



QUARTERLY ANALYSIS OCTOBER 2020

MOLIOR · LONDON
residential · development · research

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FRONT COVER PHOTO

Wardian, Tower Hamlets

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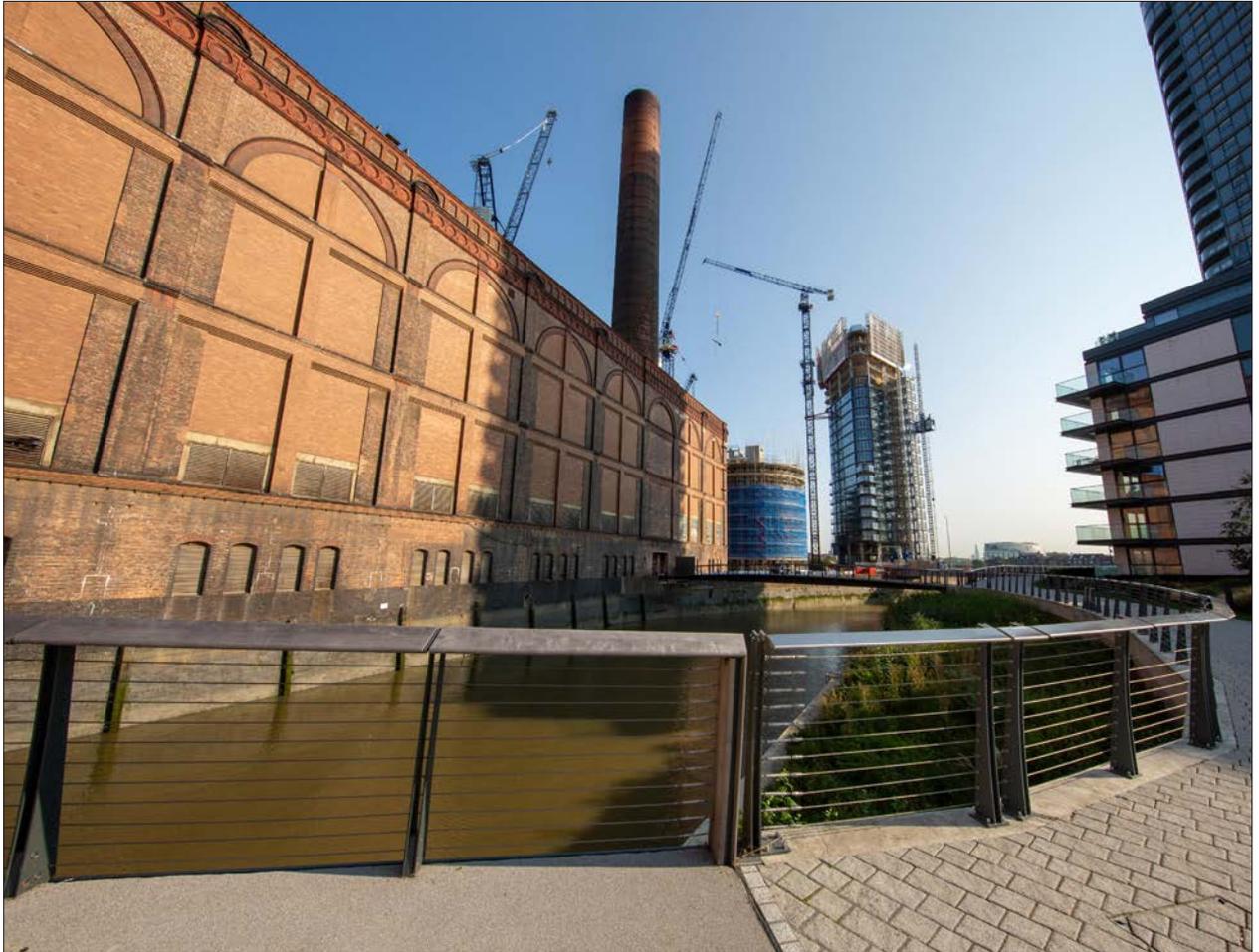
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Wardian, Tower Hamlets



EXECUTIVE SUMMARY



Chelsea Waterfront Site A, Kensington & Chelsea

'From what I hear everyone is smashing it!' was how one sales director described the current mood amongst her colleagues selling new homes in London, and with good reason. The sales total for Q3 2020 almost matched the pre-COVID Q1 2020 figure.

The table on the next page provides more detail. It focuses on the top selling

developments in each of the last four quarters. The total number of units sold in those developments has been roughly split according to seven main drivers of sales. During Q3 2020:

- ▶ Help to Buy was the top driver of sales.
- ▶ BTR came second - knocked off the top spot for the first time in a while.

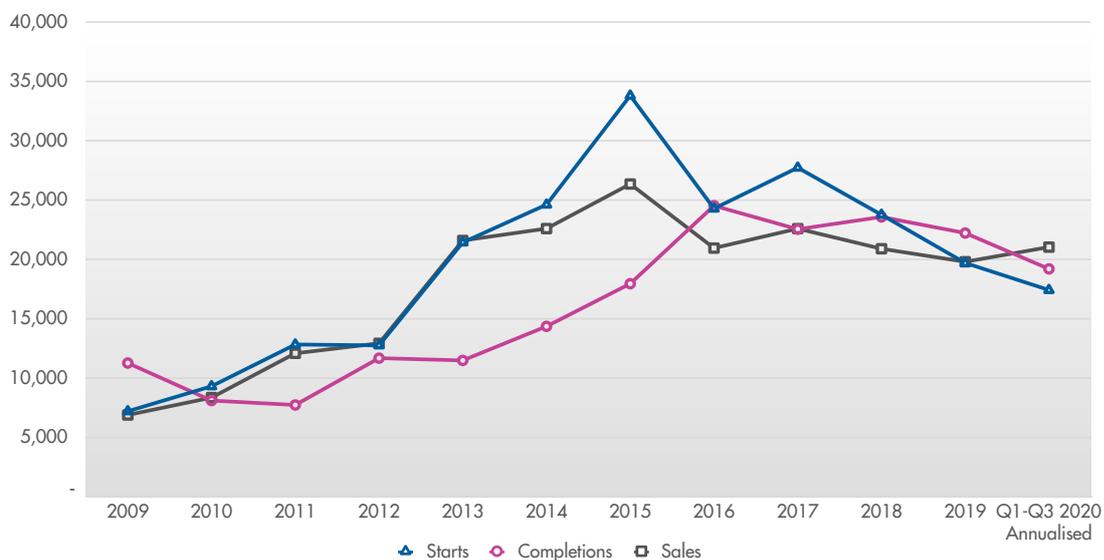
- ▶ Overseas sales came third.

So, the numbers are not reliant on any particularly large boost from BTR, switches to affordable or other forms of bulk disposal. In fact, if you strip BTR out of the picture, the Q3 2020 sales total has not been beaten since Q1 2017.

For the first time in years the main story is about exceedingly busy sales teams dealing with 'good old fashioned' private individuals, both in the UK and overseas. Having said that, there is nothing 'old fashioned' about the current set of circumstances.

The sales manager of one development that has sold

Main Driver of Sales	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Schemes selling 12+ units	117	110	75	129
Build to Rent	2,038	2,118	1,045	1,457
Bulk deal	123	261	82	75
Help to Buy	1,167	1,046	461	1,485
Launched prior to start	90	291	340	377
Normal sales	351	399	257	237
Overseas	622	447	257	860
Switched to affordable	490	601	731	491
Sub total	4,881	5,163	3,173	4,982
Schemes selling 0-11 units	656	648	680	598
Units sold	852	814	748	893
Total	5,733	5,977	3,921	5,875



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	7,593	5,406	5,960
2017: Q4	6,518	5,820	5,095
2018: Q1	6,659	4,463	6,475
2018: Q2	7,466	5,665	5,141
2018: Q3	3,645	6,356	4,351
2018: Q4	5,987	7,088	4,925
2019: Q1	5,687	4,802	4,980
2019: Q2	3,446	5,322	4,521
2019: Q3	5,155	5,889	4,563
2019: Q4	5,406	6,202	5,733
2020: Q1	4,864	5,980	5,977
2020: Q2	3,418	3,112	3,921
2020: Q3	4,780	5,304	5,875

well to local people in particular vividly summarised how many would-be owner occupiers feel:

- ▶ *'They've been waiting for political certainly, or they've been waiting for a property crash, or they've just been waiting for some form of good news. But of course, none of those things have happened yet.*
- ▶ *They've also just been through a period of forced confinement. So, even if they're lucky enough to be healthy and in work, they've had all the problems of their current homes rubbed in their faces for several months.*
- ▶ *On top of that, they now also need extra room for home-working and would really like some outdoor space that's nicer than the pavement outside Tesco.*
- ▶ *Of course, the stamp duty break [for the first £500,000 of residential transactions that complete before 31 March 2021] isn't going to be around forever, and for many that has been the final straw to break the waiting game.'*

The development concerned is priced above the £600,000 Help to Buy threshold and there are a few such schemes in long-established residential areas that are selling well to people who already live nearby. Two good examples are Regal London's Clapham Place, where 26 units sold during Q3 2020, and Mount Anvil's Hampstead Manor, where 16 units sold.

In more affordable developments, where Help to Buy is available, the incentive and stamp duty break have together driven sales velocities that are unprecedented in recent times for schemes selling mainly to UK owner occupiers. L&Q's Lock No. 19, where 52 units sold during Q3, and Barratt's Hayes Village, where 45 units sold, are just two examples.

The Help to Buy and stamp duty break combo has also helped to revitalise the prospects of several

completed developments where sales efforts for the remaining stock units had previously stalled. Consequently, the quantity of completed stock units available for sale across London has dropped for the first time since the end of 2014, and this drop was most significant in Outer London boroughs.

For overseas buyers, the current stamp duty break is also relevant. So is the impending imposition of a 2% stamp duty surcharge on purchases that complete from 1 April 2021 onwards. However, political uncertainty is normally given as the main reason for sustained overseas interest in UK property, particularly from buyers in Hong Kong. Schemes that have sold particularly well overseas include St George's Grand Union and Telereal Trillium's 127 West Ealing.

While the sales picture has been positive, deals that hinge on the temporary stamp duty break are reliant on the associated construction completing before 31 March 2021. This comes at a time when the construction side of the industry still faces significant challenges, particularly at the fitout end of the process. So, while build completions increased significantly over the course of Q3 2020 compared to Q2 2020, developers still do not like being asked to put an end date to their projects. Nonetheless, a small number of the bravest companies have re-scheduled build programmes to fit within the stamp duty deadline. We hope that the project managers involved are made of stern stuff.

Given that the sales side of the industry is flourishing under a very specific set of circumstances it is hard to not question what will happen next. It is known that Help to Buy will be restricted to first time buyers from the beginning of April 2021; at the same time the stamp duty break is scheduled to expire. However, so much else is uncertain – the effects of COVID and Brexit being just a couple of factors. In the immediate term, however, the industry appears to have received a boost of confidence that has seen construction starts return almost to the same level as

at the start of the year.

Finally, a word on valuation and viability assessments. We think HM Land Registry, perhaps due to furlough, has a substantial backlog of work and perhaps two thirds of the last twelve months' completed new homes sales have yet to make it into published Price Paid data. This means available valuation evidence is more scarce than usual.

THE NUMBERS

During the last few weeks Molior London has interviewed the developers behind the 673 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 show starts, completions and sales across all London local authorities since 2009.

The table on page 6 shows the number of units sold in developments with 12 or more sales during each of the last four quarters, as split roughly across seven main sales drivers.

CONSTRUCTION

- ▶ 4,780 units commenced construction across London during Q3 2020 - 40% up on Q2.
- ▶ 5,300 units completed construction across London during Q3 2020 - 70% up on Q2.
- ▶ 61,500 units are under construction in London - 6% below the peak level at the end of 2018.

SALES

- ▶ 5,875 units sold across London during Q3 2020 - compared to 5,980 during Q1 2020 and a quarterly average of 4,950 during 2019.
- ▶ Excluding 'sales' to BTR the number is 4,520, which has not been beaten since Q1 2017 when 4,900 units sold.
- ▶ 28,100 units under construction are unsold, which is 46% of all units currently underway.
- ▶ In addition, there are 3,180 completed unsold 'stock' units across London. This is 17% down on the number of at the end of 2019 - the first drop since the end of 2014.

PRICING

The average new build completion price for a home in London in the 12 months to the end of Q3 2020 was £862 psf:

- ▶ Nine developments have completed at average prices below £400 psf.
- ▶ 83 have completed at average prices between £401 and £600 psf.
- ▶ 109 are between £601 and £800 psf.
- ▶ 39 are between £801 and £1,000 psf.
- ▶ 40 are between £1,001 and £1,500 psf.
- ▶ 10 are between £1,501 and £2,000 psf.
- ▶ Nine 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, broken down into four London Underground zone groupings.

ZONE 1

- ▶ There were 1,275 construction starts during the first nine months of 2020 - pro-rata the year is on track to have the lowest number of starts since 2010.
- ▶ There were 1,790 sales - pro-rata the year would be the worst since 2011.
- ▶ Based on current sales rates, it would take 2.6 years to sell all units currently unsold if nothing new commences construction. This is up from 2.1 years at the end of 2019.

ZONE 2

- ▶ There were 4,450 construction starts during the first nine months of 2020 - 66% more than 2019 pro-rata.
- ▶ There were 4,540 sales - 17% more than 2019 pro-rata.
- ▶ Based on current sales rates, it would take 1.2 years to sell all units currently unsold if nothing new commences construction. This is down from 1.5 years at the end of 2019.

ZONE 3

- ▶ There were 4,180 construction starts during the first nine months of 2020 - the lowest level since

2016 pro-rata.

- ▶ There were 5,330 sales - a new record high pro rata.
- ▶ Based on current sales rates, it would take 1.2 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 3,150 construction starts during the first nine months of 2020 - the lowest number since 2012 pro-rata.
- ▶ There were 3,980 sales - the lowest number since 2012 pro-rata.
- ▶ Based on current sales rates, it would take 1.5 years to sell all units currently unsold if nothing new commences construction. This is slightly 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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