QUARTERLY ANALYSIS
JANUARY 2022

MOLIOR • LONDON
residential • development • research

Analysis by Sam Long and Tim Craine

FRONT COVER PHOTO

N06 - Portlands Place, Newham

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RESEARCH TEAM

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DISCLAIMER

N06 - Portlands Place, Newham

EXECUTIVE SUMMARY

Fish Island Village - Neptune Wharf, Tower Hamlets

As far as London's residential development industry is concerned, 2021 is unlikely to win many accolades, but at least it ended on a higher note than it started:

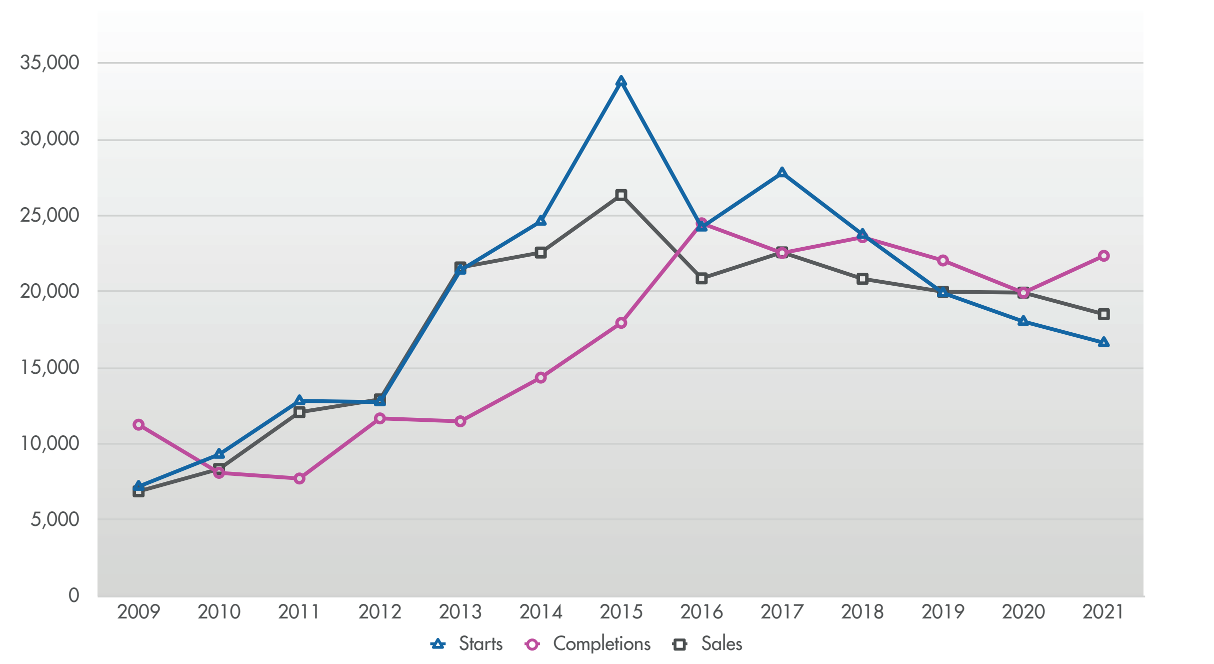
- Both construction starts and sales of new homes were down in 2021 compared to 2020, which was itself blighted for obvious reasons.
- Q1 2021 was particularly chilly and Q2 only a bit warmer.
- However, the second half of 2021 was much stronger - both starts and sales were the highest in four years

The final three months of 2021 were particularly notable for the high number of construction starts - Q4 2021 generated the highest quarterly starts since 2018.

Whilst the number of new homes sold during Q4 was less remarkable, it did repeat the strong figure from Q3, which is something to be valued given the yo-yo market of 2020.

The small table below splits the number of new homes sold each quarter in London's top selling schemes by sales segment. A BTR sale means the forward funding by, or sale to, an investor. This rough analysis highlights a number of things:

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	All 2021
SCHEMES	655	649	657	663	
Total Homes Sold	**3,725**	**4,302**	**5,203**	**5,289**	**18,519**
SCHEMES SELLING <12 UNITS	569	548	562	560	
Homes sold in these schemes	**749**	**776**	**900**	**822**	**3,247**
SCHEMES SELLING 12+ UNITS	86	101	95	103	
Main Driver of Sales					
Build to Rent	614	1,457	1,729	1,715	5,515
Help to Buy	1,099	980	868	861	3,808
Switched to affordable	311	316	755	630	2,012
Overseas	228	315	391	604	1,538
Launched prior to start	271	85	252	113	721
Normal sales	193	271	214	276	954
Bulk deal	260	102	94	268	724
Homes sold in these schemes	**2,976**	**3,526**	**4,303**	**4,467**	**15,272**



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	4,740	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	4,924
2014: Q2	6,099	4,292	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	5,582
2017: Q2	7,120	4,818	5,950
2017: Q3	7,663	5,406	5,960
2017: Q4	6,510	5,820	5,085
2018: Q1	6,643	4,463	6,442
2018: Q2	7,429	5,665	5,120
2018: Q3	3,645	6,356	4,206
2018: Q4	6,032	7,088	5,071
2019: Q1	5,881	4,802	5,042
2019: Q2	3,601	5,297	4,646
2019: Q3	5,149	5,889	4,527
2019: Q4	5,278	6,057	5,776
2020: Q1	4,867	6,112	6,058
2020: Q2	3,454	3,094	3,874
2020: Q3	4,918	5,153	5,888
2020: Q4	4,796	5,569	4,113
2021: Q1	2,627	5,653	3,725
2021: Q2	3,493	6,365	4,302
2021: Q3	4,592	4,361	5,203
2021: Q4	5,928	5,973	5,289

1. **The Build to Rent (BTR) sector put in a strong showing in the second half of 2021**. The largest BTR schemes to commence construction during Q4 were Telford Homes' and Realstar's Perfume Factory - North, Amro Real Estate Partners' and Pension Insurance Corporation's The Wiltern, and City & Docklands' Mitre Yard.

2. **Help to Buy continues to deliver, particularly in Outer London**. The sales team at Bellway's Fielders Quarter described how they sold a flat every day in the weeks running up to Christmas, and this is not a unique story. Other similar examples are provided by Persimmon, Barratt, and Fairview at Knightswood Place, Millbrook Park and Regency Heights respectively.

3. **A significant number of homes originally permitted as private are being delivered as affordable**. This is not just a matter of Housing Associations switching tenures within their own projects. Other interesting examples come from two London councils: Southwark and Ealing. During Q4 2021 they both started building affordable housing on private sections of the Aylesbury Estate and Cattle Market projects respectively.

4. **Overseas buyers made a relatively strong contribution during Q4 2021**. This does not amount to a return to the 'glory days' of 2013 and 2014, but the likes of Ballymore, Berkeley and Mount Anvil have been particularly successful at marketing large investor-focused developments in Hong Kong. However, others have not gained the same traction and, while pricing and negotiation must play a role, it is

hard not to wonder whether this is a case of bigger, more seasoned, players simply being able to lay on a more grabbing spectacle.

5. **Marketing suites also talk about an upturn in sales to 'normal' buyers during Q4 2021**. By 'normal' we mean local individuals, buying without Help to Buy and just cutting whatever deal they can with developers - as it used to be in the old days. Often, talk of such buyers emerges from the same developments that have sold well overseas, implying a balance between overseas and UK based buyers. However, it is often questionable how even that balance might be - we suspect that overseas buyers tend to have the upper hand. Elsewhere, owner-occupiers seem to enter the equation where developments can claim some sort of niche status by dint of quality or location. Dominus Advisory's Earlsfield Place is an interesting example - the smaller units have previously sold well through Help to Buy, but recently the more expensive units have also sold at a decent rate. This is attributed to the scarcity of new development in a relatively affluent enclave. It should be said, however, that while the end of the year may have seen an uptick in activity from 'normal' buyers, they are a relatively small market segment.

For the first time in a while Prime Central London deserves a special mention for good reasons. Agents dealing with London's more exclusive schemes have faced challenging conditions for the last five or six years, but tell us that 2021 ended well. Meyer Mergman's The Whiteley provided the most exclusive first time launch of Q4 and, while nobody will give us exact numbers, the consensus is that the event was a success. Long running top-end schemes that are also reputed to have done particularly well are Lodha's No. 1 Grosvenor Square, Northacre's The Broadway and Qatari Diar's Chelsea Barracks.

For such schemes, the number of units sold in a quarter might not be that big compared to normal developments, but the sums of money involved are eye-watering. According to one report, Northacre's The Broadway sold £36 million worth of property in November alone. Obviously the most exclusive of projects have a global audience, but interestingly we have been told that Chinese buyers have not been the major force in recent top-end purchases, mainly because of quarantine restrictions still in place in China. Instead, buyers arrive from a broad range of other countries. Russia and Kazakhstan are two that have often been mentioned, emphasising London's enduring safe haven status amongst the global elite.

Finally, the high number of construction starts during Q4 2021 demands some attention. Half of the starts during the quarter were generated by just 10 projects, characterised by hefty blocks that can only be built out in one hit:

- The two largest schemes to start were both Berkeley Group developments: Silk Park and Camden Goods Yard. In both cases the projects are being developed in partnership with supermarket chains and the programme is driven by the need to deliver the new supermarket boxes that will form the base of the residential developments above. Neither project has yet been launched.

- Three more are phases within large regeneration projects with a good sales track record. They include two more Berkeley Group schemes - Woodberry Park and Clarendon, as well as Redrow's Colindale Gardens.

- Another two are BTR schemes already mentioned: The Perfume Factory - North and The Wiltern.

- The remaining three projects are each subject to relatively unique factors: Regency Homes' Angel Way Retail Park (yet to be launched), Notting Hill Genesis' Aylesbury Estate (LB

Southwark has acquired a large part of the scheme as already described) and the first phase of British Land's Canada Water regeneration (yet to be launched).

It is perhaps coincidental that so many large schemes should commence at once. However, they would not have started if the developers involved were not confident that the sales and letting markets would sustain them on completion.

THE NUMBERS

During the last few weeks Molior London has interviewed the developers behind the 662 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 2021.

CONSTRUCTION

- 16,600 units commenced construction across London during 2021 - 8% fewer than 2020.
- However, the 5,930 starts during Q4 2021 alone is the highest quarterly figure since Q4 2018, which had 6,030 starts.
- 22,400 units completed construction across London during 2021 - 12% more than 2020 and almost the average number for 2017 to 2019.
- 55,606 units were under construction at the end of 2021. In this respect the industry is 15% smaller than it was in 2017 and 2018.
- 21% of all units underway are being built for BTR.

SALES

- 18,500 units sold across London during 2021 - 7% fewer than 2020.
- However, the 10,500 sales during the second half of 2021 form the highest half yearly sales figure since the first half of 2018, which had 11,600 sales.
- 33% of sales in the second half of 2021 were accounted for by BTR.
- 49% units under construction are unsold.
- In addition, there are 2,950 completed unsold 'stock' units across London - 2% more than at the end of 2020.

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 such schemes stabilised, at an average rate of 13 units per month.
- During 2021, 31 such schemes stabilised, and did so at an average rate of 12 units per month.
- However, note that many schemes stabilised during 2021 were launched prior to the pandemic and therefore endured all the associated woes. The six BTR projects that were both launched and stabilised within 2021 leased up at an average rate of 19 units per month.

PRICING

- The average new build completion price for homes in London sized from 291 to 450 sq ft (studios, in broad terms) since the beginning of 2020 was £387,445 or £962 psf.
- For homes sized from 451 to 650 sq ft (1-beds) it was £467,296 or £835 psf.
- For homes sized from 651 to 850 sq ft (2-beds) it was £616,259 or £800 psf.
- For homes sized from 851 to 1050 sq ft (3-beds) it was £745,745 or £796 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 1,850 construction starts during 2021 - 100 units up on 2020.
- There were 2,270 sales - about the same as 2020.
- Based on current sales rates, it would take 2.8 years to sell all units currently unsold if nothing new commences construction. This is down from 3.0 at the end of 2020.

Zone 2

- There were 5,390 construction starts during 2021 - about the same as 2020.
- There were 4,600 sales - 14% fewer than 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 the highest level since 2009.

Zone 3

- There were 4,670 construction starts during 2021 - 15% fewer than 2020 and the lowest number since 2013.
- There were 5,300 sales - 20% fewer than 2020.
- Based on current sales rates, it would take 1.5 years to sell all units currently unsold if nothing new commences construction. This is up from 1.3 at the end of 2020.

Zones 4 to 6

- There were 4,730 construction starts during 2021 - 13% fewer than 2020 and the lowest number since 2012.
- There were 6,350 sales, which is 11% up on 2020.
- Based on current sales rates, it would take 1.1 years to sell all units currently unsold if nothing new commences construction. This is down from 1.5 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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