

QUARTERLY ANALYSIS : SALES

Analysis by Sam Long and Tim Craine, October 2017

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FRONT COVER PHOTO

11 Mapleton Crescent, Wandsworth

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EXECUTIVE SUMMARY



190 Strand, Westminster

The third quarter of 2017 has seen sales volumes close to record levels. In fact there have only been three better quarters since 2009. This (apparent) success is more than matched by confidence on the construction front - there were many more starts than sales during Q3 2017.

However, remove Build to Rent and Help to Buy and there is no sense of euphoria amongst those charged with selling apartments within the remaining schemes. This is true in both

Inner and Outer London.

- ▶ The Build to Rent sector offers comforting counter-cyclical arguments and plays a key role in five of the ten largest developments to start during 2017 so far.
- ▶ Help to Buy also continues to drive sales velocities in cheaper developments and helps to explain away part of the surplus in starts ... as the units involved cannot be sold until close to completion.

In other schemes pricing is a problem. Clients who will not move on price in the face of a diminished market are a common bug amongst agents.

There are small signs that agents' prayers for a reality check are being answered by lenders. Some developers may have been successful in liberating development funds recently, but anecdotal evidence suggests that financiers are now paying increasing attention to the projects that they have backed. There are rumours that in a small number of developments it is the lender dictating launch strategy and pricing, rather than the developer.

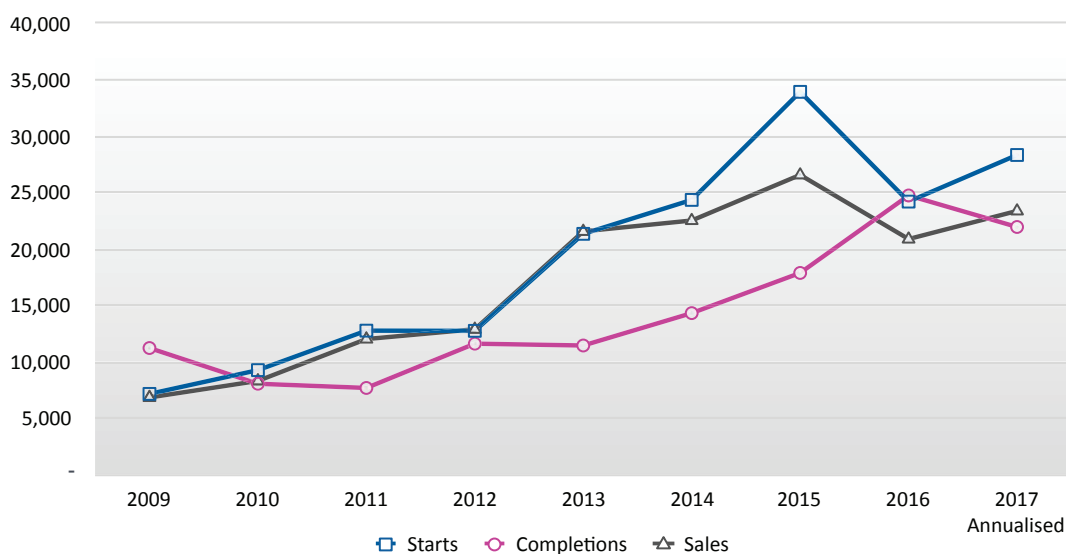
The disconnect between construction starts and sales is a concern – over time the number of sales should match the number of starts. In London they don't. The greatest disconnect is in the £1,000 to £1,499 psf price bracket. The number of unsold units nearly doubled in this price band during a glut of starts in 2015, and annual sales have fallen steadily since then. So far in 2017 things haven't got worse – but they haven't got better either.

Above £1,500 psf the number of unsold units under construction continues to rise rapidly as new starts outpace sales. Schemes in Westminster are mostly

to blame. In our previous report we commented on the niche organisations behind many of the most expensive schemes to start in 2017 so far. Common themes include secrecy and a deliberate policy of holding back from launching their developments. Anyone concerned by the risks involved in such an approach may be glad to know that only 6% of the units under construction across London are within the three most expensive local authorities. Unfortunately they receive a disproportionate amount of press coverage.

Below £1,000 psf the surplus of construction starts over sales also continues to grow. To a certain extent this is to be expected given that Help to Buy is quite prevalent in lower price bands. It is also worth noting that consolidation within the social housing sector has enabled some of the largest Housing Associations to unlock sites previously held by smaller organisations, often without having to commit to an exit route before sending the piling rigs to site. Nevertheless agents point out that not everything is eligible for Help to Buy and that the market for other stock is cooling.

Finally, it must be noted that completions have fallen during 2017. It seems that whilst it is relatively easy



to send a piling rig to site, cladding and finishing sub-contracts present ever increasing problems. Sub-contractor delinquency is now all too common, and rising material costs and labour shortages have become mutually compounding as labour wages are squeezed in an attempt to keep a lid on overall costs.

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	7,531	3,688	6,625
2015: Q1	9,716	3,789	8,553
2015: Q2	7,791	3,850	6,849
2015: Q3	8,129	5,531	5,600
2015: Q4	8,306	4,740	5,586
2016: Q1	6,334	4,709	5,872
2016: Q2	4,816	5,876	4,457
2016: Q3	6,944	6,728	5,000
2016: Q4	6,132	7,456	5,581
2017: Q1	6,458	6,502	5,625
2017: Q2	7,040	4,895	5,750
2017: Q3	7,766	5,087	6,175

With all these issues to consider we will be interested to see if the industry continues to deploy quite as many piling rigs over the next few months.

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 655 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 opposite show starts, completions and sales across all London local authorities since 2009.

During the first three quarters of 2017:

- ▶ 18,000 units sold in London, more than 6,000 of these during Q3 2017.
- ▶ 21,000 units started construction.
- ▶ 16,500 units completed construction.

At the end of September 2017:

- ▶ 64,000 units are under construction, which is 8% up on December 2016.
- ▶ 28,000 of these units are unsold.
- ▶ There are also 1,100 compete but unsold 'stock' units.

The graph on the next page 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:

- ▶ Since 2014 some 17,000 more units have started construction than have sold.
- ▶ It would currently take 1.3 years to sell all unsold stock if nothing new commenced construction and sales rates remained constant.

There has been an accumulation of unsold units in all price bands as shown in the detailed sections of this report. Two price bands are particularly interesting, however, because the level of unsold stock is significantly higher than current sales rates. These bands are £1,000 - £1,499 psf and £1,500+ psf and the two graphs opposite provide a detailed picture of Starts, Sales and Year-End Unsold units in each case.

In broad terms for £1,000 - £1,499 psf, starts became significantly detached from sales during 2015 and there was a consequent leap in unsold units at the end of the year. Since then falling sales have been more than matched by falling starts

so that the number of unsold units has broadly plateaued at 13,000 during 2017.

For £1,500+ psf, starts have consistently beaten sales since 2012 and, while the difference narrowed during 2016, there has been a sharp up-tick in surplus starts during 2017. Consequently the number of unsold units has now reached 2,300 units and shows little sign of falling back.

Any questions ...

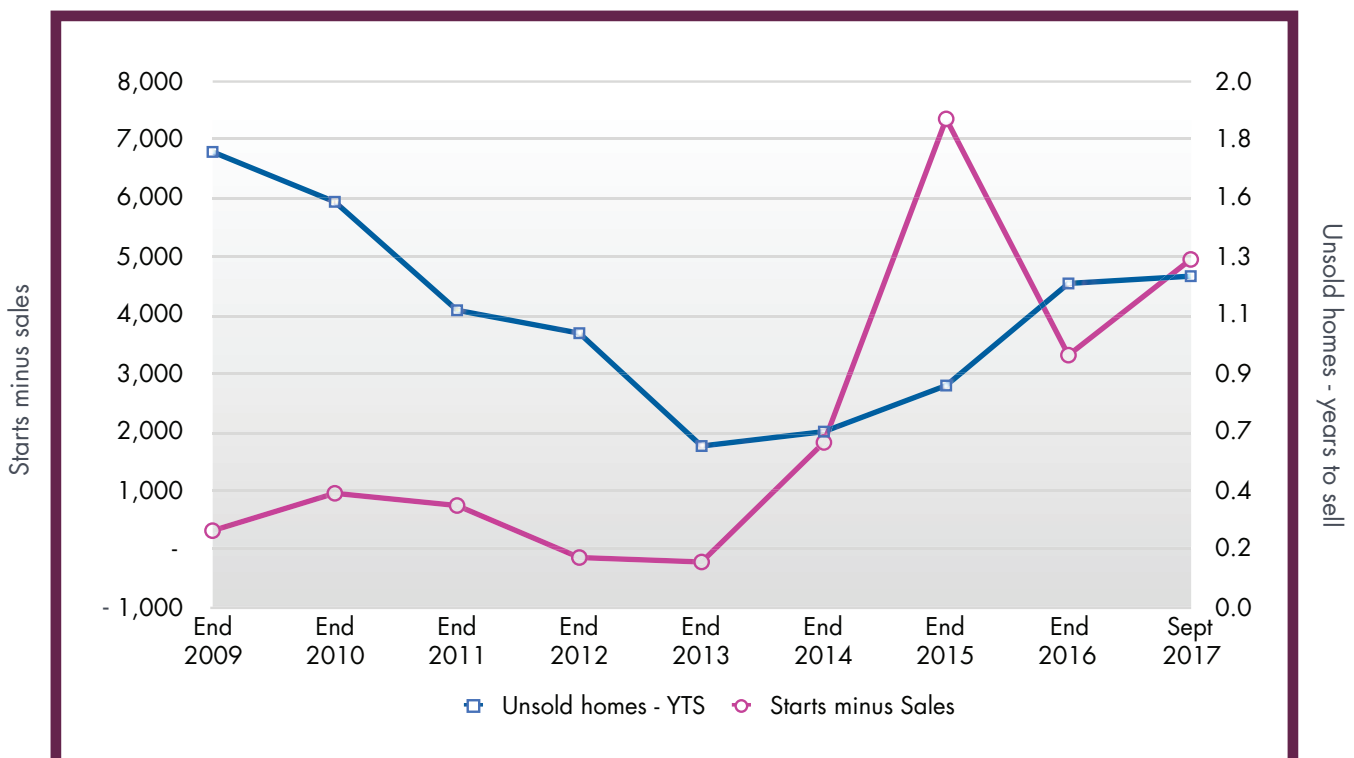
Incredibly detailed scheme-by-scheme detail can be found on the **Molior Database** - if you need log in details please get in touch.

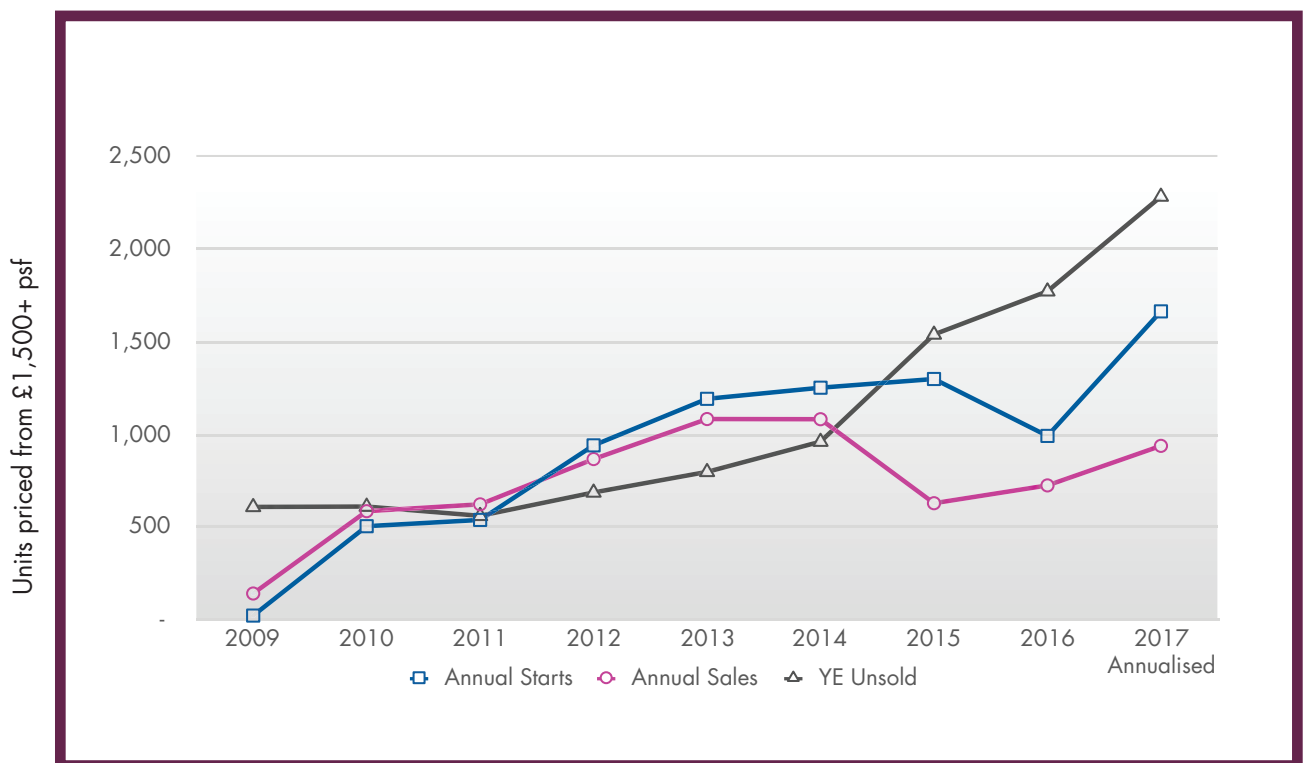
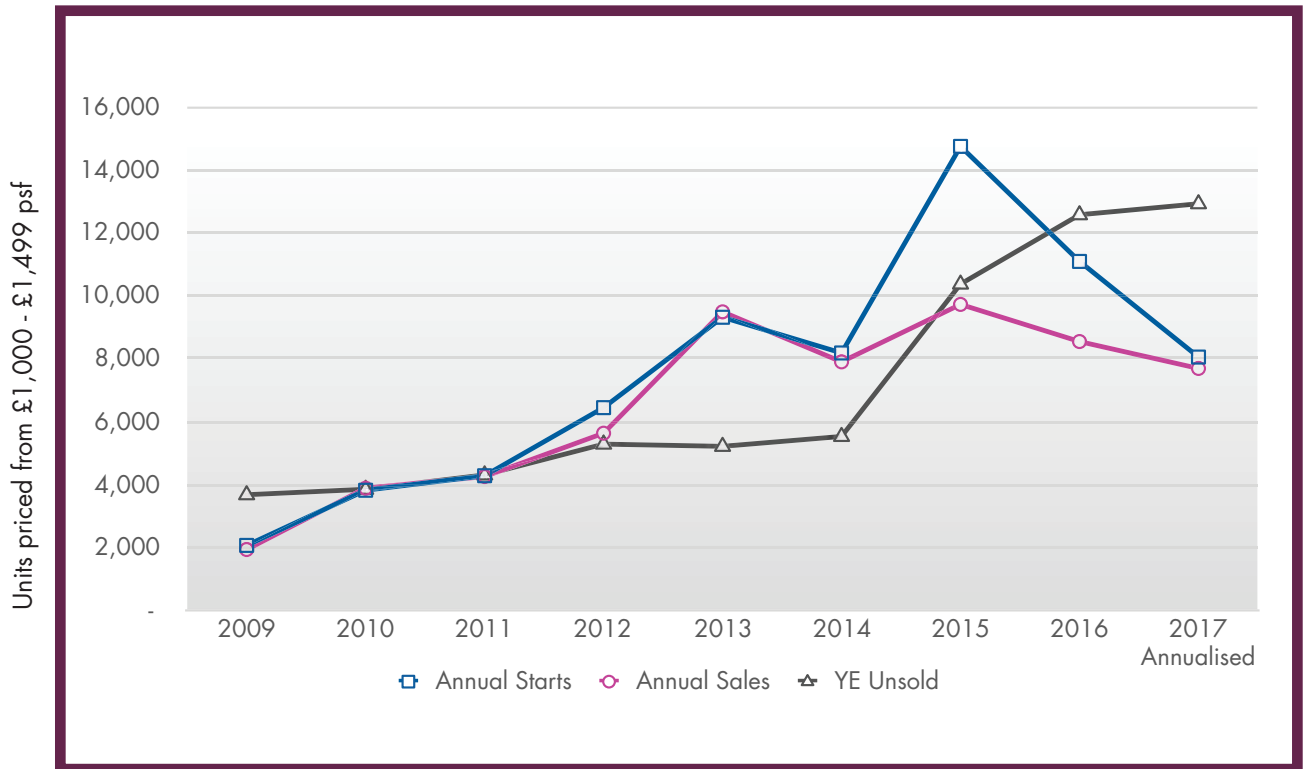
Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate to get in touch.

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