

URBAN LAND VALUES BUCK DOWNWARD TREND

Development land prices for greenfield land in England dipped in 2015, while prices in prime central London remained broadly flat, but urban brownfield site values, particularly in key regional cities, rose strongly during the year. Gráinne Gilmore examines the latest market trends.

Key facts Q4 2015

Greenfield development land values dip again, **by 2.1% in Q4**

Prime central London land prices **remained broadly flat in 2015**

Urban development land prices buck the trend, **climbing 2.5% in Q4**

Skills shortages remain a key factor in development market

The development land index, based on the valuations of actual development sites around the country, shows a multi-speed land market. Greenfield development land prices dipped for the fourth consecutive quarter in Q4, taking the annual change in prices to -4.9%.

However, this trend is reversed when we look at prices of mainly brownfield land in key cities, including outer London, Manchester, Leeds, Birmingham and Bristol. A 2.5% increase in the final three months of the year took annual growth for urban development land sites to 11.9%.

This reflects the highly regionalised nature of the housing market at present, with price performance in many key cities and commuter towns outperforming the wider average. The price growth differential also reflects the strengthening appetite for land among developers and housebuilders in regional hubs. This demand has picked up significant momentum in the last 12 months – lagging the pick-up in demand seen in the wider greenfield market two years ago.

Housebuilders active in the greenfield market have largely replenished their

pipeline land supplies, although they are still active in the market for smaller, oven-ready sites. The length of the planning process means that taking on large speculative schemes is hard to balance against the cost of capital involved in doing so.

At the same time, developers are operating in a period of higher build costs, and a key part of this is the difficulty in accessing skilled labour which still remains in short supply.

On the other hand, better local economic growth in key regional cities, coupled with more buyer confidence has resulted in a resurgence of development, and this is reflected in competition for good brownfield sites.

Focusing on prime central London, the data shows that land prices dipped by 1.1% in the final quarter of the year, resulting in a marginal decline in prices of 0.2% over the course of the year. This echoes the slowing of price growth in this central area of London, with prime property prices rising by 1% over the year to the end of February, down from 1.2% in January.



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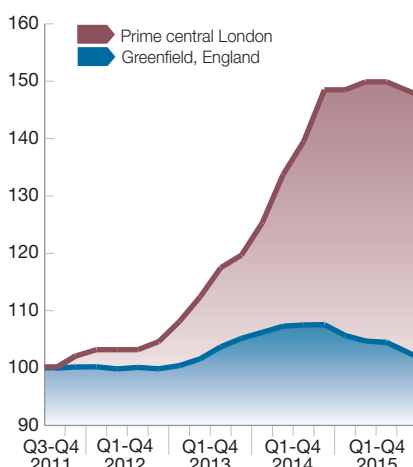
“Land prices reflect the highly regionalised nature of the housing market at present, with key cities and commuter towns outperforming in terms of residential price growth.”

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FIGURE 1

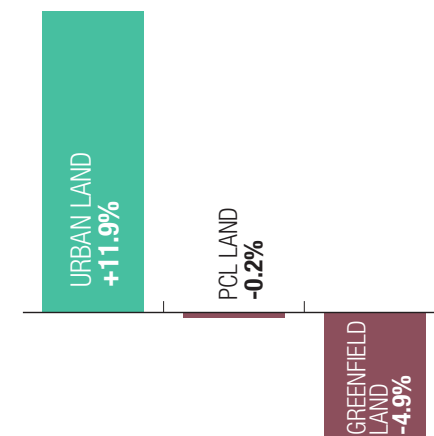
How land prices have grown
Indexed, 100=September 2011



Source: Knight Frank Research

FIGURE 2

Annual change in land values, 2015



Source: Knight Frank Research

RESIDENTIAL DEVELOPMENT LAND INDEX Q4 2015



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England Greenfield Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Dec-14	107.57	2.3%	0.3%	0.1%
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	102.29	-4.9%	-2.3%	-2.1%

Prime Central London Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
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%
Dec-14	148.48	24.0%	11.1%	6.4%
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%

Urban Development Land Index

Date	Index	12-month % change	6-month % change	3-month % change
Dec-14	100.00			
Mar-15	103.09			3.1%
Jun-15	106.00		6.0%	2.8%
Sep-15	109.12		5.9%	2.9%
Dec-15	111.85	11.9%	5.5%	2.5%

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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