

QUARTERLY ANALYSIS : SALES

Analysis by Sam Long and Tim Craine, July 2017

For residential market experts

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FRONT COVER PHOTO

Vauxhall Sky Gardens, Lambeth
Photographer: Amanda Denny

RESEARCH TEAM

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Vauxhall Sky Gardens, Lambeth



EXECUTIVE SUMMARY



The Residence, Wandsworth

All things considered, the numbers describing London's residential development industry at the end of Q2 2017 have turned out to be very positive:

- ▶ Policy makers will be pleased to see that construction starts have picked up across the capital and involve a full range of developers - many of the big players are active, but small and new companies are in the mix too.

- ▶ The whole industry will be pleased to see that sales have also picked up - new homes have sold at a greater rate in 2017 (so far) than they did in 2016.

- ▶ Build to Rent companies will be pleased to see that their efforts are once again having a significant impact on the figures.

Much of the fresh construction activity is happening in familiar regeneration heartlands to the north and east of The City, and also

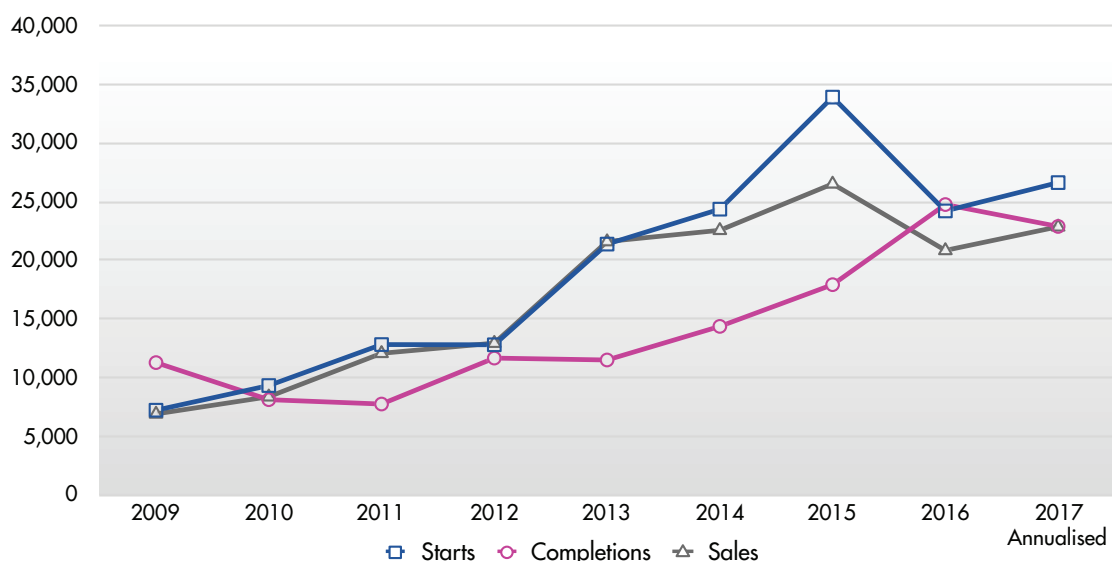
at Wembley. As would be expected, a number of the developers involved have launched projects on, or prior to, construction start to offload some market risk. Others, notably Quintain, are purposefully building them to rent. There are also plenty of schemes that will launch later in the build programme to take advantage of Help to Buy, while the incentive lasts.

Otherwise, the most interesting local authority area is Westminster, which has already scored a record year for construction starts in just six months. About half of the units involved are within Berkeley's West End Green, but even without this project the figures would be strong. Possibly the most interesting aspect of this new activity is that, with the exception of West End Green, little has been done to market the projects concerned. Some of them are exceedingly valuable developments controlled by relatively niche players who often provide scant explanation for their actions. Such an approach is perhaps bold, it is perhaps also a negative comment on alternative investments elsewhere, or it is simply a good reminder that we should not take the worst predictions played out in the media to heart.

Many sales agents assert that current conditions are indeed tricky, and even though the sales headlines are good it is worth listening to what they have to say:

- ▶ Q2 2017 has seen a number of successful launches. Some of them have had a relatively easy ride on the Help to Buy wagon. Meanwhile others are distinctly more up-market, such as the Portman Estate's One Seymour Street where the 24 apartments sold out in three months.
- ▶ However, sales success has been hit-and-miss. Schemes that have fared well sometimes stand in marked contrast with nearby projects that have languished.

Fortunately we have only had to listen to one tale of doom and gloom where a poor Q2 sales result was blamed on the snap election and other familiar tales of woe. Sales professionals have been keener to point out that it is currently a buyers' market and that this brings particular challenges.



Apparently the Chinese customers' mind-set is particularly instructive and three Cantonese words are said to sum-up how diligent buyers should sift opportunities: 'gwai', 'dai' and 'peng' ... which are roughly translated as expensive, fair value and cheap respectively. Obviously buyers will look to find or negotiate fair value and to exclude more expensive opportunities. Less obviously, 'peng' has connotations of inferior quality, which possibly helps

to explain why some cheaper developments are receiving less attention than expected.

Chinese buyers remain very active, showing an interest in developments from Mayfair to Barking, but it is fair to say that there is a wider range of buyers out there and they are all carefully seeking what they consider to be a fair bargain. Consequently product quality and general pricing are critical in determining sales success.

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	5,411
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	8,106	5,531	5,601
2015: Q4	8,301	4,740	5,507
2016: Q1	6,333	4,709	5,923
2016: Q2	4,908	5,872	4,460
2016: Q3	6,839	6,708	4,827
2016: Q4	6,121	7,456	5,624
2017: Q1	6,347	6,502	5,612
2017: Q2	6,962	4,937	5,813

The best agents point out that they also need the flexibility to negotiate individual deals and that the tailored concession of some value to potential purchasers has often been critical to maintaining sales velocity.

So, it would seem that sales skills and a bit of forethought are as important now as they ever have been. As old hands are keen remind us: 'it shouldn't be easy to sell new homes!'

THE NUMBERS

Over the last few weeks Molior has interviewed the developers behind the 627 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 2014 some 14,500 more units have started construction than have sold.
- ▶ At the end of June 2017 there were 28,000

units under construction or completed waiting to be sold.

- ▶ These would take 1.2 years to sell based on the current sales rate ... if nothing further commenced construction
- ▶ In Outer London the figure is 0.9 years compared to 1.7 in Inner London.
- ▶ 4,900 units completed in Q2 2017, compared to quarterly averages of 6,200 during 2016 and 4,500 during 2015.
- ▶ BTR accounted for 15% of all private construction underway and 15% of all starts during Q2 2017.

CONSTRUCTION

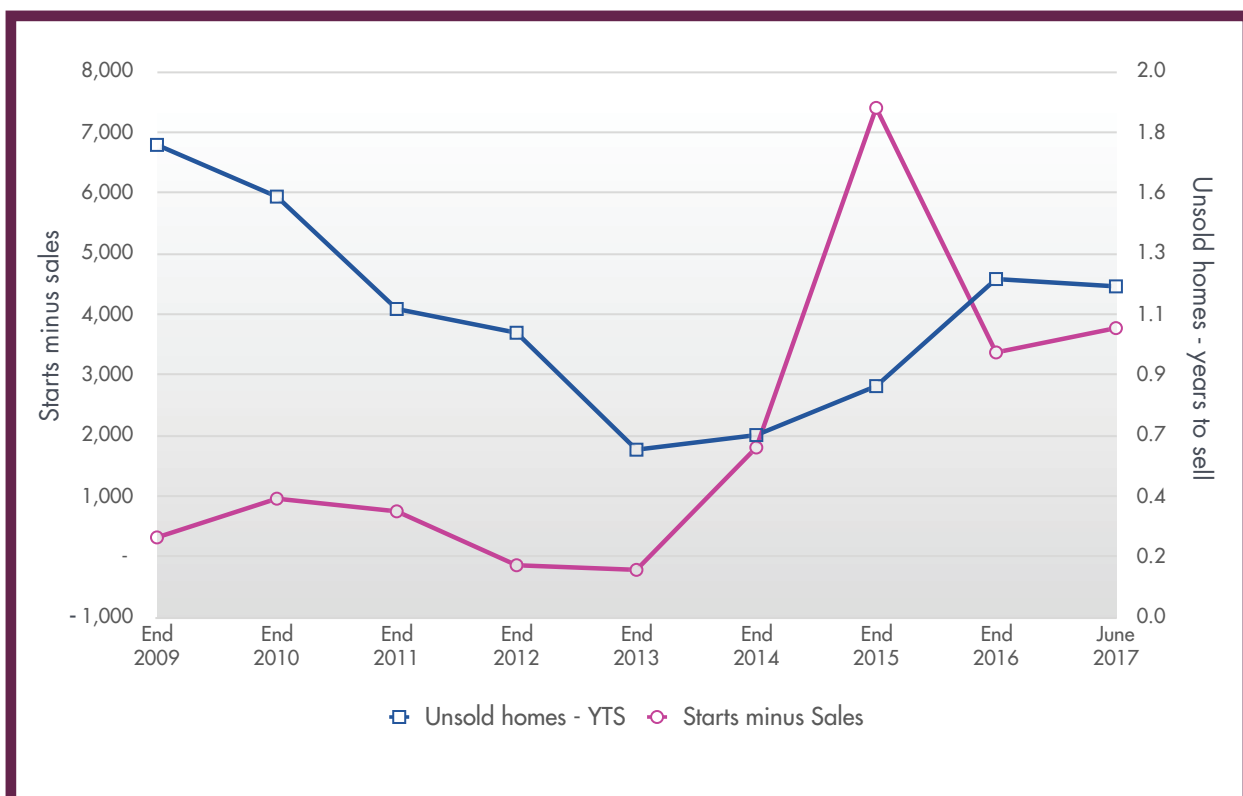
Sections 5 to 10 contain figures and tables detailing construction starts, volumes and completions, both overall and separating out BTR schemes.

- ▶ 7,000 units started during Q2 2017, compared to quarterly averages of 6,000 during 2016 and 8,500 during 2015.
- ▶ 61,000 units are currently under construction across London, which beats the record of 60,000 set in 2015.

SALES

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

- ▶ 5,800 units sold during Q2 2017, compared to a quarterly average of 5,200 during 2016 and 6,600 during 2015.
- ▶ BTR accounted for 20% of sales in Q2 2017, up from 13% in Q1 2017.
- ▶ 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 at the end of 2014.

PRICING

Sections 17 to 22 contain figures and tables detailing average £psf by borough and scheme, and price banding for units under construction, sold and 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 £psf average is 3% up on 2016 and 70% up on 2009.
- ▶ Almost half of all units under construction are priced from £1,000 to £1,499 psf.

- ▶ Within this price band, the number of units under construction has risen by 90% since 2013, largely as prices within Tower Hamlets have risen to fit within the band. Meanwhile annual sales have broadly plateaued at around 8,600 units ... so unsold units have risen by 150%.

Any questions ...

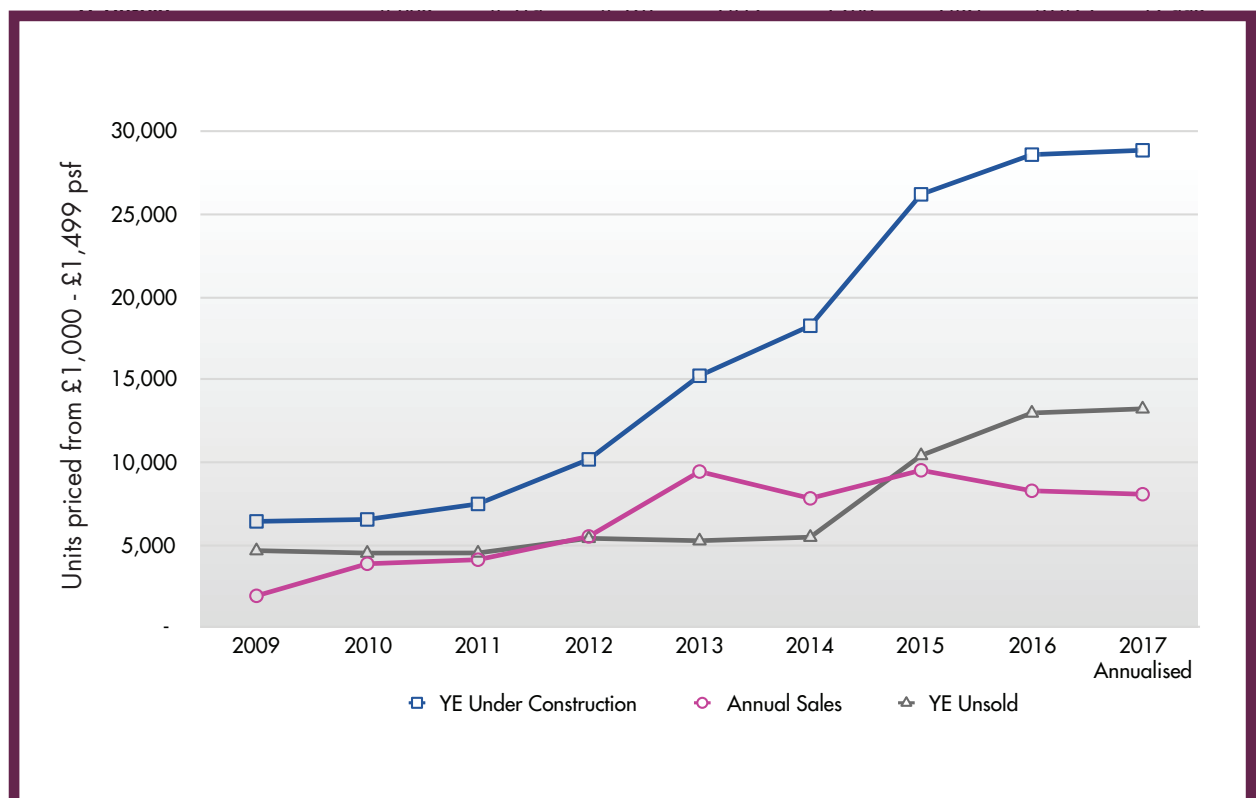
Incredibly detailed scheme-by-scheme detail can be found on the **Molior Database** - if you need log in details please get in touch.

Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate to get in touch.

Sam Long and Tim Craine, 12 July 2017.

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CONTENTS

METHODOLOGY	4
EXECUTIVE SUMMARY	5
KEY BENCHMARKS	11
1. Starts minus sales	12
2. Total unsold divided by annual sales rates	14
3. Permitted but not yet started	16
4. Permissions divided by annual sales rates	18
CONSTRUCTION	21
5. Construction starts	22
6. Construction volumes	24
7. Construction completions	26
8. BTR construction starts	28
9. BTR construction volumes	30
10. BTR construction completions	32
SALES	35
11. Annual Sales	36
12. BTR share of sales	38
13. Sales without BTR	40
14. Under construction but unsold - numbers	42
15. Under construction but unsold - percentages	44
16. Complete but unsold	46
PRICING	49
17. Average £psf by borough	50
18. Construction by £psf	52
19. Sales by £psf	54
20. Unsold by £psf	56
21. Recent price movements	58
22. Scheme-by-scheme asking prices	64