QUARTERLY ANALYSIS
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MOLIOR · LONDON
residential · development · research

Analysis by Sam Long and Tim Craine

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DISCLAIMER

Two Fifty One, Southwark

EXECUTIVE SUMMARY

Landsby, Brent

The figures illustrating the state of London's new homes market at the end of 2018 make for depressing reading. Remove Build to Rent from the picture and it becomes apparent that fewer units sold in Inner London during 2018 than in any year since 2012. The figures in Outer London are not quite so bad, but only because they are supported by Help to Buy.

This is no big surprise because the numbers are just a continuation of ongoing trends. In the more expensive parts of London, sales volumes have been steadily deflating since 2013. For Outer London the graph has sloped downwards since 2014.

Meanwhile, the construction side of the industry has been running hot since 2015. Completion delays, cost overruns and contractor failure are all too common.

On top of these concerns, the planning

figures show two other sources of woe for London's developers. Not only is it taking significantly longer to get planning applications approved by local planning authority committees than just a few years ago, but at the same time the committees are exacting more affordable housing in the process.

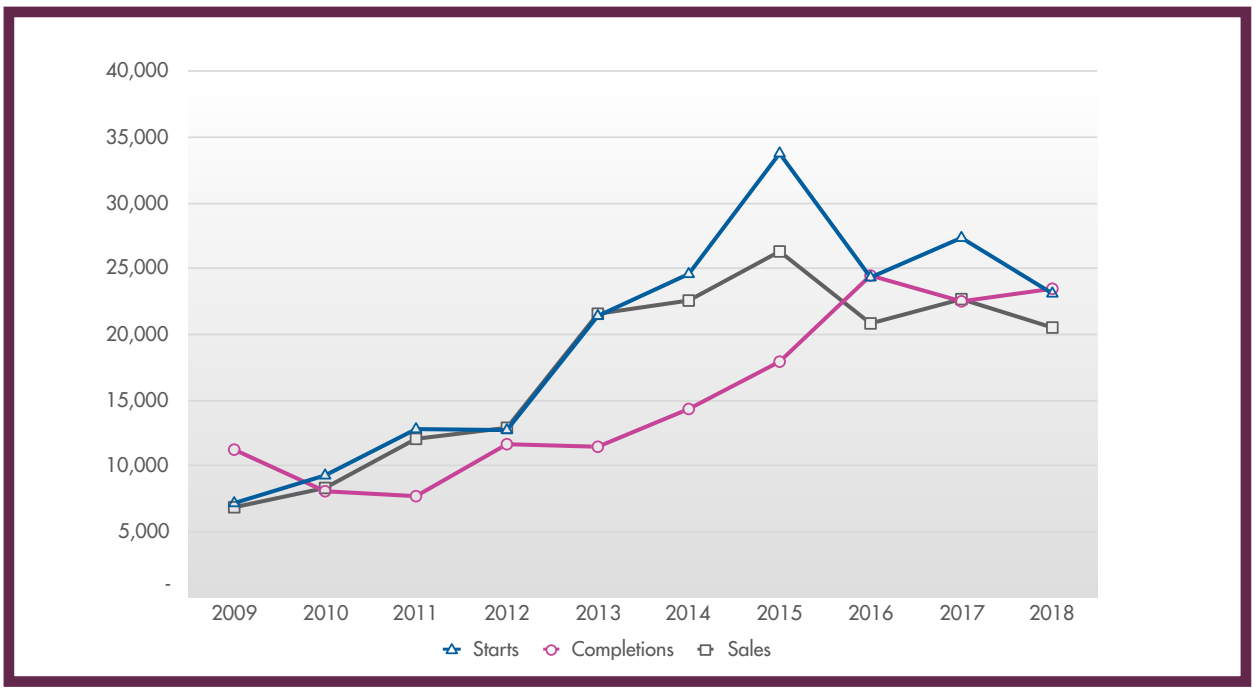
As a result of all these factors, London's development industry has been facing a growing squeeze on viability and this has reduced construction starts markedly in recent years. The trouble is that construction starts have not fallen as fast as sales volumes and so the number of unsold units has been growing steadily since 2014.

To cap it all we have entered a very uncertain new year! If you are wondering whether London's new homes market is sitting on the brink of a perfect storm, none of the indicators in this report have yet hit emergency levels experienced in the last recession. How close to the tipping point they are, and what exactly might give them the final push, is unclear.

In contrast to parliament's chaotic Brexit pantomime, several agents have commented how quiet their marketing suites have been for the last three months. We are told that for many buyers, both owner occupiers and pure investors, it simply doesn't make sense to commit until the politics have blown over. Not only does the possibility of price reductions seem more likely than ever but, for overseas buyers, predicting currency movements has become a mug's game. The expectation is that marketing suites may experience low footfall for a few more months to come.

If the marketing suites are quiet, some agents are very busy. Instead of twiddling their thumbs they are now having to make up for deals lost, either as a result of breached construction long-stop dates or mortgage down-valuations. The latter problem seems to be particularly a symptom in Help to Buy locations.

Morale is low and we believe that this is having a direct impact on our research, as experienced through the willingness of industry professionals to participate openly and truthfully. We pride ourselves on the accuracy of our data and spend increasing amounts of time reconciling inconsistent sources, but regretfully accept that some lies may slip through our net.



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	8,131	5,531	5,564
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	6,974	6,740	4,970
2016: Q4	5,927	7,146	5,339
2017: Q1	6,509	6,493	5,709
2017: Q2	7,066	4,818	5,902
2017: Q3	7,695	5,399	5,999
2017: Q4	6,086	5,821	5,088
2018: Q1	6,655	4,462	6,485
2018: Q2	7,199	5,679	4,941
2018: Q3	3,734	6,334	4,241
2018: Q4	5,542	7,012	4,873

We are grateful, however, that in the main there are remarkably few bad apples in the barrel, and indeed Q4 2018 has revealed several good stories:

- A number of leading housebuilders have had a very successful year-end, including The Berkeley Group across a number of schemes, Redrow at Lyon Square and Barratt at Nine Elms Point.
- BTR stalwarts such as Get Living, Notting Hill Genesis and Akelius have continued to play a major role in the industry by commencing major new projects at East Village, Fresh Wharf and Premier House respectively.
- Other players have chosen to embrace BTR in a big way including LabTech at Hawley Wharf and City & Docklands at One West Point.
- Major Housing Associations are delivering some private units as affordable. L&Q is the most notable example and has switched over 260 units from private to affordable across two schemes: The Rushgroves and Taberner House.
- A small number of canny players are proving that it is possible to set up and to sustain a new development company in difficult times. Sheen Lane, for example, has recently completed Broad House which is its fifth major scheme. BYM Holdings is busy in Uxbridge and Brentford.

THE NUMBERS

During the last few weeks Molior has interviewed the developers behind the 714 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 the previous pages show starts, completions and sales across all London local authorities since 2009.

PLANNING

- Across London, planning applications have been falling since 2014 - 22% fewer new units were applied for in 2018 compared to 2014.
- New permissions peaked during 2015 and have fallen by 28% since.
- During 2018 it took 33 weeks on average to gain resolution to grant consent, compared to 25 weeks between 2012 and 2015.
- During 2018 London's local authority planning committees required private developments to have 26% affordable housing (by number of units) on average, compared to 20% between 2012 and 2016.

CONSTRUCTION

- 23,000 units commenced during 2018 - the lowest number since 2013 and 32% below the peak in 2015.
- 65,000 units are currently under construction in London, which matches the 2017 record and 20% of these are BTR.
- 23,500 units completed during 2018, 21% of these are BTR.

SALES

- 20,500 units sold in total during 2018 and almost a third of these are accounted for by BTR.
- Excluding BTR, 14,000 units sold during 2018 - the lowest number since 2012 and 32% below the peak of 2013.

One West Point, Ealing

- 48% of units currently under construction are unsold, compared to a low of 34% at the end of 2014 and a high of 61% at the end of 2009.

- In addition, there are 2,700 completed stock units across London - up from 1,600 at the end of 2017. Though bear in mind some developers are probably not owning up to their level of stock units.

PRICING

- During 2018 the average asking price in London was just under £900 psf.

- Outer London was at £660 psf while Inner London was at £1,380 psf.

SUB REGIONS

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

Zone 1

- Construction starts during 2018 were at the lowest level since 2011 and were more than 60% off their 2015 peak.

- Sales were also the lowest since 2011 and were 40% off their 2013 peak.

- Based on current sales rates, it would take 2.6 years to sell all units currently under construction but unsold if nothing new commences construction. This compares to an average of 0.7 years in the period 2012 to 2014.

Zone 2

- Construction starts during 2018 were the lowest since 2012 and were more than 50% off their 2015 peak.

- Sales are also the lowest since 2012 and were 30% off their 2015 peak.

- 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 compares to an average of 0.7 years in the period 2013 to 2015.

Zones 3 to 6

- Construction starts were the second highest on record – only 2015 had more.

- Sales during 2018 matched the average for 2013 to 2017 but were 7% down on 2017 alone.

- Based on current sales rates, it would take 1.4 years to sell all units currently under construction but unsold if nothing new commences construction. This compares to an average of 0.7 years in the period 2013 to 2015.

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 January 2019.

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