



QUARTERLY ANALYSIS APRIL 2019

MOLIOR • LONDON
residential • development • research

Analysis by Sam Long and Tim Craine

FRONT COVER PHOTO

One Blackfriars, Southwark

Photographer: Amanda Denny

RESEARCH TEAM

Sam Long, Tim Craine & Tobias Loftin

DISCLAIMER

We endeavour to employ high standards when preparing reports, analysis, data and events. However they are intended to provide general information only and no legal responsibility can be accepted for any loss or damage resultant from their contents. While every effort is made to avoid errors, information is subject to continuous change and we are therefore unable to guarantee the accuracy or completeness of data provided, and cannot be held responsible for any errors or omissions.

One Blackfriars, Southwark



EXECUTIVE SUMMARY



East Village - Victory Plaza, Newham

The first graph in this report paints a relatively benign picture: if the rest of 2019 follows in the same vein as Q1 2019 then construction starts will fall a bit and sales will stay flat. Of course, nothing is that simple. London's house building industry is serving up a disparate range of market stories depending on where you are in town.

The most startling news comes from London Underground Zone 2. This was the residential development location of choice during the first

half of the current decade, but between 2013 and 2017 the UK Government introduced a range of measures to discourage investment purchases of new homes. By discouraging buyers, the Government has also discouraged developers: private sale construction starts in Zone 2 have fallen 97% since 2015.

- ▶ Just 77 homes commenced on two sites in Zone 2 during the first quarter of 2019.
- ▶ This compares to 10,200 units that started

during 2015 as a whole.

- ▶ Zone 2 contains unimplemented permissions for 63,500 private units, so there is plenty of land.

In a normal market developers would find different buyers by finding a way to deliver homes at lower prices. But developers have also had to deal with upward pressure on minimum selling prices: from rising construction costs and increasing planning obligations. If the UK Government doesn't budge from its discouragement of investment buyers, we must hope that the Q1 2019 construction numbers are a short-term aberration.

Meanwhile, Zone 1 has given us little that we have not heard before. The decline in sales and construction starts continues, albeit they have not hit the cliff edge encountered in Zone 2. The selling environment is described as 'highly competitive', with buyers comparison-shopping and bargaining aggressively in the process.

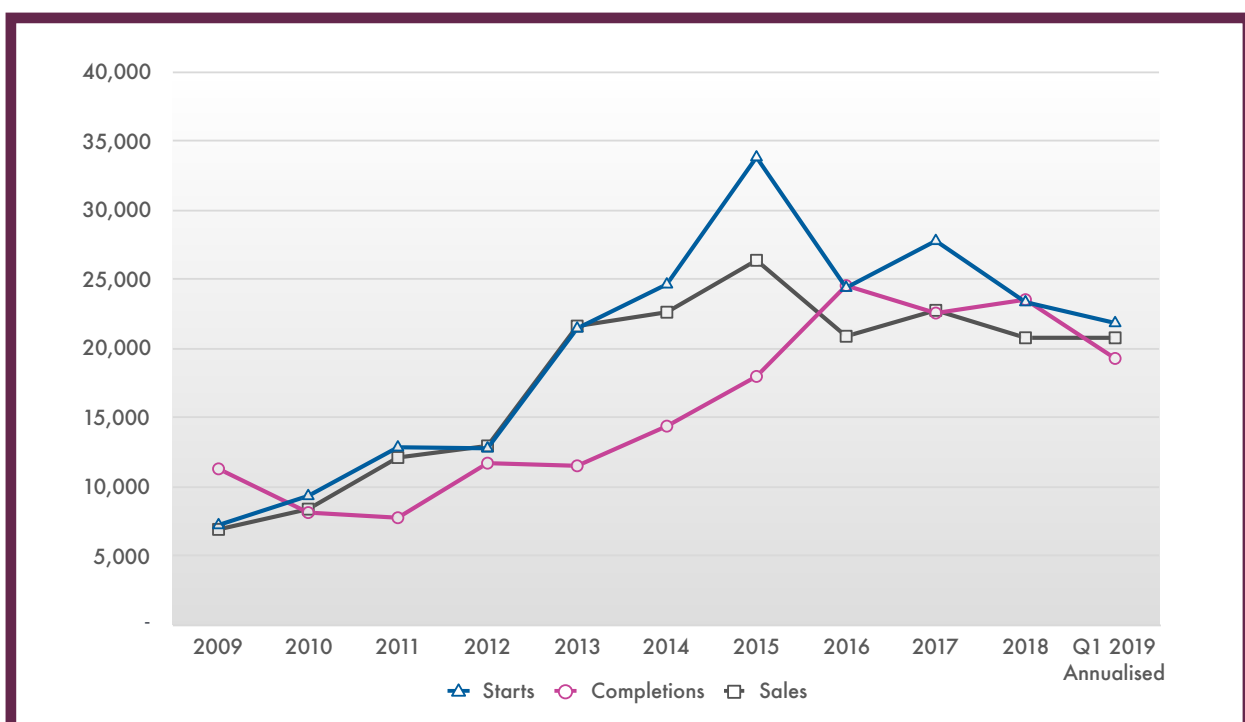
Of course, for some time now price lists for Central London developments have merely served as

an opening gambit and they have long ceased to be a reliable indicator of open market value. The most graphic illustration of this comes from a conversation with a marketing suite near Vauxhall. On several recent occasions negotiators there have been shown signed reservation paperwork from other developments nearby. They have then been bluntly told to better the terms agreed ... and also to reimburse the reservation fee already paid to the rival development.

In contrast Zones 3 to 6 bring mainly good news. These zones now account for half of all units currently under construction in London ... construction starts are rising rapidly, and sales appear to be keeping pace. A quick analysis of London's top selling schemes during Q1 2019 shows that Help to Buy and Build to Rent have been the biggest drivers of this activity.

Help to Buy remains the hottest topic for Outer London marketing suites:

- ▶ There are plenty of potential buyers who are confident, or casual, enough to not worry about



| 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 | 6,246 | 3,188 | 5,885 |
| 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 | 7,575 | 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 | 5,027 | 5,875 | 4,649 |
| 2016: Q3 | 6,996 | 6,740 | 4,970 |
| 2016: Q4 | 5,917 | 7,171 | 5,339 |
| 2017: Q1 | 6,509 | 6,493 | 5,699 |
| 2017: Q2 | 7,096 | 4,818 | 5,934 |
| 2017: Q3 | 7,625 | 5,399 | 6,003 |
| 2017: Q4 | 6,524 | 5,821 | 5,091 |
| 2018: Q1 | 6,655 | 4,462 | 6,471 |
| 2018: Q2 | 7,309 | 5,679 | 5,027 |
| 2018: Q3 | 3,685 | 6,356 | 4,433 |
| 2018: Q4 | 5,673 | 7,003 | 4,811 |
| 2019: Q1 | 5,453 | 4,812 | 5,185 |

what happens when the five-year interest free period of the Government's equity loan expires.

- ▶ They are often also happy to sign up to a 'simple' put-option that enables developers to secure sales before construction is sufficiently advanced to formally qualify for Help to Buy.
- ▶ 'Bijou', or tiny, office-to-residential conversion units fit in well with the incentive and marketing teams have become adept at demonstrating how buyers can make good use of the space available.
- ▶ However, we know plenty of valuers who think that Help to Buy units have been overpriced for a while.
- ▶ And units that are simply beyond bargaining reach of the incentive tend to become hard to sell at all.

As a consequence of all this, some developers tell us that they will not commence developments or new phases unless the vast majority of units can be sold under Help to Buy. The incentive has been instrumental in maintaining onward momentum in developments such as Barratt's New Mill Quarter, Hill and Peabody's Motion, and Bellway's Eclipse.

If Help to Buy is the biggest source of gossip, Build to Rent has been the more important story for those looking to kick off Outer London's largest regeneration projects during Q1 2019. BTR deals have been instrumental in releasing funding for projects such as EcoWorld's Barking Wharf, Telford Home's Equipment Works, Watkin Jones' 24 Sutton Court Road and Muse's Lock 17.

This is not to say that old-style investor launches have had their day. For example, Muse's first phase at Lock 17 comprises two blocks, one of them is being delivered as BTR for Grainger, while the other has been successfully launched at home and overseas via JLL. However, investor appetite is

not as reliable as it once was, which could leave developers literally waiting until Christmas to secure enough sales to meet their funders' needs.

So, the seasoned players in London's development industry are tending to concentrate on projects where the outcome is largely in the bank already, either through Help to Buy or Build to Rent. However, in a market that is awash with development funding, we must hope that the less seasoned players follow the same discipline.

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 719 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 116 schemes that have sold 12 or more units during Q1 2019.

| Main driver of sales | Schemes | Units | % Units |
|----------------------|---------|-------|---------|
| BTR | 15 | 1,587 | 38% |
| Help to Buy | 66 | 1,456 | 35% |
| Normal sales | 24 | 568 | 14% |
| Bulk sale | 9 | 333 | 8% |
| Switch to affordable | 2 | 202 | 5% |

CONSTRUCTION

- 5,450 units commenced construction across London during Q1 2019, compared to a quarterly average of 5,800 during 2018 and 6,900 during 2017.
- 66,000 units are currently under construction in London, which is a record and 21% of these are for BTR.
- 4,800 units completed during Q1 2019, compared to a quarterly average of 5,900 during 2018 and 5,600 during 2017.

SALES

- 5,200 units sold during Q1 2019, which is bang-on the quarterly average for 2018.
- Of the schemes that have sold 12+ units, BTR has been the main driver for 38% of the sales, while Help to Buy was the main driver for 35%.
- 31,500 units under construction are unsold, which is 48% of all units currently underway.
- In addition, there are 2,600 completed stock units across London - down from 2,750 at the end of 2018.
- As far as we can tell, out of 719 developments only one agent is deliberately lying to us about the sales position on a scheme.

PRICING

- During Q1 2019 the average asking price in London was just under £910 psf.
- However, this figure should be treated with extreme caution - 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

- ▶ Construction starts continued to fall during Q1 2019 and are now more than 65% off their 2015 peak quarterly average.
- ▶ Sales also continued to fall and are almost 55% off their 2013 peak.
- ▶ Based on current sales rates, it would take 3.5 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 only 77 construction starts in two developments during Q1 2019. This is 97% lower than the 2015 peak quarterly average and is as good as nothing in the big picture.
- ▶ Meanwhile sales are now 55% off their 2015 peak.
- ▶ Based on current sales rates, it would take 2.1 years to sell all units currently under construction but unsold if nothing new commences construction. This is up from 1.6 and 1.7 at the ends of 2018 and 2017 respectively.

ZONES 3 TO 6

- ▶ 4,800 units commenced construction during Q1 2019 beating 2015's record quarterly average by 14%.
- ▶ The 3,700 sales during Q1 2019 match 2015's record quarterly average almost exactly.
- ▶ Based on current sales rates, it would take 1.2 years to sell all units currently under construction but unsold if nothing new commences construction. This is down from 1.4 at the end of 2018.

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, 18 April 2019.

Sam Long: 07900 682423

Tim Craine: 07951 742576

CONTENTS

| | |
|---------------------------------------|----|
| METHODOLOGY | 4 |
| EXECUTIVE SUMMARY | 5 |
| SUB MARKETS | 11 |
| 1. Zone 1 | 12 |
| 2. Zone 2 | 14 |
| 3. Zones 3-6 | 16 |
| CONSTRUCTION | 19 |
| 4. Construction starts in Q1 2019 | 20 |
| 5. Construction starts | 26 |
| 6. Construction volumes | 28 |
| 7. Construction completions | 30 |
| BTR CONSTRUCTION | 33 |
| 8. BTR construction starts in Q1 2019 | 34 |
| 9. BTR construction starts | 36 |
| 10. BTR construction volumes | 38 |
| 11. BTR construction completions | 40 |
| SALES | 43 |
| 12. Sales launches in Q1 2019 | 44 |
| 13. Sales rates | 48 |
| 14. Under construction but unsold | 50 |
| 15. Complete but unsold | 52 |
| BTR PERFORMANCE | 55 |
| 16. Rental launches in Q1 2019 | 56 |
| 17. Let up rates | 58 |
| 18. BTR share of sales | 60 |
| 19. Sales without BTR | 62 |
| PRICING | 65 |
| 20. Average £psf by borough | 66 |
| 21. Recent price movements | 68 |
| 22. Scheme-by-scheme asking prices | 79 |