QUARTERLY ANALYSIS

2023

APRIL

Aspen, Tower Hamlets

Molior London

RESEARCH TEAM

Tim Craine, Sam Long & Toby Loftin

DISCLAIMER

Executive Summary

Let's face it, nobody in London's housebuilding industry was expecting 2023 to start on a high note and nobody will spend too much time looking for green shoots in the numbers for Q1 2023:

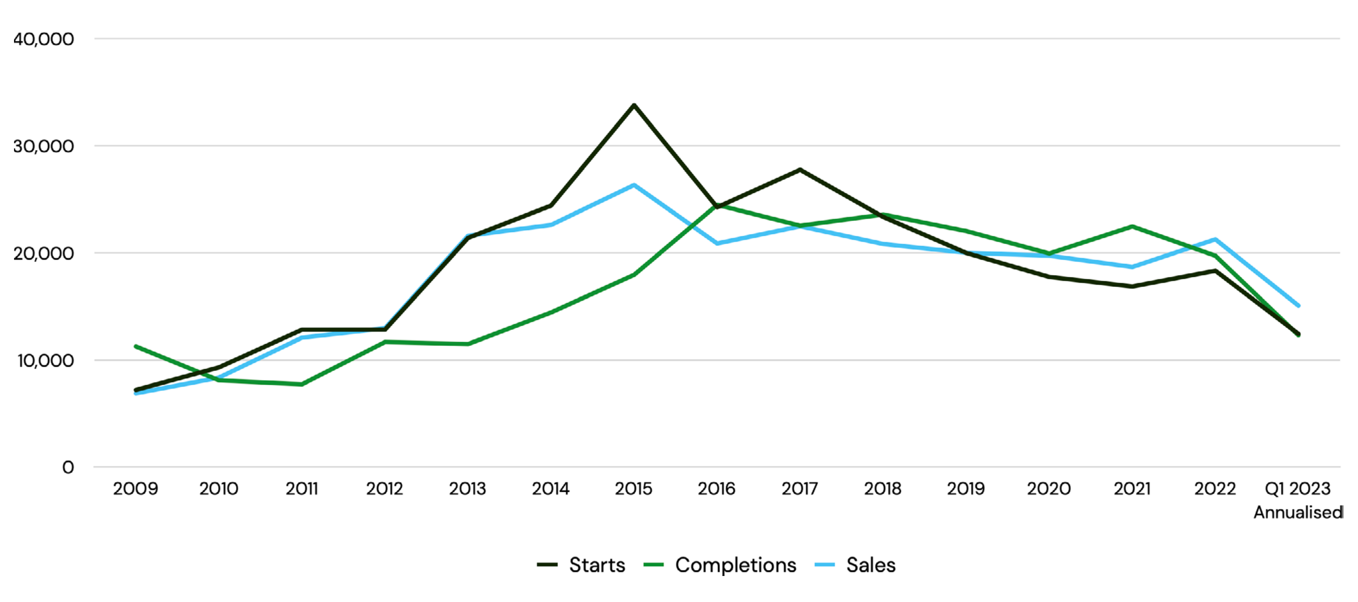
- Construction starts were 43% down on Q1 2022,
- Completions were 25% down,
- And sales were 39% down.

	Sales in Q1 2023	Sales in Q1 2022
Schemes Selling 12+ Homes		
Build to Rent	1,539	2,233
Bulk Deal	196	270
Switched to Affordable	615	304
Help to Buy	0	1,521
Overseas	519	700
UK / Normal Sales	273	244
Subtotal	3,142	5,272
Schemes selling 1-11 Homes	725	925
Schemes with Negative Sales	-99	-34
Total	3,768	6,163

Getting into the detail, the table above compares sales made during Q1 2023 with Q1 2022. For developments that sold 12+ units in each quarter, the numbers are split across the six absorption segments that existed in Q1 2022. The key observations to be made are:

- Of course, Help to Buy no longer exists.
- But many of the other numbers are also down, including absorption by the Build to Rent (BTR) sector and sales to individuals overseas.
- 'Normal' sales to individuals in the UK (without Help to Buy) have held up but are a minority segment.
- The number of private units being switched into affordable tenures has doubled.

A final feature of the table that springs out is that a significant number of schemes suffered net negative sales positions during Q1 2023 – where more deals fell out of bed than were done. Overall, the number of net-negative sales results tripled compared to last year.



BTR

The BTR sector is taking fewer units than a year ago, but that is not a surprise given the underlying context of falling construction starts - most BTR investors are reliant on developers in the wider industry to build their stock.

The sector is, however, punching above its weight. It took over 40% of all sales in Q1 2023, compared to 36% a year ago, which itself seemed a high proportion at the time. Higher rents and faster lease-up rates have helped to offset rising development and operating costs. Also, memories of BTR's impressive performance during the pandemic period and other positive considerations mean that it remains in favour despite rising yields on offer from other asset classes.

The top two BTR starts during Q1 2023 were:

- Network Homes' largest ever construction start: Merrick Place, next to Southall Station, which has 575 units in total, 401 of which are being delivered as BTR units for Grainger.
- Long Harbour's 495 units at The Mall, Walthamstow, which are being delivered as 396 BTR units plus 99 for Discount Market Rent.

Bulk Deals

A number of relatively small bulk deals, with fewer than 20 units, have been done across a handful of schemes, mostly involving overseas investors. Added to these is a deal confirmed between Berkeley Group and Wallacea Living at West End Gate, Paddington, where 104 homes are being delivered for the senior living sector.

Switched to Affordable

Some housing associations and local authorities are switching private units to affordable tenures in their own projects. There are also one or two examples of housing associations doing this with units forward purchased from private developers.

Often the private units are switched to shared ownership, but a proportion are now being delivered for London Affordable Rent. Three leading examples from Q1 2023 were:

- Hyde Group's project at Heath Clark Playing Fields South in Croydon, where all 88 private units have switched to affordable.
- Joseph Homes' project at 25-33 Parkhouse Street in Southwark, which is being delivered entirely for Southern Housing, and all 76 private units have switched.
- Metropolitan Thames Valley's project on the Former Southall College site, where all 76 private units have switched.

Overseas

Prime Central London has continued chugging along with business as usual and with a high proportion of the sales being made to a broad range of overseas buyers. The numbers of units involved are usually small, but of course the value of individual transactions can be extremely high.

Meanwhile overseas buyer activity in London Underground Zones 2 and 3 tends to be mainly driven by far eastern buyers and has been relatively hit and miss.

Some projects have done very well, including two very different examples:

- At Barratt's Upton Gardens the final blocks are close to both selling out and completing, and it sold 30+ units in Q1.
- Meanwhile Knight Dragon's Peninsula Gardens is only in its second quarter of construction and sold 90+ units in Q1.

However, there are many schemes that have sold less well and, as importantly, a growing number of prominent projects are being held in an un-launched state. Senior industry figures commonly make four points:

- Far-eastern buyer activity has been inconsistent during Q1 - projects well established in the marketplace might have a fortnight of steady sales followed by a fortnight of silence. This does not inspire the confidence to release new blocks.
- Buyers sense blood and are themselves holding back, waiting for prices to drop and incentives to grow.
- But there is demand - if a development is well designed, well located, has a good story and is correctly priced it will sell well. It is where corners have been cut and pricing does not offer reward that schemes struggle hardest.
- Finally, the bigger players are currently well funded - nobody has to offload large numbers of units if they do not want to. It often makes more sense to keep powder dry and wait, either for the market to strengthen or, maybe, for a bulk BTR sale.

Upton Gardens, Newham

UK / Normal Sales

There were slightly more sales in Q1 2023 than Q1 2022 to UK buyers not using Help to Buy. But the numbers in no way make up for the demise of the government backed incentive.

Unsurprisingly, it is in outer London boroughs where the loss of Help to Buy is felt hardest, and where sales volumes excluding BTR are now in the same ballpark as 2009.

Some smaller schemes simply saw no sales at all during Q1 2023. Some had negative sales movements due to cancellations, either as construction efforts failed hit the Help to Buy closure deadline, or buyers became unable to secure the mortgages needed to complete purchases.

At the beginning of 2023 there was perhaps a sense that developers could sit things out and get by with lower sales volumes but, crucially, maintaining headline prices. However, bad news from the banking sector is said to have brought an end to that. Most major housebuilders are now openly advertising incentives to regain sales momentum.

The incentives come in many forms - mortgage contributions, utility bill contributions, white goods and even straight cash-back offers. 5% of asking price seems to be the rule of thumb for what developers can get away with without triggering down-valuations.

Less obvious are underlying price drops. Again, reductions in the 5% ballpark are not uncommon, but we have seen examples as high as

14% in one instance. And, as one prominent analyst has pointed out to us, inflation means that in real terms the prices have dropped further across the board.

This could have been written up as a disaster a year ago, but it makes sense if it gets the cash in and keeps teams together ready for when better conditions return, which they will.

Further Considerations

Of course, the biggest players in the industry had largely anticipated all the above and have been throttling back construction starts for a while. The sales numbers might look a bit low, but they aren't as low as the number of units starting on site.

Consequently, the good news is that traditional alarm indicators such as the percentage of unsold units under construction and the number of unsold completed stock units are not flashing red - both are dropping rather than rising.

So, some people might suggest that the industry has pressed the brake pedal too hard. However, developers would probably respond that this is not just about sales volumes. Other factors are also involved:

- Incentives and price reductions are all very well to clear stock and get cash in. However, pricing is largely set during s106 negotiations and many permissions simply no longer stack up.
- Permissions are also being made obsolete by upgraded building regulations. The industry wholeheartedly supports the inclusion of measures such additional fire escape cores, but a careful mass audit is now underway. A significant number of projects will rightly not go to site until they have been given a clean bill of health. Others will return to the drawing board.
- The construction industry remains under severe stress. Growing numbers of schemes are stalled due to contractor failure, and labour shortages particularly in finishing trades make it acutely difficult to get units completed. It makes no sense to start new projects when so many old ones are struggling to reach the finishing line.

As far as planning is concerned, it looks as if the industry is primarily focused on resolving issues relating to existing permissions, as described above. As a result, policy makers may want to consider a new alarm indicator that is most definitely flashing red: new planning applications have not just fallen to the post-recession levels seen in 2009 but are under sailing them by almost 40%.

In summary, the market is certainly proving to be tricky, but in many respects is simply living up to expectations.

Period	Starts	Completions	Sales
2009: Q1	1,254	2,414	1,464
2009: Q2	3,118	4,782	1,840
2009: Q3	1,546	1,288	1,549
2009: Q4	1,282	2,778	2,031
2010: Q1	1,928	2,106	1,866
2010: Q2	2,268	1,795	2,123
2010: Q3	2,391	2,037	2,177
2010: Q4	2,718	2,161	2,184
2011: Q1	5,107	1,225	2,872
2011: Q2	2,257	2,138	2,110
2011: Q3	3,397	2,264	3,907
2011: Q4	2,062	2,100	3,193
2012: Q1	2,880	2,597	3,662
2012: Q2	3,028	3,333	2,666
2012: Q3	3,063	2,141	2,813
2012: Q4	3,858	3,603	3,822
2013: Q1	4,740	2,321	5,743
2013: Q2	4,332	2,937	4,510
2013: Q3	6,077	3,036	5,452
2013: Q4	6,245	3,188	5,884
2014: Q1	5,189	2,799	4,964
2014: Q2	6,099	4,373	5,434
2014: Q3	5,590	3,573	5,607
2014: Q4	7,533	3,688	6,600
2015: Q1	9,744	3,832	8,587
2015: Q2	7,573	3,850	6,574
2015: Q3	8,156	5,531	5,589
2015: Q4	8,311	4,735	5,584
2016: Q1	6,238	4,698	5,859
2016: Q2	5,121	5,886	4,649
2016: Q3	7,000	6,740	4,994
2016: Q4	5,892	7,154	5,368
2017: Q1	6,495	6,493	5,547
2017: Q2	7,070	4,818	5,950
2017: Q3	7,663	5,406	5,849
2017: Q4	6,528	5,820	5,130
2018: Q1	6,554	4,460	6,442
2018: Q2	7,173	5,665	5,095
2018: Q3	3,591	6,356	4,210
2018: Q4	6,032	7,098	5,076
2019: Q1	5,869	4,820	5,041
2019: Q2	3,599	5,268	4,620
2019: Q3	5,163	5,885	4,591
2019: Q4	5,356	6,057	5,750
2020: Q1	4,768	6,112	5,919
2020: Q2	3,312	3,103	3,865
2020: Q3	4,935	5,151	5,840
2020: Q4	4,734	5,573	4,110
2021: Q1	2,628	5,639	3,787
2021: Q2	3,793	6,423	4,511
2021: Q3	4,650	4,360	5,168
2021: Q4	5,783	6,041	5,217
2022: Q1	5,457	4,107	6,163
2022: Q2	3,587	6,298	4,943
2022: Q3	3,959	3,467	5,572
2022: Q4	5,329	5,855	4,580
2023: Q1	3,107	3,076	3,768

The Numbers

The table on page 2 shows the main driver of sales for schemes that sold 12 or more units during Q1 of both 2023 and 2022. The graph on page 3 and table opposite show starts, completions and sales across all London local authorities since 2009. Please note this report excludes schemes with fewer than 20 private homes and all numbers refer to units consented for private sale or rent only.

Any Questions...

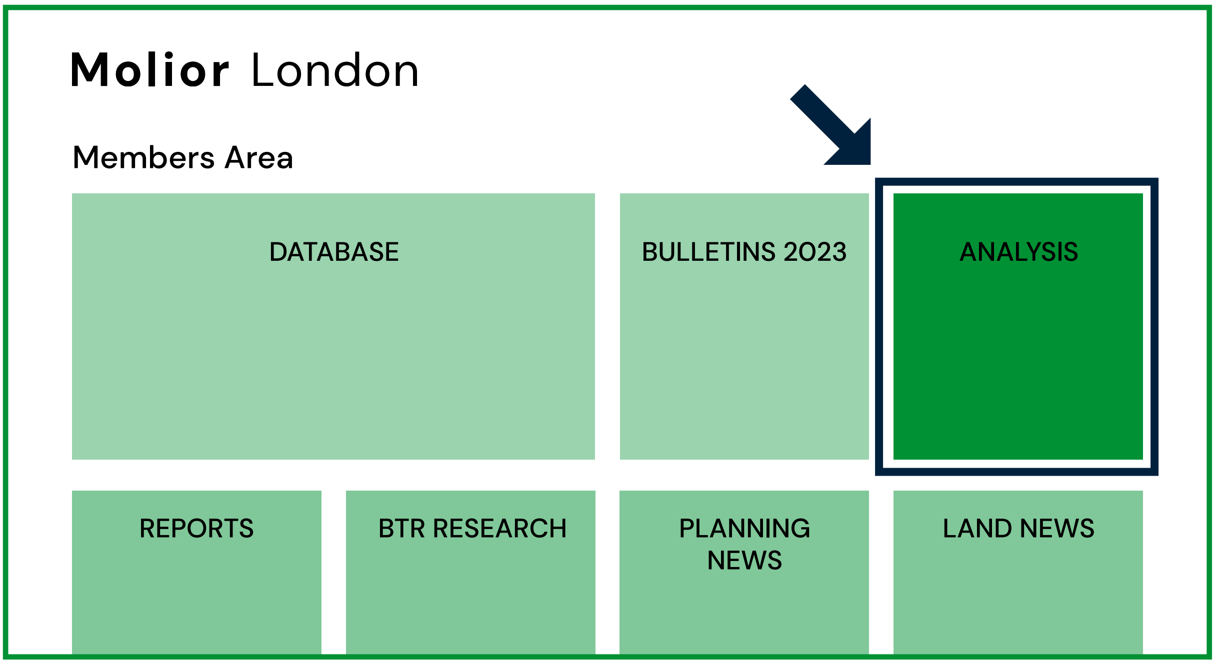
Incredibly detailed scheme-by-scheme information can be found on the Molior database, together with regional graphs and borough-by-borough tables showing a range of residential development datasets going back to 2009. Instructions for how to access these graphs and tables are shown on the final page. If you need log-in details please get in touch. Our mobile numbers are below – if you have any questions whatsoever, please do not hesitate to call us.

18 April 2023

Sam Long:
07900 682423 sam@moliorlondon.com
Tim Craine:
07951 742576 tim@moliorlondon.com
Toby Loftin:
07587 152698 toby@moliorlondon.com

How to find Molior’s detailed graphs...

1. Log in to Molior - if you need log-in details please get in touch.
2. Click through to the **Members Area**.
3. Click on **Analysis**.



4. Select dataset that you want to view.