

PRICE DECLINES IN PRIME CENTRAL LONDON ABATE

Average land values in prime central London were unchanged in Q1, ending five consecutive quarters of prices declines. Meanwhile, urban brownfield land prices continued to climb between January and March, although the annual rate of growth is slowing.

Key facts Q1 2017

Urban development land values rose by **2.9% between January and March** taking the annual **change to 3.9%**

Prime central London values were unchanged in Q1, after five consecutive quarters of declines in pricing. **Values are down 10.1% year-on-year**

Greenfield development land prices in **England are down 1.2%** on the year, although there was a **1.4% increase in average values in Q1**

The divergence between the performance of greenfield and urban land markets across England has become less pronounced in recent months. However, the markets remain relatively distinct, with different drivers.

Urban residential land values, based on sites across Birmingham, Manchester, Leeds, Bristol and outer London, continue to rise, boosted by the demand for housing in these cities, which, in many cases, have been historically undersupplied.

While urban land values have risen by a cumulative 21% since the beginning of 2015, the pace of annual growth in the urban land market has eased to 3.9%, down from 13.4% in Q1 last year. The quarterly increase in prices was 2.9%, the strongest quarterly growth in a year, driven by outperformance in the Birmingham and Leeds markets.

Average values in the greenfield land market rose by 1.4% in Q1, the first quarterly growth since December 2014 albeit at levels which do not necessarily indicate a substantial change of direction in the market. As with the urban land market, this growth is driven by particular areas of the country, especially the North and

Midlands, where the appetite for land and limited supply is putting upward pressure on pricing.

More generally across the market, housebuilders remain well-stocked in terms of land for their development pipelines. The uncertainty over the future of Help to Buy after 2020 is also influencing land buyers' risk assessments as it may affect the development economics of any schemes which are developed on land purchased now. Once there is more certainty about whether the scheme will continue or not, there is likely to be a rise in activity as pent-up demand comes back to the market.

Another consideration also weighing on land values is the continued rise in construction costs, which are prompting a revision to development economics and appraisals in some cases.

In prime central London, average values have dipped by 14% since Q3 2015. However, much like the market in 2010, there are signs that some investors are looking to return to the market as they perceive more stable pricing in the sales market. It will be interesting to note the relative performance of zone 1 compared to the rest of the capital over the next 12 months.



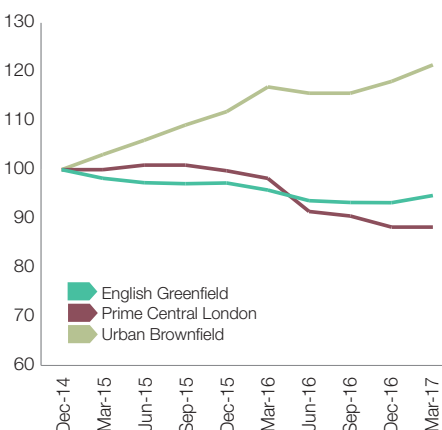
GRÁINNE GILMORE
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“A consideration weighing on land values is the continued rise in construction costs, prompting a revision to development economics.”

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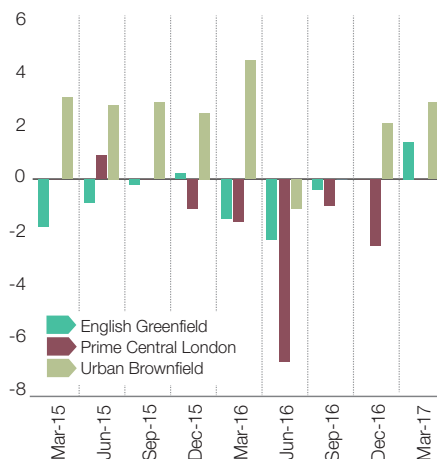
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FIGURE 1
Average change in development land values Indexed (100=Q4 2104)



Source: Knight Frank Research / RICS

FIGURE 2
Quarterly change in average values



Source: Knight Frank Research

RESIDENTIAL DEVELOPMENT LAND INDEX Q1 2017



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England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Dec-16	100.31	-4.1%	-0.4%	0.0%
Mar-17	101.69	-1.4%	1.3%	1.4%

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Mar-15	148.48	18.5%	6.4%	0.0%
Jun-15	149.87	12.1%	0.9%	0.9%
Sep-15	149.87	7.4%	0.9%	0.0%
Dec-15	148.15	-0.2%	-1.1%	-1.1%
Mar-16	145.83	-1.8%	-2.7%	-1.6%
Jun-16	135.79	-9.4%	-8.3%	-6.9%
Sep-16	134.42	-10.3%	-7.8%	-1.0%
Dec-16	131.06	-11.5%	-3.5%	-2.5%
Mar-17	131.06	-10.1%	-2.5%	0.0%

Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Dec-16	118.03	5.5%	2.1%	2.1%
Mar-17	121.41	3.9%	5.0%	2.9%

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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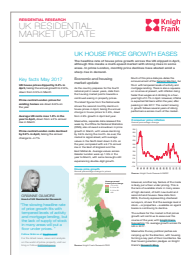
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