

## GROWTH IN RESIDENTIAL DEVELOPMENT LAND VALUES MODERATES IN Q3

Development land values in England and Wales remained broadly stable in the third quarter, rising by just 0.2% as accelerating construction costs put pressure on prices. However values in London continued to perform strongly, with average prices in Greater London up 13.2% on the year. Gráinne Gilmore examines the latest market trends.

### Key facts Q3 2014

Annual growth in residential development land values in England and Wales **slowed to 3.7% in Q3, down from 5.6% in Q2**

**Development land prices rose by 0.2%** between July and September, with large notable regional variations

**Prime central London development land values increased by 18.7% on the year**, slightly down from 18.9% in the year to the end of June

Development land values in Greater London **rose 13.2% over the last 12 months**

Competition for good development sites remains strong throughout the country, but there is no doubt that developers are becoming more selective about the sites they consider. This has been reflected by a slight slowing in sales volumes in recent months.

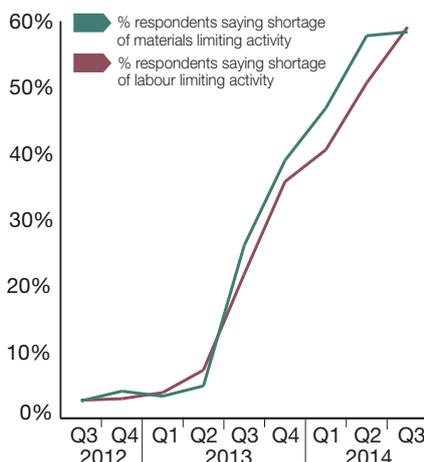
Mirroring the trend in house prices, there has been a “ripple effect” from central London, with sites in key commuter towns close to the capital proving the most alluring for developers.

While planning remains a thorny issue for developers and housebuilders, these concerns have been somewhat overshadowed of late by the rising cost of construction and the difficulties in sourcing workers with suitable skills to build out sites. Shortages of material have contributed to rising prices, and this, as well as the shortage of labour, can be

dated back to the financial crisis, when construction activity all but ground to a halt. The very moderate growth in housebuilding in the years following the zenith of the financial crisis were not enough to power up the industry for the sharp rise in activity seen over the last 18-24 months, and so the delivery of materials and a workforce with the necessary skills is now proving problematic.

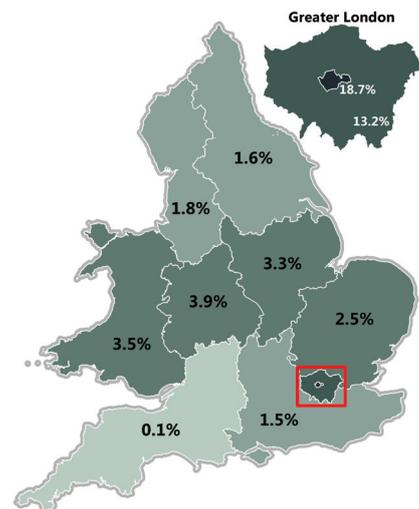
As shown in figure 1 below, there has been a sharp rise in the number of respondents to the RICS survey saying that labour shortages and rising material costs are limiting levels of construction activity. These factors are now starting to weigh on development land prices, with developers being cautious about future material and labour costs in such an environment. While the rising cost of materials will directly impact margins, difficulties in accessing

FIGURE 1  
**Pressures on prices**  
RICS, Construction Market Survey



Source: Knight Frank Residential Research / Macrobond

FIGURE 2  
**Regional growth**  
Annual growth in land values Q3 2013-Q3 2014



Source: Knight Frank Residential Research



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Head of UK Residential Research

“Planning concerns have been overshadowed by rising material and labour costs.”

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suitable labour could add to the length of time that elapses before units can be sold, which will also, in turn, push up costs.

As a result, buyers are applying downward pressure to offers for development land. Some sites across the country have fallen in value marginally over the last three months.

In London, development land prices are continuing to rise strongly on an annual basis, but there has been a slowing in the pace of growth, from 14.2% in the 12 months to June to 13.2% in the year to September in Greater London. Prime central London values have also slowed slightly.

### England and Wales Residential Development Land Index

Date	Res dev land index	12-month % change	6-month % change	3-month % change
Mar-12	100.22		0.2%	0.0%
Jun-12	99.85		-0.3%	-0.4%
Sep-12	100.11	0.1%	-0.1%	0.3%
Dec-12	99.87	-0.3%	0.0%	-0.2%
Mar-13	100.42	0.2%	0.3%	0.5%
Jun-13	101.60	1.8%	1.7%	1.2%
Sep-13*	103.70	3.6%	3.3%	2.1%
Dec-13*	105.18	5.3%	3.5%	1.4%
Mar-14*	106.22	5.8%	2.4%	1.0%
Jun-14	107.29	5.6%	2.0%	1.0%
Sep-14	107.51	3.7%	1.2%	0.2%

\*Revised August 2014

### Prime Central London Residential Development Land Index

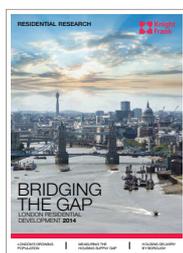
Date	Res dev land index	12-month % change	6-month % change	3-month % change
Mar-12	103.20		3.2%	1.1%
Jun-12	103.20		1.1%	0.0%
Sep-12	103.20	3.2%	0.0%	0.0%
Dec-12	104.63	2.5%	1.4%	1.4%
Mar-13	108.14	4.8%	4.8%	3.4%
Jun-13	112.45	9.0%	7.5%	4.0%
Sep-13	117.54	13.9%	8.7%	4.5%
Dec-13	119.72	14.4%	6.5%	1.9%
Mar-14	125.33	15.9%	6.6%	4.7%
Jun-14	133.70	18.9%	11.7%	6.7%
Sep-14	139.54	18.7%	11.3%	4.4%

Source: Knight Frank Residential Research

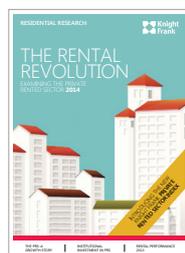
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