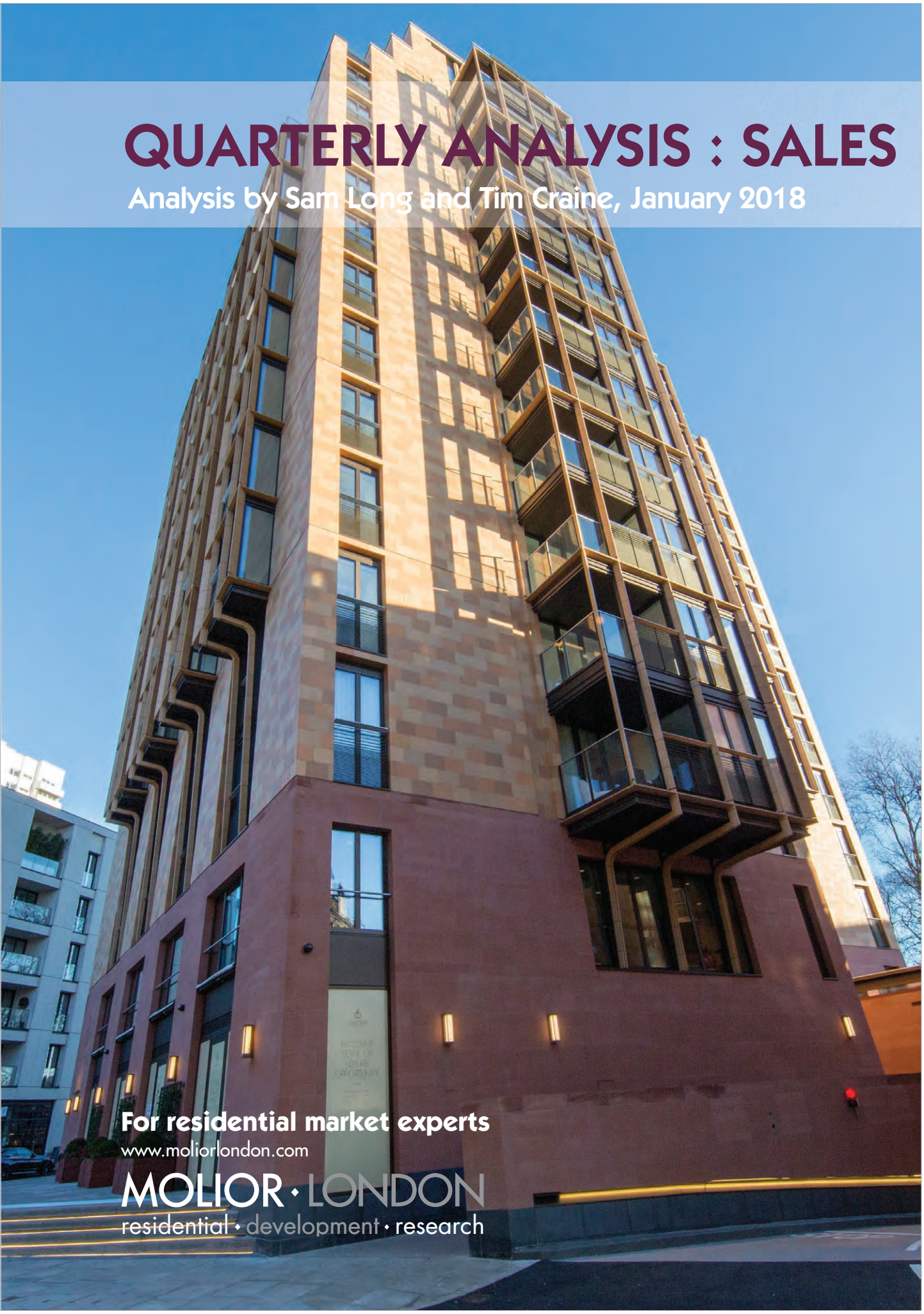
QUARTERLY ANALYSIS : SALES

Analysis by Sam Long and Tim Craine, January 2018



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FRONT COVER PHOTO
Chiltern Place, Westminster
Photographer: Amanda Denny

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Chiltern Place, Westminster

EXECUTIVE SUMMARY

Television Centre, Hammersmith & Fulham

At first glance the headlines for Q4 2017 seem somewhat dispiriting: sales of new homes in London fell by over a fifth compared to Q3 2017. New starts on site also fell by a fifth, but starts still out-paced sales … so the number of unsold units continues to grow.

Based on the anecdotal feedback gained during our research we suspect that many readers will be nodding their heads at these points.

It is said that there is still a lively pool of overseas investors who make pre-construction launch activity worth the effort. Similarly, there are reasonable numbers of domestic buyers who become engaged in projects in the run up to completion. However, we are told that the number of investors who would previously sustain a sales operation for the duration of a lengthy build programme is now much depleted.

Increasing availability and sustained negative

media commentary mean that remaining buyers are all seeking best value, whether they are investors or owner-occupiers. Therefore sales velocities are highly price sensitive.

Furthermore, reversing sales positions are increasingly common. Whilst occasionally this calls into question data reported to us in previous quarters, more often it is simply a result of sales being cancelled. These have been particularly visible at completion time in a small number of schemes at the Help to Buy end of the market, presumably as a result of down-valuations.

For experienced developers behind the most exclusive projects this probably makes little difference. They tend to have planned for the long haul anyway and any reduction in price will simply erode their brand.

Similarly, those who regularly build entry level developments are well practiced at delivering the right balance of price and quality. They are also currently supported by a couple of government interventions.

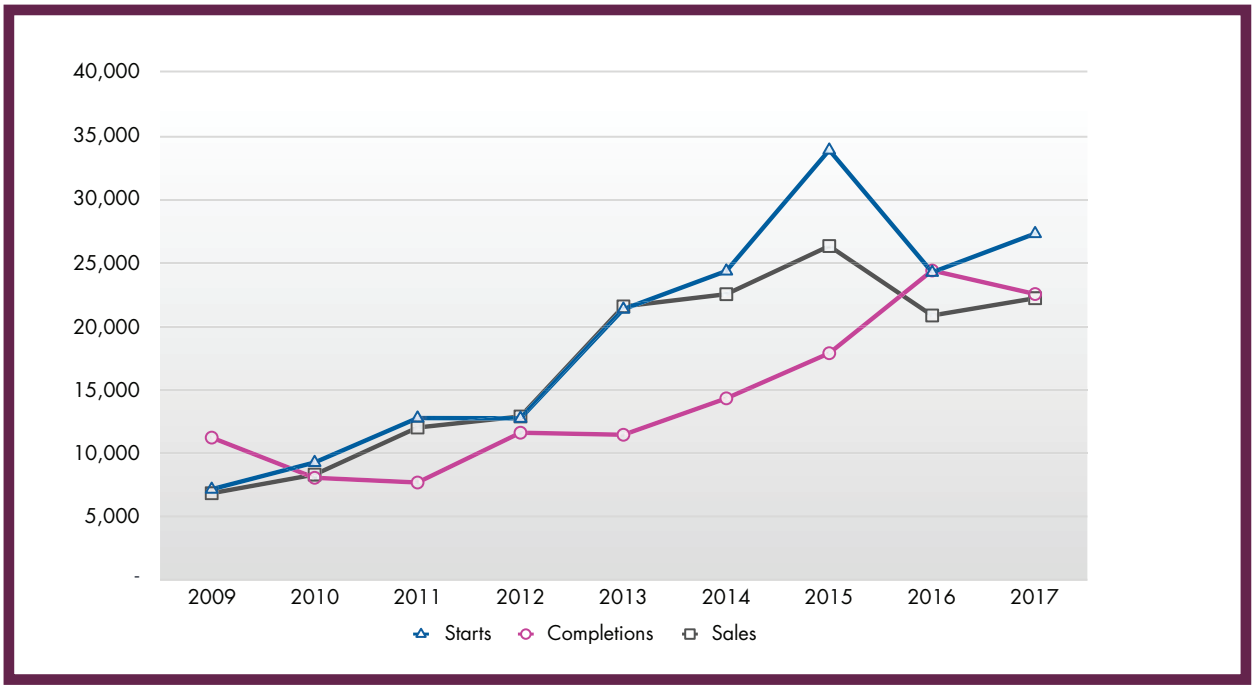
However, developers operating in the middle of these two extremes may now find themselves off-pitch in terms of the location/quality/price equation. Experienced players are increasingly rumoured to be resorting to 'Plan-B', while the fate of new-comers may depend on whether they can afford to sit-it-out or rent-it-out.

For the biggest housing associations, simply delivering private units as affordable tenures has always been a positive alternative. For private developers 'Plan-B' usually involves some form of bulk sale - BTR or otherwise.

While all of this may paint a gloomy picture of falling sales, and an industry that is perhaps starting to become uncomfortable with the emerging situation, it is important to take a step back and look at 2017 as a whole, rather than just the Q4 headlines.

Sales across the whole of 2017 have only been beaten in 2014 and 2015. So, the combination of various marketing routes currently being used by the industry is working … just not enough to offset construction starts.

Given the amount of money and effort that has



been invested into a growing pile of unimplemented permissions, 2018 may not be the year during which the industry reins back on new construction starts enough to correct the imbalance with sales. However, it could well be the year during which the various forms of 'Plan-B' take centre stage.

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	6,065	4,292	5,410
2014: Q3	5,590	3,573	5,592
2014: Q4	7,531	3,688	6,625
2015: Q1	9,917	3,789	8,553
2015: Q2	7,542	3,850	6,605
2015: Q3	8,130	5,531	5,602
2015: Q4	8,306	4,735	5,581
2016: Q1	6,344	4,709	5,863
2016: Q2	4,815	5,876	4,457
2016: Q3	6,963	6,728	5,006
2016: Q4	6,150	7,101	5,548
2017: Q1	6,505	6,833	5,625
2017: Q2	7,001	4,894	5,722
2017: Q3	7,771	5,005	6,122
2017: Q4	6,044	5,830	4,765

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 684 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 on page 6 and adjacent table show starts, completions and sales across all London local authorities since 2009.

During 2017:

- 22,000 new homes sold in London, of which 4,800 sold during Q4 and 6,100 sold during Q3.
- 27,000 units started construction.
- 23,000 units completed construction.

At the end of the year:

- 180,000 units are permitted but not yet started across London, which is 9% up on last year.
- 65,000 units are under construction, which is 8% up on last year.
- 30,000 of these units are unsold, which is 19% up on last year.
- There are also 1,500 complete but unsold 'stock' units, which is 35% up on last year.

The graph on page 8 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 18,000 more units have started construction than have sold.

- It would currently take 1.4 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 on page 9 provide a detailed picture of Starts, Sales and Year-End unsold units in each case.

For £1,000 - £1,499 psf:

- Starts first significantly exceeded sales during 2015, by 52% during that year alone.
- This surplus of starts fell to 30% in 2016 and 10% in 2017.
- However, there are now 14,000 unsold units in this price range, which would take 1.8 years to sell based on the 2017 sales rate.

For £1,500+ psf:

- Starts have consistently exceeded sales since 2012 - by 44% between 2012 and 2017.
- During 2017 alone there were 1,900 starts compared to just 900 sales - a 113% surplus of starts.
- There are now 3,000 unsold units in this price bracket which would take 3.25 years to sell to sell based on the 2017 sales rate.

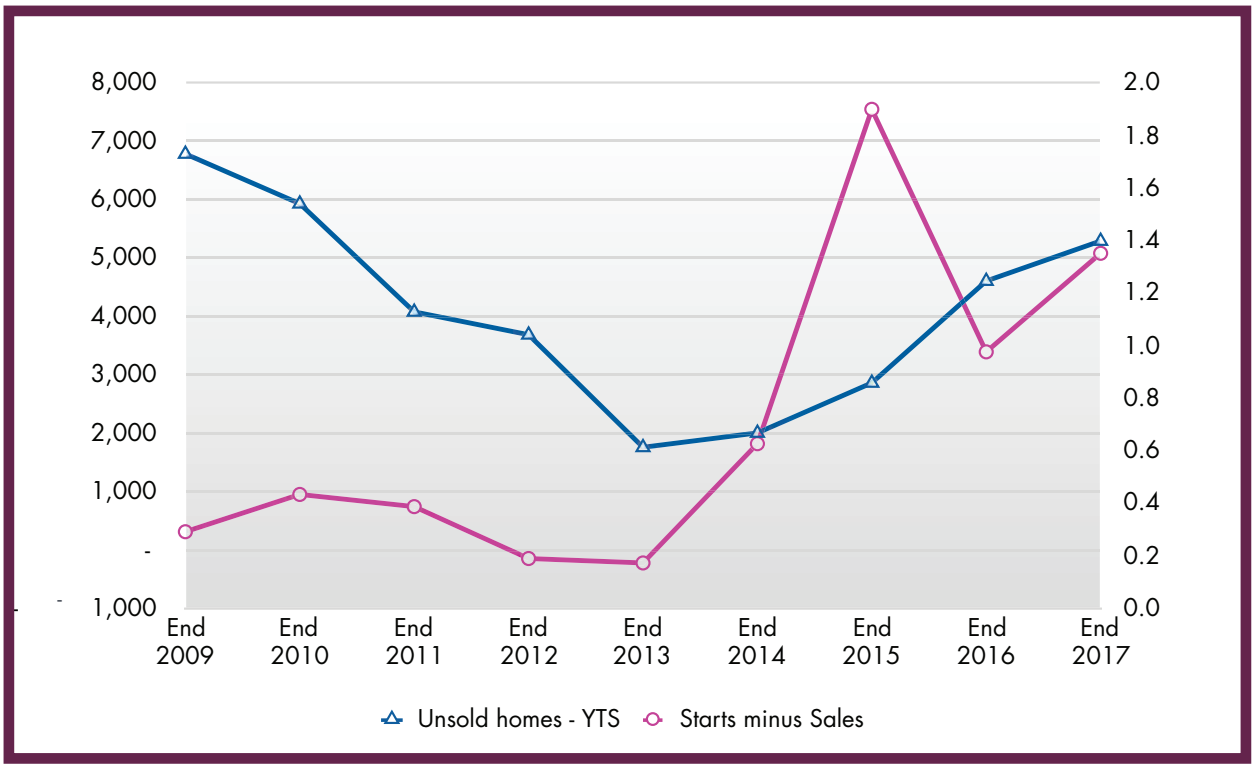
Any questions …

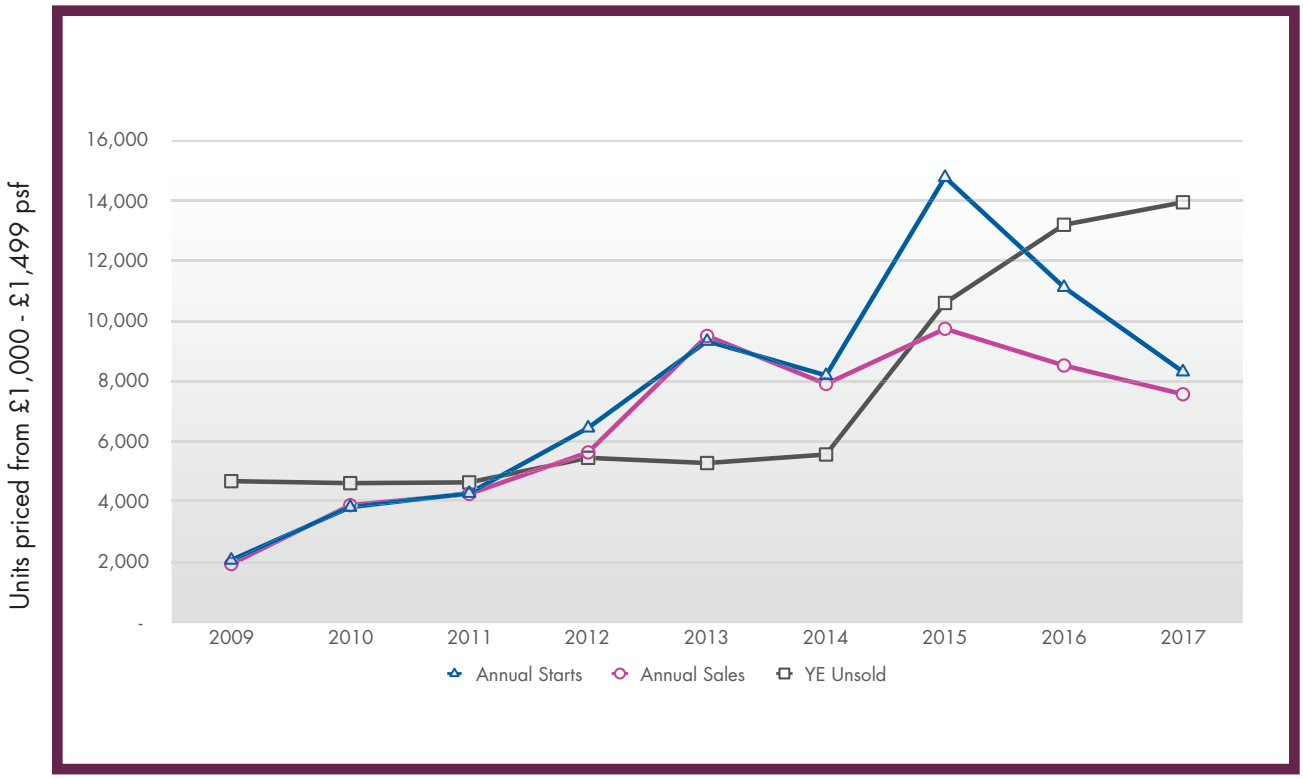
Incredibly detailed scheme-by-scheme detail can be found on the **Molior Database** - if you need log in details please get in touch.

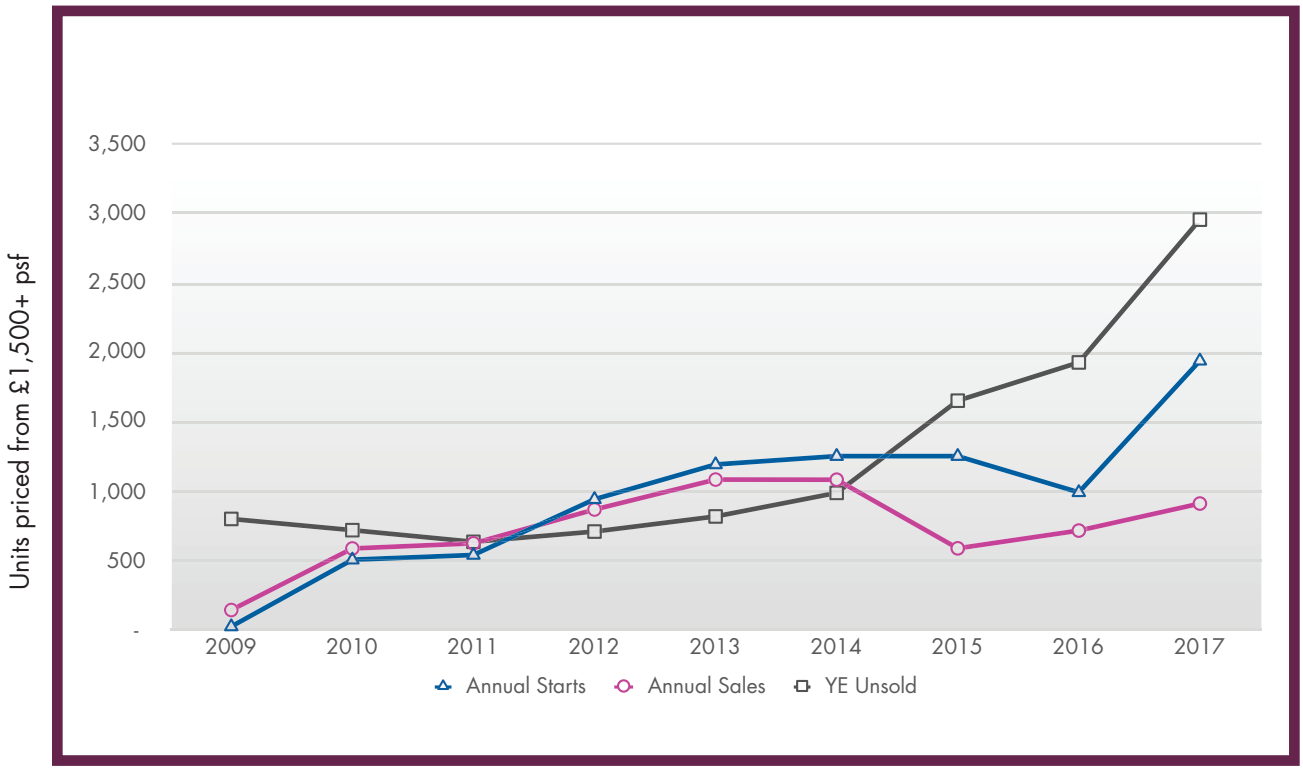
Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate to get in touch.

Sam Long and Tim Craine, 17 January 2018.

Sam Long: 07900 682423
Tim Craine: 07951 742576




Units priced from £1,000 - £1,499 psf
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
-
2009
2010
2011
2012
2013
2014
2015
2016
2017
Annual Starts
Annual Sales
YE Unsold


Units priced from £1,500+ psf
3,500
3,000
2,500
2,000
1,500
1,000
500
-
2009
2010
2011
2012
2013
2014
2015
2016
2017
Annual Starts
Annual Sales
YE Unsold

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