QUARTERLY ANALYSIS
APRIL 2021

MOLIOR · LONDON
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Analysis by Sam Long and Tim Craine

FRONT COVER PHOTO

Newfoundland, Tower Hamlets

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EXECUTIVE SUMMARY

Elephant Park MP3 - Park Central West, Southwark

Three months can be a long time for London's residential development industry and the first quarter of 2021 was no exception.

On the surface the overall numbers for Q1 2021 paint a fairly black and white picture - with more black than white:

- Developments priced and timed to get maximum benefit from the Help to Buy and temporary Stamp Duty incentives sold well during the quarter.
- The rest have not done so well.
- Furthermore, bulk deals, Build to Rent (BTR) starts and big launches (overseas or at home) have all been relatively scarce meaning that sales numbers generated by standard sales offices have not been quite

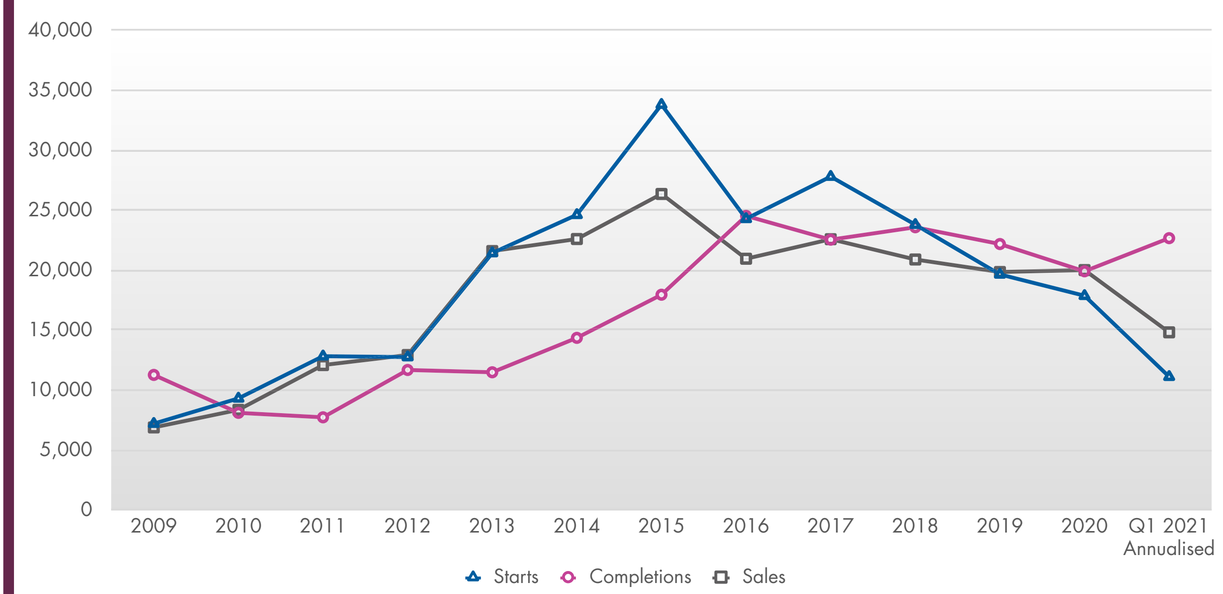
so bolstered in the way they normally are.

So, the net result is that fewer new homes sold in London during Q1 2021 than in any quarter since 2012.

This is mirrored on the construction side, and you would have to go back to 2011 to find such a low number of quarterly construction starts. However, those concerned about housing delivery in the short term can take heart in the fact that completions have continued to climb back from the trough of Q2 2020.

The fall in sales and construction starts may be disappointing but will not come as a surprise to

Main Driver of Sales	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Schemes selling 12+ units	**110**	**75**	**125**	**93**	**86**
Build to Rent	2,118	976	1,583	904	473
Bulk deal	261	82	75	154	260
Help to Buy	1,046	461	1,391	887	1,121
Launched prior to start	291	340	377	90	271
Normal sales	399	257	232	186	221
Overseas	447	257	819	595	210
Switched to affordable	601	731	491	524	311
Total	**5,163**	**3,104**	**4,968**	**3,340**	**2,867**



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	2,947	3,333	2,625
2012: Q3	3,063	2,141	2,813
2012: Q4	3,858	3,603	3,822
2013: Q1	4,767	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	4,924
2014: Q2	6,099	4,292	5,434
2014: Q3	5,590	3,573	5,607
2014: Q4	7,734	3,688	6,627
2015: Q1	9,741	3,832	8,579
2015: Q2	7,573	3,850	6,574
2015: Q3	8,156	5,531	5,589
2015: Q4	8,327	4,735	5,606
2016: Q1	6,281	4,731	5,902
2016: Q2	5,124	5,877	4,649
2016: Q3	6,980	6,740	5,001
2016: Q4	5,890	7,171	5,396
2017: Q1	6,495	6,493	5,582
2017: Q2	7,120	4,818	5,950
2017: Q3	7,663	5,406	5,960
2017: Q4	6,518	5,820	5,085
2018: Q1	6,659	4,463	6,480
2018: Q2	7,452	5,665	5,127
2018: Q3	3,645	6,356	4,351
2018: Q4	6,032	7,088	4,927
2019: Q1	5,630	4,802	4,985
2019: Q2	3,446	5,322	4,521
2019: Q3	5,150	5,889	4,558
2019: Q4	5,414	6,160	5,778
2020: Q1	4,889	5,980	6,078
2020: Q2	3,439	3,079	3,935
2020: Q3	4,945	5,312	5,850
2020: Q4	4,590	5,530	4,140
2021: Q1	2,778	5,666	3,703

most developers, some of whom have said words to the effect that:

- January was a time of apprehension - nobody was quite sure what the New Year would throw out.
- February did little to help - the cheaper end of the market was doing well, but nobody had concrete evidence that things were going to get better elsewhere.

However, Boris's announcement on 22 February of a timetable for the easing of restrictions, twinned with excellent data from the vaccination programme, paved the way for renewed confidence during March. That said, enthusiasm from both buyers and developers is tempered by the experiences of the last winter, as well as the realisation that pre-COVID challenges have not gone away. So, whilst nobody is expecting the same bounce in sales seen at the end of lockdown one in June 2020, sentiment is much improved.

The small table on page 6 gives a rough and ready summary of the main drivers of sales in London's top selling projects – those that sold more than 12 units during each of the last five quarters. The numbers for Q1 2021 raise some interesting points.

First of all, a number of agents have likened the cheaper end of the market to a heroin addict in danger of overdose. Help to Buy has indeed been very successful at helping to sell units, particularly in conjunction with the temporary stamp duty holiday below £500,000. We are told that the new Help to Buy restriction to first time buyers only is not expected to reduce demand for product that qualifies. To continue the drug addict analogy, however, there is considerable relief that the Government has decided to introduce a form of methadone, rather than inducing cold turkey – the tapered end to stamp duty relief and the introduction of the 95% mortgage guarantee programme have both been welcomed.

Meanwhile, completed BTR developments have been contending with significant reductions in the number of students, sharers and corporate tenants in the market, in conjunction with increased competition from secondary stock that would normally be marketed via short-stay platforms. These issues make it hard to complete lease-up programmes, which may be why BTR operators have not been pressing the start button on many new projects. However, it is expected that this will be a temporary state of affairs.

The sales numbers arising from developments launched prior to start do not appear to be that low compared to previous quarters, particularly Q4 2020. However, it is important to note that only four projects are involved, and most of the numbers relate to releases last year.

Developers appear to have been reluctant to engage in large scale launches, overseas or at home, during Q1 2021. To an extent this is reflected in the relatively low number of overseas sales shown in the table and is to be expected given that social distancing is fairly incompatible with a normal launch setup. It is also telling that the projects that have sold more than a steady trickle of units overseas over the last three months are often accompanied by rumours of widening discounts. However, this does not mean that the overseas market has cooled irrevocably, due to the introduction of the overseas stamp duty surcharge or otherwise.

The stamp duty surcharge is indeed considered to be a negative factor, but not unbearably so in the long term. This is because overseas buyers take currency movements, comparable costs in other countries and other factors into consideration when choosing where to buy. Most sales professionals expect that London's reputation, safe haven status and personal connection with many buyers will continue to prevail in the long term.

A small number of developers, and their funders, have been prepared to bet on this positive future by commencing large projects without launching in advance. For example, Ballymore and Chalegrove are both piling large projects within 500m of each other on the Isle of Dogs without having taken the schemes to the market first. Such examples are, however, rare and the lull in launch activity probably helps to explain why construction starts have been particularly low in the regeneration heartlands of London Underground Zones 2 and 3.

Meanwhile, 'normal' deals with individuals via sales offices and without Help to Buy have held up well. There is talk of growing numbers of local buyers, downsizers and people looking for a pied-a-terre as they move their families out of London. This has particularly been the case for developments that are close to completion and can therefore benefit from the stamp duty holiday. Maybe the experience of the last 12 months has contributed here, and maybe this will be a lasting shift, but it is worth noting that these 'normal' deals have become a small piece of the jigsaw in recent years, contributing to fewer than 10% of sales in the top selling developments. Their impact to the overall picture is therefore muted.

Alongside all these matters, the underlying factor is that London's development industry is well capitalised, and the key players are well able to make considered judgements, rather than having their hands forced by distress. Where it makes sense to do so, a number of developers have shown that the sales tap can be opened simply by increasing negotiation margins. But most are content with sales rates as they currently stand. As always time may prove otherwise, but at the moment most developers consider there to be many good reasons for faith in the future.

THE NUMBERS

During the last few weeks Molior London has interviewed the developers behind the 655 schemes being built or with stock units across London. We do this each quarter.

Please note this report excludes schemes with fewer than 20 private homes and all numbers refer to units consented for private sale only.

The graph and table on previous pages show starts, completions and sales across all London local authorities since 2009.

The short table on page 6 shows the main driver of sales for schemes that sold 12 or more units during the last five quarters.

CONSTRUCTION

- 2,780 units commenced construction across London during Q1 2021 - 62% of average quarterly starts during 2020 and the lowest quarterly number since Q4 2011.
- 5,670 units completed construction across London during Q1 2021 - up from a trough of 3,080 in Q2 2020 and 14% higher than the quarterly average across 2020.
- 58,000 units were under construction at the end of Q1 2021, 23% of which are for BTR.

SALES

- 3,700 units sold across London during Q1 2021 - 74% of average quarterly sales during 2020 and the lowest quarterly number since Q3 2012.
- 12% of these sales are accounted for by BTR, compared to an average of 31% across 2020.
- 27,800 units under construction are unsold, which is 48% of all units currently underway.
- In addition, there are 3,110 completed unsold 'stock' units across London - up from 2,990 at the end of 2020.

BTR LEASE UP RATES

- During the 12 months to end Q1 2019 22 schemes with 50+ BTR units stabilised, at an average lease up rate of 19 units per month.
- During the 12 months to end Q1 2020 15 such schemes stabilised, at an average lease up rate of 20 units per month.
- During the 12 months to end Q1 2021, just six such schemes stabilised, and did so at an average lease up rate of 12 units per month.

PRICING

- The average new build completion price for a home in London in the 15 months to the end of Q1 2021 was £863 psf:
- 10 developments have completed at average prices below £400 psf
- 69 have completed at average prices between £401 and £600 psf
- 82 are between £601 and £800 psf
- 34 are between £801 and £1,000 psf
- 39 are between £1,001 and £1,500 psf
- 9 are between £1,501 and £2,000 psf

- 4 are between £2,001 and £3,000 psf
- And 4 schemes have completed at average prices above £3,000 psf

SUB MARKETS

Sections 1 to 4 of the detailed report describe a number of key indicators for London, as broken down into four London Underground zone groupings.

ZONE 1

- There were 575 construction starts during Q1 2021 - about the quarterly average for the previous three years.
- There were 473 sales - 83% of the quarterly average for 2020, which was the lowest year since 2011.
- Based on current sales rates, it would take 3.6 years to sell all units currently unsold if nothing new commences construction. This is up from 2.9 years at the end of 2020.

ZONE 2

- There were 757 construction starts during Q1 2021 - 57% of the quarterly average for 2020.
- There were 637 sales - 47% of the quarterly average for 2020.
- Based on current sales rates, it would take 3.2 years to sell all units currently unsold if nothing new commences construction. This is up from 1.5 years at the end of 2020.

ZONE 3

- There were 777 construction starts during Q1 2021 - 57% of the quarterly average for 2020.
- There were 1,120 sales - 67% of the quarterly average for 2020.
- Based on current sales rates, it would take 1.9 years to sell all units currently unsold if nothing new commences construction. This is up from 1.3 years at the end of 2020.

ZONES 4 TO 6

- There were 669 construction starts during Q1 2021 - 50% of the quarterly average for 2020.
- There were 1,480 sales - 104% of the quarterly average for 2020.
- Based on current sales rates, it would take 1.3 years to sell all units currently unsold if nothing new commences construction. This is down from 1.5 years at the end of 2020.

ANY QUESTIONS …

Incredibly detailed scheme-by-scheme information can be found on the **Molior Database** - 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 call us.

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