QUARTERLY ANALYSIS : SALES

Analysis by Sam Long and Tim Craine, April 2017

For residential market experts

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Earls Court Village, Kensington & Chelsea
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Earls Court Village, Kensington & Chelsea

EXECUTIVE SUMMARY

One Tower Bridge, Southwark

In Q1 2017 London's new homes market has shown marked resilience. The downward trends of 2016 have not continued into the beginning of 2017, despite many people's fears and a background of increasing global volatility.

Instead London's development industry continues to send piling rigs out to new sites. And although everyone wishes it was as easy as in 2013, marketing suites across London continue to do business. If anything new homes starts and sales rates are slightly up on 2016.

The potential impact of global events on London's market for new homes makes for interesting dinner party conversation – maybe Brexit is no longer the biggest bogey man in the room. However, sterling's continued slump is a tangible factor in the success of a number of recent launches, as is the fact that London continues to be a very marketable location for a number of well-known reasons.

Trips to the Middle East, the Far East and more exotic places like Russia have returned as a normal part of the sales process. Sales in Inner London boroughs rose slightly during Q1 2017.

Help to Buy remains a key factor in sustaining success in qualifying developments. These tend to be in outer boroughs, but there have also been examples that nestle just outside Zone 1, such as L&Q's Harvard Gardens which is part of a large council estate regeneration programme.

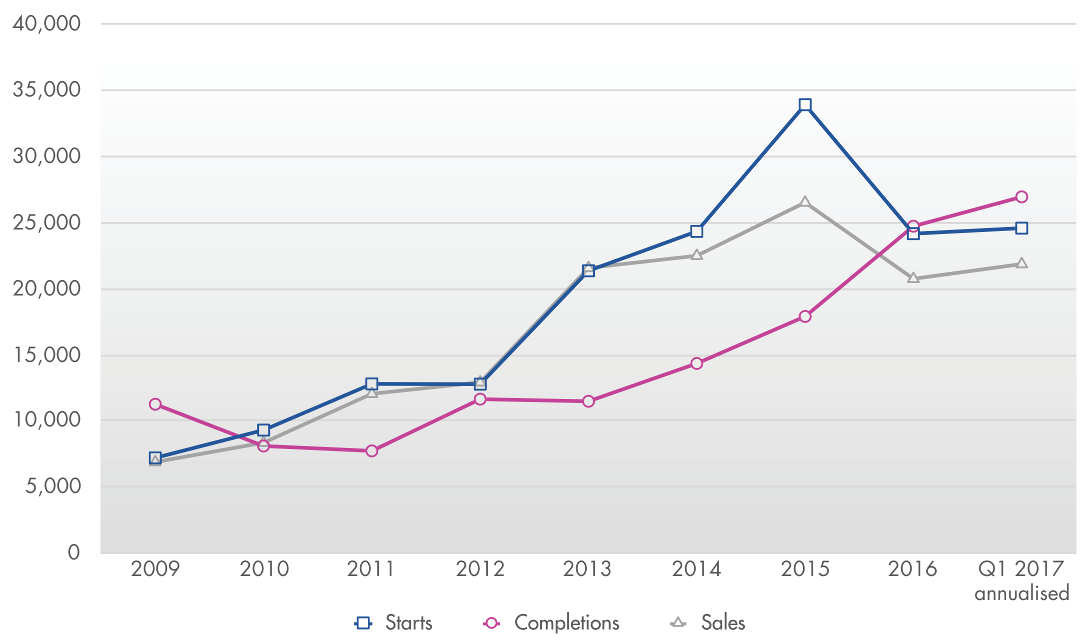
It is fair to say, however, that international buyers and Help to Buy are far from being the only stories of interest and the current market is highly nuanced.

First, there is an entrepreneurial and, often, overseas flavour to the organisations driving and backing many of the largest recent starts. Examples include Greenland's Spire London, Anthology's Deptford Foundry and PCP Capital Partners' Arundel Great Court.

In contrast, the likes of Berkeley and Barratt, normally London's two top development initiators, are absent from the list of the largest ten projects to start so far this year. They have actually only poured significant amounts of concrete into one new scheme each. It is particularly interesting to see that Barratt has chosen to commence the first phase of Upton Park, the former West Ham Stadium, in preference to the second phase of Aldgate Place, a very obvious gap in the landscape. In doing so it is betting on medium-rise development in a regeneration area, rather than high-rise on the eastern City fringe.

A risk averse approach is not to be mocked - the sales market may have proven to be resilient so far, but the PLCs are keenly aware that it may not be reliable in the future. Many have secured bulk deals to supplement, and sometimes replace, standard marketing processes. This has resulted in a number of high profile deals with the likes of Residential Land, Notting Hill and Greystar who will add the units into their Build to Rent (BTR) portfolios.

Such bulk deals have been critical in maintaining the BTR sector's growth, which has fallen significantly from the record expansion in 2015,



albeit that it remains higher than in 2014 and before. This is because construction starts instigated directly by BTR operators have dwindled almost to nothing. In other words BTR specialists are currently opting to purchase vanilla stock developed by others, rather than to procure units in-house.

Less reported have been bulk deals with wealthy individuals and resellers, who played a prominent role in the post-recession recovery. Acknowledging that the current market demands a multi-channel approach, resellers are now marketing their units both in the UK and overseas, which is in contrast to previous efforts that would have focused almost purely on the Far East.

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	6,066	4,292	5,369
2014: Q3	5,590	3,573	5,592
2014: Q4	7,506	3,688	6,625
2015: Q1	9,712	3,789	8,553
2015: Q2	7,791	3,850	6,849
2015: Q3	8,097	5,531	5,601
2015: Q4	8,348	4,740	5,539
2016: Q1	6,361	4,709	5,930
2016: Q2	4,905	5,872	4,464
2016: Q3	6,772	6,708	4,720
2016: Q4	6,143	7,456	5,649
2017: Q1	6,150	6,742	5,470

Finally, in holding construction starts firm in the early months of 2017 the industry is apparently foregoing a growing pool of permissions. This seems sensible because more units have been started than sold in London for several years now. Such is the case across all of London, not just in areas where the Help to Buy wand can only be waved at the tail end of the construction programme.

Based on current sales rates there is now more than a year's worth of new homes to be sold across London, a measure that has doubled over the last couple of years. This includes growing numbers of both completed stock units and, more significantly, units yet to be launched.

A number of developers have commented that the winds of uncertainty are driving rolling launch postponements on a number projects. Presumably the snap election on 8 June 2017 will be another reason to put things off, but all developments do need to be exposed to the market at some point.

THE NUMBERS

Over the last few weeks Molior has interviewed the developers behind the 606 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 use only.

KEY BENCHMARKS

Sections 1 to 4 include figures and tables detailing a number of key benchmarks. Foremost amongst these in the current market is the growing surplus of units started on site versus units sold.

- Since 2015 13,500 more units have started construction than have sold.
- At the end of Q1 2017 there are 27,000 units under construction or completed waiting to be sold.
- These would take 1.2 years to sell based on the current sales rate. The historic comparison is shown below.
- In Inner London the figure is 1.4 years compared to 1.0 in Outer London.

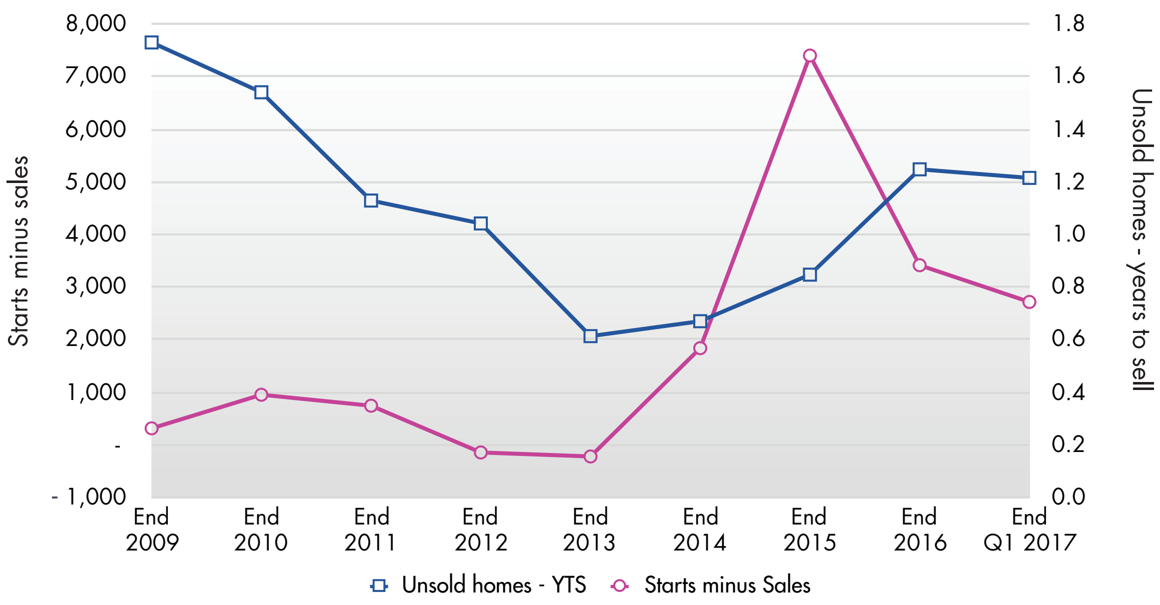
CONSTRUCTION

- Sections 5 to 10 contain figures and tables detailing construction starts, volumes and completions, both overall and separating out BTR schemes.
- 6,200 units started during Q1 2017, which slightly exceeds the quarterly average for 2016 but is almost 30% off the peak rate in 2015.
- 59,000 units are currently under construction across London, which is just under the record of 60,000 set in 2015.
- 6,700 units completed in Q1 2017, which is the record quarterly amount since 2009.
- BTR accounts for 15% of all private construction but only for 4% of all starts in Q1 2017.

SALES

Sections 11to 16 contain figures and tables detailing sales, with and without BTR, and unsold units.

- 5,500 units sold during Q1 2017, which slightly exceeds the quarterly average for 2016 but is almost 20% off the peak rate in 2015.



- BTR accounted for 14% of sales in Q1 2017, down from 26% in 2015.
- 43% of units under construction are unsold, compared to a low of 34% in 2014 and an average of 47% since 2009.
- There are 1,100 completed stock units in London, up from a low of 140 in 2014.

PRICING

Sections 17 to 22 contain figures and tables detailing average £psf by borough and scheme, and price banding for units under construction, sales rates and units unsold.

- The average price across London is £910 psf compared to £660 psf in Outer London and £1,400 psf in Inner London.

- The London-wide average is 10% up on 2015 and 70% up on 2009.

- Half of all units under construction are priced between £600 and £999 psf.

- Within this price band the number of units under construction has plateaued at 31,000 since 2015, while annualised sales have dropped by almost 25% and unsold units have risen by 20%.

Any questions …

Incredibly detailed scheme-by-scheme detail 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 to get in touch.

Sam Long and Tim Craine, 21st April 2017.

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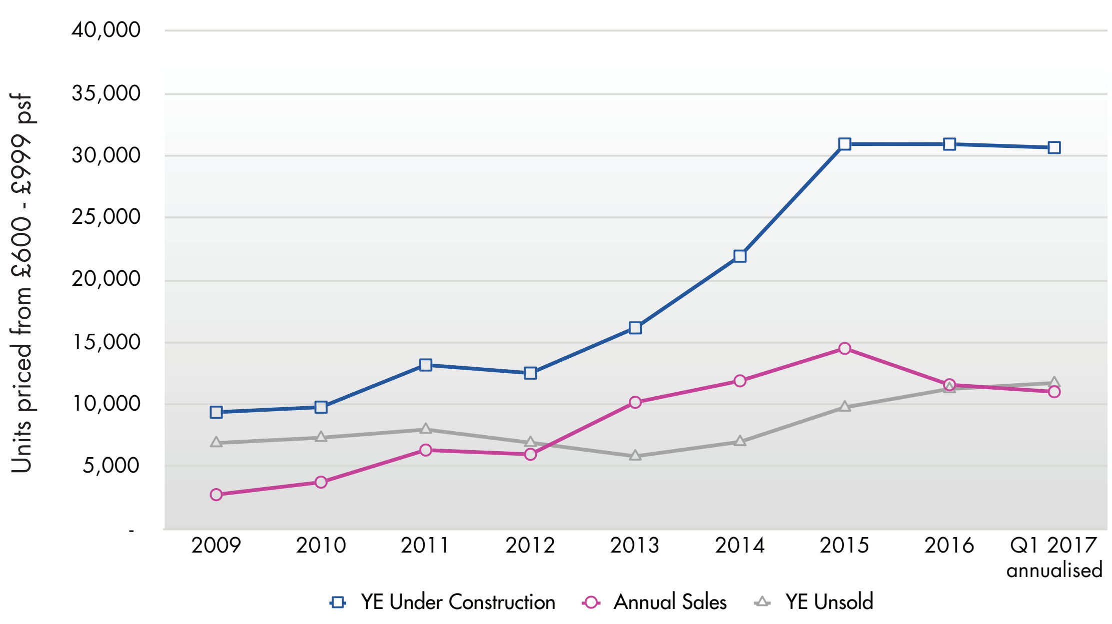

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