



QUARTERLY ANALYSIS APRIL 2022

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Analysis by Sam Long and Tim Craine

FRONT COVER PHOTO

White City Living - Phase 3 - Plots E1-E3, Hammersmith & Fulham

Photographer: Amanda Denny

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White City Living - Phase 3 - Plots E1-E3, Hammersmith & Fulham



EXECUTIVE SUMMARY



The Broadway (New Scotland Yard), Westminster

On the face of it, 2022 has started well:

- ▶ 6,070 new homes sold in London during Q1 2022.
- ▶ That is more sales than in any quarter since early 2018, and was fifth highest quarterly sales figure since 2008.
- ▶ Construction starts were strong as well, albeit not quite as high as the last quarter

of 2021.

Digging beneath the surface, two factors are particularly important for the high sales number.

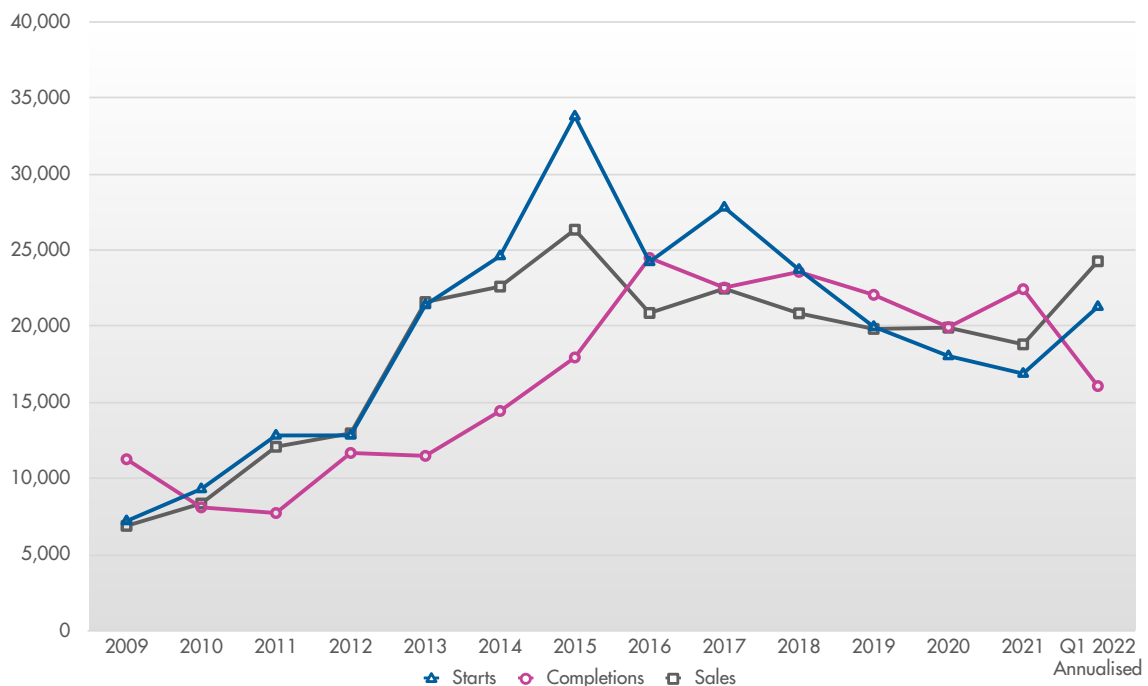
First, Build to Rent (BTR) accounted for 35% of Q1 sales, as counted in a couple of ways:

- ▶ Transactions - forward funding by, or sales to, investors.

- ▶ In-house actions by investors and developers - deliberate BTR construction starts, or wholesale switches from sales to letting later in the construction process.
- ▶ Canary Wharf Group is piling 50-60 Charter Street, which is 760 BTR units spread across two adjacent towers at Wood Wharf, E14.
- ▶ Get Living is piling Phase 2 of its regeneration of Elephant & Castle, which is 485 units - 313 for open market BTR plus 169 in a couple of forms of discount market rent.

In fact, just two construction starts accounted for 1,073 open market BTR units:

	<£800 PSF	>£800 PSF	Total	Percent
SCHEMES SELLING <12 UNITS IN Q1 2022				
Homes sold in these schemes	574	359	933	15%
SCHEMES SELLING 12+ UNITS IN Q1 2022				
<i>Main Driver of Sales</i>				
Build to Rent	992	1,127	2,119	35%
Help to Buy	1,199	272	1,471	24%
Switched to affordable	286	13	299	5%
Overseas	85	306	391	6%
Launched prior to start	42	312	354	6%
Normal sales	42	202	244	4%
Bulk deal	33	223	256	4%
Homes sold in these schemes	2,679	2,455	5,134	85%
Total Homes Sold	3,253	2,814	6,067	100%



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	7,734	3,688	6,600
2015: Q1	9,735	3,832	8,573
2015: Q2	7,573	3,850	6,574
2015: Q3	8,156	5,531	5,589
2015: Q4	8,328	4,735	5,606
2016: Q1	6,238	4,698	5,859
2016: Q2	5,124	5,877	4,649
2016: Q3	6,973	6,740	4,994
2016: Q4	5,890	7,171	5,368
2017: Q1	6,495	6,493	5,537
2017: Q2	7,120	4,818	5,950
2017: Q3	7,663	5,406	5,852
2017: Q4	6,528	5,820	5,130
2018: Q1	6,643	4,463	6,442
2018: Q2	7,429	5,665	5,120
2018: Q3	3,614	6,356	4,210
2018: Q4	6,032	7,088	5,076
2019: Q1	5,881	4,820	5,051
2019: Q2	3,611	5,297	4,646
2019: Q3	5,150	5,889	4,482
2019: Q4	5,324	6,057	5,645

Period	Starts	Completions	Sales
2020: Q1	4,867	6,112	6,058
2020: Q2	3,454	3,105	3,874
2020: Q3	4,918	5,153	5,834
2020: Q4	4,804	5,569	4,140
2021: Q1	2,627	5,653	3,830
2021: Q2	3,596	6,423	4,352
2021: Q3	4,712	4,360	5,207
2021: Q4	5,950	6,000	5,421
2022: Q1	5,320	4,017	6,067

Second, the 'last hurrah' of Help to Buy appears to be in full swing and generated around a quarter of all sales during Q1 2022. In some larger developments, with blocks approaching completion, sales of 30+ units during the quarter were not uncommon. We double checked a number of extreme examples, such as:

- ▶ Peabody's Southmere Village, which sold 108 units during Q1 2022.
- ▶ Bellway's St George's Park, which sold 66.
- ▶ Bellway's Eastside Quarter, which sold 58.
- ▶ And, Barratt's Upton Gardens, which also sold 58.

Help to Buy still has almost a year to go, but developers and buyers know that the door is already closing. Several marketing suites have said that they are fast running out of Help to Buy stock that will complete before the end of March 2023. One was particularly blunt: 'Well, those were the last Help to Buy plots. The next homes won't be handed over until summer 2023. Who am I meant to sell them to?'

The table on page 6 makes no predictions about future buyers, but does help to illustrate who bought new homes in London during Q1 2022. It focuses on the developments which sold 12 or more units

during the quarter and splits those sales according to price band and buyer segment:

- ▶ The buyer segments are the main drivers of sales in the best-selling schemes as reported by the sales people involved.
- ▶ The division between the upper and lower price bands is £800 psf - the price point of a 750 sq ft 2-bed apartment priced at £600,000.

Just 102 out of a total of 712 developments fall into this 'top seller' category, but they generated 85% of all sales during Q1 2022.

Looking at the five lines below BTR and Help to Buy:

1. It is always normal for a small number of private units to be switched to affordable tenures. This accounted for 5% of 'sales' in London during Q1 2022.
2. A slightly larger proportion of sales, 6%, were made overseas during the quarter. These were mainly at Berkeley Group projects, such as Oval Village or 250 City Road.
3. Another 6% of sales were actually agreed at launches before the start of 2022 ... we only count pre-sales on construction start. Many of these sales were also made overseas and, again, many of the relevant projects are from the Berkeley Group, such as TwelveTrees Park.
4. Only 4% of sales in top selling schemes were to 'normal' buyers - people based in the UK and simply negotiating the best price they can with the developer.
5. A small number of non-BTR bulk deals were struck, also amounting to 4% of sales. The largest of these was Tulip Real Estate's acquisition of 133 units at LBS Property's Amory Tower. The units will be rented but are not counted as BTR because they are spread

amongst other flats sold to individual buyers.

Together these five lines account for 25% of sales.

You will notice that traditional sales segments – not BTR / Help to Buy, but the ones from 'Overseas' down to 'Bulk deal' – are skewed heavily towards the upper price bands.

Current circumstances are said to exaggerate overseas investors' interest in the more expensive schemes. One Chinese developer told us, 'Investors in Hong Kong and mainland China are buying purely off-plan right now. So they are just going for developers that they recognise – either Chinese companies or Berkeley Group, and maybe one or two others, but that's it.'

We suspect the 'one or two others' would include Ballymore and Mount Anvil, who know how to launch their projects overseas with a bang, but were relatively quiet during Q1 2022. Barratt, meanwhile, was reasonably successful in the Far East during Q1 2022, but others have described the Hong Kong market as quiet.

Some agents expect that the recent global re-adjustment of energy prices will prompt a growth in buying activity from the Middle East and North America. The prime end of the market could be the main beneficiary of this, which would be a welcome antidote to the dent in sentiment following the Russian invasion of Ukraine.

Whatever happens with overseas buyers, it seems that the market segmentation in lower priced developments must change significantly as Help to Buy recedes. This begs a number of questions, such as:

- ▶ Will the government replace Help to buy with other incentives?
- ▶ Will developers come up with their own incentive packages, as used to be the case?

- ▶ Will we see more private units switching to shared ownership?
- ▶ Will there be a pricing adjustment?
- ▶ Will London suffer a drop in house building, particularly in areas needing regeneration?

The answers to these questions will emerge over the next two years.

THE NUMBERS

During the last few weeks Molior London has interviewed the developers behind the 712 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 on page 6 and table on page 7 show starts, completions and sales across all London local authorities since 2009.

The table on page 6 shows the main driver of sales for schemes that sold 12 or more units during Q1 2022.

CONSTRUCTION

- ▶ 5,320 units commenced construction across London during Q1 2022 - down from 5,950 in Q4 2021, but higher than any other quarter since Q4 2019.
- ▶ 4,020 units completed construction across London during Q1 2022 - the lowest number since Q2 2020 (the first full three months of lockdown).
- ▶ 57,100 units were under construction at the end of Q1 2022 - 2% up on the end of 2021 but still 13% off the 2018 peak.

- ▶ 23% of all units underway are BTR.

SALES

- ▶ 6,070 units sold across London during Q1 2022 - 29% up on the quarterly average for 2021.
- ▶ 47% of units under construction are unsold, down from 49% at the end of 2021.
- ▶ In addition, there are 3,090 completed unsold 'stock' units across London - broadly as has been the case since the end of 2020.
- ▶ 35% of sales in Q1 2022 were accounted for by BTR.

BTR LEASE UP RATES

- ▶ During 2019, 17 schemes with 50+ BTR units stabilised, at an average rate of 21 units per month.
- ▶ During 2020, nine schemes stabilised, at an average of 12 units per month.
- ▶ During 2021, 31 schemes stabilised, at an average of 12 units per month.
- ▶ During Q1 2022, 11 stabilised, at an average of 17 units per month.
- ▶ 57% of the 6,914 BTR units completed during the 12 months to the end of Q1 2022 were let by the end of Q1.

PRICING

- ▶ The average new build completion price for homes in London sized from 291 to 450 sq ft (studios, in broad terms) since April 2020 was £379,475 or £938 psf.

- ▶ For homes sized from 451 to 650 sq ft (1-beds) it was £473,643 or £847 psf.
- ▶ For homes sized from 651 to 850 sq ft (2-beds) it was £597,610 or £778 psf.
- ▶ For homes sized from 851 to 1050 sq ft (3-beds) it was £776,331 or £825 psf.

SUB REGIONS

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 837 construction starts during Q1 2022 - 81% up on the quarterly average for 2021.
- ▶ There were 841 sales - 48% up on the quarterly average for 2021, but note that 313 of these are the BTR units started by Get Living at Elephant & Castle 2.
- ▶ Based on current sales rates, it would take 1.8 years to sell all units currently unsold if nothing new commences construction - down from 2.7 at the end of 2021.

Zone 2

- ▶ There were 1,640 construction starts during Q1 2022 - 21% up on the quarterly average for 2021.
- ▶ There were 1,880 sales - 60% up on the quarterly average for 2021, but note that 760 of these are the BTR units started by Canary Wharf Group at 50-60 Charter Street.
- ▶ Based on current sales rates, it would take 1.2 years to sell all units currently unsold if nothing new commences construction - down from 1.9 at the end of 2021.

Zone 3

- ▶ There were 1,480 construction starts during Q1 2022 - 27% up on the quarterly average for 2021.
- ▶ There were 1,320 sales - 4% down from the quarterly average for 2021.
- ▶ Based on current sales rates, it would take 1.6 years to sell all units currently unsold if nothing new commences construction - up from 1.5 at the end of 2021.

Zones 4 to 6

- ▶ There were 1,370 construction starts during Q1 2022 - 10% up on the quarterly average for 2021.
- ▶ There were 2,030 sales - 28% up on the quarterly average for 2021.
- ▶ Based on current sales rates, it would take 0.8 years to sell all units currently unsold if nothing new commences construction - the lowest level since the end of 2015.

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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