

QUARTERLY ANALYSIS : SALES

Analysis by Sam Long and Tim Craine, January 2017

For residential market experts

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EXECUTIVE SUMMARY



Dollar Bay, Tower Hamlets

The number of new homes sold in London dropped significantly during 2016 – to below the number sold during 2013.

The industry's consensus view seems to be: Developments eligible for Help to Buy are selling extremely well, but anything priced over the incentive's £600,000 upper limit is proving hard to shift. As one person put it to us recently, 'without Help to Buy we'd be back in 2008!'.

The idea of a divided market is encouraged by a number of factors. However, the numbers do not entirely support such a polarised picture.

In developments that are eligible for Help to Buy there is certainly an amount of frothy activity:

- ▶ Interest in developments is often muted until units become available with the incentive, at which point sales releases are oversubscribed and sell out rapidly.

- ▶ There is more than the whiff of a Help to Buy pricing bubble in the air – ‘what was £500k is now £600k’ has been said more than once and this is perhaps not too much of an exaggeration. A scheme in Colindale is just one example where an average £50,000 price rise has been imposed during Q4 2016. Tellingly, there are fewer projects where large units have been marked down to £600,000.

Meanwhile, altogether less exuberance is evident in developments that do not qualify for the incentive package:

- ▶ As growing numbers of projects reach completion it is becoming obvious where marketing suites have over-stated their sales positions to us earlier in the year.
- ▶ Similarly, it is hard not to question developer price lists when a large number of resale units are available via other agents for significantly less – 20 to 30% less in some cases.
- ▶ Mortgage valuation surveyors clearly have their doubts too and we have been told that sales have fallen through in a number of developments due to down-valuations.
- ▶ Some developers, perhaps the most pragmatic, are more openly trimming prices to ensure the developments sell out and asking price reductions between 5 and 10% are common on stock units.

However, if Help to Buy solves everything, why was there no related building boom in Outer London during 2016? Construction starts actually fell just as hard in Outer London as in Inner London last year. In fact, the proportion of unsold units is growing in many boroughs and developers have slowed down construction starts across the board.

One problem is that units only become eligible

for Help to Buy relatively late in the construction process, when a significant amount of capital has already been put at risk. Another is that most schemes are permitted based on a historic mix that includes a significant proportion of units that are just too large to fit the incentive. This is naturally encouraging developers to seek new planning permissions with a greater proportion of small units, rather than to build out their current designs.

Meanwhile, Inner London sales rates have not fallen significantly over 2016. Instead they have more or less followed the plateau evident from 2013 onwards. Agents dealing with more expensive locations have been operating in these conditions for three years now and, while the EU referendum has been blamed for much, many have seen positive outcomes from the Brexit result. Several developers and agents selling schemes priced above £1,000 psf have advised that December 2016 in particular was a very good month. The devaluation of Sterling is considered helpful, but some will also admit that Brexit has provided a long needed excuse to just drop prices.

While the industry has indeed responded to a generally gloomy sales picture, some will ask whether it has yet cut construction starts back enough, given that for the last three years significantly more units have gone under construction than have sold. This surplus of starts is more pronounced in Inner London, particularly in boroughs such as Camden and Kensington & Chelsea, but is relevant across the board and continues to increase despite 2016's construction slow down.

THE NUMBERS

Over the last few weeks Molior has interviewed the developers behind the 611 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 sale homes and all numbers refer to units consented for private sale.

CONSTRUCTION

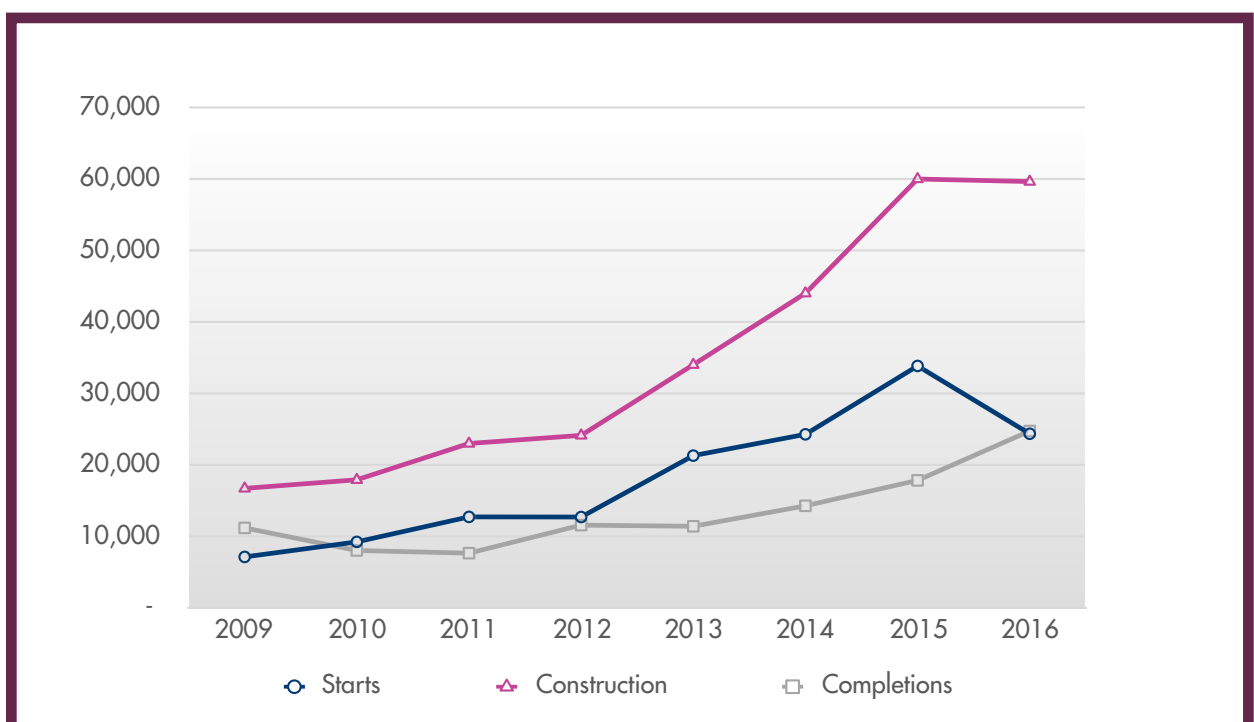
Section 1 is about construction starts. As you'll see from the table below annual starts rose almost

five-fold between 2009 and 2015 before falling by 9,500 units during 2016. The 24,400 starts in 2016 were split roughly equally between Inner and Outer London.

Section 2 shows that construction volumes rose almost four-fold between 2009 and 2015 before levelling off in 2016. The 59,700 units under construction at the end of 2016 are, again, split roughly equally between Inner and Outer London.

Section 3 explains how 2016 was a record year for completions, which narrowly exceeded starts over the year. This was the first year that completions have exceeded starts since 2009.

	Section	2009	2010	2011	2012	2013	2014	2015	2016
Starts	1	7,200	9,305	12,801	12,782	21,371	24,351	33,918	24,430
Construction	2	16,788	17,994	23,068	24,203	34,089	44,088	60,068	59,709
Completions	3	11,262	8,099	7,727	11,647	11,485	14,352	17,910	24,817



SALES

Section 4 is about annual sales, which grew almost four-fold between 2009 and 2015 before falling by more than a fifth during 2016.

Section 5 shows how 13,000 more units started construction than were sold between 2014 and 2016. More than two thirds of these surplus units are in Inner London.

Section 6 explains how the number of unsold units under construction grew sharply, by almost 70%, after 2014.

Section 7 is Section 6 in percentage terms. The

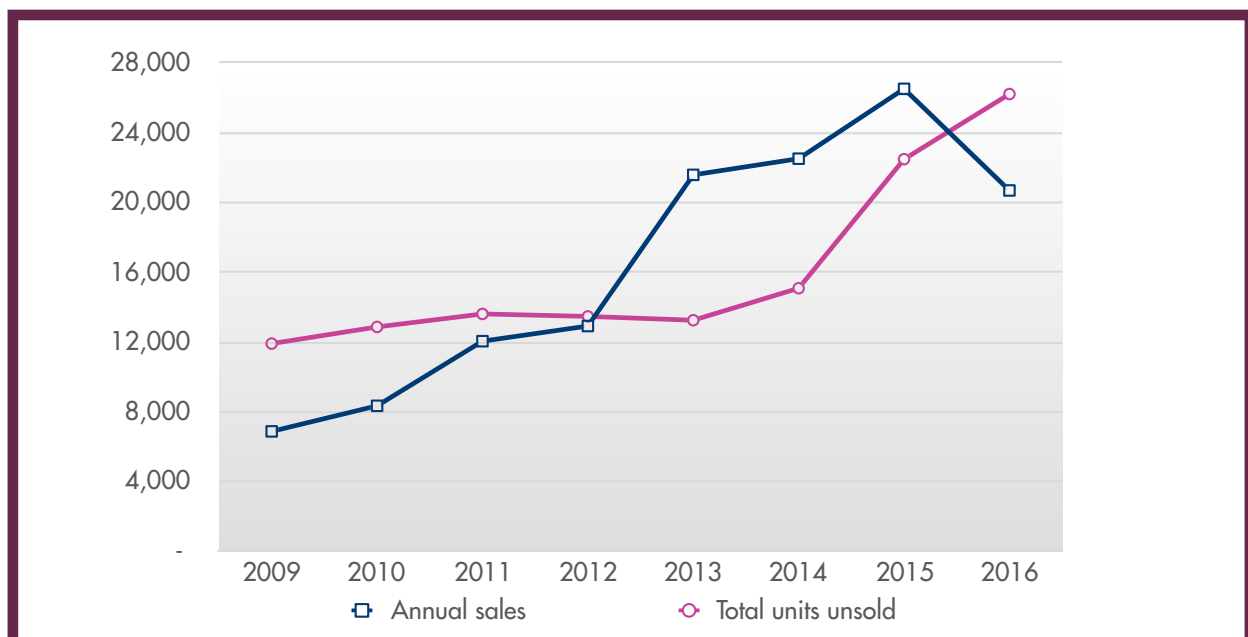
percentage of units under construction that are unsold has grown since 2014 but remains relatively low in historic terms.

Section 8 is about complete but unsold units (stock units), which almost tripled in quantity during 2016.

Section 9 is about the total number of units to be sold – both under construction and completed stock. This number has almost doubled since 2013.

Section 10 has decimal points! It shows how long the unsold units will take to sell ... based on 2016's sales rate it would take 1.3 years to sell all units left unsold at the end of the year.

	Section	2009	2010	2011	2012	2013	2014	2015	2016
Annual sales	4	6,884	8,350	12,055	12,925	21,590	22,517	26,521	20,695
Starts minus sales	5	316	955	746	-143	-219	1,834	7,397	3,735
Under construction but unsold	6	10,194	10,904	12,646	12,478	12,956	14,951	22,104	25,139
Under construction but unsold %	7	61%	61%	55%	52%	38%	34%	37%	42%
Complete but unsold	8	1,723	1,968	972	997	300	139	382	1,083
Total units unsold	9	11,917	12,872	13,618	13,475	13,256	15,090	22,486	26,222
Unsold - Years to Sell	10	1.7	1.5	1.1	1.0	0.6	0.7	0.8	1.3



PERMISSIONS

Section 11 is about units permitted but not yet started – London’s stock of planning permissions has doubled to 162,000 units between 2009 and 2016.

Section 12 has more decimal points and shows that it would take almost eight years to sell all units currently permitted but not yet started, based on the 2016 sales rate.

	Section	2009	2010	2011	2012	2013	2014	2015	2016
Permitted but not yet started	11	81,045	88,759	94,336	125,277	136,943	146,615	158,589	162,359
Permissions - Years to Sell	12	11.8	10.6	7.8	9.7	6.3	6.5	6	7.8



PRS

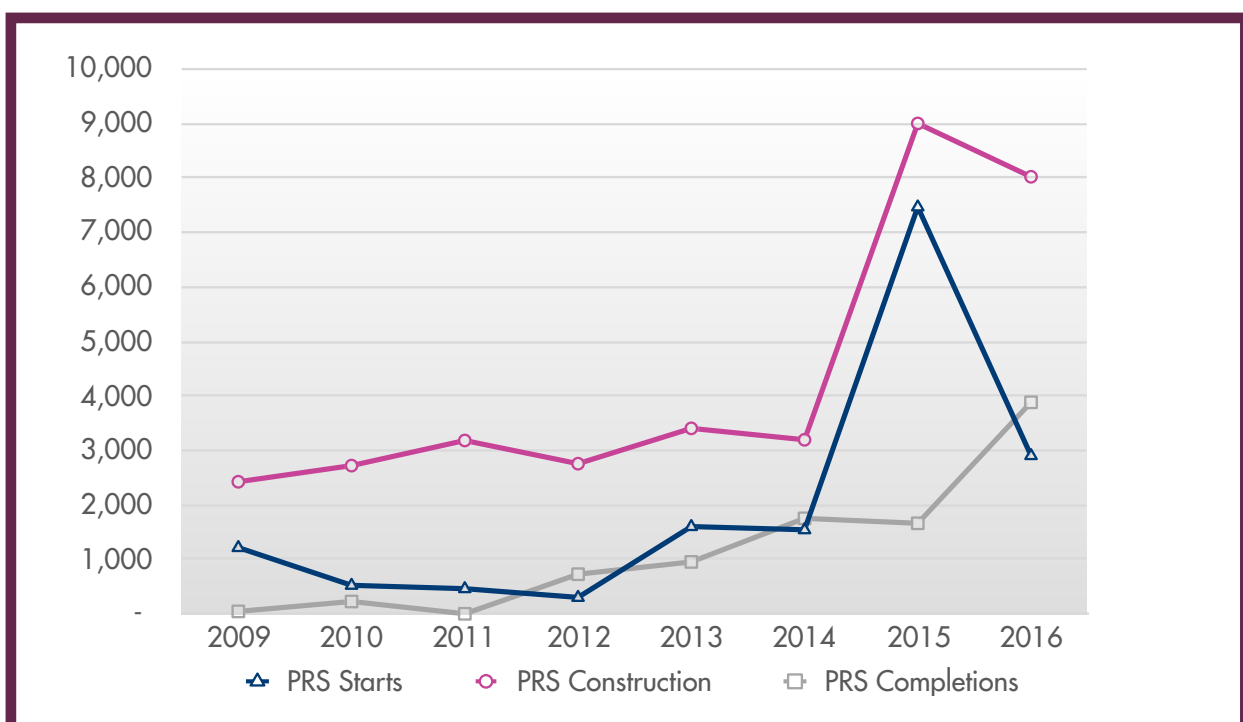
Section 13 shows how the record of 7,500 PRS starts in 2015 exceeded the total for all previous years since 2009. It also equalled more than a fifth of all private residential starts in 2015. However, the number of PRS units started dropped by more than 60% in 2016.

Section 14 sets out PRS construction volumes, which almost tripled in 2015 to 9,000 units. However this has since dropped to 8,000 at the end of 2016, which is 13% of all units under construction.

Section 15 shows PRS construction completions - a record 3,900 PRS units completed in 2016, which was 16% of all private residential completions in 2016.

Section 16 shows that there was a peak in 'sales' to PRS at 6,900 units in 2015. This was more than a quarter of all new homes sold that year, but PRS sales then dropped by 35% to 4,400 units in 2016, which was just over a fifth of all sales.

	Section	2009	2010	2011	2012	2013	2014	2015	2016
PRS construction starts	13	1,216	523	461	301	1,602	1,543	7,472	2,905
PRS construction volumes	14	2,425	2,722	3,183	2,757	3,406	3,196	9,006	8,027
PRS construction completions	15	44	226	-	727	953	1,753	1,662	3,884
PRS sales	16	138	-	1,731	771	1,278	1,961	6,866	4,427



PRICING

Section 17 shows how average asking prices have risen across London by 65% since 2009.

Section 18 sets out sales rates by £psf in 2016 terms. By far the dominant sales range is £600 to £999 psf. All price ranges saw sales volumes drop during 2016 except for units priced above £1,500 psf where sales numbers actually rose 9% during the year.

Section 19 Shows recent price movements, listing units that were for sale both in September 2016 and December 2016 but changed in price by at least £1,000 during those three months.

Section 20 shows average asking prices for 342

developments in London that had units for sale during 2016 and which hadn't sold out by the end of the year.

ANY QUESTIONS ...

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

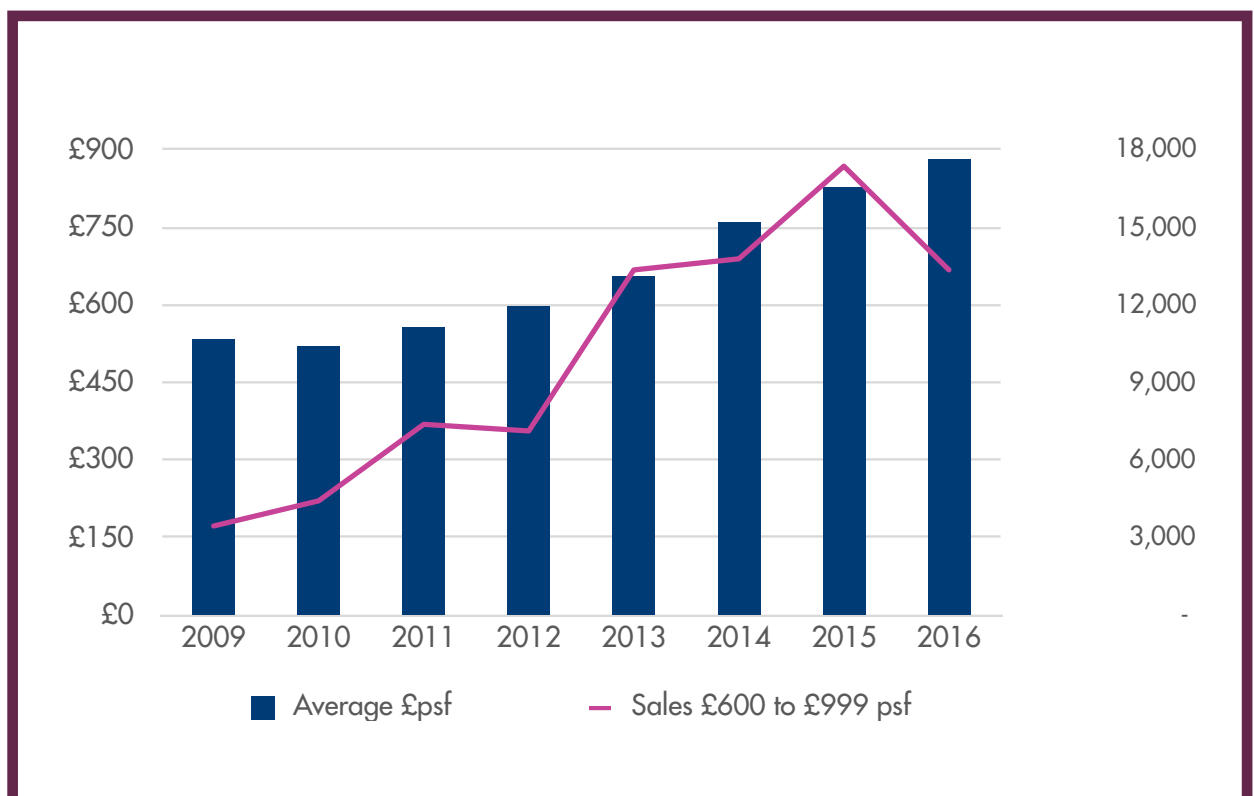
Our mobile numbers are below - if you have any questions whatsoever, please do not hesitate to contact us.

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	2009	2010	2011	2012	2013	2014	2015	2016
Average £psf	£536	£521	£555	£596	£658	£759	£828	£883
Sales £600 to £999 psf	3,448	4,420	7,378	7,122	13,347	13,776	17,357	13,348



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FRONT COVER PHOTO

Baltimore Tower, Tower Hamlets
Photographer: Amanda Denny

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