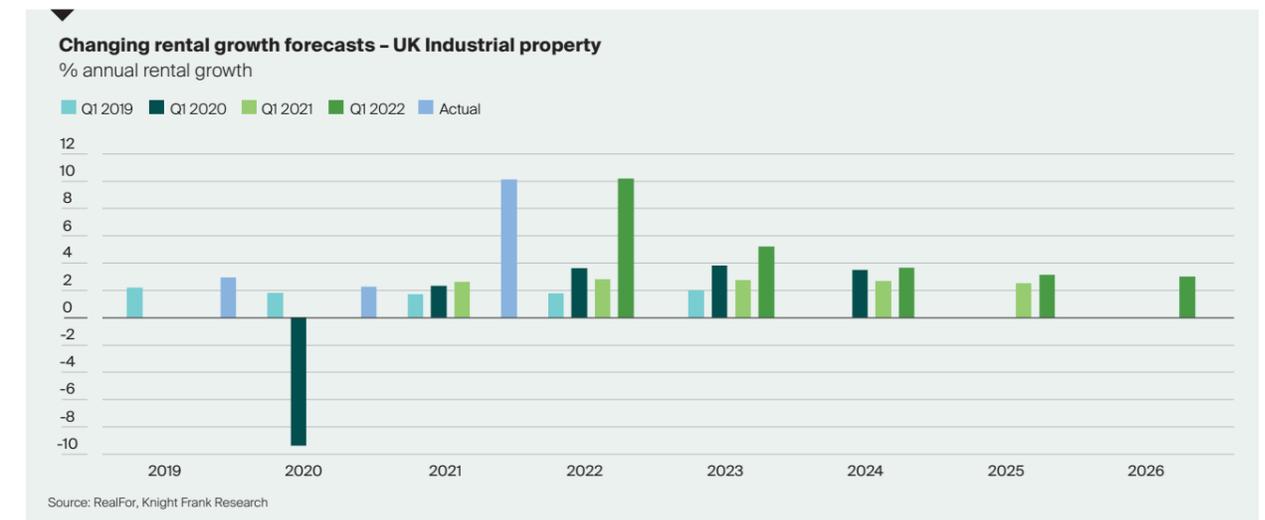
assumptions, with 42% being driven by capital growth and upward revisions to the forecast.

There has been strong rental growth and capital growth in the last three years. MSCI figures show average rental growth of 11.2% over the past year (to Q1 2022) across the UK, and growth of 17.3% over the three years. Robust capital growth has been recorded, with 35.9% over the past year and 50.9% across the three years.

There has also been a strong upward revision for the outlook. In Q1 2019, expectations for rental growth were c.1.9% per annum and expectations for capital growth were c.1.6% (over the five-year horizon). The latest (Q1 2022)

forecasts, show expectations for rental growth at c.5% per annum. Expectations for capital growth have also improved, with 5.6% per annum expected (2022-2026).

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Land values / expected returns (rental income vs capital growth)
%

Legend: Rental income, Capital growth

	Rental income	Capital growth
Q1 2022	71	29
Q1 2021	72	28
Q1 2020	80	20
Q1 2019	78	22

Source: Knight Frank Research

UK industrial property (assets) – average rental growth and capital growth Q1 2019 = 100

Legend: Rental Growth Index, Capital Growth Index

Source: MSCI, Knight Frank Research

Changing rental growth forecasts – UK Industrial property
% annual rental growth

Legend: Q1 2019, Q1 2020, Q1 2021, Q1 2022, Actual

Source: RealFor, Knight Frank Research

Changing capital growth forecasts – UK Industrial property
% capital growth per annum

Legend: Q1 2019, Q1 2020, Q1 2021, Q1 2022, Actual

Source: RealFor, Knight Frank Research

WHICH LOCATIONS HAVE SEEN THE STRONGEST GROWTH IN VALUES?

London Boroughs followed by local authorities in the South East and Eastern regions have seen the biggest uplift in land values.

Increase in land values (Q1 2019 - Q1 2022)
£ millions

Source: Knight Frank Research

In absolute terms, the strongest growth has been recorded in the Boroughs of London, particularly Inner London. Unlike other markets across the UK, increasing expectations for capital growth tended to be a much stronger driver of land value growth in the London market. Strong competition in the investment market has led to higher expected of returns and thus driven up land values in London.

Very strong capital growth (and expectations for future growth) has been a key driver of land values in Brent, Enfield, Havering, and Merton.

The modelled land values for some of the locations at the top of our list, such as Kensington & Chelsea and Westminster, may be somewhat hypothetical given the shortage of land or industrial land use designations in these markets.

Of the top 20 locations (for absolute increase in land values over the three years), Enfield and Havering have the highest percentage growth in land values, with 165% and 163% increases respectively.
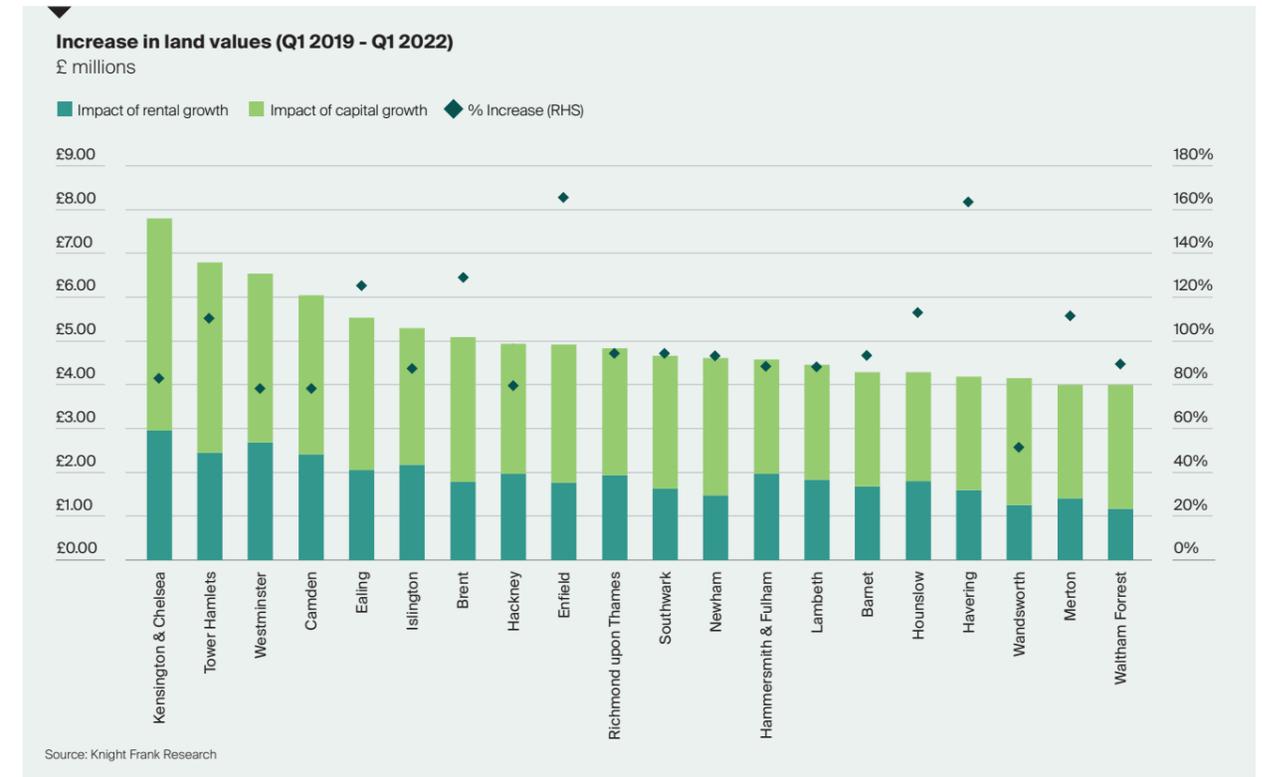
Of course, Inner London Boroughs are highly unlikely to have large, cleared sites, they would be likely to require demolition or perhaps remedial works and this would put upward pressure on build costs and therefore lower land values. However, they may also have higher site coverage ratios, which would impact favourably on values (on a site area basis).

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> **In Woking, South Buckinghamshire, Slough, and Mole Valley, rental growth (and projections) were the most important component driving land value growth.**
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The list here is comprised of locations in the South East and Eastern regions of the UK. In Aylesbury Vale and Welwyn Hatfield land values have tripled over the three years (increasing 235% and 198% respectively). Growth in these markets was driven mainly by capital growth.

In Woking, South Buckinghamshire, Slough, and Mole Valley, rental growth (and projections) were the most important component driving land value growth. This suggests that strong occupier demand coupled with a lack of space available for occupation is driving rental growth and thus land values in these markets.

Lower down the list of land values, we find that some markets have moved from negative land values to positive land values, indicating that, based on rental income and growth expectations, they may have crossed the viability threshold for development. That said, some investors seeking secure, 10-year income (as per the assumptions of our model) may not have a risk profile aligned with the broader characteristics of these markets. Markets that have moved from negative to positive land values (over the past three years) include Mansfield, Newark & Sherwood, Corby, Wellingborough, Salford, Monmouthshire, Swansea, South Teesside, Sunderland, and Glasgow.

There are very few locations where negative land values remain. It is not to say that logistics development is not at all viable in such locations, just that given the assumptions of the model, development does not stack up from an investment point of view. Developments in locations with negative or close to negative land values are likely to be either built by an owner-occupier or built to suit, with leases agreed above average market rents.

Top 20 Greater London locations for land value growth Q1 2019 – Q1 2022 (excludes City of London)
Ranked in terms of absolute growth

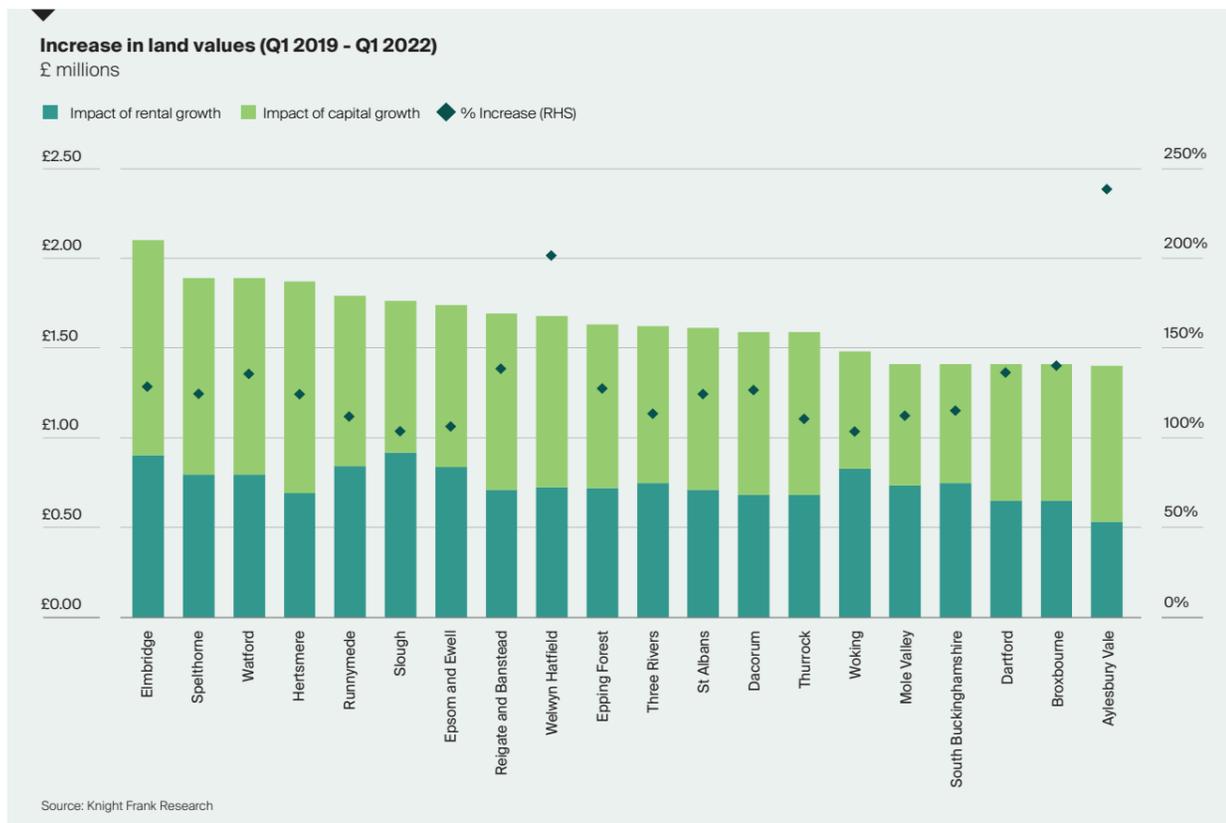| LOCAL AUTHORITY	AVERAGE LAND VALUE Q1 2022 (£M PER ACRE)	INCREASE IN LAND VALUES Q1 2019 - Q1 2022	
		ABSOLUTE GROWTH (£M PER ACRE)	% INCREASE
Kensington & Chelsea	£17.21	£7.79	83%
Tower Hamlets	£12.97	£6.80	110%
Westminster	£14.96	£6.53	78%
Camden	£13.81	£6.05	78%
Ealing	£9.96	£5.53	125%
Islington	£11.39	£5.30	87%
Brent	£9.03	£5.09	129%
Hackney	£11.16	£4.93	79%
Enfield	£7.89	£4.91	165%
Richmond upon Thames	£9.97	£4.83	94%
Southwark	£9.62	£4.66	94%
Newham	£9.58	£4.61	93%
Hammersmith & Fulham	£9.77	£4.58	88%
Lambeth	£9.50	£4.45	88%
Barnet	£8.93	£4.29	93%
Hounslow	£8.06	£4.28	113%
Havering	£6.77	£4.19	163%
Wandsworth	£12.26	£4.15	51%
Merton	£7.61	£4.00	111%
Waltham Forrest	£8.48	£4.00	89%

Source: Knight Frank Research

Top 20 locations for land value growth – outside of London (absolute)
Q1 2019 - Q1 2022
Ranked in terms of absolute growth

LOCAL AUTHORITY	AVERAGE LAND VALUE Q1 2022 (£M PER ACRE)	INCREASE IN LAND VALUES Q1 2019 - Q1 2022	
		ABSOLUTE GROWTH (£M PER ACRE)	% INCREASE
Spelthorne	£3.42	£1.89	124%
Watford	£3.28	£1.89	135%
Hertsmere	£3.37	£1.87	124%
Runnymede	£3.41	£1.79	111%
Slough	£3.46	£1.76	103%
Epsom and Ewell	£3.38	£1.74	106%
Reigate and Banstead	£2.92	£1.69	138%
Welwyn Hatfield	£2.51	£1.68	201%
Epping Forest	£2.91	£1.63	127%
Three Rivers	£3.05	£1.62	113%
St Albans	£2.91	£1.61	124%
Dacorum	£2.85	£1.59	126%
Thurrock	£3.03	£1.59	110%
Woking	£2.92	£1.48	103%
Mole Valley	£2.67	£1.41	112%
South Buckinghamshire	£2.64	£1.41	115%
Dartford	£2.44	£1.41	136%
Broxbourne	£2.41	£1.41	140%
Aylesbury Vale	£1.99	£1.40	238%

Source: Knight Frank Research

> Some markets have moved from negative land values to positive land values, indicating that, based on rental income and growth expectations, they may have crossed the viability threshold for development.

Increase in land values (Q1 2019 - Q1 2022)
£ millions

■ Impact of rental growth ■ Impact of capital growth ◆ % Increase (RHS)

Source: Knight Frank Research

ARE INVESTORS/ DEVELOPERS OVERPAYING FOR LAND AT PRESENT?

Comparing our modelled values with transactional evidence

It is worth noting again that our model is based on *average* rents and capital values and therefore generates *average* land values. Prime sites are likely to command higher land values, due to higher/ prime rents and capital values, growth assumptions may also vary. Values will also depend upon the size and specification of the unit being built and smaller, well-specified units will command higher (than average) rents and capital values.

Unsurprisingly, there are examples of prime sites transacting, where prices paid for land, do indeed exceed the average values produced in our model. The variation between average and prime values will be particularly great in the locations where current stock tends to be older and is of lower specification compared with current development standards.

In March 2022, a site c.5.7 acres in Park Royal was acquired for around £19 million per acre. Though it is important to note that this, like many of the development sites in London is not a vacant site, there are leased units on site generating income and this will impact the way an investor interprets the underlying land value. This compares with an average industrial land value of £9.0 million per acre for Brent as per our model. If we adjust the base assumptions of our model to reflect prime rents and yields,

the value changes significantly. Prime rents in Park Royal, Brent are between £25-35 per sq ft (depending on unit size). Based on a prime rent of £30 per sq ft and a yield of 3.25%, our model generates a land value of £22.7 million per acre. The input average forecast growth assumptions remain unchanged.

> The variation between average and prime values will be particularly great in the locations where current stock tends to be older and is of lower specification compared with current development standards.

A site in Tower Hamlets was acquired in March at £20.5 million per acre, this compares with an average industrial land value of £13.0 million as per our model. In Bow, Tower Hamlets, prime rents are £20-25 per sq ft (depending on unit size). Based on a prime rent of £22.50 and a yield of 3.25%, this generates a land value of £19.8 million. However, the site density may vary from the assumed 53% as per the model, there may also be other factors driving a higher land value for this site.

In Nottingham in the East Midlands, a site was acquired in Q4 2021 for around £860,000 per acre. Our model demonstrates exceptionally strong land value growth in Nottingham over the past three years (to Q1 2022) and average land values of £586,000 per acre in Q1 2022. If we adjust the model to reflect prime rents (£7.25 - £7.50 per sq ft) and a yield of 4.0%, our model generates a land value of £1.1 million per acre.

There are also examples of transactions where the prices paid are below the average land values generated in our model. In Bexley in Greater London, our model demonstrates an average land value of £4.55 million, with strong growth recorded over the past year (up from £2.25 million as per Q1 2021). In January 2022, the Belvedere Industrial Estate (4 acres) sold for £2.5 million per acre. In Chesterfield, an 80-acre development site recently sold for £39.9 million, representing £498,500 per acre. This compares to our modelled average land values of £534,000 per acre.

What if we adjust the model to reflect prime rents and yields in a selection of prime locations?
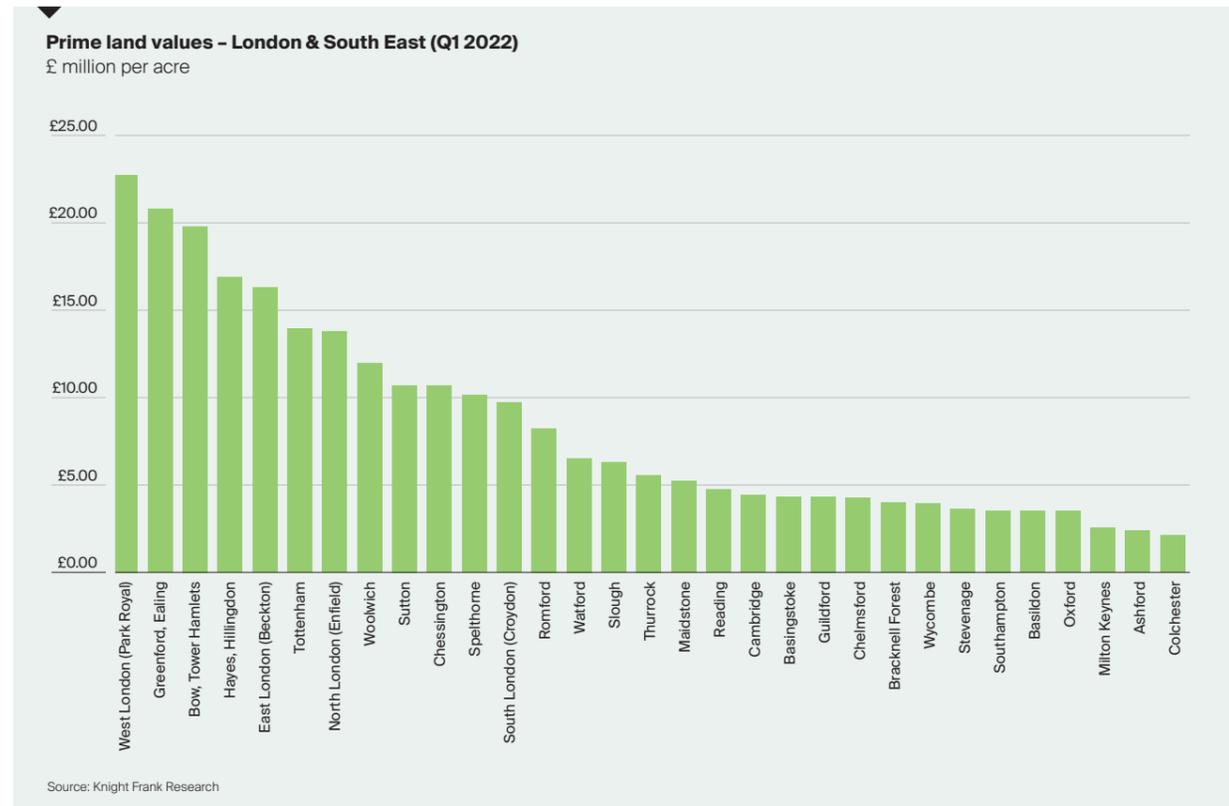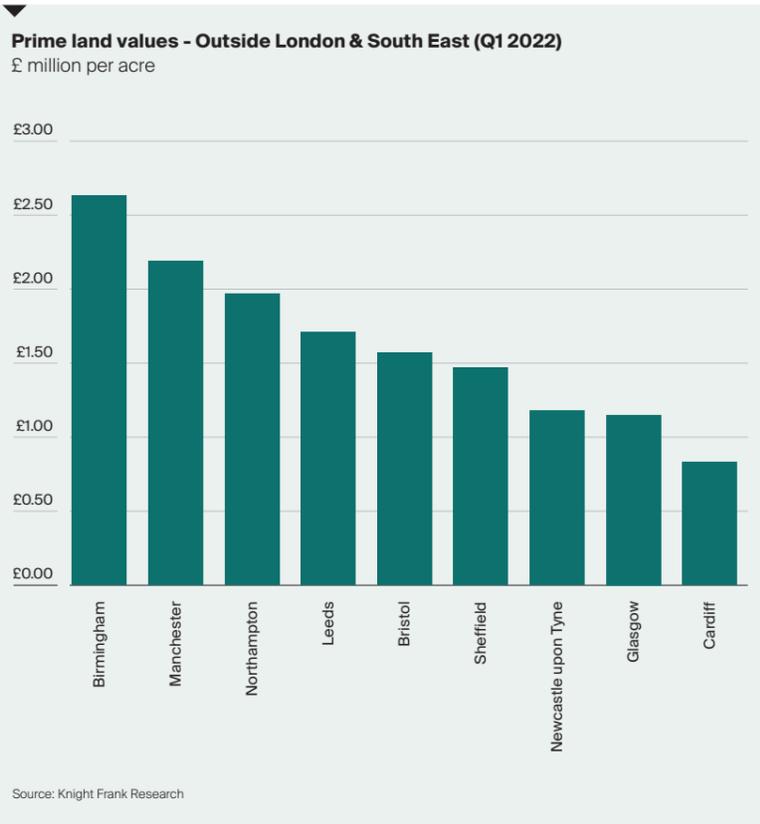
We have adjusted the model to reflect starting rents and capital values based on prime rents (averaged for a range of unit

sizes) and estimated prime yields (by region) in order to estimate prime land values. These prime land values generated from the model do not account for voids, site clearance costs, or remedial works.

Prime yields for Greater London (Q1 2022) have been estimated at 3.25%, for the South East region, 3.5% and 3.75% for Eastern region locations.

The highest land values (of the locations calculated) were in Park Royal, West London, with £22.7 million per acre, followed by Greenford, Ealing with £20.8 million per acre, then Bow, Tower Hamlets with £19.8 million per acre.

Conditions within a local market are likely to influence the type of investors and developers and this in turn, will influence the investment hold period (or whether there is one). Shorter hold periods could mean much lower prime land values, because future growth in rents and capital values are not accounted for in the pricing.

Prime land values - Outside London & South East (Q1 2022)
£ million per acre

Source: Knight Frank Research

Prime land values – London & South East (Q1 2022)
£ million per acre

Source: Knight Frank Research

FUTURE LAND VALUES

Our expectations for future growth and the downside risks

What about the next three years? Where do we anticipate the strongest growth?

As this involves looking even further into the future for rental growth and capital growth, this means greater homogeny as well as uncertainty around these figures. The top picks for land value growth in London are Newham and Tower Hamlets, with 40% growth expected over the next three years.

The list for locations outside of London is dominated by locations in the South East and Eastern Regions of the UK, with the strongest rental growth and capital growth forecasts in these regions. Wakefield in Yorkshire and Salford in the North West also feature in the top 20 locations for expected land value growth.

As expectations for rental growth and capital growth are expected to moderate over the next few years, the rate of growth in land values will also slow. Industrial land values in London are expected to rise an average of 32% over the next three years, ranging from 20% growth in Bromley up to 40% growth in Newham and Tower Hamlets.

Top 15 locations for forecast land value growth (Q1 2022-Q1 2025)
Greater London %

Source: Knight Frank Research

Top 20 locations for forecast land value growth (Q1 2022 – Q1 2025)
Outside of London

LOCAL AUTHORITY / AREA	% INCREASE
Aylesbury Vale, South East	30%
Hertsmere, Eastern	26%
Thurrock, Eastern	25%
Wakefield, Yorkshire & Humber	24%
Huntingdonshire, Eastern	24%
Maidstone, South East	23%
Basingstoke & Deane, South East	22%
Breckland, Eastern	22%
South Dorset (Weymouth & Portland), South East	22%
Watford, Eastern	22%
Reigate and Banstead, South East	22%
Spelthorne, South East	22%
West Bedfordshire, Eastern	21%
Salford, North West	21%
Waveney, Eastern	20%
Cambridge, Eastern	20%
Rochford, Eastern	20%
Forest Heath, Eastern	20%
Stevenage, Eastern	20%
Epping Forest, Eastern	20%

Source: Knight Frank Research
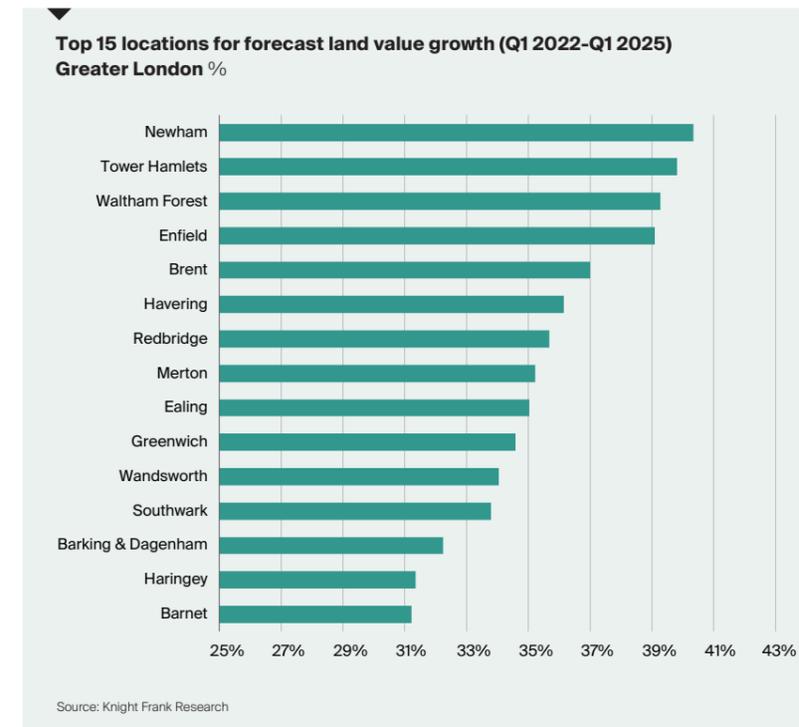
What impact could an upward movement in prime yields have on prime land values?

As of Q1 2022, some markets/assets are reporting prime yields of 3.25%. However, since the end of Q1 investor sentiment has softened and debt costs have risen. We use our model to investigate the impact of softening yields on land values.

Assuming our expectations for rents, rental growth, and capital growth remain the same, a 25bps outward yield movement would mean that prime land values across the London markets would fall by around 5.1%. Prime land values in Park Royal, West London, would fall by £1 million, while prime values in Chessington and Croydon would decrease by around £500,000.

If yields in the South East moved out by the same 25bps, the impact on land values would be less, with land values falling an average of 4.2%. In Slough, prime land values would decline 4%, or around £250,000 per acre.

Should prime yields soften 50bps, this would lower land values further. Prime land values in Tower Hamlets would fall 10%, or almost £2 million. In Birmingham, the same yield shift would lead to an 8% decline in prime land values, or around £200,000 per acre.

Other downside risks to the forecast

A downward revision for rental growth or capital growth forecasts would also weaken expectations for land value growth.

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Assuming our expectations for rents, rental growth, and capital growth remain the same, a 25bps outward yield movement would mean that prime land values across the London markets would fall by around 5.1%.

◆ ◆

If rental growth expectations were revised down 20%, this would impact the expected growth in land values over the next three years. Rather than the 40% growth anticipated in Newham and Tower Hamlets, we would expect 37% growth instead. Outside of London, and in locations where rental income is a more important determinant of land values, the forecast growth would be weakened further. In Aylesbury Vale, forecast land value growth over the next three years would be 25% rather than the 30% as per the current

(Q1 2022) forecasts. In Cambridge and in Epping Forest the forecast would be revised down from 20% to 16% growth over the next three years and in Salford the forecast would be revised down from 21% to 15%.

If capital growth forecasts were also revised down 20% (along with a 20% downward revision on rental growth forecasts), Tower Hamlets would see land value growth of just 11% over the three year period. Aylesbury Vale would see land value growth of just 1% and in Salford negative growth of -9% over the three years from Q1 2022 to Q1 2025.

There are also implications of a softening occupier market. The model currently considers a rent-free period of 12-months, and no void period beyond this. A change in market conditions could drive higher incentives (rent-free periods) or increase the risk of voids. Both of these factors would further weaken the growth forecast. If rent-free periods increased to 18-months, this would lead to a significant shift in land values in some markets, particularly income-driven markets. In Bristol, an additional 6-month rent-free period could lower prime land values by 5%, while in Park Royal, in West London the same increase in rent-free would only lessen prime land values by 2%.

CONCLUSIONS

Through modelling land values we have gained valuable insights into the assumptions investors are using to underwrite purchases. Building our understanding of how these assumptions underpin land values has enabled us to construct a framework through which we can further explore the mechanisms that drive land values, providing us with the ability to quantify the impacts of changes in rental values, yields and forecast expectations of rents and capital values on land values.

This approach has allowed us to interpret and benchmark land values on a broad scale without the need for transactional evidence. The infrequency of transactions, the lack of transparency on pricing and the variations in quality of plot makes this a highly valuable tool, with far reaching applications.

Please do get in touch with the team to find out more.

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