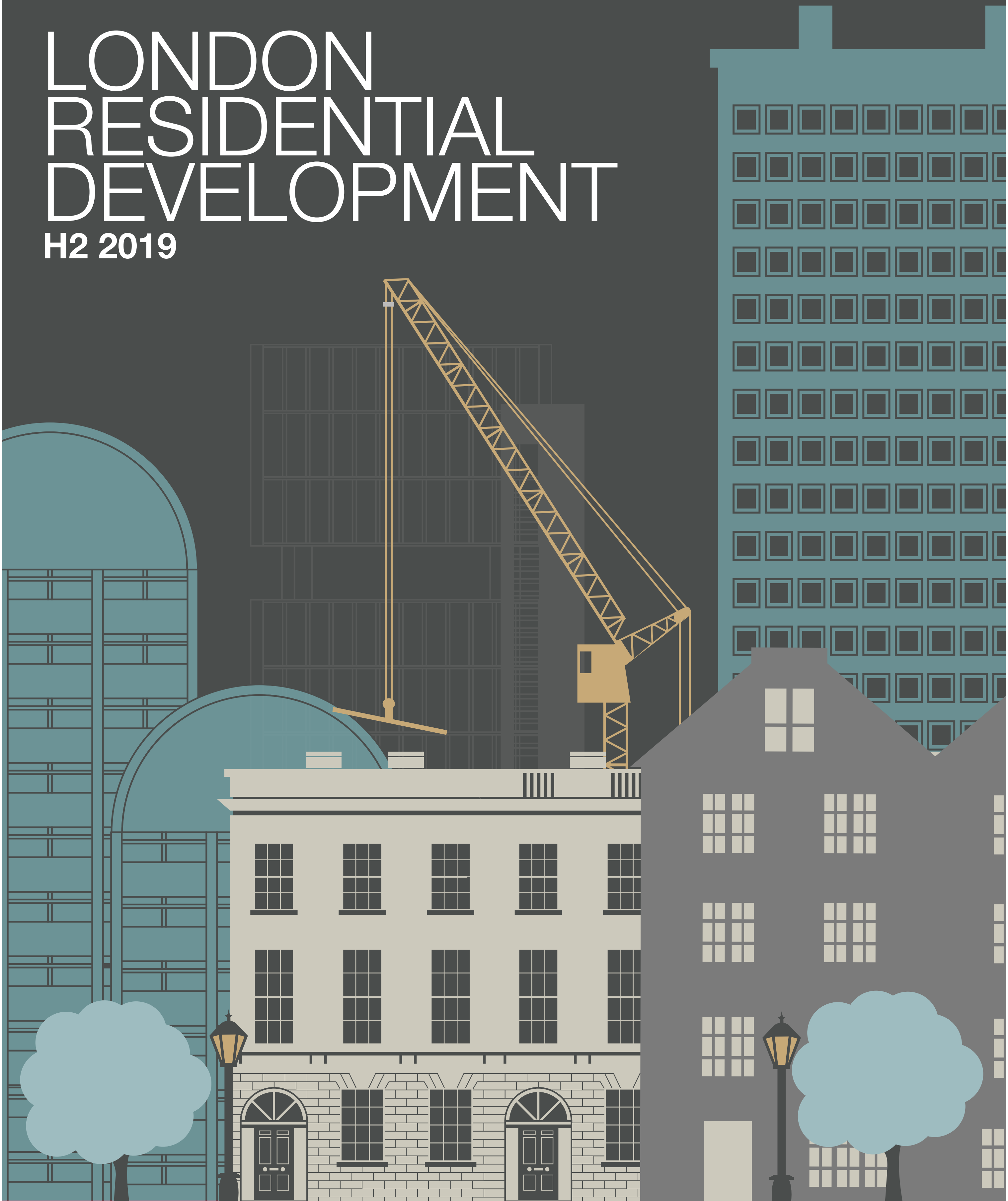
RESEARCH

Knight Frank

LONDON RESIDENTIAL DEVELOPMENT

H2 2019



MARKET SNAPSHOT

Developers in London continued to operate in an uncertain environment during the second half of 2019, with Britain's future relationship with the EU still unresolved, a new Prime Minister, and a challenging planning environment.

Despite this, developers of all types have continued to seek opportunities, and a lack of sites available to purchase has halted the decline in land values in central London.

Demand has been supported by a variety of factors; housebuilders in outer London have continued to see positive sales volumes, aided by Help to Buy, demand for institutional-grade PRS continues to surge among an increasingly international group of investors, and resilience at the top end of the central London market points to a shortage of super-prime new homes in years to come, which is explored further overleaf.

Brexit continues to weigh on sentiment, however. Sales volumes including existing homes were down 8% year-on-year in the 12 months to March, though there is variation among price bands, with volumes between £500,000 and £1m proving more resilient (fig 1).

The suppressed activity has weighed on house prices, which dipped 1.4% in the year to July. Pressure on pricing remains greatest in prime central London, where Knight Frank data indicates prices declined 4.4% during the year to August, though the rate of decline across the capital is slowing.

The number of new prospective buyers registering with Knight Frank rose 29% in prime central London in the year to July 2019. Meanwhile, the number of new listings above £1 million declined by 25% over the same

KEY TAKEAWAYS

Help to Buy

95% of Help to Buy Equity loans in London have been granted to first-time-buyers since the scheme's inception through March 2019, indicating London will largely be unaffected by the scheme's restriction in 2021.

Investment-grade PRS accounted for 28% of construction starts in the first half of 2019, with demand growing among international institutions for 100+ unit projects.

Super-prime new homes sales are outperforming existing homes, and now account 34% of total £10 million-plus sales in London.

Almost 42,000 units were granted consent in the year to Q2, the most since Q1 2015, though construction starts in projects of 20+ private units continue to slow.

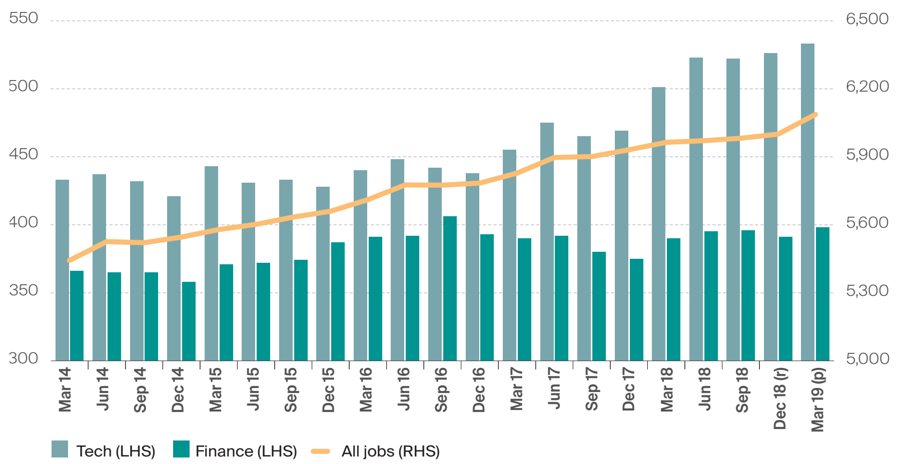
Please see the important notice on back page.

period. It is this imbalance has contributed to a moderation in annual price declines.

Underpinning wider sentiment is the London jobs market, which has continued to outperform expectations, particularly in the technology sector (fig 2). Continued ultra-low borrowing costs are also supporting demand – five year fixed rate mortgages are available below 1.7% on a 60% loan-to-value basis, and a current ten-year fix of 2.4% is among the lowest the market has ever seen.

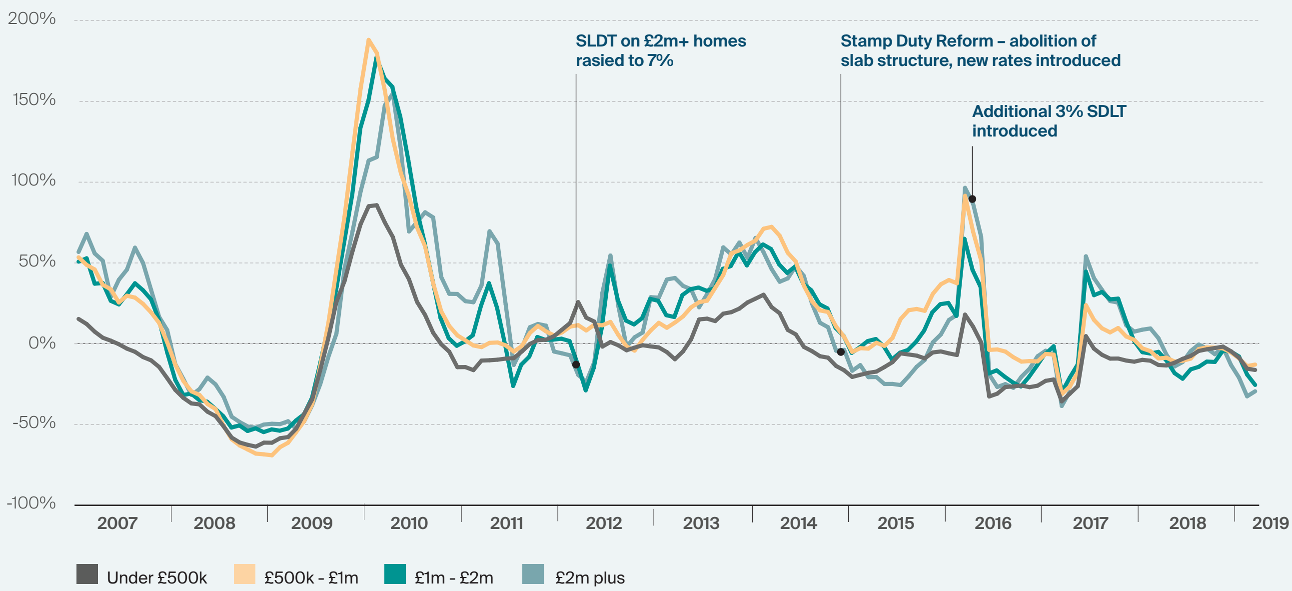
The medium-term future of housing activity in London will continue to depend on the planning environment, and what happens politically between now and October 31st, when the UK is scheduled to leave the EU, but the data suggests developers of all types are planning for the long-term.

FIGURE 2
Jobs growth in Greater London (000s)



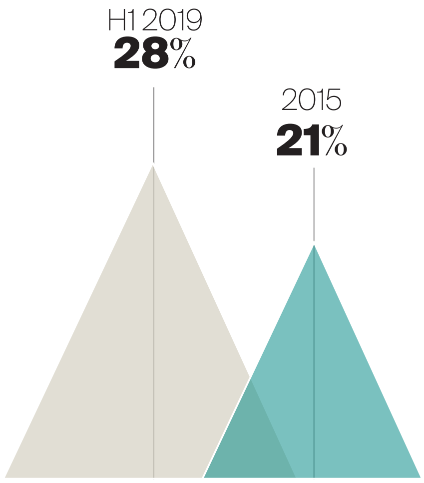
Source: ONS

FIGURE 1
Greater London transactions, new and existing homes, split by price bands
Annual rate of change %, three month rolling average



Source: Knight Frank Research, Land Registry

Growth in investment-grade PRS
Projects of 100+ private units accounted for 28% of total construction starts in H1 2019



Source: Knight Frank Research, Molior

INVESTMENT-GRADE PRS

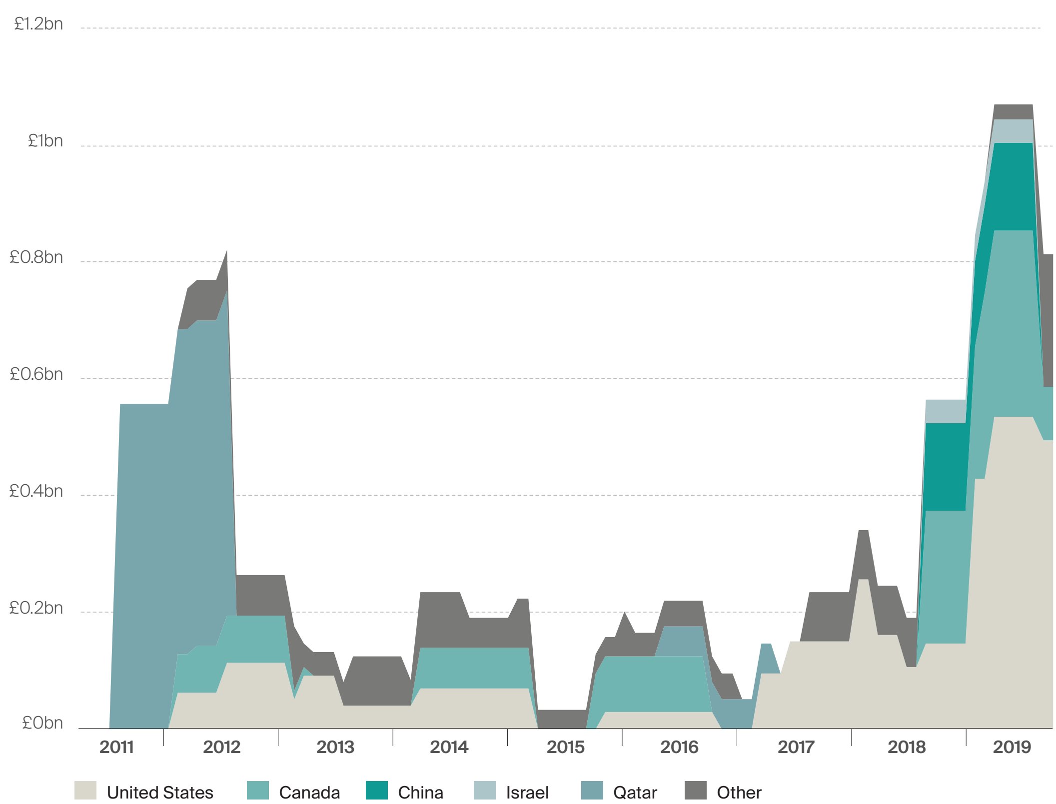
The market for purpose-built rental stock in London took off from a standing start a decade ago, driven by seismic demographic changes and demand from investors from North America for stabilised blocks. At the end of Q2 2019, purpose-built rental blocks of more than 100 private units accounted for more than a quarter of all private construction starts in Greater London, up from 21% in 2015.

Demand is particularly strong, and growing, among international institutions. The early North American investors have now been joined by those from Asia, the Netherlands, Israel, the Middle East and Australia, according to Knight Frank research. More than £800 million of cross border funds were invested in purpose-built rental accommodation blocks of more than 100 units in Greater London during the year to July 2019, according to RCA (Fig 3).

Analysis of planning data suggests that delivery of large PRS projects is likely to increase over the medium-term. Some 6,816 units were approved in schemes of at least 100 units during the first six months of 2019, an increase of more than 20% year-on-year.

> "The market for PRS took off from a standing start a decade ago... demand is particularly strong, and growing, among international institutions for blocks of more than 100 units.

FIGURE 3
Cross-border investment into London PRS, projects of 100+ private units
Annual rolling total, volume (£)



Source: RCA

Yield Guide

Zone 2 Prime (NIY)
3.50% - 3.75%

Zones 3-4 Prime (NIY)
3.75%

Greater London Prime (NIY)
4.00%

Source: Knight Frank
* Please see disclaimer on back page

PRIME CENTRAL LONDON

Super-prime new homes sales in London have remained resilient despite a wider slowdown in the central London market. Approximately 30 to 35 new homes are sold for more than £10 million every twelve months, a figure that has remained steady for almost two years (Fig 4). As sales of existing super-prime homes have slowed this year, new home sales have gained a greater market share, from 18% in Q2 2017 to 34% at the end of the second quarter.

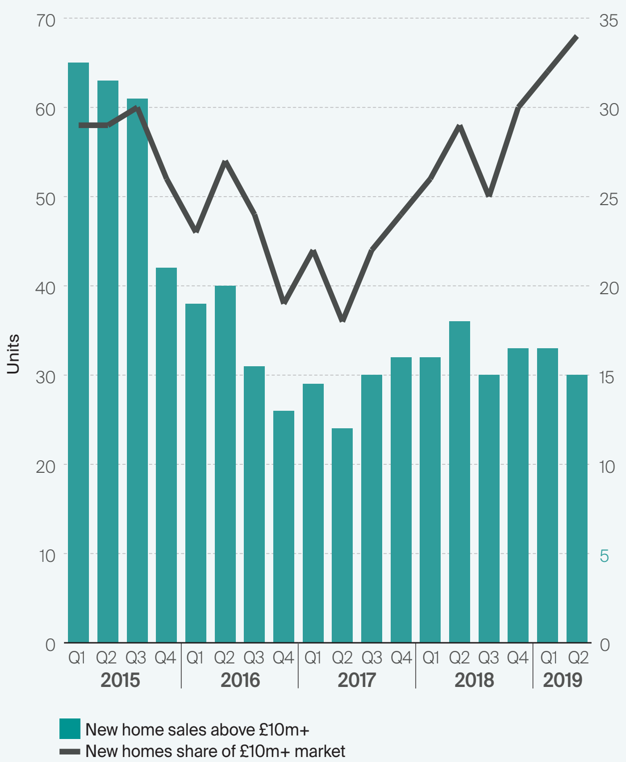
This is, in part, because there have been more units available to buy, following a 2016 peak in completions in Kensington and Chelsea and Westminster of 1,087, which dipped slightly to 1,001 in 2017 before almost halving to 540 in 2018. However, it is also about a shift in buyer tastes, according to Rupert des Forges, head of Prime Central London Developments at Knight Frank.

“Prime buyers are increasingly focussed on securing a London residence in a new scheme and typically they prioritise a high level of security and extensive amenities,” he said. “Prime apartments offer a seamless move away from transient hotel living for the new generation of global wealth now driving the top end of the London market.”

Several high-profile schemes have sold out in recent months, and the current planning pipeline points to constrained supply on the horizon. The number of units given consent across Westminster City Council and The Royal Borough of Kensington and Chelsea fell to its lowest level in a decade during the 12 months to Q2 2019, according to data from Molior (Fig 5).

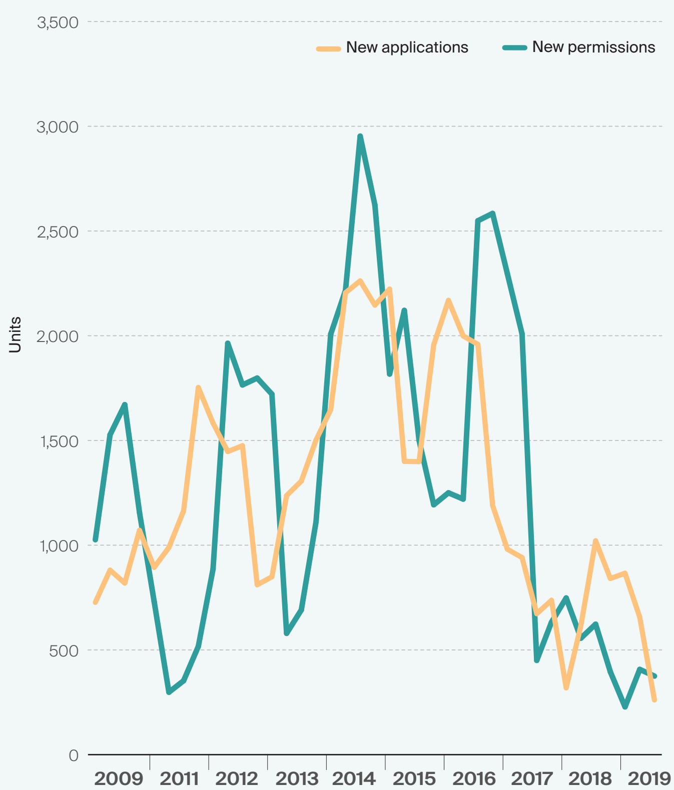
> **Prime apartments offer a seamless move away from transient hotel living for the new generation of global wealth now driving the top end of the London market**
>
> Rupert des Forges,
> Head of Prime Central London Developments

FIGURE 4
Super-prime new homes grab larger share of market
LHS is annual rolling total



Source: Knight Frank Research

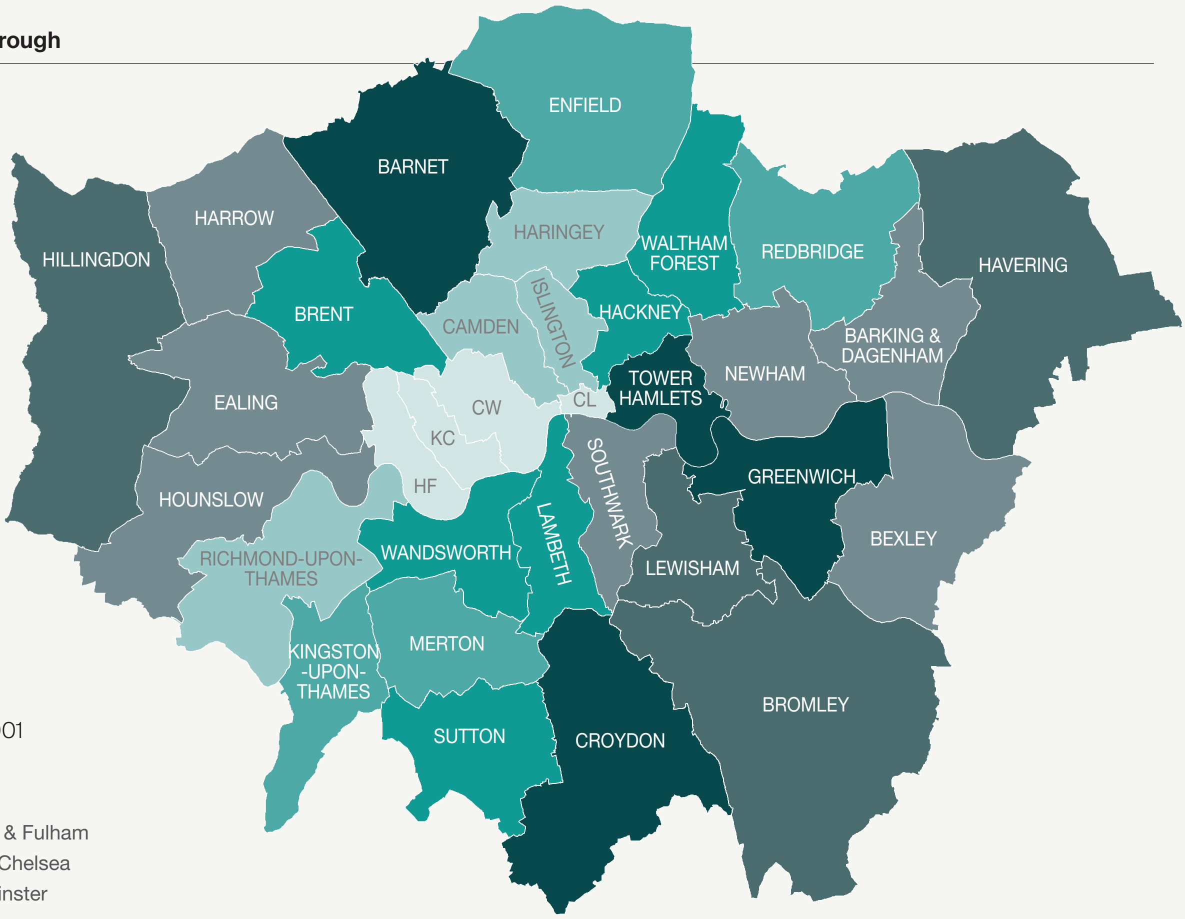
FIGURE 5
Kensington & Chelsea, Westminster planning pipeline
Annual rolling total



Source: Knight Frank Research, Molior – data applies to projects of 20+ private units

HELP TO BUY

FIGURE 6
Help to Buy by borough



Number of Help to Buy equity loans Q2 2013 - Q1 2019

- up to 50
- 51-250
- 251-400
- 401-600
- 601-750
- 751-1000
- more than 1001

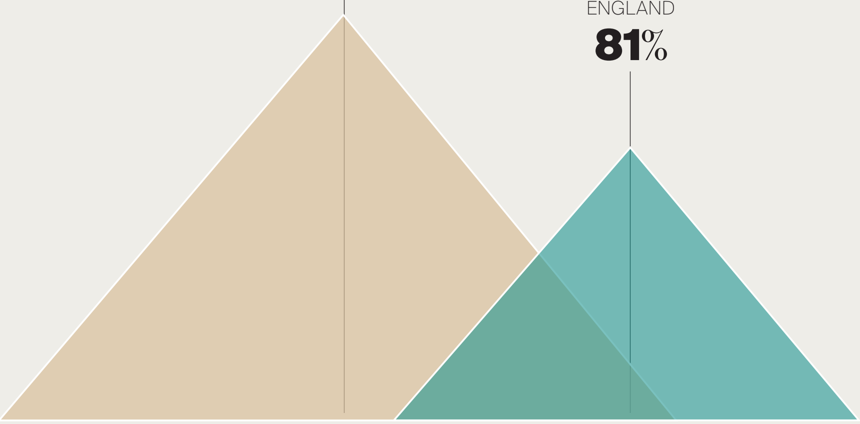
HF Hammersmith & Fulham
KC Kensington & Chelsea
CW City of Westminster
CL City of London

PROPORTION OF HELP TO BUY EQUITY LOANS TAKEN OUT BY FIRST-TIME BUYERS, GREATER LONDON

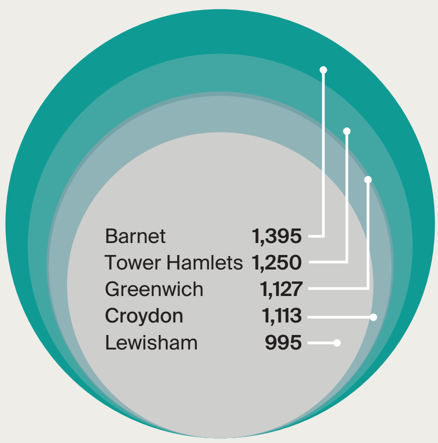
95%

PROPORTION OF HELP TO BUY EQUITY LOANS TAKEN OUT BY FIRST-TIME BUYERS, ENGLAND

81%



Top Help to Buy boroughs since launch
Number of homes purchased



Source: Knight Frank Research, MHCLG

Some 6,115 homes were purchased under the Help to Buy Equity Loan Scheme in London during the year to March 2019, up 30% on the same period a year earlier. There were 1,558 sales during the first quarter, beating the previous year's quarterly average of 1,412.

Almost 20,000 homes have been purchased with the program since its inception in 2013, mostly in outer boroughs, according to official figures (Fig 6).

The government in November announced it would restrict the scheme to first-time buyers and add regional price caps, while keeping London's price cap at £600,000. A greater proportion of first-time buyers use the scheme in London, at 95%, compared to the wider country, at 81%, giving developers the confidence to continue investing in land.

Uncertainty over whether there will be a replacement for the program, whether public or private sector led, is creeping into sentiment in the land market, and is likely to become a dominant issue in the coming quarters.

In London, the maximum equity loan was increased from 20% to 40% from February 2016. Since then there were 14,074 completions in London, of which 12,106 were made with an equity loan of more than 20%.

PLANNING

The number of units given consent ticked up at the turn of the year, to almost 42,000 units during the 12 months to Q2 (Fig 7).

The data for consents in Inner London is flattered by a remarkable Q1, where 5,673 units were granted consent – more than the total in Inner London during the previous two quarters – largely due to a handful of large projects in Wandsworth and Tower Hamlets. Consents dropped back to 1,290 in the second quarter, reflecting the prevailing uncertainty and challenging planning environment.

Consents in outer London continued to climb, underpinned by robust demand in affordable locations and Help to Buy. Almost 30,000 units were given consent during the year to Q2, the most since Q3 2017.

Even so, a little more than 9,000 units were started during the first half of 2019. If that is repeated during the rest of the year, developers will commence fewer than two thirds of the units started during the 2015 peak.

> **London's planning environment is challenging, with many new faces on planning committees and radical approaches being taken by City Hall and local authorities. For the time being, the pipeline indicates delivery is likely to continue to fall short of GLA targets.**

Stuart Baillie, Head of Planning

FIGURE 7
Planning consents, Greater London (schemes of 20+ private units)
Annual rolling total

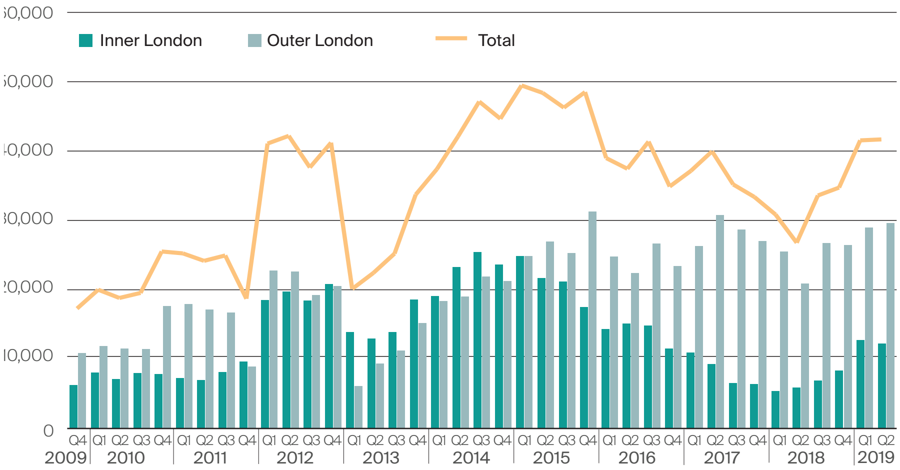
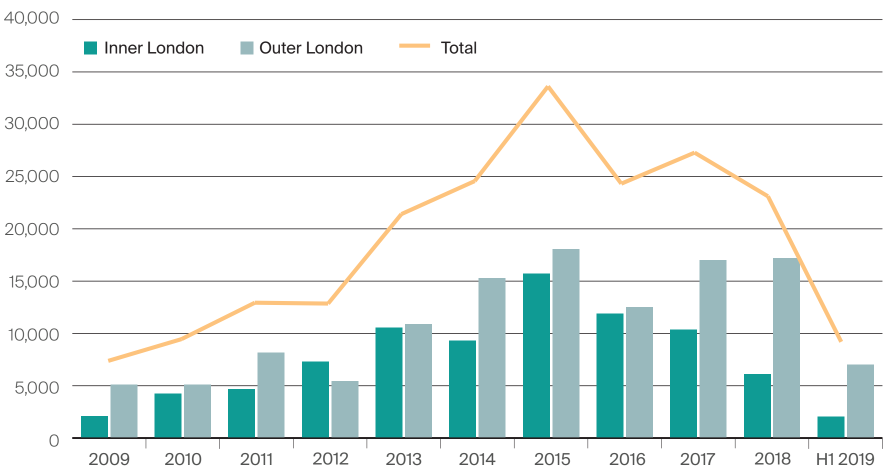


FIGURE 8
London private housing starts (schemes of 20+ private units)
Annual rolling total



Source: Knight Frank Research, Molior

> **"THE FUTURE OF HOUSING ACTIVITY IN LONDON DEPENDS TO A LARGE EXTEND ON WHAT HAPPENS POLITICALLY IN THE COMING WEEKS, THOUGH THE DATA SUGGESTS DEVELOPERS ARE PLANNING FOR THE LONG-TERM."**

Patrick Gower, Residential Research
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If you would like further insight into residential markets please get in touch.

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* Based on rack rented properties and disregards bond type transactions. NIY - Where reported we have assumed an appropriate discount for operating costs. This yield guide is for indicative purposes only and was prepared on 19 June 2019. *Our PCL yield is based on tenanted blocks with a minimum of 6 units, covering locations such as Mayfair, Knightsbridge, Kensington etc, situated within Knight Frank's definition of Prime Central London. Yields in the PCL and Zone 1 Prime categories are reported gross in line with market practice and no allowance has been made for operating costs within this yield guide. Yields in the London and South East categories are reflective of income-focused transactions of institutional assets. Regional locations: We have provided an indication of yields in respect of a number of example locations, illustrating the spread of yields in this classification. These yields are reported in respect of institutional quality, stabilised assets.

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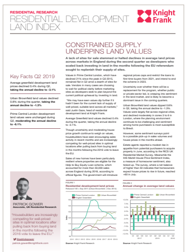

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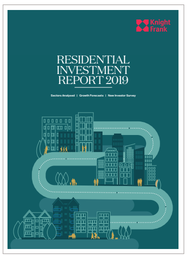

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Get in touch

If you're thinking of buying or selling, or would just like some property advice, please do get in touch.

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