

**-8.6%**

AVERAGE GREENFIELD DEVELOPMENT  
LAND PRICES FELL 6% IN Q2, TAKING  
THE ANNUAL DECLINE TO -8.6%

**-6.2%**

URBAN BROWNFIELD LAND VALUES  
FELL 6% IN Q2, RESULTING IN AN  
ANNUAL FALL OF 6.2%

**-6.0%**

PCL DEVELOPMENT LAND VALUES FELL  
6% IN Q2, WHILE PRICES ALSO FELL 6%  
ON AN ANNUAL BASIS



# Residential Development Land Index

Research, Q2 2020

*Despite a fall in development land values in the second quarter, there are signs that housebuilding is picking up*

The interruption caused by Covid-19 ended what was a strong start to the year in terms of both land deals and sentiment. As such, we see the potential for a sharp rebound in land values should the wider property and economic market recovery be sustained, particularly if supply levels remain at or near current low levels.

However, the immediate impact of the pandemic has been a drop in land values, according to our index.

In prime central London, average residential development land prices fell 6%, the first quarterly decline since Q1 2019. Average values were also down 6% on an annual basis, following a static period that came after years of very strong growth, meaning the index has returned to 2013 levels.

Greenfield development land prices fell by 6% between April and the end of June, taking the annual fall to 8.6%.

Urban brownfield land prices also fell 6% during the quarter, and by 6.2% year-on-year.

A quarterly fall in land values reflects the fact that vendors wanting to sell in the current market are likely to need to accept a discount – Taylor Wimpey has reported seeing opportunities from previously ongoing deals which have failed to complete and new opportunities, including land portfolios, at lower prices.

Transactional activity over the course of the quarter has been limited, with deals

which are going ahead generally doing so with payments being deferred or with Covid-19 clauses inserted into contracts.

Many new sites which had been planned to launch for sale have also been held back keeping already low supply levels minimal. Consequently, there is a bit of an impasse in the market.

Interest has been strongest for strategic or conditional land sites which include an income-producing element. There is also evidence of developers of alternative-use classes, such as build-to-rent and senior living, looking to capitalise on reduced competition.

At the same time, some housebuilders and developers are increasing their profit margins to reflect increased uncertainty as the UK works on rebuilding its economy in the aftermath of Covid-19. This is also feeding into land prices. Despite a period

of pent-up demand coming forward since the UK re-opened the housing market in May, many buyers are waiting for a solid quarter of residential sales data before acquiring land.

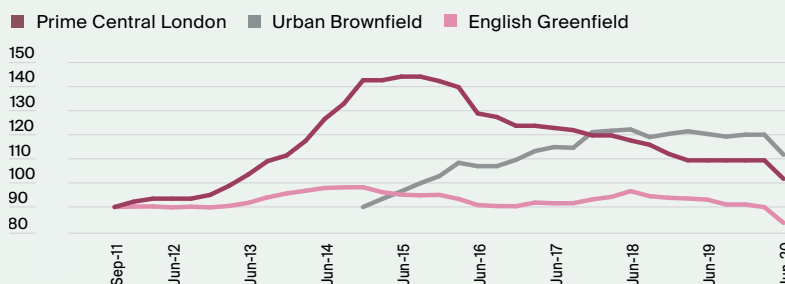
A similar situation occurred in the aftermath of the EU Referendum, with average PCL development land prices falling by 6.9% in Q2 2016, and -9.4% on an annual basis, before rising to -1% in Q3 of that year.

The economic uncertainty has already inevitably had a knock-on effect on house prices, which fell 1.4% on a monthly basis in June and 0.1% annually, according to Nationwide.

But there are also positive signals in the market. Agents are not reporting much distress among landowners, for example, which would lead to more substantial price discounts.

**Fig 1. Residential development land prices**

Index rebased 100 = Sep 2011 (Urban Brownfield = Dec 2014)



Source: Knight Frank Research

#### PRIME CENTRAL LONDON DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
MAR-19	117.85	-7.5%	-4.8%	-2.0%
JUN-19	117.85	-6.1%	-2.0%	0.0%
SEP-19	117.85	-4.8%	0.0%	0.0%
DEC-19	117.85	-2.0%	0.0%	0.0%
MAR-20	117.85	0.0%	0.0%	0.0%
JUN-20	110.78	-6.0%	-6.0%	-6.0%

#### ENGLAND GREENFIELD DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
MAR-19	103.25	-0.6%	-0.9%	-0.3%
JUN-19	102.83	-3.1%	-0.7%	-0.4%
SEP-19	100.97	-3.0%	-2.2%	-1.8%
DEC-19	100.97	-2.5%	-1.8%	0.0%
MAR-20	99.94	-3.2%	-1.0%	-1%
JUN-20	93.95	-8.6%	-7.0%	-6.0%

#### URBAN BROWNFIELD DEVELOPMENT LAND INDEX

DATE	INDEX	12-MONTH % CHANGE	6-MONTH % CHANGE	3-MONTH % CHANGE
MAR-19	128.96	-0.2%	1.8%	0.8%
JUN-19	127.94	-1.3%	0.0%	-0.8%
SEP-19	126.93	0.2%	-1.6%	-0.8%
DEC-19	127.66	-0.2%	-0.2%	0.6%
MAR-20	127.66	-1.0%	0.6%	0.0%
JUN-20	120.00	-6.2%	-6.0%	-6.0%

#### DISCLAIMER

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.

In addition, previously the IHS Markit/CIPS UK Construction Purchasing Managers' Index had reported an all-time low of 8.2 in April. Any score below 50 indicates an overall decline in output. IHS Markit said growth in June from 28.9 in May to 55.3 was driven primarily by housebuilders.

UK brick delivery data during the quarter provides a similar picture. There was a 57.2% decrease in brick deliveries in May compared to May 2019, according to government statistics. The month-on-month change shows a 213.7% increase in May, as both manufacturing and construction firms started to reopen.

The number of Energy Performance Certificate (EPC) lodgements for new-build properties, which has proven to be a lead indicator of supply, also bounced back in May and June, following a sharp drop in April 2020, which suggests that April will mark the low point for new housing delivery.

As housebuilding activity picks up, it is clear the government is intent on supporting the industry.

The government has extended planning permissions for consented sites with an expiry date between the start of lockdown and the end of 2020, and given construction sites longer operating hours.

The government has also lifted the threshold at which people start paying stamp duty from £125,000 to £500,000. The change, effective immediately, will remain in place until 31 March 2021 next year.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

#### Residential Development

Justin Gaze

Head of Residential Development Land

+44 20 7861 5407

justin.gaze@knightfrank.com



#### Residential Research

Anna Ward

Senior Research Analyst

+44 20 3861 6991

anna.ward@knightfrank.com



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