QUARTERLY ANALYSIS
JULY 2018

Build to Rent Special

Analysis by Sam Long and Tim Craine

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FRONT COVER PHOTO
Greenford Green, Ealing
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DISCLAIMER

Greenford Green, Ealing

EXECUTIVE SUMMARY

Vista, Wandsworth

The sentiment in marketing suites and selling agents' offices across London has remained subdued during Q2 2018.

As ever, the headline numbers only go so far in explaining this:

- The number of new homes sold in London during Q2 2018 was significantly down on Q1 2018 but is not far off the average for 2016 and 2017.
- However, Build to Rent (BTR) now forms a major component of sales, two fifths during Q2 2018, and is not readily visible to most marketing suites - it certainly doesn't contribute to their sales targets.
- Instead, the picture with BTR removed shows that sales to other forms of buyer fell by more than a third between Q1 and Q2 2018.
- Meanwhile non-BTR construction starts

rose by more than a quarter from Q1 to Q2, so the number of unsold new homes in London continues to rise beyond previous records.

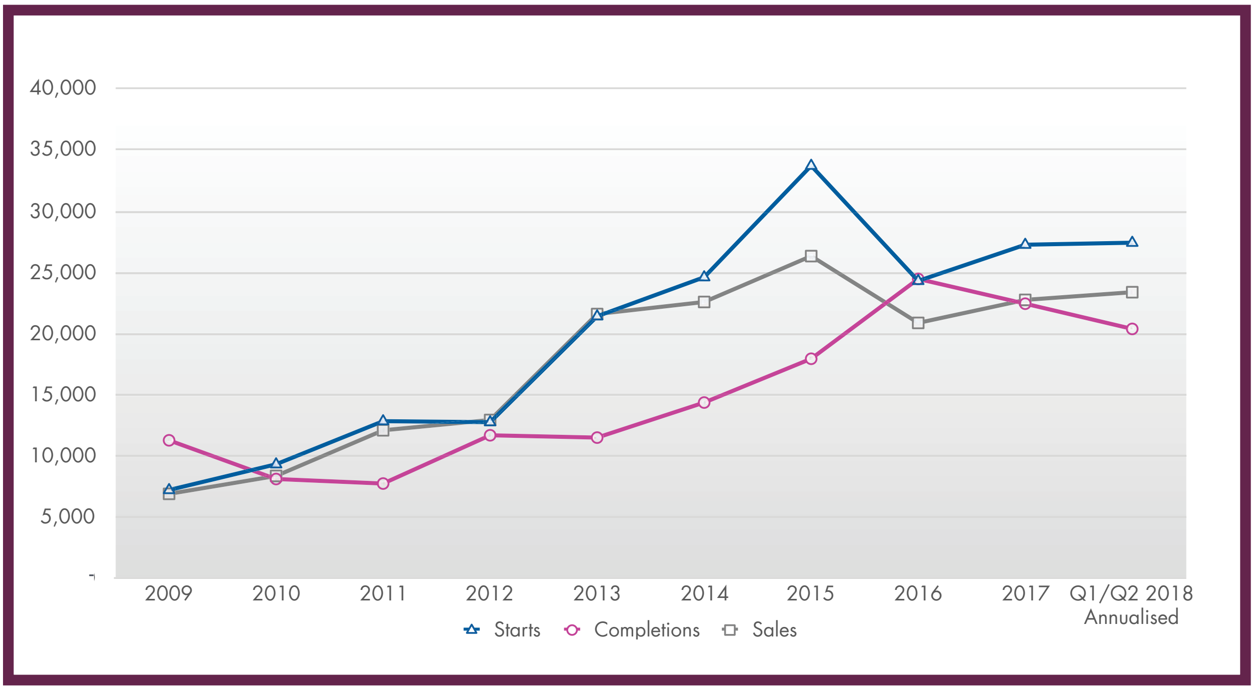
The bulk of the growth in both new construction starts and unsold units lies in Outer London boroughs, where Help To Buy is talked of as the only show in town. Most people are agreed that the incentive package has been indispensable in the current market. Also, given that it only kicks in within six months of completion, developers have a justifiable reason to commence piling on a largely speculative basis. Nevertheless, the incentive does regularly raise two linked questions:

- How reliant is the industry on Help To Buy?
- What will happen in 2021 when the scheme is wound down?

There is no precise answer to the first question and we would not attempt to answer the second. However, half of all sales during Q2 2018 were concentrated within just 32 top selling projects, and these give an indication of the diversity of disposal routes currently being taken by developers:

- In 11 developments the sales were accounted for by BTR - including in-house starts by BTR specialists, bulk purchases and last-minute decisions to rent rather than sell. The BTR companies involved include the likes of Greystar, L&Q PRS, M&G and Quintain.
- In two cases units permitted as private are being delivered as affordable.
- Four schemes have been significantly flattered by other forms of bulk purchase. Apparently Israeli buyers are in town with deep pockets.
- In nine cases Help To Buy is said to have been a key factor of success and a wide range of developers are deploying the incentive, from prominent names such as Barratt and Bellway to more niche players like London Green.
- Six schemes have sold well without any of the assisting factors described above - three of these are Berkeley Group projects.

So, in this rough and ready snapshot Help To Buy has been relevant to over a quarter of the schemes



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	2,067	2,100	3,193
2012: Q1	2,878	2,597	3,659
2012: Q2	2,947	3,333	2,625
2012: Q3	3,063	2,141	2,819
2012: Q4	3,858	3,603	3,822
2013: Q1	4,767	2,321	5,743
2013: Q2	4,317	2,940	4,508
2013: Q3	6,077	3,036	5,454
2013: Q4	6,246	3,188	5,885
2014: Q1	5,189	2,799	4,924
2014: Q2	6,089	4,292	5,434
2014: Q3	5,590	3,573	5,592
2014: Q4	7,734	3,688	6,627
2015: Q1	9,741	3,817	8,579
2015: Q2	7,542	3,850	6,605
2015: Q3	8,131	5,531	5,564
2015: Q4	8,308	4,735	5,581
2016: Q1	6,388	4,731	5,850
2016: Q2	5,038	5,876	4,670
2016: Q3	6,948	6,733	5,005
2016: Q4	5,927	7,121	5,339
2017: Q1	6,490	6,465	5,659
2017: Q2	7,066	4,818	5,902
2017: Q3	7,674	5,369	6,100
2017: Q4	6,029	5,784	5,087
2018: Q1	6,575	4,460	6,538
2018: Q2	7,137	5,727	5,150

concerned, while BTR has been the driver in about a third. Less than a fifth are getting on with no assistance.

If half of all sales were in 32 projects during Q2 2018, the other half were spread across 661 developments. Many of these 661 schemes had difficulty in making any form of sales progress during the last quarter, while a few have moved in reverse.

The location which is perceived to be under the most pressure by the media, and by some people in the industry, is the Nine Elms area between Vauxhall and Battersea Power Station. A number of people seem to be waiting for this regeneration area to fail – perhaps unfairly. There are other areas around London which are similar in scale and impact – for example The Royal Docks, Wembley and Colindale. The Isle of Dogs was one of the first regeneration zones and continues to have more exposed units under construction than Nine Elms.

Placing a range of intangible issues aside, pricing has to be the key differentiating factor between Nine Elms and other regeneration areas. A broad-brush average asking price of £1,700 psf for the area is a cut above any other speculative location. It also hides a phenomenal range, from £1,100 psf at the lower end to £2,800 psf at the top. It is widely thought that the top end pricing can only fall, which could jeopardise all developers in the area, including those who have left a lot more meat on the bone for buyers.

Of course there is potentially a big difference between the asking prices discussed above and what is actually being agreed behind closed doors. Understandably developers are not forthcoming on this subject, particularly in Nine Elms. However, conversations over the last month have revealed a consensus on what is actually happening in the market, if Help To Buy is taken out of the equation.

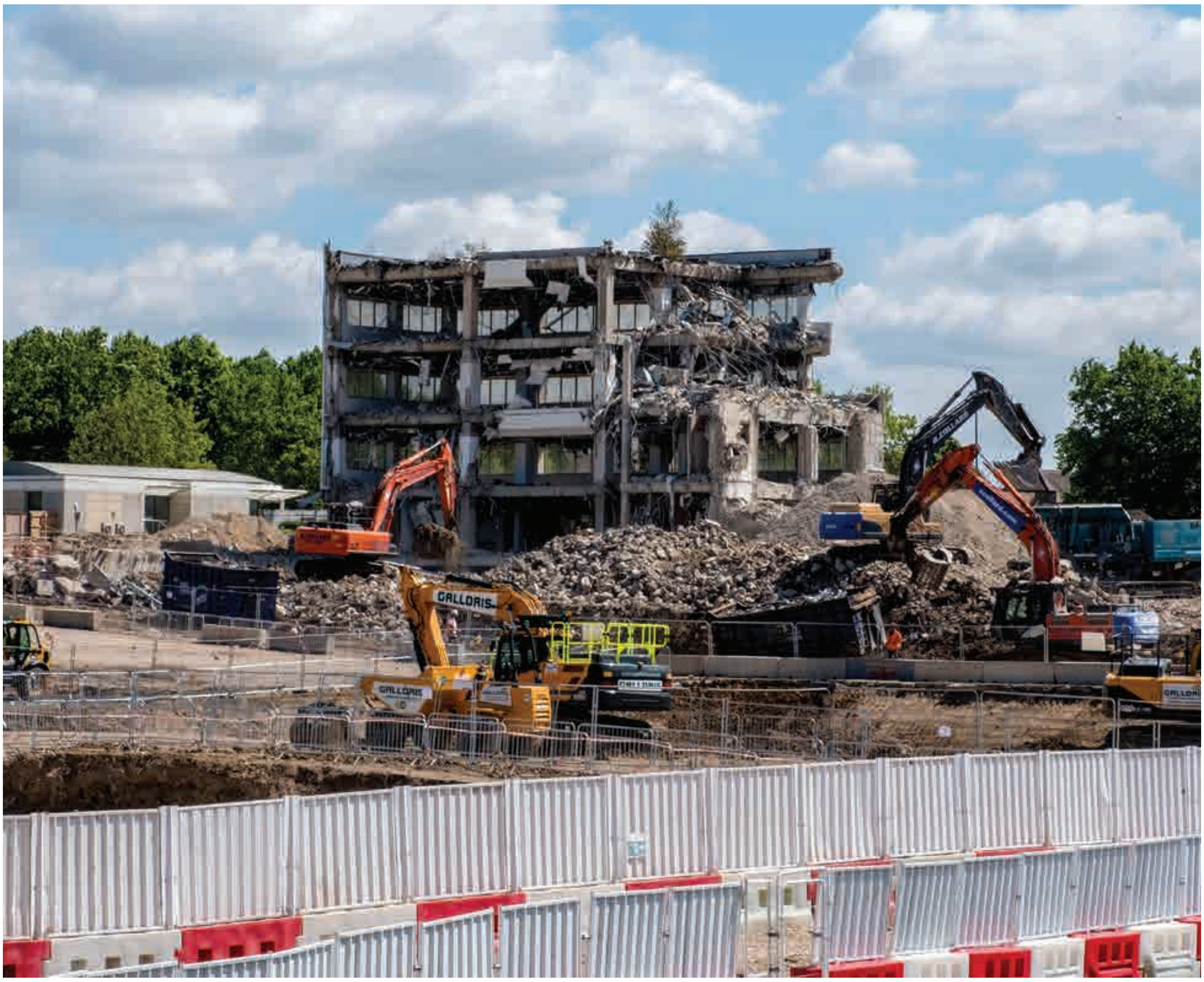
A number of boroughs have seen a noticeable fall in asking prices since the end of 2017. Furthermore, discounts between 4% and 7% often appear to be just the starting point for negotiations, depending on unit size. This seems to be the case particularly for high rise projects dotted around the eastern fringe of the City and across the river in Southwark. A greater discount will be available depending on how close developments are to completion and how keen funders are to extricate themselves. We get the impression that discounts from 10 to 15% are becoming quite normal, while those between 20 and 30% are rare but possible on selected schemes.

Such heavy concessions could well be pragmatic, but they make the management of the completion process a potential nightmare in an era when neighbours can easily check each other's completion prices, and when construction longstop dates may have been breached a while ago. Genuine problem cases have so far not emerged, but as Nine Elms shows there will be plenty of commentators waiting to make a mountain out of any molehill.

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 693 schemes being built or with stock units across London. We do this each quarter.

Greenford Green, Ealing



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

KEY STATISTICS

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

During Q2 2018:

- 5,200 new homes sold in London, compared to 6,500 during Q1, and a quarterly average of 5,500 during 2016 and 2017.
- 39% of these sales have been taken by the BTR Sector
- 7,100 units started construction.
- 5,700 units completed construction.

At the end of the quarter:

- 68,000 units are under construction, which is 5% up on the end of 2017.
- 46% of these units are unsold.
- There are also 1,500 complete but unsold 'stock' units, which is 9% down on Q4 2017. One caveat on this number is that we think developers are hiding stock units in some completed schemes.

The table on the following page shows average £psf asking prices for all 33 London local authorities since 2009. As described already, asking price data becomes questionable in a falling market when significant price discounts are increasingly being talked about. However, the table does show some interesting movements.

Across London:

- Asking prices rose between 2010 and 2017, by 73% - from £521 psf to £901 psf.
- Since the end of 2017 the average has fallen for the first time, albeit by a small amount - 2%.

Ten local authorities have seen average asking prices fall by more than 5% during the first half of 2018:

- Sutton is the most extreme case, with a 21% fall, but current pricing data relates to just two schemes and is therefore of less statistical interest than elsewhere.
- Of greater importance are the nine local authorities with average price reductions between 5 and 11%. These include the City of London and the boroughs of Southwark, Tower Hamlets, Newham and Islington, which contain a number of prominent high rise projects, some of which are fast approaching completion.
- The outer boroughs of Croydon, Harrow, Hounslow and Kingston upon Thames also fall into this group.

Meanwhile five local authorities have seen average asking prices increase by more than 5% over the same period. They are Merton, Greenwich, Lambeth, Westminster and Ealing.

In practice many agents would question the reality of such apparent rises. However, it is worth noting that Ealing, which has apparently benefitted from an 11% price rise, has seen launches by St George, Bellway, City and Docklands, Countryside and One Housing Group. Consequently it has also seen a marked uplift in sales volumes over the last six months - by 170% compared pro-rata with 2017. The change in price therefore probably has as much to do with the change in mix as genuine market movement.

Local Authority	2009	2010	2011	2012	2013	2014	2015	2016	2017	Q1/Q2 2018
Camden	£1,069	£961	£1,057	£1,154	£1,034	£1,224	£1,239	£1,333	£1,336	£1,366
City of London	£1,130	£1,094	£1,149	£1,391	£1,519	£1,929	£1,863	£1,699	£1,795	£1,624
Hackney	£469	£467	£482	£563	£719	£832	£986	£1,087	£1,122	£1,078
Hammersmith & Fulham	£855	£727	£830	£975	£1,104	£1,145	£1,180	£1,224	£1,335	£1,324
Islington	£607	£709	£641	£755	£923	£1,127	£1,099	£1,250	£1,361	£1,292
Kensington & Chelsea			£1,242	£1,242	£1,839	£1,635	£1,677	£1,701	£2,003	£1,913
Lambeth	£542	£607	£516	£554	£701	£729	£1,012	£1,372	£1,231	£1,322
Southwark	£514	£652	£672	£824	£920	£1,159	£1,062	£1,089	£1,077	£962
Tower Hamlets	£560	£520	£541	£639	£697	£834	£889	£944	£1,039	£947
Wandsworth	£552	£543	£605	£673	£764	£1,026	£1,011	£987	£1,012	£1,046
Westminster	£1,446	£1,401	£1,608	£1,942	£2,064	£2,137	£2,167	£2,105	£2,006	£2,185
Inner London	**£774**	**£768**	**£849**	**£974**	**£1,117**	**£1,252**	**£1,290**	**£1,345**	**£1,393**	**£1,369**
Barking & Dagenham	£317	£277	£272	£251	£261	£289	£334	£393	£440	£445
Barnet	£603	£483	£533	£584	£602	£571	£607	£730	£688	£693
Bexley		£213	£287	£309	£304	£275	£356	£379	£361	£358
Brent	£439	£470	£484	£487	£462	£576	£640	£764	£758	£736
Bromley	£368	£323	£339	£340	£375	£436	£515	£555	£587	£599
Croydon	£343	£346	£350	£360	£401	£527	£631	£655	£668	£610
Ealing	£494	£605	£459	£458	£458	£734	£753	£774	£647	£718
Enfield	£428	£392	£456	£415	£400	£409	£552	£593	£508	£509
Greenwich	£451	£499	£492	£505	£485	£588	£664	£690	£698	£741
Haringey	£371	£543	£519	£347	£390	£400	£696	£826	£800	£805
Harrow	£396	£482	£513	£443	£432	£497	£577	£602	£708	£654
Havering	£273	£270	£282	£295	£297	£333	£356	£514	£502	£497
Hillingdon	£354	£337	£341	£347	£368	£396	£528	£551	£508	£525
Hounslow	£418	£375	£355	£391	£514	£671	£696	£753	£852	£775
Kingston upon Thames	£454	£467	£495	£529	£571	£699	£741	£772	£772	£721
Lewisham	£443	£397	£412	£436	£467	£618	£630	£665	£675	£695
Merton	£419	£426	£365	£431	£588	£662	£774	£842	£838	£890
Newham	£434	£399	£405	£389	£480	£689	£680	£690	£693	£646
Redbridge	£391	£387	£441	£432	£307	£349	£444	£492	£487	£508
Richmond upon Thames			£533	£545	£595	£722	£880	£909	£1,106	£1,087
Sutton		£340	£313	£335	£332	£385	£487	£546	£525	£412
Waltham Forest	£394	£425	£331	£340	£327	£443	£517	£676	£586	£585
Outer London	**£410**	**£403**	**£408**	**£408**	**£428**	**£512**	**£594**	**£653**	**£655**	**£646**
London	**£536**	**£521**	**£555**	**£596**	**£658**	**£759**	**£828**	**£883**	**£901**	**£887**

Based on a borough-by-borough ranking of average prices, the eight graphs on the following pages provide a rough-and-ready illustration of market performance by price band.

The left-hand figures show: Starts, Sales and Unsold Units. A promising market would see Sales higher than both Starts and Unsold units.

The right-hand figures show the same data in a different manner:

- Starts MINUS the number of units sold each year. Over time the resulting number should be zero.
- The number of unsold units under construction divided by the annual sales rate: i.e. how long, in years, it would take to sell unsold homes at the current sales rate. We think anything over '1' is high.

For areas selling up to £599 psf… The left-hand figure shows the number of unsold homes to be close to Starts and Sales. Moreover, the absolute numbers are low and the trend is roughly flat for the last few years. Consequently, the right-hand figure shows 'starts minus sales' to be close to zero and at current sales rates it would take 1.1 years to sell units currently under construction but unsold. This appears to be a good market.

For areas selling at between £600 and £999 psf… The left-hand figure shows the number of unsold homes to be close to Starts and Sales. However, the absolute numbers are high, and the trend is rising. This is Help to Buy territory - the right-hand figure shows starts minus sales to be rising as developers build in advance of sales launches. But it would still take just 1.1 years to sell units currently under construction but unsold. Again, this appears to be a good market.

For areas selling between £1,000 and £1,500 psf… The left-hand figure shows the number of unsold homes to be double Starts and Sales. Starts are falling but we are surprised that anyone is commencing construction given what the right-hand figure shows. 7,500 unsold units would take two years to sell at current sales rates, and the 'time to sell' measure has been rising steadily since 2013.

For areas selling over £1,500 psf… starts have consistently outpaced sales for most of the last decade and it would now take more than three years to sell unsold homes at current sales rates. As a result, starts are at their lowest level since 2011.

Any questions …

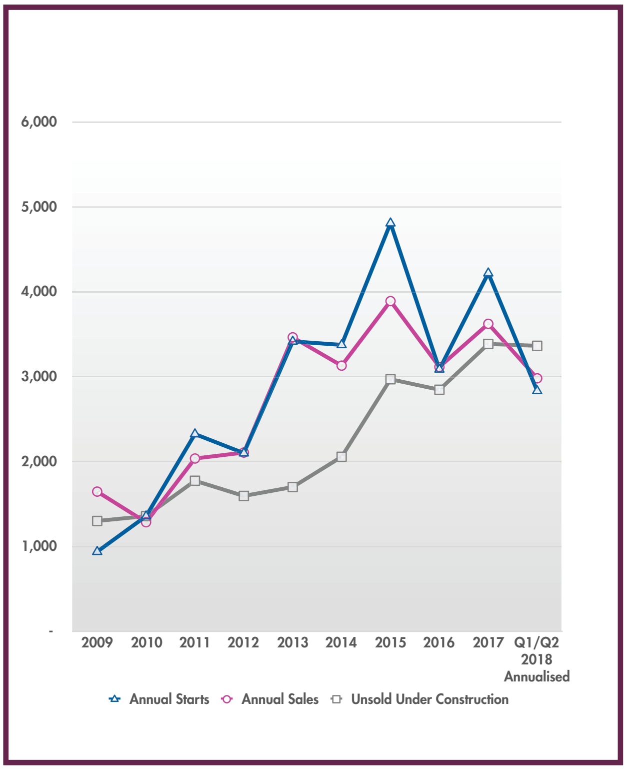
Incredibly detailed scheme-by-scheme data can be found on the **Molior Database** - if you need log in details please get in touch.

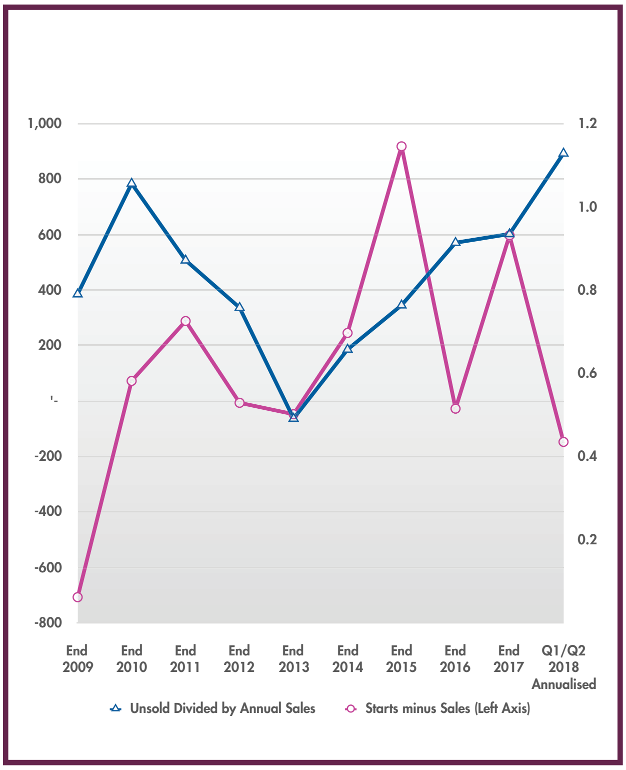
Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate call us.

Sam Long and Tim Craine, 16 July 2018.

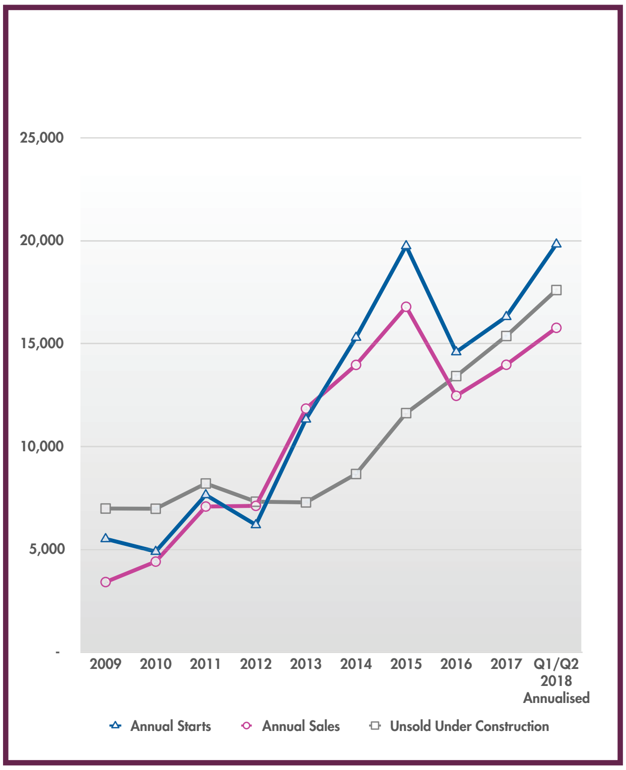
Sam Long: 07900 682423
Tim Craine: 07951 742576

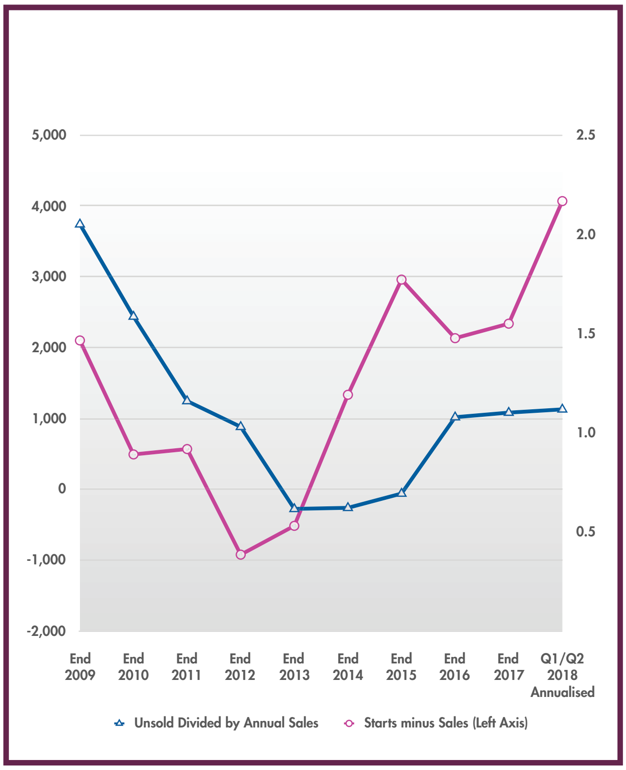
Units priced up to £599 psf



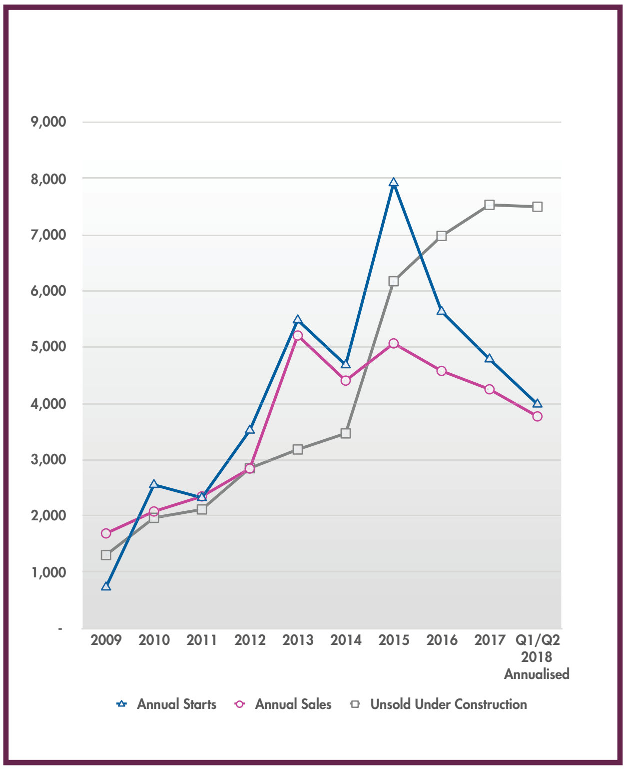


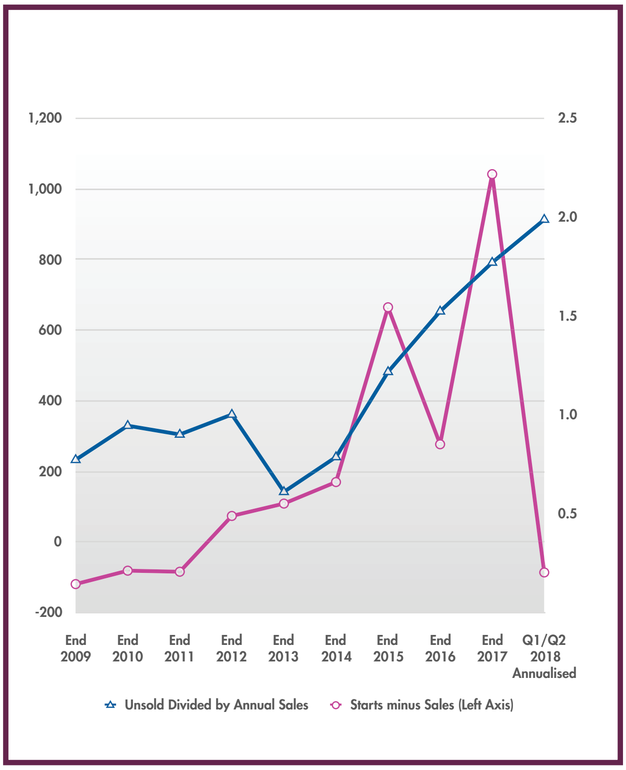
Units priced from £600 to £999 psf



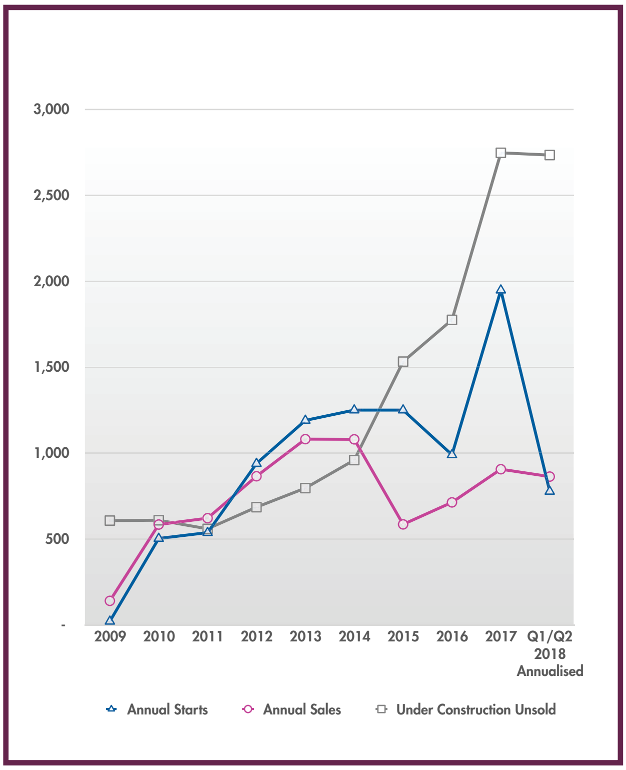


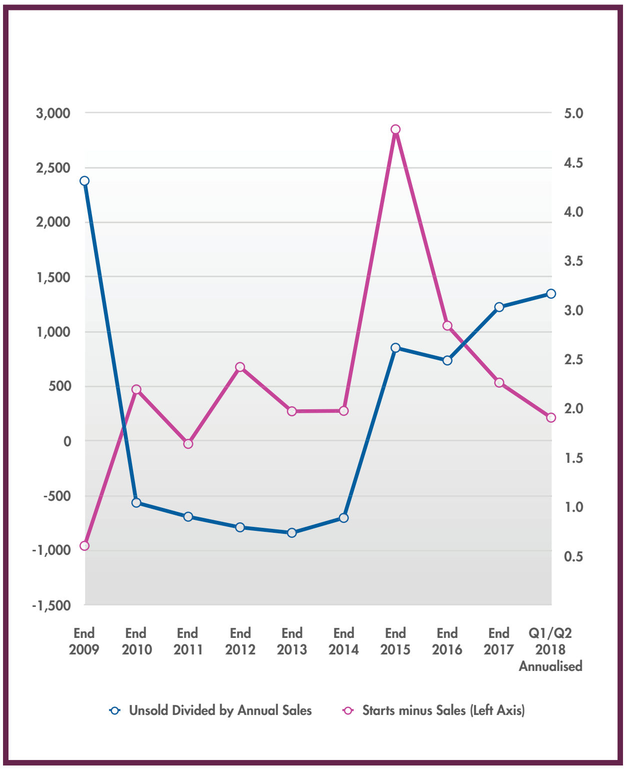
Units priced from £1,000 - £1,499 psf





Units priced from £1,500+ psf





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