

QUARTERLY ANALYSIS : SALES

Analysis by Sam Long and Tim Craine, April 2018

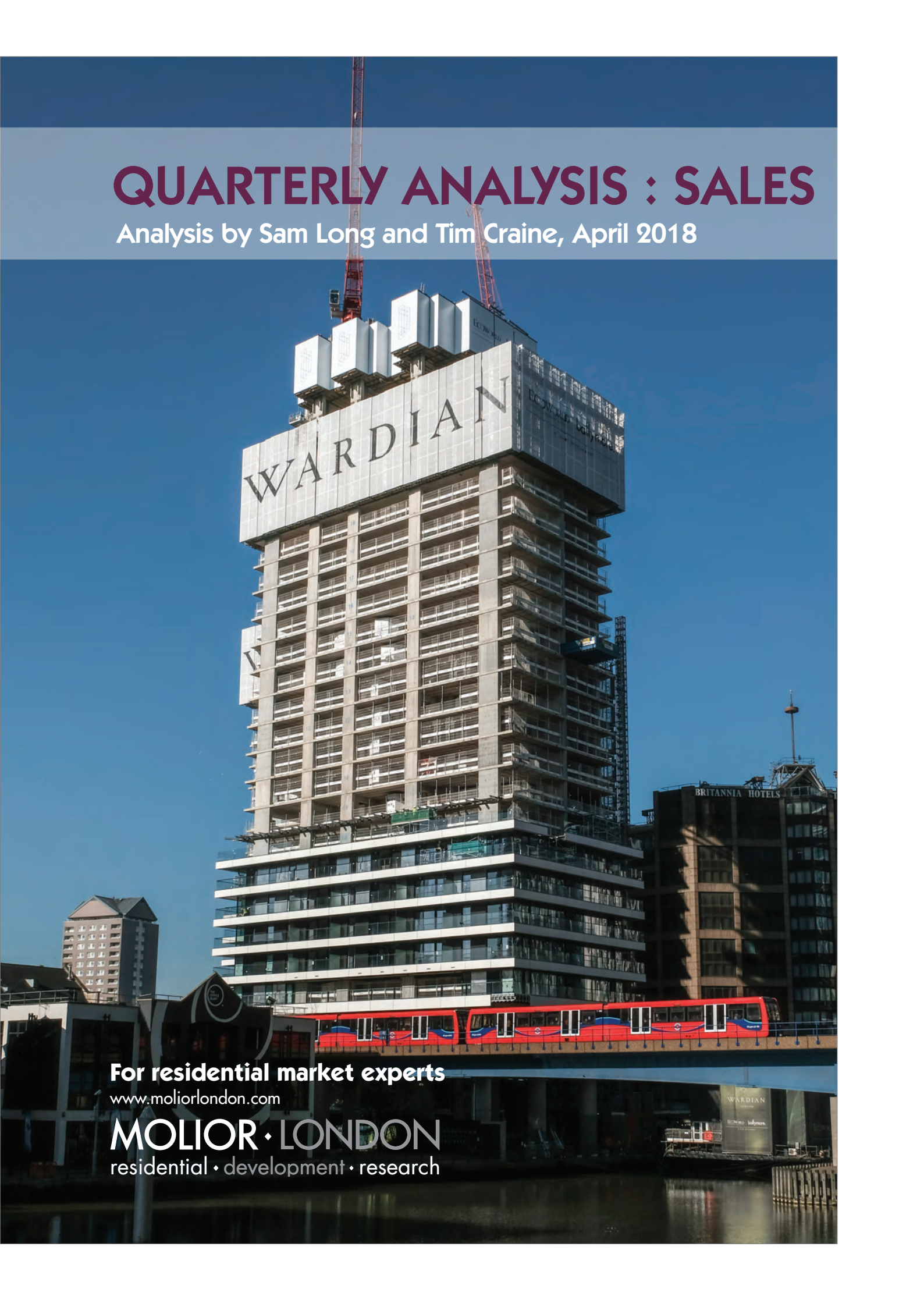
WARDIAN

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FRONT COVER PHOTO

Wardian, Tower Hamlets

Photographer: Amanda Denny

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Wardian, Tower Hamlets



EXECUTIVE SUMMARY



The Bagel Factory, Tower Hamlets

This may come as a surprise, but the first quarter of 2018 saw the second highest quarterly number of new homes sold in London on record. Only Q1 2015 had more sales, which were largely the result of that year's GPDO office-to-residential conversion boom, when many of the units involved were built to rent.

Consequently:

- ▶ For the first time since Q2 2013,

significantly more units have been sold than have commenced construction.

- ▶ For the first time since the end of 2014 the proportion of units under construction that are unsold has fallen.

So, while just a few months ago several needles on the industry's dashboard were leaning ever closer to the red zone, Q1 2018 seems to mark a small step back towards safety.

Nevertheless, anyone trying vainly to sell units without the benefit of Help to Buy will probably want to take issue with these observations. After all, average asking prices also dropped during Q1 2018, for the first time since 2010, which is a more familiar tale and ties more comfortably with the pattern of low buyer demand experienced at many developments.

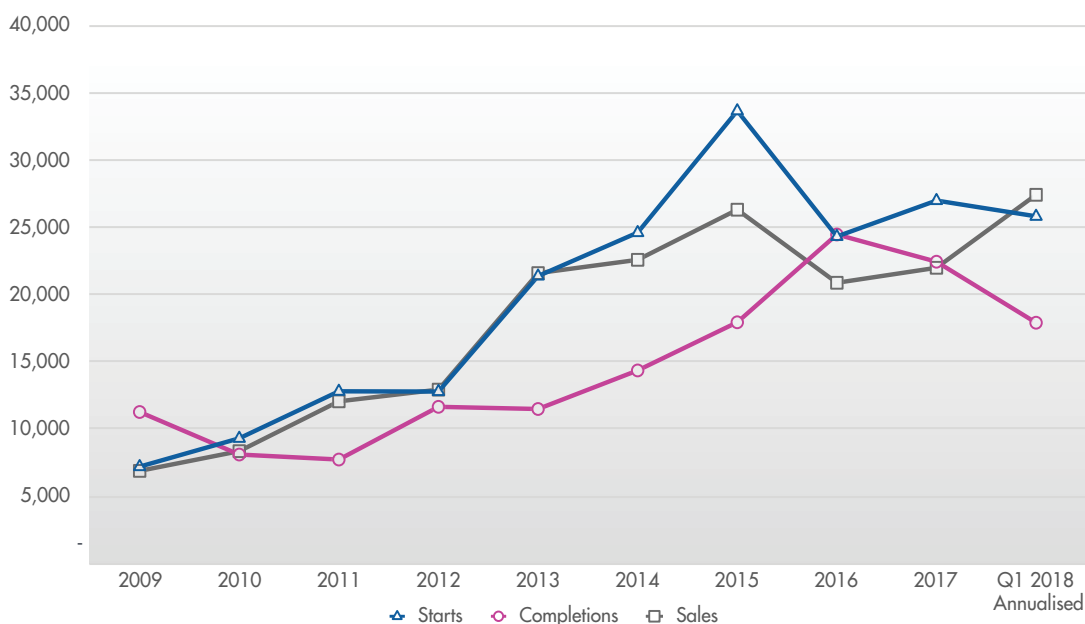
However, what may be a surprisingly high sales figure can be relatively easily explained through the stories behind the top 17 developments, which accounted for half of all sales logged during Q1 2018:

- ▶ Eight of these developments have commenced with Build to Rent in mind - they are either being built directly by a BTR operator, or have been forward sold to one. The BTR companies involved include Be Living, Fizzy Living, Grainger, Greystar, Invesco and Lendlease in partnership with the Canada Pension Plan Investment Board.
- ▶ Two more examples involved major bulk sales to other corporate buyers - to a

housing association in one instance and to a Luxembourg based fund in the other.

- ▶ Thames Valley Housing has decided to deliver The Appleton as purely affordable.
- ▶ Help to Buy was cited as the principal route cause of success for two further top selling developments - Bellway's Legacy Wharf and Barratt's Upton Gardens.
- ▶ Savills Investment Management's Callis Yard has benefitted from both Help to Buy and a significant consortium deal.
- ▶ Building works have only just started at Ballymore's Goodluck Hope and Galliard's Westgate House, which triggers the associated sales data to be included in this report, but the schemes were actually launched during summer and autumn 2017 respectively.

This leaves Telford Homes' launch of New Garden Quarter as the only unassisted release to private individuals during Q1 2018. We suspect that Telford's typically pragmatic approach to pricing



(£670 psf) was probably a key factor behind the 110 sales.

Pragmatic is a word that could be used to describe developer decision making in all of the cases above. Perhaps in the easier times, when most of

| 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 | 2,230 | 2,138 | 2,083 |
| 2011: Q3 | 3,397 | 2,264 | 3,907 |
| 2011: Q4 | 2,067 | 2,100 | 3,193 |
| 2012: Q1 | 2,878 | 2,570 | 3,659 |
| 2012: Q2 | 2,947 | 3,333 | 2,625 |
| 2012: Q3 | 3,063 | 2,141 | 2,819 |
| 2012: Q4 | 3,894 | 3,603 | 3,822 |
| 2013: Q1 | 4,731 | 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 | 9,716 | 3,817 | 8,554 |
| 2015: Q2 | 7,542 | 3,850 | 6,605 |
| 2015: Q3 | 8,092 | 5,531 | 5,564 |
| 2015: Q4 | 8,306 | 4,735 | 5,581 |
| 2016: Q1 | 6,399 | 4,731 | 5,850 |
| 2016: Q2 | 4,815 | 5,876 | 4,457 |
| 2016: Q3 | 6,961 | 6,733 | 5,016 |
| 2016: Q4 | 6,137 | 7,121 | 5,547 |
| 2017: Q1 | 6,543 | 6,465 | 5,633 |
| 2017: Q2 | 7,031 | 4,818 | 5,722 |
| 2017: Q3 | 7,697 | 5,369 | 6,100 |
| 2017: Q4 | 5,713 | 5,784 | 4,530 |
| 2018: Q1 | 6,453 | 4,475 | 6,853 |

these projects were conceived, a better margin was envisaged. But at this point in time the priority is presumably to make a sustainable living and keep projects moving through the pipeline.

Without the BTR sector it is likely that weeds would still be growing on a number of the sites concerned. It is also good to note that for all three of the non-BTR bulk deals mentioned above we have been told that the buyers intend to hold their investment for the long term.

All of this is positive but a couple of points of concern remain.

The first is that excess starts have built up over a number of years and there remain plenty of developments with relatively stagnant sales positions that will eventually have to be sold. This will often involve some form of price concession and may uncover a few instances where initial development appraisals were overly optimistic.

The second is that Help to Buy is seemingly being applied increasingly early in the development process. We have heard a couple of theories about how this can be facilitated, as well as a number of comments that rules are possibly being stretched. It is hoped that clouds are not forming on this horizon.

However, in general, the evidence reassuringly suggests that many of the industry's key decision makers are taking practical steps to ensure the optimum outcome for their projects under trying circumstances. Of course, this can only benefit the industry as a whole, albeit that a single quarter's data does not suggest that a collective sigh of relief is yet in order.

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 689 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.

KEY STATISTICS

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

During Q1 2018:

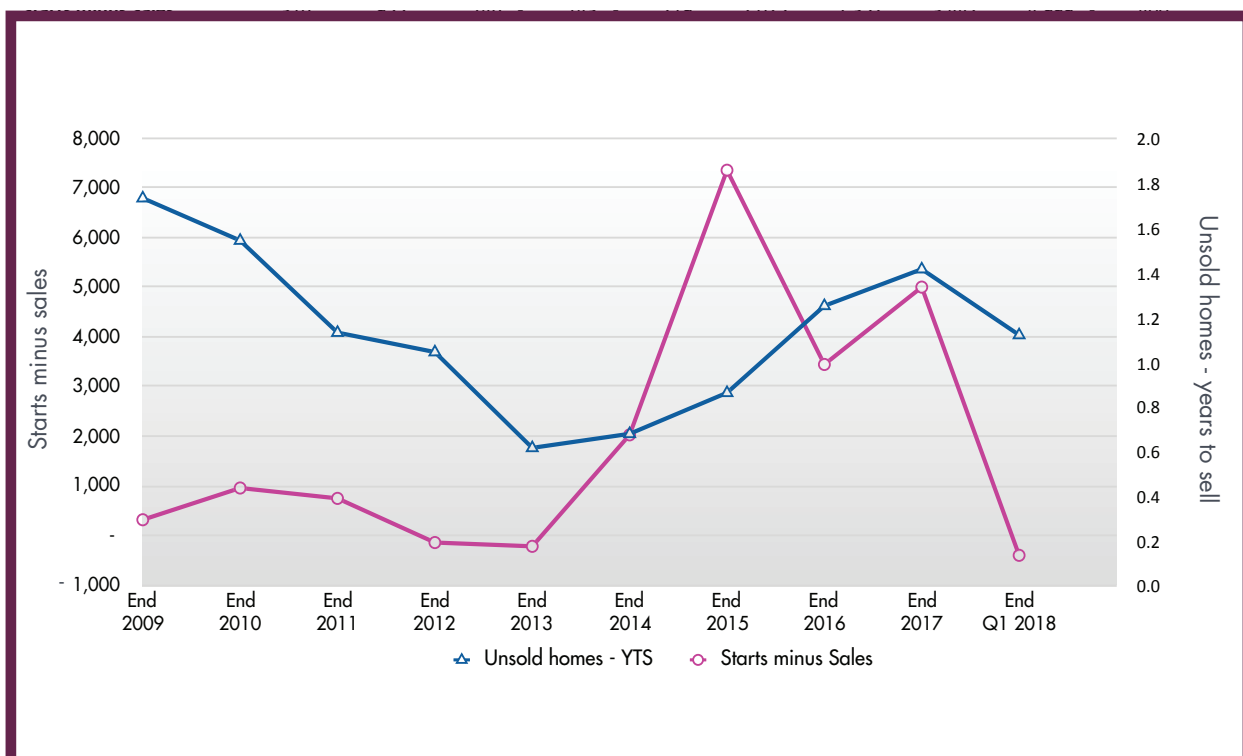
- ▶ 6,900 new homes sold in London, which has only been beaten by 8,600 sales during Q1 2015.
- ▶ 30% of these sales have been taken by the BTR sector.
- ▶ 6,500 units started construction.
- ▶ 4,500 units completed construction.

At the end the quarter:

- ▶ 180,000 units are permitted but not yet started across London.
- ▶ 66,000 units are under construction, which is 3% up on Q4 2017.
- ▶ 44% of these units are unsold, down from a level of 46% at the end of Q4 2017.
- ▶ There are also 1,800 complete but unsold 'stock' units, which is 11% up on Q4 2017.

The graph below shows the difference between construction starts and sales each year since 2009. It also shows the time that it would take to sell all units unsold at each year end based on the year's sales rate:

- ▶ From 2014 to 2017 some 18,000 more units started construction than were sold.



- ▶ But during Q1 2018 400 more units were sold than started construction.
- ▶ At the end of Q4 2017 it would have taken 1.4 years to sell all unsold stock if nothing new commenced construction and sales rates remained constant, but at the end of Q1 2018 this measure has fallen to 1.1 years.

Based on a borough-by-borough ranking of average prices, the four graphs on the following pages provide a rough-and-ready illustration of Starts, Sales and Year-End Unsold Units in four broad price bands. Whilst there have been excess starts across the board, the figures suggest that the top two price bands are the most problematic.

For up to £599 psf:

- ▶ Starts have continued to outpace sales, by 500 units during Q1 2018.
- ▶ There are now 3,300 unsold units.
- ▶ But this is only 11% of all unsold units, and pro-rata it would take 1.2 years to sell them.

For £600 to 999 psf:

- ▶ During Q1 2018 sales outpaced starts by 2,000 units.
- ▶ But there are still 16,500 unsold units.
- ▶ This is 54% of all unsold units, but pro-rata it would take less than a year to sell them.

For £1,000 to £1,499 psf:

- ▶ Starts have narrowly continued to outpace sales during Q1 2018.
- ▶ There are now 8,000 unsold units in this price band.

- ▶ This is 26% of all unsold units.
- ▶ Importantly, pro-rata it would take 2.6 years to sell these units - up from 2 years at the end of 2017.

For £1,500+ psf:

- ▶ During Q1 2018 sales outpaced starts by 300 units.
- ▶ However, there are still 2,900 unsold units in this price band.
- ▶ This is only 9% of all unsold units, but pro-rata it would take 3.5 years to sell them.

Any questions ...

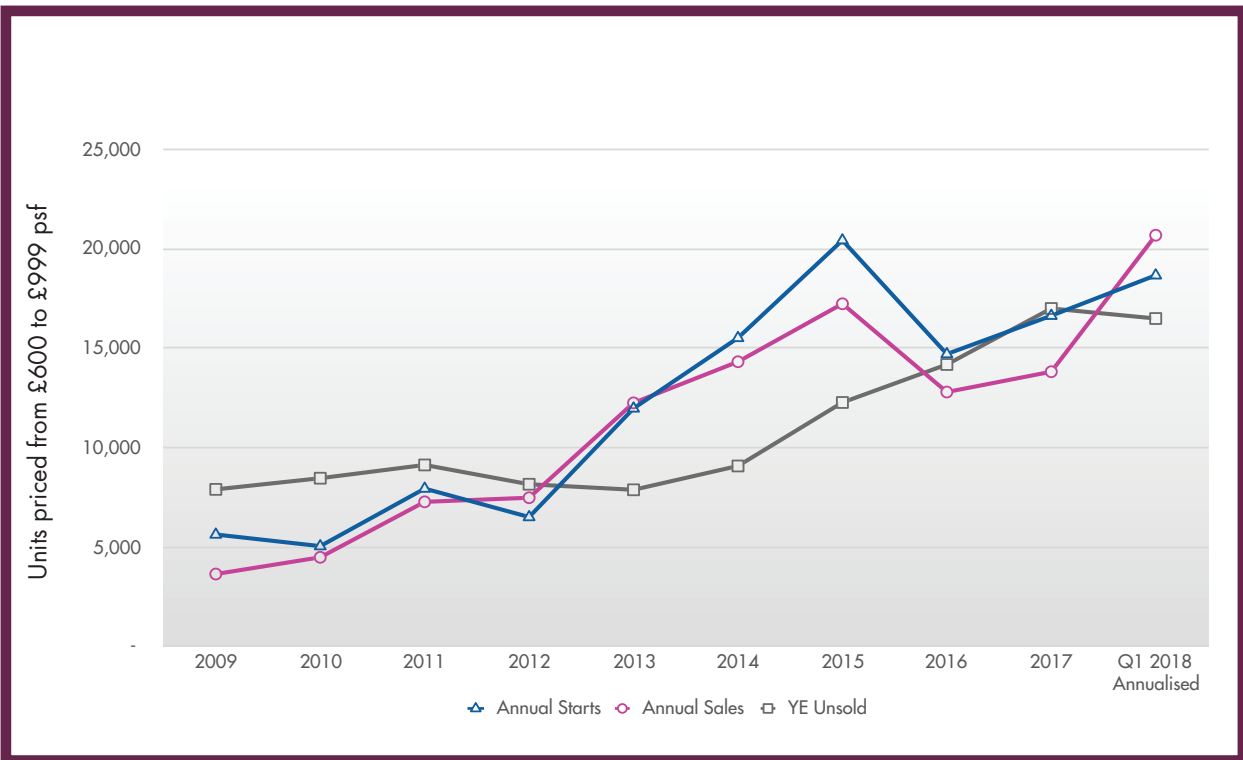
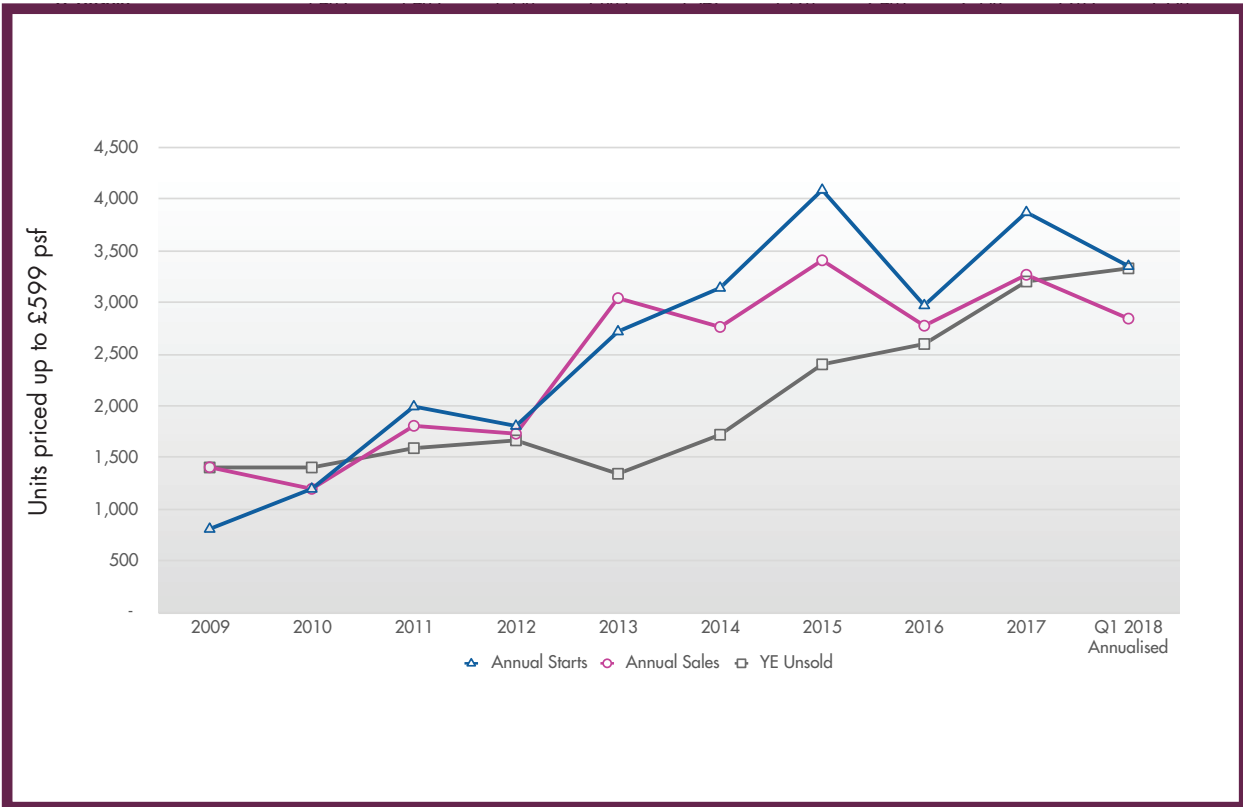
Incredibly detailed scheme-by-scheme data can be found on the **Molior Database** - if you need log in details please get in touch.

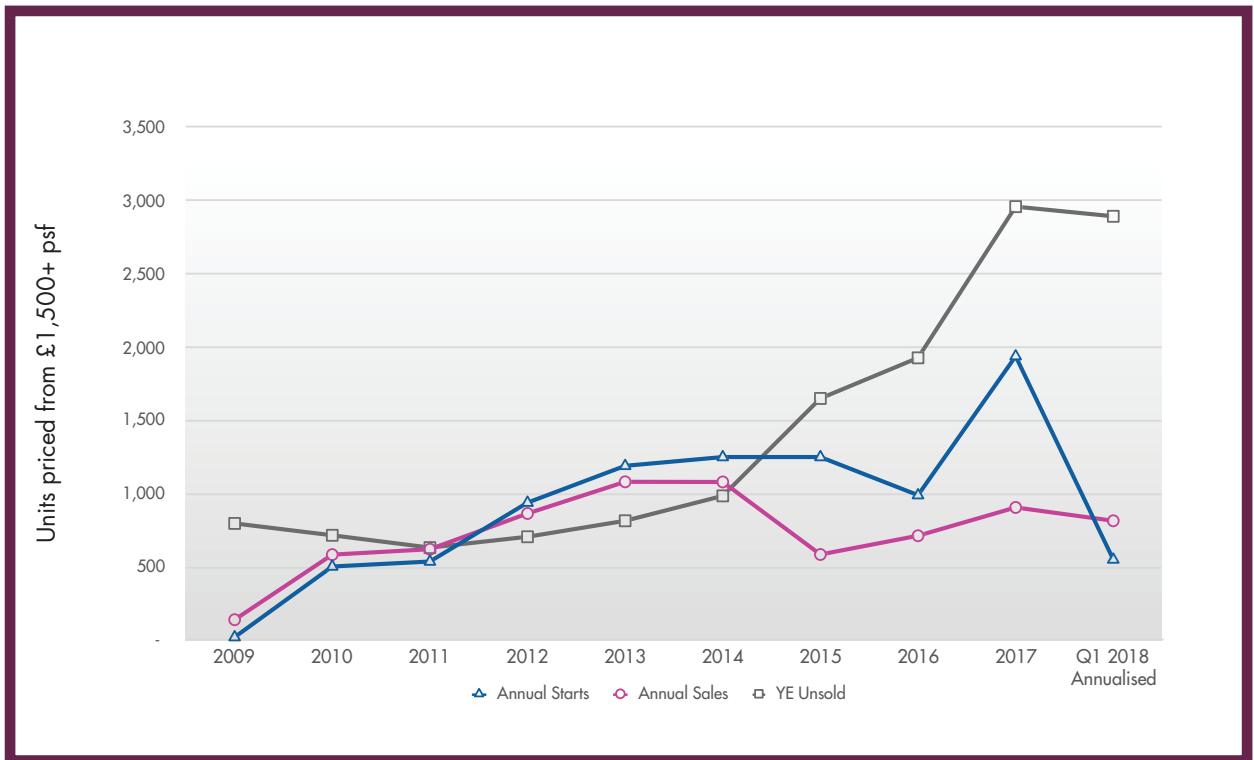
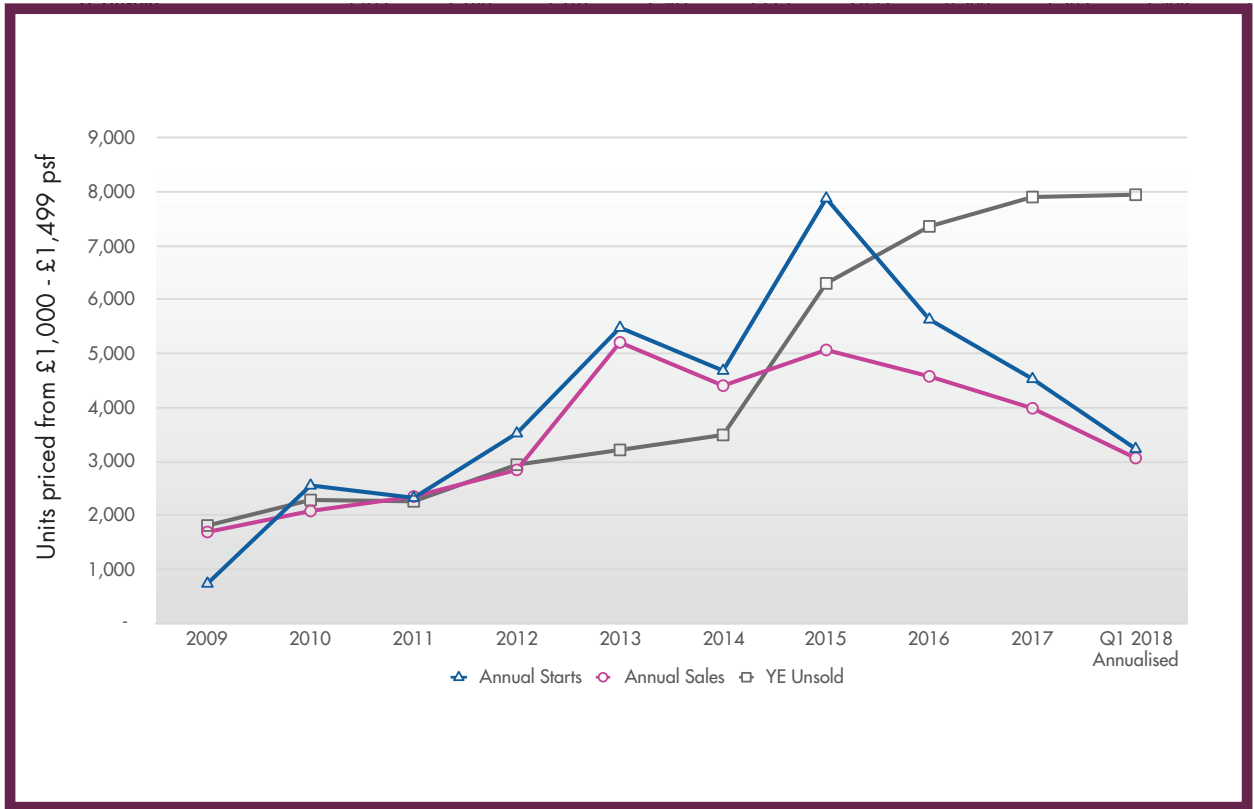
Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate call us.

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CONTENTS

| | |
|---|----|
| METHODOLOGY | 4 |
| EXECUTIVE SUMMARY | 5 |
| KEY BENCHMARKS | 13 |
| 1. Starts minus sales | 14 |
| 2. Total unsold divided by annual sales rates | 16 |
| 3. Permitted but not yet started | 18 |
| 4. Permissions divided by annual sales rates | 20 |
| CONSTRUCTION | 23 |
| 5. Construction starts | 24 |
| 6. Construction volumes | 26 |
| 7. Construction completions | 28 |
| 8. BTR construction starts | 30 |
| 9. BTR construction volumes | 32 |
| 10. BTR construction completions | 34 |
| SALES | 37 |
| 11. Annual Sales | 38 |
| 12. BTR share of sales | 40 |
| 13. Sales without BTR | 42 |
| 14. Under construction but unsold - numbers | 44 |
| 15. Under construction but unsold - percentages | 46 |
| 16. Complete but unsold | 48 |
| PRICING | 51 |
| 17. Average £psf by borough | 52 |
| 18. Construction starts by £psf | 54 |
| 19. Sales by £psf | 56 |
| 20. Unsold by £psf | 58 |
| 21. Recent price movements | 60 |
| 22. Scheme-by-scheme asking prices | 68 |