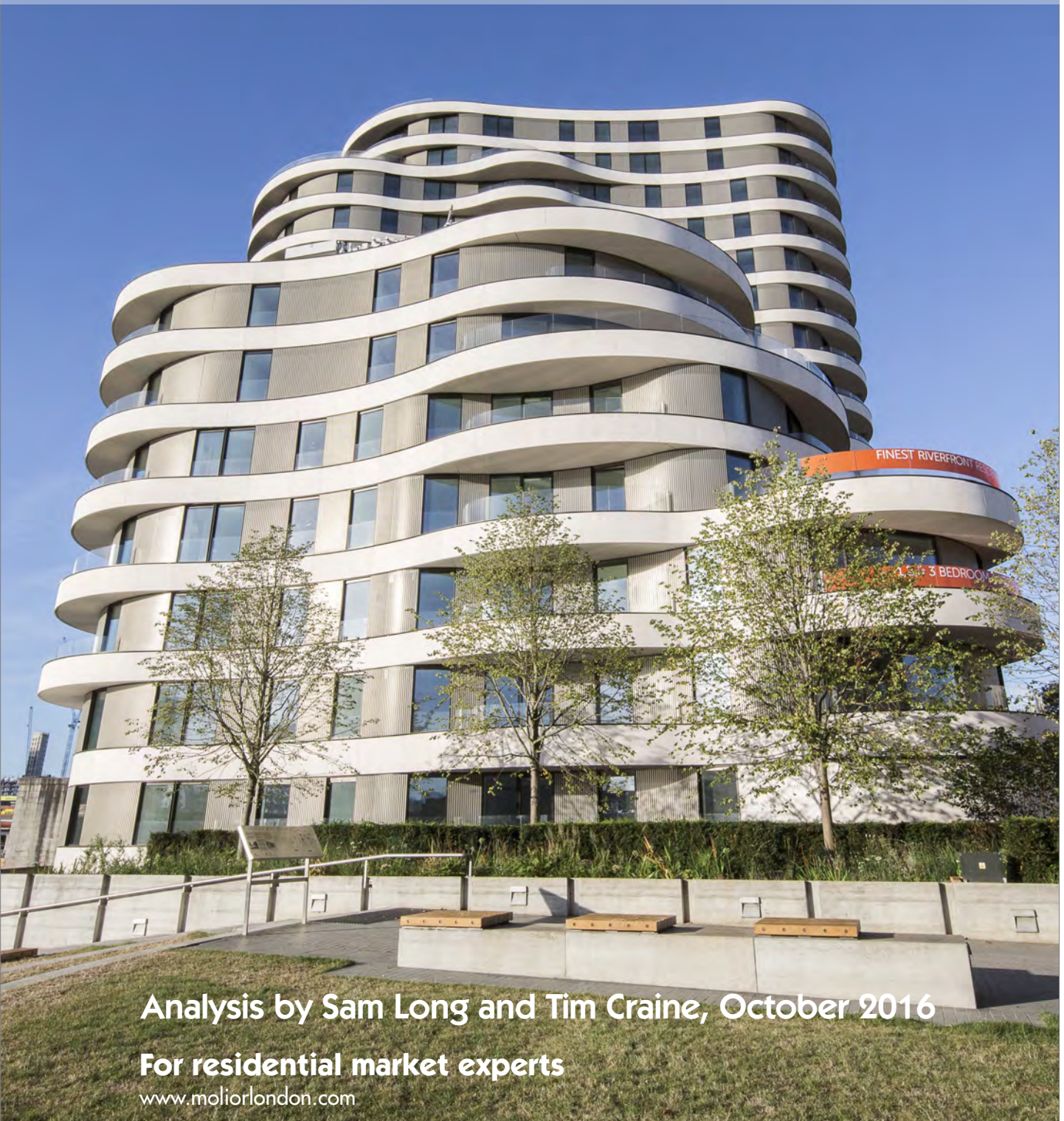


QUARTERLY ANALYSIS : SALES



Analysis by Sam Long and Tim Craine, October 2016

For residential market experts

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Riverlight, Wandsworth

EXECUTIVE summary

After a dispiriting second quarter the industry appears to have recovered some of its mojo in the third quarter of 2016. For many companies 'business as usual' has become the post-referendum motto:

- ▶ New construction starts had a modest bounce back during the quarter and were almost, but not quite, on a par with construction completions, which continue to rise.
- ▶ Agents in the land market tell us that putative early retirement plans have been put on hold

and the deal pipeline is starting to flow again.

The sales picture, however, remains mixed.

On the positive side, there has been a modest uplift in sales during Q3 2016 compared to Q2 and sales volumes remain high by historic standards:

- ▶ The sales numbers are flattered by major inflows from high profile schemes that have gone under construction during Q3 2016, such as Ballymore's Warden London, and Southbank Place which is being developed by

Canary Wharf and Qatari Diar. As is often the case it must be pointed out that many of the reservations attributable to these schemes were taken at launches up to a year ago.

- ▶ More generally, fresh stock coming to the market that is priced appropriately has sold steadily.
- ▶ Investor locations have benefitted from renewed Asian interest as sterling has so far borne the brunt of referendum fallout. The usual suspects have been plying their trade in Hong Kong and Shanghai, but some otherwise seasoned developers have exhibited projects there for the first time and with solid results.
- ▶ About a fifth of 'sales' during Q3 2016 were taken by corporate PRS operators, including major blocks by Quintain at Wembley and Ballymore at Royal Wharf, the latter for L&Q PRS.
- ▶ Developers building for the Help to Buy market have had a very good summer – one major housebuilder has had its 'best August ever'.

However, a number of these positive stories have their flip side:

- ▶ Schemes that have done well from Help to Buy often highlight weakness in the underlying market because they inevitably contain units that do not qualify for the incentive. Flats and houses in owner-occupier locations that are priced above £600,000 can be very difficult to shift.
- ▶ Units that have been on the market for more than a year without re-pricing are being overlooked by buyers. Pragmatic developers are starting to mark down units to ensure a sale before completion, which is tending to happen more in peripheral locations than prime developments.

- ▶ In a couple of developments major changes in exit strategy from private sale to private rent have highlighted previously sluggish sales performances.
- ▶ Sales exhibitions in Asia have been providing a useful supplement to domestic marketing efforts but, with rumoured exceptions for some of the highest profile projects, the results have been worthwhile but not meteoric, and should not be seen as a panacea.

Finally, we have also been reminded that 'you can't sell what you haven't launched'. This may seem obvious but it is significant that many developers have held back from launching developments during Q2 and Q3 2016. The result is that about a fifth of developments currently underway have yet to be exposed to the market.

If the industry is to be believed, many of the schemes held in the 'unlaunched' pen will hit the market during Q4 2016. If that happens the remainder of the year will be very busy indeed for sales agents. Of course, developers are often optimistic when it comes to construction start and launch dates but the sheer volume of advertising in the Evening Standard since the beginning of October adds an amount of credibility.

Q4 2016, therefore, could see the market properly tested for the first time since Q1 2016. There is no doubt that the results will be eagerly anticipated by many, not just within industry boardrooms but in the many offices and bars dotted across Whitehall.

KEY STATISTICS

Over the last few weeks Molior has interviewed the developers behind the 630 schemes being built or with stock units across London – we do this each quarter. Table 1 and Figure 1 show starts, completions and sales rates since 2009. Map 1

shows the location of construction starts during the first nine months of 2016.

[Please note this report excludes schemes smaller than 20 private-sale homes and all numbers refer to units consented for private sale.]

CONSTRUCTION

- ▶ 6,860 units completed construction during Q3 2016, which is a record amount – it is 120% above the average for all preceding quarters since the start of 2009.
- ▶ This is the only time since 2009 that completions have surpassed starts in two consecutive quarters - 12,700 units completed during Q2 and Q3 2016 compared to 11,700 starts.
- ▶ 6,750 units started in Q3 2016, which is 20% off the quarterly average for 2015 but is 37% up on 4,940 starts in Q2 2016 and is 52% up on the average over all preceding quarters.
- ▶ There are 17 stalled schemes across London – eight went on hold when the GPDO completion deadline was relaxed, one is a planning play

MAP 1 : STARTS DURING Q1+Q2+Q3 2016

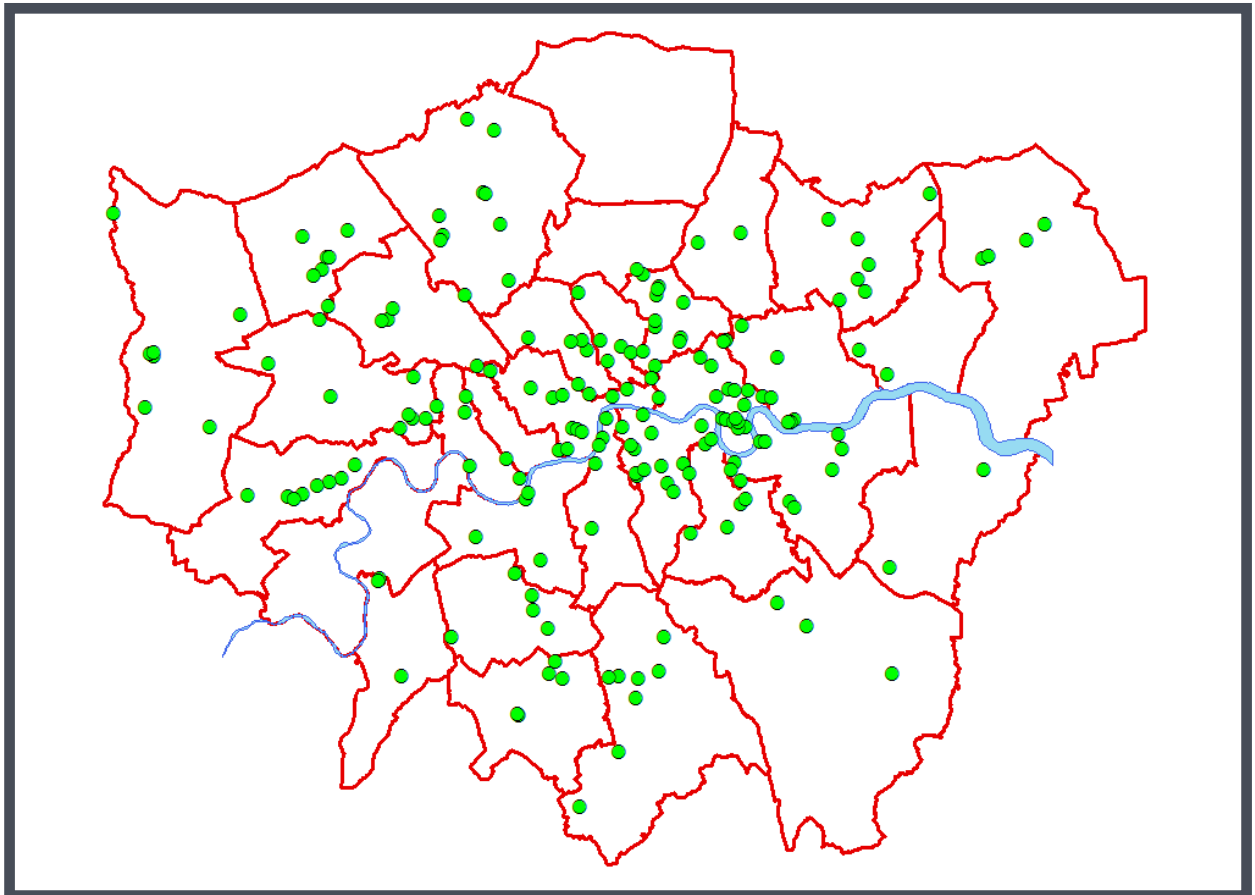


TABLE 1 : STARTS, COMPLETIONS AND SALES SINCE 2009

Period	Starts	Completions	Sales
2009: Q1	1,254	2,414	1,464
2009: Q2	3,118	4,782	1,840
2009: Q3	1,546	1,338	1,549
2009: Q4	1,282	2,778	2,031
2010: Q1	1,949	2,106	1,887
2010: Q2	2,268	1,795	2,123
2010: Q3	2,475	2,037	2,261
2010: Q4	2,718	2,182	2,184
2011: Q1	5,130	1,225	2,895
2011: Q2	2,230	2,222	2,083
2011: Q3	3,397	2,287	3,907
2011: Q4	2,095	2,100	3,221
2012: Q1	2,872	2,570	3,659
2012: Q2	2,967	3,333	2,645
2012: Q3	3,063	2,141	2,819
2012: Q4	3,894	3,631	3,822
2013: Q1	4,731	2,341	5,743
2013: Q2	4,317	2,940	4,508
2013: Q3	6,146	3,036	5,454
2013: Q4	6,265	3,188	5,904
2014: Q1	5,187	2,799	4,960
2014: Q2	5,998	4,292	5,409
2014: Q3	5,781	3,573	5,744
2014: Q4	7,392	3,688	6,464
2015: Q1	9,699	3,789	8,587
2015: Q2	7,770	3,850	6,960
2015: Q3	8,105	5,531	5,636
2015: Q4	8,319	4,813	5,463
2016: Q1	6,447	4,709	5,909
2016: Q2	4,944	5,828	4,441
2016: Q3	6,746	6,864	4,830

to switch live-work units to standard residential use, one is a hangover from the last recession and seven have halted due to contractor related issues.

- ▶ The net effect is that 60,800 units are currently under construction, which is just 1% more than at the end of 2015 and is 151% more than during the previous market peak in 2007.

SALES

- ▶ 4,830 units sold during Q3 2016, which is 27% down on the quarterly average for

2015, but is 9% higher than during Q2 2016 and is 19% higher than the average for all preceding quarters since the start of 2009.

- ▶ 26 schemes launched during Q3 2016 compared to 29 in Q2 2016 and 46 per quarter on average from Q1 2015 to Q1 2016 inclusive.
- ▶ 60% of units under construction have already sold, which is less than the record of 67% set in 2014 but is still high in historic terms – the equivalent number for the 2007 market peak was 48%.

FIGURE 1 : STARTS, COMPLETIONS AND SALES SINCE 2009



- ▶ The quantity of completed stock units has risen to 1,120, which is more than triple the number at the end of 2015 but still only represents 5% of completions in the last 12 months.

PRICING

- ▶ Since 2009 55% of sales have been in the mid-market, from £600 to 999 psf, compared to 15% for under £600 psf and 30% at £1,000+ psf (all based on current asking prices).
- ▶ Between 2009 and 2015 sales numbers grew most in the £600 to 999 psf mid-market – by 413% compared to 133% for under £600 psf, 215% for £1,000+ psf and 288% overall.

- ▶ In 2016 sales numbers have reduced most in the upper-market, £1,000+ psf – a fall of 31% compared to falls of 18% for under £600 psf, 22% for £600 to 999 psf and 24% overall.

Detailed scheme-by-scheme pricing can be found in Section 4 of this report and on the Molior Database.

Our mobile numbers are below; if you have any questions whatsoever, please do not hesitate to call.

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CONTENTS

chapters, maps, figures and tables

METHODOLOGY	4
1. EXECUTIVE SUMMARY	5
2. CONSTRUCTION	11
2.1 Starts during Q1+Q2+Q3 2016	11
2.2 Stalled schemes	14
2.3 Starts by borough since 2009	15
3. SALES	17
3.1 Under construction : sales positions	17
3.2 Complete : sales positions	20
3.3 Sales by borough since 2009	23
4. PRICING	25
4.1 Sales volumes by price range	25
4.2 Recent price movements	27
4.3 Scheme-by-scheme pricing	37
5. AROUND THE BOROUGHES	53
Barking & Dagenham	54
Barnet	54
Bexley	58
Brent	59
Bromley	61
Camden	62
City of London	66
Croydon	67
Ealing	69
Enfield	72
Greenwich	73
Hackney	77
Hammersmith & Fulham	80
Haringey	83
Harrow	84
Havering	86
Hillingdon	87
Hounslow	89
Islington	91
Kensington & Chelsea	93
Kingston upon Thames	94
Lambeth	94
Lewisham	97
Merton	99
Newham	100
Redbridge	103
Richmond upon Thames	104
Southwark	105
Sutton	110
Tower Hamlets	111
Waltham Forest	118
Wandsworth	118
Westminster	122

MAPS

Map 1 : Starts during Q1+Q2+Q3 2016	7
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FIGURES

Figure 1 : Starts, completions and sales since 2009	9
Figure 2 : Construction and pre-sales levels since 2007	18
Figure 3 : Completions and sales positions since 2007	20
Figure 4 : Sales by £PSF using current values	26
Figure 5 : Percentage sales by £PSF using current values	27

TABLES

Table 1 : Starts, completions and sales since 2009	8
Table 2 : Starts in 2015 and Q1+Q2+Q3 2016	12
Table 3 : Stalled schemes	15
Table 4 : Starts by borough since 2009	16
Table 5 : Sales positions in schemes under construction	19
Table 6 : Sales positions in completed schemes	21
Table 7 : Sales by borough since 2009	24
Table 8 : Recent price movements	28
Table 9 : Scheme-by-scheme pricing across London	37

**FRONT COVER PHOTO**

Riverwalk, Westminster
 Photographer: Amanda Denny

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