QUARTERLY ANALYSIS
JULY 2019

MOLIOR • LONDON
residential • development • research

Analysis by Sam Long and Tim Craine

FRONT COVER PHOTO
Riverside Quarter - 6B - Nine Eastfields, Wandsworth
Photographer: Amanda Denny

RESEARCH TEAM
Sam Long, Tim Craine & Tobias Loftin

Riverside Quarter - 6B - Nine Eastfields, Wandsworth

EXECUTIVE SUMMARY

Junction House, Wandsworth

Many in the industry were expecting a very difficult 2019. Whilst the year to date certainly hasn't been easy, developer pragmatism and resourcefulness seem to have fended off the worst outcomes.

It is no surprise that construction starts are continuing to fall. This is no longer restricted to Zones 1 and 2 but is also evident in the Help to Buy heartlands of Zones 3 to 6.

Meanwhile the headline sales figures have also fallen. Again, this is no surprise. However, the industry should take heart that the sales line is relatively resilient. In fact if the recently muted contribution from the BTR sector is taken into consideration then it can be seen that sales from the wider industry have actually risen modestly. This is a very good thing; there are several factors involved.

We hear the phrase 'Thanks goodness for Help to Buy!' an awful lot and it is quoted as the main driver of sales in all top selling schemes being marketed predominantly to individuals. Buyers' Events have now become a relatively common mechanism for housebuilders to drum up interest by launching multiple schemes in one go at a single venue.

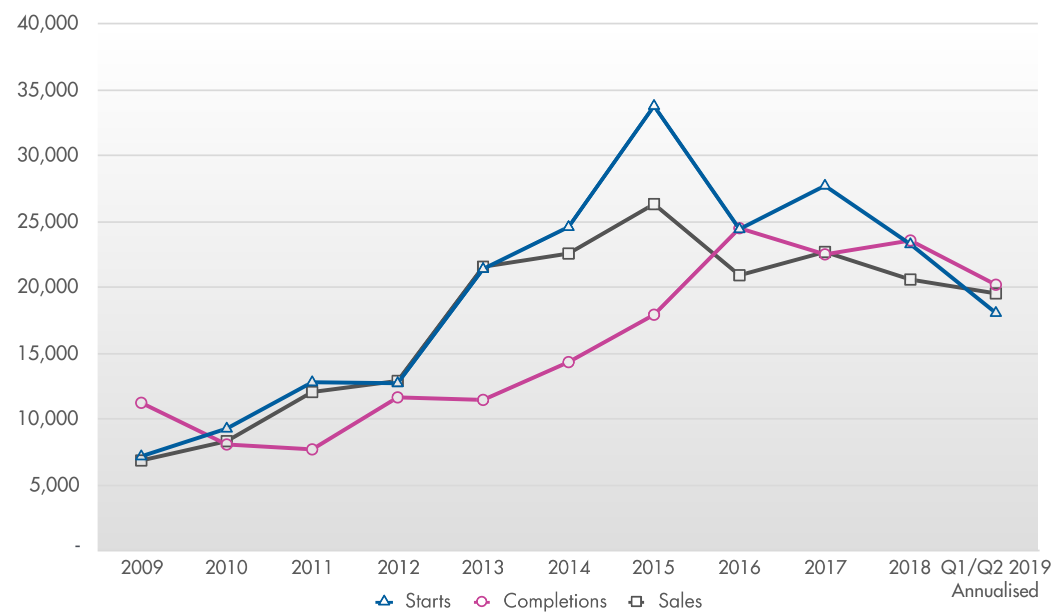
The follow-on question 'What would we do without it?' may not be asked out loud very often – but it is certainly running through the minds of those charged with buying land. Land being bought now may well not be built on until after the incentive is phased out at the start of 2023. We suspect nobody likes to ride a dying one trick pony.

So, it is heartening to see that the industry is pursuing a variety of routes to deal with what is undoubtedly a tricky market outside Help to Buy. After all it is still said that there is a lot of cash seeking to be parked in London's residential property.

First, 'Hold to Rent' seems to have become a more common exit strategy. A number of developers who do not need to realise their profit now, and there seem to be a few of them, have chosen to wrap up sales operations and rent significant numbers of units instead. We cannot call these BTR units because they are pepper-potted amongst flats sold to others.

Such a relaxed attitude is not an option for most mainstream housebuilders some of whom have been pursuing bulk deals with a variety of buyers:

- The most high-profile bulk BTR sale was at Crest Nicholson's Essex Brewery Scheme where Southern Housing has bought 91 units. However, there was no fresh activity from any other big BTR operators during Q2 2019.
- Other major bulk purchasers include both wealthy private individuals and corporate buyers. In the largest deal Riverstone Living has bought 161 units comprising the whole second phase of Barratt's Fulham Riverside Development. These will eventually be resold as senior living apartments.
- Another interesting deal is LB Waltham Forest's acquisition of 66 units under construction at



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	6,097	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	5,604
2016: Q1	6,424	4,731	5,894
2016: Q2	5,124	5,875	4,649
2016: Q3	6,980	6,740	5,006
2016: Q4	5,917	7,171	5,396
2017: Q1	6,509	6,493	5,673
2017: Q2	7,096	4,818	5,964
2017: Q3	7,595	5,398	5,975
2017: Q4	6,541	5,821	5,100
2018: Q1	6,655	4,462	6,470
2018: Q2	7,304	5,679	4,992
2018: Q3	3,637	6,356	4,417
2018: Q4	5,707	7,086	4,740
2019: Q1	5,624	4,798	5,095
2019: Q2	3,419	5,314	4,688

Countryside's Feature E17 project. The units will be resold to first time buyers and this is an example of a council proactively maintaining the momentum of a large regeneration project.

As well as the bulk deals, steady business continues to be done with overseas investors and individuals in the UK. One agent selling Zone 2 schemes mainly to domestic buyers advises that Q2 2019 has been one of the best quarters for a while. However, this was with the heavy caveat - the schemes selling well are those where the developers have been prepared to reduce prices to within a touching distance of comparable secondhand stock.

A squeeze on viability is a common thread through all the above stories as most will involve some form of discount to current open market value, let alone what might have been the aspirational value a couple of years ago.

Of course, it has been pointed out that the viability squeeze started back in 2013 when the market was flying high and the government chose to intervene, by first introducing additional stamp duty and then additional capital gains tax to temper interest from investors and overseas purchasers.

It is now also said that there has never been a more adversarial relationship between the development industry and local government - that underfunded local authorities are chasing every penny from s106 negotiations while the mayor's office has a clear priority for affordable housing above all else. If true, both objectives are understandable and laudable within reason. However, there is a common perception that planning negotiations are becoming increasingly protracted and viability is being squeezed to a point where proceeding to construction is increasingly less attractive.

While some builders are now talking about a shift to smaller schemes that do not trigger the affordable housing threshold, such schemes will not sustain the industry or London's housing needs. As always it will be left to the major housebuilders to resolve any crunch points that emerge in the near future, so it is good to see that they are proving resourceful and pragmatic in dealing with current circumstances.

Finally, rather than consult on increasing the taxation of overseas buyers, perhaps HM Treasury might consult on how it could increase tax receipts in a way that encourages development. The data seems to show that investors don't crowd out owner occupiers, instead they enable a greater number of schemes to commence.

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 708 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 small table below summarises the main drivers of sales across the 110 schemes that have sold 12 or more units during Q2 2019.

Main driver of sales	Units	% Units
Help to Buy	1,275	35%
BTR	643	18%
Overseas sales	485	13%
Launch prior to start	477	13%
Bulk sale	365	10%
Hold to rent	153	4%
Switched to affordable	141	4%
Normal sales	103	3%

CONSTRUCTION

- 3,400 units commenced construction across London during Q2 2019, compared to a quarterly average of 5,800 during 2018 and 6,900 during 2017.
- 64,000 units are currently under construction in London, which is 1,000 fewer than at the end of 2018.
- 5,300 units completed during Q2 2019, compared to a quarterly average of 5,900 during 2018 and 5,600 during 2017.

SALES

- 4,700 units sold during Q2 2019, compared to a quarterly average of 5,200 during 2018 and 5,700 during 2017.
- Of the schemes that sold 12+ units during Q2 2019, Help to Buy was by far the main driver of the sales.
- BTR activity was somewhat muted during Q2 2019 after a good first quarter.
- Excluding 'sales' to BTR, 7,650 units have sold during the first half of 2019 - 3,825 units per quarter on average, which compares to 3,400 per quarter during 2018.
- 30,600 units under construction are unsold, which is 48% of all units currently underway.
- In addition, there are 2,650 completed stock units across London - down from 2,800 at the end of 2018.

PRICING

- During 2019 the average asking price across London was £900 psf, roughly as it has been since 2016.
- However, this figure should be treated with extreme caution - discounts between 5% and 10% are common parlance and we have heard of cases where discounts as high as 30% have been applied to shift the last penthouses in some Central London schemes.

SUB REGIONS

Sections 1 to 3 of the detailed report describe a number of key indicators for London, as broken down into three London Underground zone groupings.

ZONE 1

- There were 1,130 construction starts during the first half of 2019, which continues previous falls - they are now 66% off their 2015 peak quarterly average.
- Sales also continued to fall - 1,060 sales during the first half of 2019 is 56% off the 2013 peak.
- Based on current sales rates, it would take 3.7 years to sell all units currently under construction but unsold if nothing new commences construction. This is up from 2.7 and 1.9 at the ends of 2018 and 2017 respectively.

ZONE 2

- There were 1,195 construction starts during the first half of 2019, which continues previous falls - they are now 77% off their 2015 peak quarterly average.
- Meanwhile there were 2,640 sales, which is 48% off the 2015 peak - but considerably above starts.
- Based on current sales rates, it would take 1.5 years to sell all units currently under construction but unsold if nothing new commences construction. This is down from 1.6 and 1.7 at the ends of 2018 and 2017 respectively.

ZONES 3 TO 6

- Despite this being Help to Buy territory, construction starts have fallen during 2019 so far - 6,700 starts during the first half of 2019 is 14% off the average for 2018.
- Meanwhile there were 6,090 sales, which is on course to maintain the levels set during 2017 and 2018.
- Based on current sales rates, it would take 1.5 years to sell all units currently under construction but unsold if nothing new commences construction. This is up from 1.4 and 1.1 at the ends of 2018 and 2017 respectively.

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, 17 July 2019.

Sam Long: 07900 682423
Tim Craine: 07951 742576

CONTENTS