QUARTERLY ANALYSIS
JANUARY 2021

MOLIOR · LONDON
residential · development · research

Analysis by Sam Long and Tim Craine

FRONT COVER PHOTO

Winstanley & York Road Estate Junction House, Wandsworth

Photographer: Amanda Denny

RESEARCH TEAM

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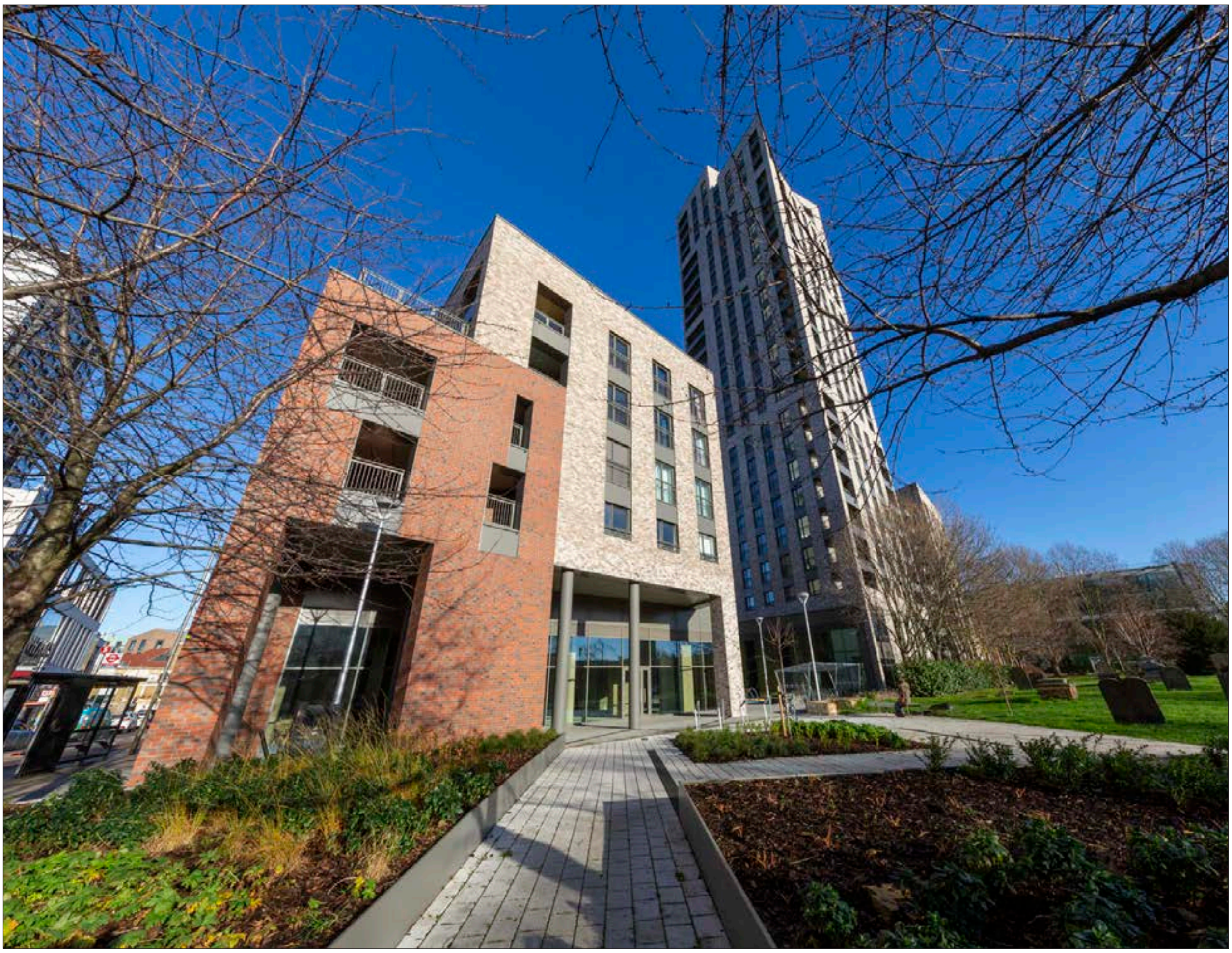
DISCLAIMER

Winstanley & York Road Estate - Phase 0 - Junction House, Wandsworth

EXECUTIVE SUMMARY



Wandsworth Exchange, Wandsworth

It goes without saying that 2020 has been an unusual year, and most people are pleased to see the back of it. However, London's new homes industry has managed to beat expectations.

Despite two national lockdowns during the year, 2020 saw sales stay just within the same old 20,000 to 25,000 units a year range that they have inhabited since 2013. In fact more units were sold during 2020 than in 2019.

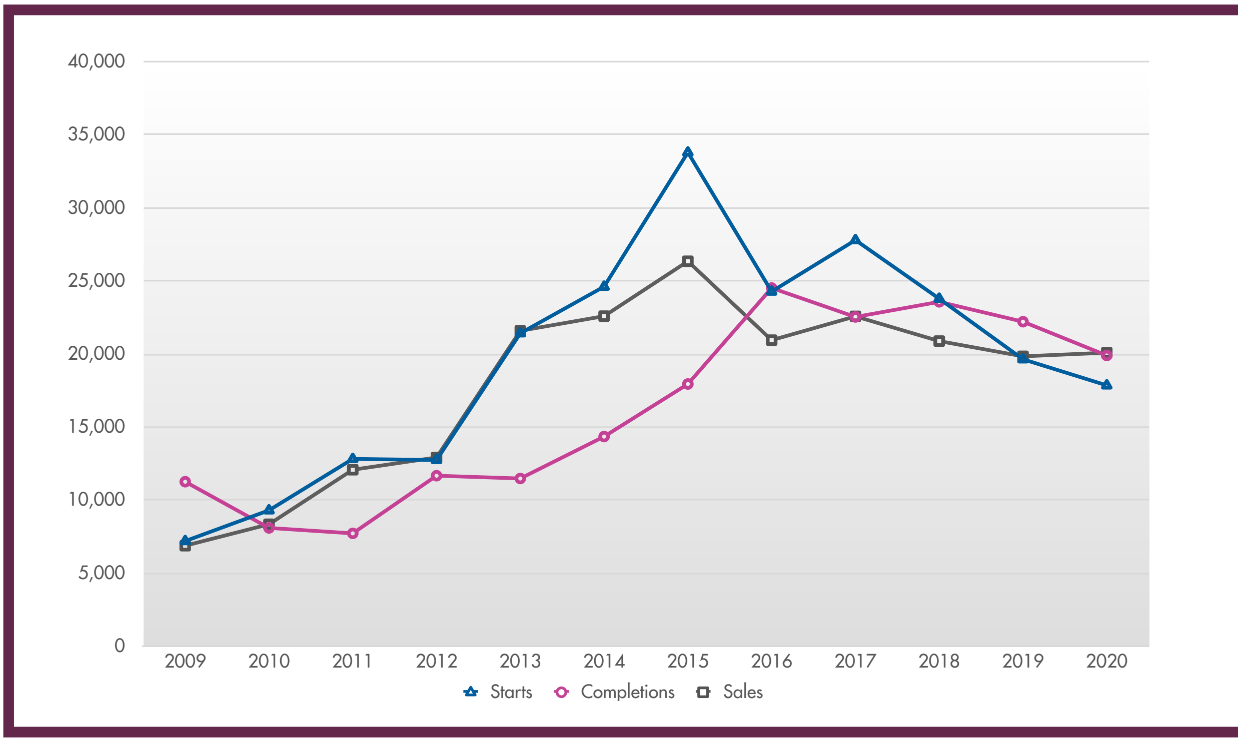
However, the more detailed picture is that deals logged during Q1 and Q3 have carried the year, while Q2 and Q4 were less good. A closer look at the numbers shows that there is more to this than a couple of lockdown-driven mini booms and busts.

2020 disrupted what we thought was

becoming a new normal: bulk corporate disposals agreed in boardrooms not marketing suites. Such deals are a pragmatic way of prioritising business continuity over pure profit and include forward funding deals with Build to Rent (BTR) operators, other bulk sales and also decisions by Housing Associations to deliver private units as affordable.

The small table below provides a useful illustration of this change over the course of the year by showing the main sources of sales in all developments that sold more than 12 units in each quarter of 2020. These top selling developments typically accounted for between 80% and 85% of all sales during each quarter.

Main Driver of Sales	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Schemes selling 12+ units	**110**	**75**	**129**	**95**
Build to Rent	2,118	1,045	1,457	904
Bulk deal	261	82	75	162
Help to Buy	1,046	461	1,485	928
Launched prior to start	291	340	377	90
Normal sales	399	257	237	186
Overseas	447	257	860	623
Switched to affordable	601	731	491	524
Total	**5,163**	**3,173**	**4,982**	**3,417**



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	6,199	5,778
2020: Q1	4,864	5,980	6,132
2020: Q2	3,439	3,079	3,852
2020: Q3	4,963	5,312	5,918
2020: Q4	4,590	5,530	4,190

Starting with the good quarters:

- Q1 2020 typified the ‘new normal’ described above: almost 60% of the sales shown in the table on page 6 were bulk deals of one type or another. Unibail-Rodamco-Westfield’s 1,224 unit BTR start at Cherry Park in Stratford is the archetypal example and single-handedly accounted for almost a fifth of all sales logged during Q1. Meanwhile, sales to individuals amounted to just over 40%, and almost half of those involved Help to Buy.

- Q3 was noticeably different. Corporate bulk deals, though still significant, accounted for a reduced portion of sales in the top selling schemes - closer to 40%. BTR’s contribution in particular fell from 41% during Q1 to just 29% in Q3. Instead, Help to Buy and the overseas market took up the slack, making a genuinely good story for sales offices at home and abroad. The sub-£500,000 stamp duty holiday was a key new motivator for many buyers.

Moving to the less good quarters:

- Nobody expected Q2 to be good given the imposition of the first national lockdown, and yet the industry still chalked-up sales totalling 3,850 units, which felt remarkably good under the circumstances.

- However, Q4 is more interesting. 4,200 sales logged across all of London’s developments is a solid enough figure but seems muted compared to 5,900 during Q3. If anything, Help to Buy and stamp duty considerations should have been even stronger motivators for individuals given that both are due to change on 1 April 2021. At that point overseas buyers will also have to pay a new 2% stamp duty surcharge. The figures for the top selling schemes do indeed show a strong contribution from Help to Buy and overseas sales - 27% and 18% respectively. However, the overall number is still low and BTR made a particularly low contribution - accounting for 26% of sales in the top selling projects and 22% across the whole market.

'COVID-safe' practices have undoubtedly slowed the buying process - marketing suites talk of daily appointment numbers well within single figures during Q3 and Q4 2020, compared to the potential for maybe more than 20 meetings a day in a more normal year. This is critical for Help to Buy purchases, where the buyers will normally want at least one site visit before committing. It is less of an issue for overseas off-plan buyers and cannot be blamed for Q4's lower sales total than Q3. A number of people have shrugged the difference off: October and November were fairly busy, but December was quiet - as if the Christmas break came early.

We have been told that buyer activity has picked up in the first weeks of the new year and it is hoped that Q1 2021 will see a decent set of sales figures. The incoming Help to Buy rules, which restrict the incentive to first time buyers only, are still said to be good for buyers in London. However, the re-introduction of stamp duty at a time when employment prospects are depressed is a source of apprehension.

For the BTR sector, the lease-up data for recent projects makes for interesting reading. Again, potential residents will often want to see apartments before making a final decision and COVID-safe practices limit viewing numbers. Perhaps more significantly, however, corporate sector tenants, professional sharers and international students have not been much in evidence during the pandemic. At the same time the secondary market has been saturated with properties that would normally be let via Airbnb, or on a similar short term basis. All of this has been a significant hindrance to lease up programmes in new BTR developments, albeit that resident turnover in previously leased schemes has held up well.

News of lengthening lease-up periods presumably does not sit well with the committees that approve institutional spending on new BTR projects and so it does not seem surprising that there has been a drop in BTR starts. Perhaps there is also an element of waiting for a better bargaining position, should the wider sales market soften later in 2021.

The wider industry also appears to be taking a cautious approach to investment. Construction starts were lower during 2020 than at any time since 2012 and have now been significantly below sales for two years in a row - the first such two year period since the 2008 recession. This reduction in supply has happened across the whole capital, but is particularly apparent in central London, a market segment that is especially dependent on international travel and that has been quiet throughout the pandemic.

Such a drop in starts may not be welcome for policy makers, but is possibly welcomed by pessimists. Indicators such as the availability of completed stock units and the proportion of unsold units under construction have been moving in the right direction in most parts of London. They are in a considerably better position than during the last recession, considering the much greater number of units underway now. So, if difficult times are ahead, then the industry is much better placed to cope than before.

Surely, however, the greatest mass vaccination programme in history stands to make a bigger impact in the long term than changes to stamp duty regulations or other points mentioned above? Anyone who has tried to hire a plasterer or electrician recently will tell you that demand for a better living environment has never been higher and it is entirely possible that London's new homes industry stands to benefit significantly when employment prospects pick up. No doubt developers are ready to embrace that scenario too.

THE NUMBERS

During the last few weeks Molior London has interviewed the developers behind the 675 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 pages 6 and 7 respectively 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 Q4 2020.

CONSTRUCTION

- 17,900 units commenced construction across London during 2020 - 9% fewer than 2019 and 47% fewer than 2015.
- 19,900 units completed construction across London during 2020 - 10% fewer than 2019 and 19% fewer than 2016.
- 60,800 units were under construction at the end of 2020, 23% of which are for BTR.

SALES

- 20,100 units sold across London during 2020 - 1% more than 2019.
- 29% of these sales are accounted for by BTR, but BTR's share of the market dropped from 38% during Q1 2020 to 22% during Q4.
- 28,800 units under construction are unsold, which is 47% of all units currently underway.
- In addition, there are 2,990 completed unsold 'stock' units across London - 22% fewer than at the end of 2019.

BTR LEASE UP RATES

- During 2018, 17 schemes with 50+ BTR units leased up fully, at an average rate of 19 units per month.
- During 2019, 16 such schemes leased up fully, at an average rate of 22 units per month.
- During 2020, just nine such schemes achieved full lease-up, and did so at an average rate of 12 units per month.

PRICING

- The average new build completion price for a home in London in the 12 months to the end of Q2 2020 was £857 psf.
- 11 developments have completed at average prices below £400 psf.
- 84 have completed at average prices between £401 and £600 psf.
- 94 are between £601 and £800 psf.
- 40 are between £801 and £1,000 psf.
- 36 are between £1,001 and £1,500 psf.
- 15 are between £1,501 and £2,000 psf.
- Six are between £2,001 and £3,000 psf.

- And four schemes have completed at average prices above £3,000 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 1,750 construction starts during 2020 - the lowest number since 2010.
- There were 2,270 sales - the lowest number since 2011.
- Based on current sales rates, it would take 2.9 years to sell all units currently unsold if nothing new commences construction. This is up from 2.8 years at the end of 2018.

ZONE 2

- There were 5,300 construction starts during 2020 - 29% more than 2019.
- There were 5,440 sales - 5% more than 2019.
- Based on current sales rates, it would take 1.5 years to sell all units currently unsold if nothing new commences construction. This is the lowest level since 2016.

ZONE 3

- There were 5,470 construction starts during 2020 - 15% fewer than 2019.
- There were 6,610 sales - 14% more than 2019.
- 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 1.7 years at the end of 2019.

ZONES 4 TO 6

- There were 5,340 construction starts during 2020 - the lowest number since 2013.
- There were 5,770 sales, which is about the average since 2013, if you ignore two spikes during 2015 and 2018.
- Based on current sales rates, it would take 1.5 years to sell all units currently unsold if nothing new commences construction. This is down from 1.6 years at the end of 2019.

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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