

A tall building under construction, featuring a grid-like facade. Several construction cranes are visible around the building. The sky is blue with scattered white clouds. The building has text on its facade: 'the FOUNDING' and 'CANADAWATER'.

QUARTERLY  
ANALYSIS

2023

JULY

British Land Canada Water – The Founding, Southwark

**Molior London**

# RESEARCH TEAM

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# Executive Summary

London's residential development industry was not firing on all cylinders at the end of Q2 2023. Construction difficulties are growing, and we are told repeatedly how hard it is to sell new homes, both in the UK and overseas.

So, although London's developers still managed to sell just over 3,000 units during the last three months, that is lower than any quarter from the last three years, including the 3,855 units sold during Q2 2020 – the worst bit of the pandemic. Actually, you would have to rewind to the start of 2011 to find a lower figure.

Having said that, headline construction starts and completions could have been worse – both were just over 4,000 units during Q2 2023, compared to 3,550 starts and 3,090 completions in Q1.

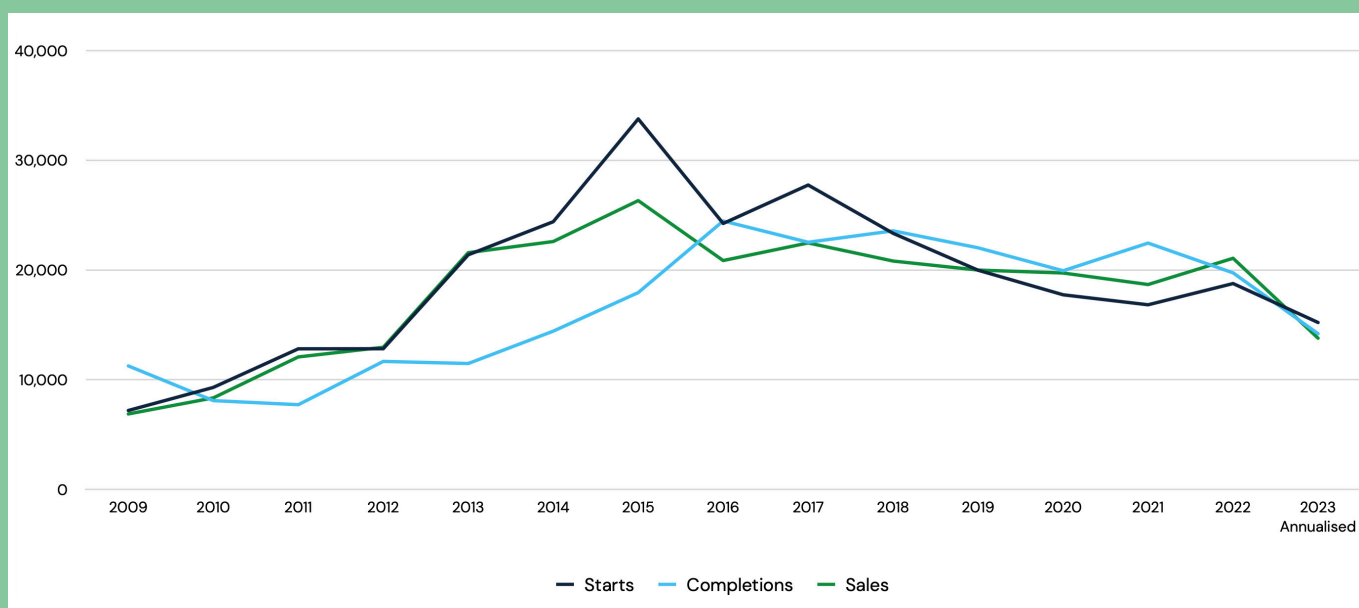
	Sales in Q2 2022	Sales in Q2 2023
<b>Schemes Selling 12+ Homes</b>		
Build to Rent	1,698	686
Bulk Deal	20	190
Switched to Affordable	203	532
Help to Buy	1,391	0
Overseas	712	731
UK / Normal Sales	137	195
<b>Sub Total</b>	<b>4,161</b>	<b>2,334</b>
Schemes selling 1–11 Homes	883	726
Schemes with negative sales	-79	-44
<b>Total</b>	<b>4,965</b>	<b>3,016</b>

As always, there are plenty of devils and detail behind the headlines.

Dealing with construction starts first: 4,000 units may be up on Q1 but is well below the average for the last three years. The number is also flattered by a small number of big schemes – more than half the starts are in just nine projects, the biggest of which is Peabody and Hill's Phase 1 of Dagenham Green, which has 935 units over 11 blocks.

607 of these units are private, over half of which may end up as Build to Rent (BTR) stock.

The other important point is that the presence of piling rigs on a site is not quite the same ring of commitment that it once was. A record number of schemes, around 70, are currently stalled and around 20 of those halted before the projects emerged significantly out of the ground.



The two main reasons given for these early stalls are:

- Contractor failure – the number of prominent contractors falling into administration is small but growing.
- Design review – permissions are implemented but further construction is pending a check of fire safety compliance.

No doubt some permissions are also being implemented with zero intention of progressing beyond piling, simply because of market conditions.

Very similar things can be said about construction completions: 4,000 units is even further below the average for the last three years and is also swayed by a few big schemes. The largest completion during Q2 2023 was a block of 349 BTR units within Unibail Rodamco Westfield's Coppermaker Square in Stratford called Xavier. It is rumoured to be leasing up well.

Coppermaker Square is typical of projects that are still managing to hit programme deadlines – big, well-funded and built by the biggest, most sophisticated players in the construction industry. Elsewhere middle-tier players are struggling to get over the finishing line:

- Materials costs are said to be stabilising, but labour problems are still rife.
- Even the biggest players are reliant on smaller specialists when it comes to fitout and cladding.
- Any delay adds directly to costs, from crane hire to LADs.
- So, even a well organised project can end up in the doom-loop of a death by a thousand cuts.

The trouble with projects that stall late in the construction programme is that it is very difficult and expensive for a developer to

re-mobilise all the sub-contractors involved. For the projects halted by the collapse of Henry Construction in early June 2023, only one developer managed to get work going again by the end of the month.

Moving on to sales, the key points are that:

- UK sales are weak for obvious reasons.
- But we are told that overseas sales, particularly from Hong Kong buyers, have also 'recently slid'.
- The BTR sector did not provide much support during Q2 2023.

The situation for customers in the UK needs little explanation and means that increasingly marketing suites are reliant on incentives and a refocusing towards a small pool of discretionary purchasers.

However, the softening of sales prospects in Hong Kong was not expected to the same degree. We are told a number of things:

- The 'BNO' visa wave passed last year.
- There is considerably less political unrest this year – Hongkongers now just want to get on with their lives.
- Borrowing costs for Chinese buyers have risen – there are perhaps political reasons for this as much as the economic reasons.

For many developers this leaves BTR as the key remaining source of mass-absorption for their projects. BTR deals may yield lower margins than individual sales, but that could be acceptable if it keeps valued teams together

during the next few difficult years. So, many big schemes have unlaunched blocks that are being marketed with varying urgency to BTR investors.

However, developers accept that such deals are easier said than done. The market share of units absorbed by the BTR sector has dropped rapidly – from over a third in Q2 2022 to less than a quarter in Q2 2023. Some experienced players expect matters to get tougher still:

- BTR investors are being treated to a growing spread of potential opportunities.
- But the institutions are more interested in the better yields from other asset classes.
- And private equity money is expensive.
- Consequently, it is feared that 'wait-and-see' will become the prevailing investor attitude.

The final option for some is to switch private units into affordable tenures. This seems to be a growing segment, but Q2 2023's numbers owe much to a single case – LB Enfield's decision to buy 244 unlaunched private units out of its Alma Estate regeneration joint venture with Countryside.

Despite all this, Q2 2023 has seen some notable successes. Hong Kong may no longer be the easiest target, but more units sold overseas during the quarter than in the same period last year. Some developments also sold OK in the UK. Avanton, Ballymore, Barratt, Bellway, Berkeley Group, CC Land, Chalegrove, Fairview, Far East Consortium, Knight Dragon, London Square and Mount Anvil all managed to sell 20 or more units to individuals in at least one





Ebury Bridge Renewal—Blocks 7 & 8, Westminster

project during Q2. Their key message seems to be to avoid putting all eggs in one basket. Sales directors talk of:

- Working existing customer databases hard.
- Working networks of agents and intermediaries harder... which includes paying them more fees than competing developers.
- Clocking up airmiles across a range of locations throughout the middle and far east. They include previously unexplored destinations such as Turkey.

Incentives and flexibility to negotiate are also essential given the number and variety of developments on offer. Buyers, both in the UK and overseas, look for good value and while the best-in-class developments still do well, appropriately priced runners-up can often steal sales from them.

The three top selling schemes overseas during Q2 2023 were:

- Chalegrove's One Thames Quay on the Isle of Dogs, which sold 78 units.
- Barratt's Wembley Park Gardens, which sold 68.
- Berkeley's West Quay at Royal Arsenal, which sold 47.

Two schemes scored more than 20 sales to individual buyers in the UK:

- Fairview's New Hayes, which sold 22 units.
- Bellway's Phase 3 of Fielders Quarter at Barking Riverside, which also sold 22.

It is notable that both schemes offer pragmatic buyer incentives and are priced below £600 psf.

So, the market is tough and you have to be bold to start construction. But there is always a deal to be done and some developers are still managing to make a success of the situation.

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	5,930
2020: Q2	3,312	3,103	3,855
2020: Q3	4,935	5,151	5,860
2020: Q4	4,734	5,573	4,089
2021: Q1	2,628	5,639	3,787
2021: Q2	3,805	6,423	4,511
2021: Q3	4,650	4,360	5,168
2021: Q4	5,753	6,041	5,217
2022: Q1	5,450	4,107	6,004
2022: Q2	3,607	6,298	4,962
2022: Q3	4,004	3,467	5,583
2022: Q4	5,713	5,875	4,529
2023: Q1	3,546	3,088	3,879
2023: Q2	4,065	4,012	3,016

## The Numbers

The table on page 2 shows the main driver of sales for schemes that sold 12 or more units during Q2 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...

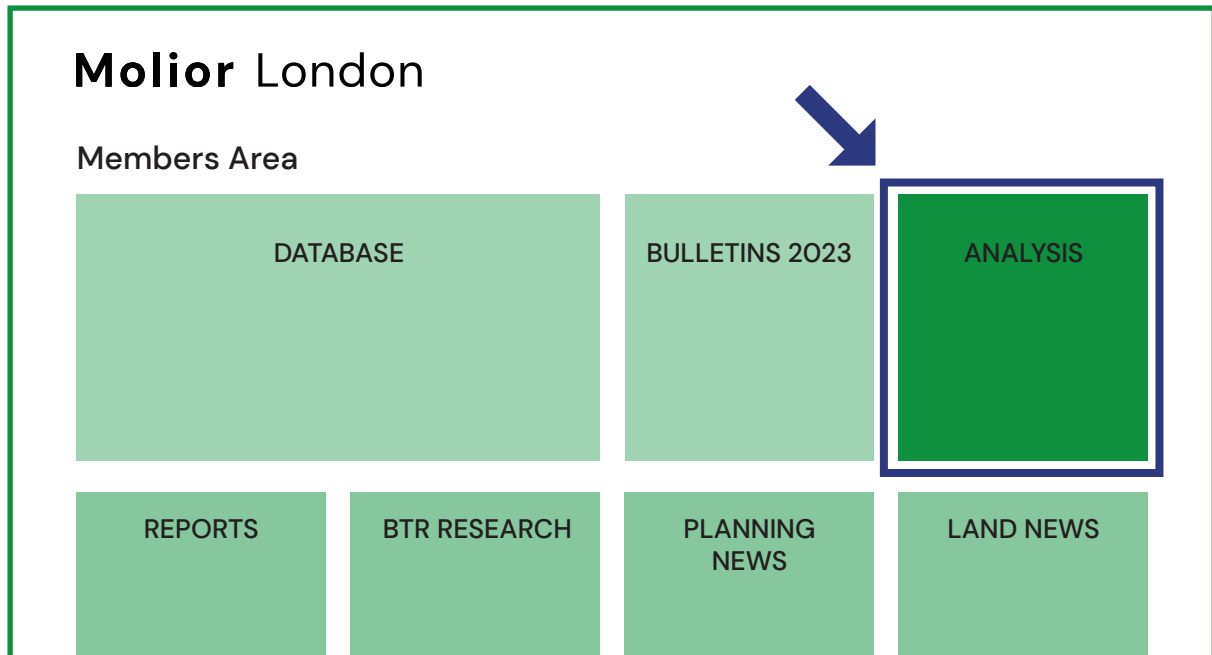
Incredibly detailed scheme-by-scheme information can be found on the Molior database, together with regional graphs and borough-by-borough tables showing a range of residential development datasets going back to 2009. Instructions for how to access these graphs and tables are shown on the final page. 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.

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# 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.

